BOOK FIVE- THE ETHICS AND EPISTEMOLOGY OF ASYMMETRY

Chapter 13.Skin in the Game, Antifragility at the Expense of Others

Making talk less cheap — Looking at the spoils — Corporations with random acts of pity?— Predict and Inverse predict —

This chapter will look at ethics and modernity in the light of the fundamental asymmetry between upside and downside —across people (that is, when someone gets the upside, and a different person gets the downside).

The central problem of modernity, lies in the malignant transfer of fragility and antifragility from one party to the other, with one getting the benefits, the other one (unwittingly) getting the harm, supported by the growing wedge between the ethical and the legal. My main Black Swan problem is that modernity hides it rather well.

The agency problem, of course, is an asymmetry.

But there is a fundamental change with the past. Consider older, societies —those societies that have survived. The main difference between us and them is the disappearance of a sense of heroism; a shift away from a certain respect —and power— to those who take downside for others. For heroism is the exact inverse of the agency problem: someone takes the downside (his own life, or risks harm to himself, or, more in milder forms, accepts to deprive himself of some benefits) for the sake of others. What we have currently is the opposite: power seems to go to those, like bankers, corporate executives (nonentrepreneurs) and politicians who steal a free option from society.

And heroism is not just about riots, wars, and protection. For an example of an inverse agency problem: as a child I was most impressed with the story of a nanny who died to save a child from being hit by a car. I find nothing more honorable than accepting to die in place of someone else.

In other words, what is called sacrifice. And sacrifice comes from *sacred*, the domain of the holy that is separated from that of the profane.

In traditional societies, a person is only as respectable and as worthy as the downside he (or, more, a lot more than expected *she*) is willing to face for the sake of others. The most courageous, or valorous, occupies the highest rank in society: knights, generals, mafia lords, commanders. But the same too applies to saints, those who abdicate, devote their lives to service others—the weak, the deprived.

So Table x presents another Triad; those with no skin in the game but benefit from others, those who neither benefit nor harm others, and, finally, the grand category of those sacrificial ones who take the downside for others.

Table 4- Ethics and the Foundational Asymmetry

NO SKIN IN THE GAME	SKIN IN THE GAME	SKIN IN THE GAME FOR THE SAKE OF OTHERS, OR SOUL IN THE GAME,
(*Keeps upside, transfers downside to others, long a hidden option at someone else's expense)*	*(Keeps his own downside, takes his own risk)*	*(Takes the downside on behalf of others, or universal values)*
Bureaucrats	Citizens	Saints, Knights, Warriors, Soldiers, Saints
Cheap talk ("tawk" in Fat Tony's lingo)	Actions, no tawk	Expensive talk

NO SKIN IN THE GAME	SKIN IN THE GAME	SKIN IN THE GAME FOR THE SAKE OF OTHERS, OR SOUL IN THE GAME,
Consultants	Merchants, Businessmen	Prophets, Philosophers (in the pre-modern sense)
Businesses	Artisans	Artists
Corporate Executives (with suit)	Entrepreneurs	Innovators
Theoreticians, data miners, observational studies	Laboratory and field experimenters	Mavericks
Centralized government	Government of city states	Municipal government
Editors	Writers	Great writers
Journalists	Speculators	Rebels
	Journalists who *expose* frauds	
Politicians	Activists	Dissidents, Revolutionaries
Bankers	Traders	(They would not engage in vulgar commerce)
Fragilista Prof. Dr. Joseph Stiglitz	Fat Tony	Nero Tulip
Risk Vendors		Taxpayers (not quite voluntarily soul in the game, but they are victims)

If you are only as valuable as the risks you are taking, you become particularly valuable when you take risks for others. Now, the highest rank in society may have been given to those who did risk their lives for the defense of others; but fighting for one's ideas seems to give an even higher status. No one has had more prestige in history than two thinkers who overtly and defiantly sacrificed their lives for their ideas — two Eastern Mediterraneans, one Greek and one Levantine.

Note that Table x does not imply that those with soul in the game are necessarily right: many messianic utopians have caused harm while remaining firm in their belief. Nor is a grandiose death a necessity: many people fight evil in the patient grind of their daily lives without looking like heroes; they suffer society's ingratitude. They will not get a statue from future generations.

> *A half-man (or, rather, half-person) is not someone who does not have an opinion, just someone who does not take risks for it.*

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With the elements of this table in mind we can now bring the unifying foundational asymmetry (between upside and downside) into a central theme, ethics. Just as only business school professors and similar imbeciles separate robustness and performance, we cannot separate fragility and ethics.

Asymmetry, any asymmetry, as we saw, *necessarily* implies fragility and antifragility. I repeat that can express the problem using convexity effects (which are the direct result of antifragility). And of course options: as we will see, some people have the options at the expense of others.

The effects of the table are becoming more acute, as modernity is building up more and more people on the left column. So many professions, most of them arising from modernity, are affected, gaining their antifragility at the expense of our fragility —bureaucrats, academic researchers,

journalists, the medical establishment, pharma, and many more. Now how do we solve it? As usual, with some great help from the ancients.

Hammurabi's code —now about 3800 years old —has the seeds of that need to reestablish a symmetry of fragility, spelled out as follows:

> If a builder builds a house and the house collapses and causes the death of the owner of the house – the builder shall be put to death. If it causes the death of the son of the owner of the house, a son of that builder shall be put to death. If it causes the death of a slave of the owner of the house – he shall give to the owner of the house a slave of equal value.

I looks like they were much more advanced 3800 years ago than we are today. The entire idea is that the builder knows more, a lot more than any safety inspector, particularly in what is hidden in the foundations —which makes it the best risk management rule ever.

Now, clearly the object here is not to punish retrospectively, but to save lives by providing upfront disincentive in case of harm to others during the fulfillment of one's profession.

These asymmetries are particularly severe when it comes to small probability extreme events, that is, Black Swans —as these are the most misunderstood and their exposure is easiest to hide.

Fat Tony has two heuristics.

> *First, never get on a plane if the pilot is not on board.*
> *Second, make sure there is also a co-pilot.*

The first heuristic addresses the asymmetry in rewards and punishment, or transfer of fragility between individuals. Ralph Nader, more on whom later, has a simple rule: people voting for war need to have at least one descendant (child or grandchild) on the draft. For the Romans, engineers needed to spend some time under the bridge they built —something that should be required of financial engineers today. The English went further and had the families of the engineers spend time with them under the bridge. To me, every journalist needs to have "skin in the game" in the event of harm caused by reliance on his information or opinion (not have such person as, say, the journalist Thomas Friedman who helped cause the criminal Iraq invasion come out of it completely unscathed). Further, anyone producing a forecast or making an economic analysis needs to have something to lose from it, given that others rely on one's forecast (forecasts induce risk taking).

We can derive plenty of sub-heuristics from it, particularly to mitigate the weaknesses of predictive systems. Predicting —any prediction —without skin in the game can be as dangerous for others as nuclear plants without the engineer sleeping on premises.

The second heuristic is for redundancy effects, building a margin of safety, avoiding optimization.

We will have more heuristics to force skin-in-the-game and aggregate them the end of the book.

The rest of the chapter will present a few syndromes, with, of course, some rule inspired by the ancients to remedy them.

The Talker's Free Option

Recall from Chapter x that we need to put entrepreneurs and risk-takers, failed or not, on top of the pyramid, and academics, talkers, and politicians at the bottom. The problem is that society is currently doing the exact opposite, granting talkers a free option.

The idea of Fat Tony milking suckers when they run to the exit door seemed at first quite inelegant to Nero. Benefiting from the misfortune of others —no matter of hideous these are and can be —is not the most graceful approach to life. But what makes it permissible is that Tony had something at risk, and would have been harmed by an adverse outcome. For there is an even worse problem with the opposite situation to milking suckers: people who just *talk*, prognosticate, theorize[cxiii].

In fact such speculative risk-taking is not just permissible; it is mandatory. No opinion without risk; and, of course, no risk without hope for return. Tony had an opinion, and had to have, for ethical reasons, an

exposure that would allow him to milk these suckers as they rush out. As we say in Amioun, it is necessary to do so if you have an opinion. Otherwise, by an argument I will make in this chapter, you do not have an opinion at all. You need to be earmarked as someone who has not downside for his opinion, with a special status in society, perhaps something below citizens.

So counter to the entire idea of intellectual and commentator, as separate member of society, I am stating here that I find it profoundly unethical to talk without doing, without having one's skin in the game, without having something at risk. You express your opinion; it can hurt others (who rely on it) yet you incur no liability. Is this fair?

But this is the information age. This effect of transferring fragility might have been present throughout history, but it is much more acute now, under modernity's connectivity and as I said, the growing wedge between ethical and legal coming in parallel to the rise of unpredictability and invisibility of causal chains. The "knowledge world" causes separation of knowing and doing (within the same person) and leads to fragility of society. How?

In the old days, privilege came with obligations. You want to be a feudal lord, you will be first to die. You want war? First in battle. Let us not forget something embedded in the US law that the President is commander in chief. Because Caesar, Alexander and Hannibal were on the ground in battle, not like Ronald Reagan and George W. Bush playing video games. Even Napoleon got exposed; his showed up on a battlefield was the equivalent of adding twenty-five thousand troops, They were in it; they believed in it. Status implies you are at the greatest risk.

Note that in traditional societies even those who fail —but have taken risks— are at a higher status than those who are not exposed.

Now, again, this idiocy of predictive systems, making me emotional. Knowledge business means shifting to talk. Talk by academics, consultants and journalists, when it comes to predictions, can be just *talk*, devoid of embodiment and stripped of true evidence. And it causes others to be harmed by relying on it without the talker paying a price. As in anything with words, it is not the victory of the most correct, but that of the most charming. We mentioned earlier Raymond Aron's predictive abilities making him uninteresting, and those who were wrong about Stalinism surviving beautifully. Aron was about as boring as they come: in spite of his prophetic insights he looked, wrote, and lived like a tax accountant while his enemy, say, Jean-Paul Sartre, who got about everything wrong and even put up with the Germans, Sartre looked radiant, impressive, and, alas, his books survived. There is something dull and unimaginative in having been right.

Now recall from Chapter x that in Davos I got nauseous making eye contact with Thomas Friedman. The real reason was perhaps not just that I saw someone I consider vile and harmful. I just get disturbed when I see wrong and do nothing about it; it is biological. And, another element of ethics (Roman ethics, of course): if you see something wrong and do nothing, you are just part of the violation. For Publilius Syrus, the freed Levantine slave aphorist, he who does not stop a crime is an accomplice. (Factum tacendo, crimen facias acrius).

If you see fraud and don't say fraud, you are a fraud.

I was annoyed to see him at Davos, immune to failure; there is something unfair, wrong, downright unethical about it. Thomas Friedman was responsible for the Iraq invasion of 2003, and not only he paid no penalties for it but he is still continuing to have the Op-Ed page of the *New York Times* confusing innocent people. He got —and kept —the upside, others get the downside. A journalist with arguments can harm more people than any serial criminal. I am singling him here because, at the core, the problem is his promotion of misunderstanding of complex systems. He promoted "earth is flat" style globalization without realizing that globalization brings fragilities, causes more extreme events as a side effect, and requires a great deal of redundancies to operate properly. And the very same error holds with the Iraq invasion: in such a complex system, the predictability of the consequences is very low, so invading was irresponsible epistemologically.

Natural systems work by penalties: no perpetual free option given to anyone. So does society in many things with visible effects. If someone drives a school bus blindfolded, and has an accident, he either exits the gene pool the old fashioned way, or, if for some reason he is not harmed by the accident, he will incur enough penalties to be prevented to drive other people

ever again. The problem is that the journalist Thomas Friedman is, at the time of writing, still driving the bus. There is no penalty for journalists who harm society. And this is a very bad practice as we will see a few examples the current Obama administration is populated with people who drove the bus blindfolded —and still are. They get promoted.

I said stripped of true evidence. How? Just consider that because of the retrospective distortion, people who of course did not see an event coming will remember some thought in the shower to that effect, and will manage to convince themselves that they predicted it, before proceeding to convince others. There will be after every event many more *postdictors* than true predictors, people who had an idea in the shower without taking it to its logical conclusion, and, given that many people take a lot of showers, say nearly twice a day (if you include the gym or the episode with the mistress), they will have a large repertoire to draw from. They will not remember the numerous bath-generated ideas they had in the past that were either noise, or actually in contradiction with the observed present –but as humans crave self-consistency, they will retain the elements of what they thought in the past that correspond to their perception of the present.

So these journalists who were so proudly and professionally providing idle babble will eventually appear to win an argument, since they are the ones writing, and suckers who got in trouble from reading them before will look at them for future guidance, and will get in trouble again.

The past is fluid, marred with selection biases, and constantly revised memories. It is a central property of suckers that they will never know they were the suckers because that's how our mind works. (Even then, one is struck with the following fact: the fragilista crisis that started in 2007-2008 had much, much fewer *near-predictors* than random.)

The asymmetry: postdictors can produce instances in which their opinions played out and discard mispredictions into the bowels of history. It is like a free option —to them; we pay for it.

Since they have the option, they are antifragile: volatility tends to benefit them: the more volatility, the higher the illusion of intelligence.

Note also that postdictors always look smarter than predictors.

But evidence on whether one has been a sucker or a nonsucker is easy to ferret out by looking at the actual records, actions. Actions are symmetric, do not allow cherry picking, remove the free option. When you look at the actual history of someone's activities, instead of what thoughts he will deliver after the facts, things become crystal clear. The option is gone. Reality removes the uncertainty, the imprecision, the vagueness, the self-serving mental biases that make us appear more intelligent. Mistakes are costly, no longer free, but being right bring actual rewards. Of course, there are other checks one can do to assess the *b***t* component of life: investigate people's decisions as expressed through investments. You would discover that many people who claim to have foreseen these events we saw in 2008 had financial companies in their portfolios. Indeed, there was no need to "profit" from the events like Tony and Nero to show nonsuckerness: just avoiding being hurt by them would have been sufficient.

You cannot sit and moan about the world. You need to come on top. So Tony was right to insist that Nero takes a ritual look at the physical embodiment of the spoils like a bank account statement –as we said, it had nothing to do with the financial value, nor even the purchasing power of the items, just their symbolic value. Recall from Chapter x how Julius Cesar needed to incur the cost of having Vercingetorix brought to Rome and paraded. An intangible victory has no value. *Verba volent,* words fly.

Never have people who talk and don't do been more visible, and played a larger role than modern times. This is the product of modernism and the division of tasks.

We live a post-heroic age.

Let us get into the details.

The Stiglitz Syndrome

But there is more severe than the Thomas Friedman problem, which represents generally the situation of someone causing action while being completely unaccountable for his words.

The phenomenon I will call the Stiglitz syndrome, after an academic economist of the so-called "intelligent" variety called Joseph Stiglitz, is as follows. I reluctantly call it by Stiglitz's name because I find him the smartest of economists (on paper that is), one with the most developed intellects for things on paper*. But, of course, only on paper. So The Stiglitz syndrome corresponds to a form of cherry picking, the nastiest variety because the perpetrator is not aware of what he is doing. It is a situation in which someone not just failed to detect a hazard but contributed to its cause while ending up convincing himself —and sometimes others — of the opposite, namely, that he predicted it and warned against it. It corresponds to the combination of remarkable analytical skills, selective memory and absence of skin-in-the-game. We will see how such syndrome affects medical studies.

Stiglitz Syndrome = fragilista + cherry picking

Stiglitz writes in 2010 in his *I-told-you-so* book that he claims to have "predicted" the crisis that started in 2007-2008. A bit of repetition of the background information as it is cogent here: that crisis, like many, was caused, in my opinion, by the fragility of the system with plenty of hidden risks in the form of exposures to small probabilities —the agency problem combines poorly with small probabilities since people can hide risks there and get a regular bonus before the explosion. The absence of Hammurabi's rule allows the builder to hide risks in the foundation where they hide the best. But there is also human psychology conspiring to hide these blowups from us. So system that reposes on the computability of small probabilities leads to disasters.

One day in 2003, Alex Berenson, a *New York Times* journalist came into my office with the secret risk reports of a giant government sponsored lending firm called Fannie Mae, given to him by a defector. I immediately saw that their blow-up was inevitable: their exposures were severely "concave", that is similar to graph of traffic in figure x: harm that accelerates

* Further his wife is the grandaughter of the Russian émigré who started the classical literary collection *La Pléiade* the best possible thing France can still offer to literature.

as one increases economic variables (I did not even need to understand which one). There are some reports that allow the detection of exposures to “tail events” given my profession as option trader and having looked at several hundred thousands of these I worked with my emotions, not my brain, and I had a pang before even understanding what numbers I had been looking at. I had never seen more “short volatility” (or “short gamma”) in my entire career, that is potential harm from volatility. It was the mother of all fragilities and, thanks to Berenson, the New York Times presented my point of view. As the company was using standard economics risk management methods and considered itself “safe”, my accusations were followed by the natural attempts by the quants to delegitimize me for a while, calling me a nihilist of sorts for claiming that their risk methods were unreliable. Somehow I escaped a smear campaign as a few days later their chairman was removed completely unrelated accounting fraud, which distracted them from attacking me.

I kept telling anyone who would listen to me that the company was “sitting on a barrel of dynamite” including a note in my book *The Black Swan*. Of course, blowups don’t happen every day (just as poorly built bridges don’t collapse immediately) and people kept telling me that I was wrong (using some argument that the stock was going up or something even more stupid). But, luckily, I had some skin in the game for my opinions. And, in 2008, no surprise, Fannie Mae went bust, costing cost the U.S. taxpayer hundreds of billions (and counting) —and more generally, the financial system with similar risks exploded. The entire banking system had similar exposures.

But around the same period, Joseph Stiglitz , with a colleague called Peter Orzag, looked at the very same Fannie Mae. They assessed, in a report, that "on the basis of historical experience, the risk to the government from a potential default on GSE debt is effectively zero.*" Supposedly, they ran simulations (from what I understand). They also said that the probability of a default was found to be "so small that it is difficult to detect." It is statements like these and, to me, only statements like these (intellectual hubris and

* GSE is Fannie Mae and Freddie Mac —they both blew up.

illusion of understanding rare events) that caused the buildup of these exposures to rare events in the economy. This is the Black Swan problem that I was fighting.

Look at this aberrant case of antifragility provided to him by society. It turns out that Stiglitz was not just a-nonpreditor (by my standards) but was also part of the problem that caused the events, these accumulations of exposures to small probabilities. But he did not notice it! An academic is not designed to remember his opinions because he doesn’t have anything at risk from them.

At the core, people are dangerous when they have that strange skill we've just cultivated that gets their papers published in journals but decreases their understanding of risk. So the very same economist who caused the problem, then post-dicted the crisis then became a theorist on what happened. No wonder we will have larger crises.

Had Stiglitz been a businessman with his own money on the line, he would have blown up, terminated. Or had he been in nature, he would have exited the gene pool. But what I found disgusting is that Orzag, after the crisis got a job with the Obama administration —another rehiring of blindfolded bus drivers.

There are other lessons here, related to the absence of penalty. This is an illustration of the academics-who-write-papers-and-talk in its greatest severity. So many academics propose something in one paper, then the opposite in another paper without penalty to themselves from having been wrong in the first paper (but much to others) since there is a need for consistency *within* a single paper, not *across* one’s career. This makes them antifragile at the expense of society accepting the “rigor” of their results. Further, I am not doubting Stiglitz sincerity, or such weak form of sincerity: I believe he genuinely thinks he predicted the financial crisis, so let me rephrase the problem: the problem with people who do not incur harm —is that they can cherry pick from statements they've made in the past, many of them contradictory and end up convincing themselves on the way to the World Economic Forum at Davos.

There is the iatrogenics of the medical charlatan and snake oil salesperson causing harm, but sort of knows it and lays low after he is caught. And there is a far more vicious form of iatrogenics by experts who use their more acceptable status to later claim that they warned of harm. As these did not know they were causing iatrogenics so they cure iatrogenics with iatrogenics. Then things explode.

Finally, the cure to many ethical problems maps to the exact cure of the Stiglitz effect, which I state now (and explain and generalize later in the ethical discussion).[cxiv]

Never ask anyone for their opinion, Ask them what they have in their portfolios.

{Discussion of the rating agencies and the promotion of bad risk management theories was caused by the absence of accountability}.

The Problem of Frequency

Another argument Fat Tony has with "making a buck" as opposed to be "proven right". Let us return to the distinction between Thalesian and Aristotelian for a minute and look at evolution with the following point of view. The frequency, i.e., how *often* someone is right is largely irrelevant in the real world, but alas one needs to be a practitioner not a talker to figure it out. On paper, the frequency of being right matters, but only on paper—typically, fragile payoffs have little (sometimes no) upside, and antifragile payoffs have little downside. This means that one makes pennies to lose dollars in the fragile case; make dollars to lose pennies in the antifragile one. The core of our asymmetry is that failure is of small pain. So the antifragile can lose for a long time with impunity, so long as he happens to be right once; for the fragile a single loss can be terminal.

Accordingly if you were betting on the downfall of, say a portfolio of financial institutions because of their fragilities, it would have cost you pennies over the years preceding their eventual demise of 2008, as Nero and Tony did. (Note that taking the other side of fragility makes you antifragile). You were wrong for years, right for a moment, losing small, winning big, so vastly more successful than the other way (actually the other way would be

bust). So you would have made the Thekels like Thales because betting against the fragile is antifragile. But someone who would have merely "predicted" the event with just words would have been called by the journalists "wrong for years", "wrong most of the time", etc.

Should we keep tally of journalists "right" and "wrong", the proportion does not matter as we need to include consequences. And given that this is impossible we are now in a quandary.

Let me rephrase. Decision-making in the real world, that is, deeds are Thalesian, while forecasting *in words* is Aristotelian. As we saw in the discussion in Chapter 2, one side of a decision has larger consequences of the other —we don't have evidence that people are terrorists but we check them for weapons; we don't believe the water is poisonous but we avoid drinking it; something that would be absurd for someone narrowly applying Aristotelian logic. To put in Fat Tony terms: suckers try to be right, nonsuckers try to make the buck, or:

Suckers try to win arguments, nonsuckers try to win.

To put it again in other words: it is rather a good thing to lose arguments.

The Right Decision for the Wrong Reason

More generally, for mother nature, opinions and predictions don't count; surviving is what matters.

There is an evolutionary argument there. This appears to be the most underestimated argument in favor of free-enterprise and a society driven by individual doers, what Adam Smith called "adventurers", not central planners and bureaucratic apparatuses. We see that academics and slow-thinking bureaucrats live in a system of rewards based on "tawk" and the opinion of others, with job evaluation and peer reviews—in other words, what we call marketing. Aristotelian, that is. Yet the biological world evolves by survival not opinions and "I predicted" and "I told you so". Evolution dislikes the confirmation fallacy, endemic in society.

The economic world should, too, but institutions mess things up, as suckers may get bigger —institutions block evolution with bailouts and statism. Note that, in the long term, social and economic evolution nastily takes place by surprises, discontinuities, and jumps.

Karl Popper wrote a treatise on evolutionary epistemology —not being a decision-maker, he was under the illusion that ideas compete with each other for evolution, with the least wrong surviving at any point in time. He missed the point that it is not ideas that survive, but people who have the right ones, or the ones, right or wrong, that leads them to do the good thing. He missed the Thalesian effect, the fact that a wrong idea that is harmless can survive. Those who have wrong heuristics —but with a small harm —will survive. Behavior called "irrational" can be good if it is harmless.

Let me give an example of type of false belief that is helpful for survival. In your opinion, what is more dangerous, to mistake a bear for a stone, or mistake the stone for a bear? It is hard for humans to make the first mistake; our intuitions make us overreact at the smallest probability of harm and see a certain class of false patters —those who overreact upon seeing what may look like a bear have had a survival advantage, those who made the mistake in equal directions left the gene pool.

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Our mission is to make talk less cheap.

The Ancients and Fragility

We saw how the ancient understood the Stiglitz syndrome —and associated ones— rather well. In fact they had quite sophisticated mechanisms to counter most aspect of agency problems, whether individual or collective (the circular effect of hiding behind the collective). Earlier, I mentioned the Romans forcing engineers to spent time under the bridge they built. They would have had Stiglitz and Orzag sleep under the bridge of Fannie Mae and exit the gene pool.

The Romans have even more powerful heuristics for situations few today have thought about, solving potent game-theoretic problems. Roman

soldiers were forced to sign a *sacramentum* accepting punishment in the event of failure—a sort of pact between the soldier and the army spelling out commitment for upside and downside. But let us see how astute they were in removing the diffusion of responsibility.

Assume that you and I are facing a small leopard or a wild animal in the jungle. The two of us can possibly overcome it by joining forces —but each one of us is individually weak. Now, if you run away, all you need to be is be just faster than me, not faster than the animal. So it would be optimal for the one who can run away the fastest, that is, the most cowardly, to just be a coward and let the other one perish.

The Romans figured it out. They removed the soldiers' incentive to be a cowards and hurt others with a process called decimation. If a legion loses a battle and there is suspicion of cowardice, ten percent of the soldiers and commanders are put to death, usually by random lottery. Decimation — meaning one in ten — has been corrupted by modern language. The magic number one in ten: putting more than ten per cent to death would lead to weakening of the army; too little and cowardice would be a dominant strategy.

And the mechanism had to work well as a deterrent against cowardice since it was not too practiced.

To Burn One's Vessels

Playing on one's inner agency problem can go beyond symmetry: give soldiers no options and see how antifragile they can get.

On April 29 711, the armies of the Arab commander Tarek crossed Gibraltar from Morocco into Spain with a small army (the name Gibraltar is derived from the Arabic; it means rock of Tarek). Upon landing, Tarek had his ships burned. He then made a famous speech every schoolchild memorized my schooldays that I translate loosely: "Behind you is the sea, before you, the enemy. You are vastly outnumbered. All you have is sword and courage."

And Tarek and his small army took control of Spain. The same heuristic seems to have been played in history, from Cortes in Mexico, eight hundred years later, to Agathocles of Syracuse, eight hundred years earlier —ironically Agathocles was heading, Southward, in the opposite direction (the reverse of Tarek's) as he was fighting the Carthaginians and landed in Africa.

THE PROBLEM OF INSULATION

Recall that Fat Tony never read books; he never trusted academics, even for the advancement of knowledge. "If they do something, you'd hear about it", he said, causing clashes with Nero who as an intellectual needed to defend his turf, with angry accusations of obscurantist-dark-age-promoter-book-burning-New-Jerseyistic-philistine, etc. But it was a good discipline to find counterarguments to Tony —or discover the lack of them. So if you think that practitioners can accept intellect as inspiration, the reverse does not work. Consider the following saying attributed to Yogi Berra: "in theory there is no difference between theory and practice, in practice there is".

I believe that forcing researchers to eat their own cooking solves a serious problem in science. Take this simple heuristic —does the scientific researcher who has ideas applicable to the real world, apply his ideas to his daily life? If so, take him seriously. Otherwise, ignore him.

This brings us to the Raiffa problem by comparison with Seneca, the talker and the doer. Recall his "this is serious" when it came to applying his methods to real-life decision. —and my statement that risk required doing, not talking.

The great skeptic Hume was said to leave his skeptical angst in the philosophical cabinet, then go party with his friends in Edinburgh (though his idea of partying was rather too …Edinburgh). The philosopher Myles Burnyeat name such question the "problem of insulation" particularly with skeptics who are skeptics in one domain but not another. He provides an example of a philosopher who puzzles about the reality of time, but who nonetheless applies for a research grant to work on the philosophical problem of time during next year's sabbatical —without doubting about the reality of next year's arrival. For Burnyeat, the philosopher "insulates his ordinary first order judgments from the effects of his philosophizing". Sorry, Professor Burnyeat; I agree that philosophy is the only field (and its sibling,

pure mathematics) that does not need to connect to reality. But then make it a parlor game and give it another name…

Likewise, Gerd Gigerenzer reports a more serious violation on the part of Harry Markowitz who started a method called "portfolio selection" and received the same evil Swedish Riskbank prize (called "Nobel" in economics) for it, like other fragilistas such as fragilista Merton and fragilista Stiglitz. I spent part of my adult life calling it charlatanism as it has no validity outside of academic endorsements. Well, doctor professor fragilista Markowitz does not use it for his own portfolio; he has recourse to the more sophisticated (and simpler to implement) cab drivers methodologies.

Likewise I applied this method of ignoring what an academic writes, focusing on what he does when I met a researcher on happiness who held that *anything one makes beyond $50,000 does not bring any additional happiness* —he was then earning more than twice that at an Ivy League school so according to his metric he was safe. The argument seen through his "experiments" that he published in "highly cited papers" (that is, by other academics) seemed convincing on paper —although I am not particularly crazy about the notion of "happiness" or the vulgarity of "seeking happiness". So, like a idiot, I believed him. But a year or so later, I heard from a lecture agent that he was particularly avid for dollars and spent his time on the road talking for fees. That, to me, was more sufficient evidence than thousands of citations.

Recall from Chapter x that a large share of advances in medical treatments comes from those who did but did not think, like the "other" and the "empirics" and the barbers-surgeons. But knowledge is valuable: In fact the central idea of skeptical empiricism lies in the dialectic between doing and knowing —the inseparability of the two.

Champagne Socialism

Never listen to a leftist who does not give away his fortune or does not live the exact lifestyle he wants others to follow.

Sometimes the divorce between one's "tawk" and one's life can be overtly and convincingly visible: people who want others to live a certain a life but don't really like it for themselves.

What the French call caviar-left, "gauche caviar", or what we call champagne socialists are people with a social bent who advocate socialism, sometimes even communism, or some political system with sumptuary limitations, while overtly leading a lavish lifestyle, often financed by inheritance —not realizing the contradiction that they want others to avoid such lifestyle. It is not too different from the womanizing popes, such as John XII, or the Borgias. The contradiction can exceed the ludicrous as with French President François Mitterrand of France who, coming on a socialist platform, acted in the exact style of French monarchs. Even more ironic, his traditional archenemy, the conservative General De Gaulle, lead a life of old-style austerity and had his wife sow his socks.

I have witnessed even worse. A former client of mine, a rich fellow with what appeared to be a social mission, tried to pressure me to write a check to a candidate in an election on a platform of higher taxes. I resisted, on ethical grounds. But I thought that the fellow was heroic, for, should the candidate win, his own taxes would increase by a considerable amount. That was until a year later I discovered that the client was being investigated for his involvement in a very large scheme to be shielded from taxes. He wanted to be sure that *others* paid more taxes.

OPTIONS, ANTIFRAGILITY, AND SOCIAL FAIRNESS

The stock market: the greatest, industrial-sized, transfer of antifragility in history —due to a vicious form of asymmetric skin in the game. A blatant manifestation of the agency problem is in the following. There is a difference between a manager running a company that is not his and the owner-operated business in which the manager does not need to report numbers to anyone but himself, and for which he has a downside. Corporate managers have incentives without disincentives —something the general public doesn't quite get, as they have the illusion that managers are incentivized. Somehow these managers have been given free options by the innocent savers and

investors. I am concerned here with managers of businesses that are *not* owner-operated.

At the time of writing the stock market has cost retirees more than three trillion dollars in losses while managers of the companies composing the stock market, thanks to the asymmetry of the stock option, are richer by close to three hundred and fifty billion. They pulled a Thales on these poor savers. Even more outrageous is the fate of the banking industry: banks have lost more than they ever made in their histories, with their managers being paid billions in compensation –taxpayers take the downside, bankers get the upside.

The asymmetry is visibly present: volatility benefits managers since they only get one side of the payoffs. The main point (alas, missed by almost everyone) is that they stand to gain from volatility —the more variations, the more value to this asymmetry. Hence they are antifragile.

To see how transfer of antifragility works, consider two scenarios, in which the market does the same thing on average but following different paths.

Path 1: market goes up 50% then goes back down to erase all gains.

Path 2: markets does not move.

Visibly Path 1 is more profitable to the managers who can cash in their stock options. So the more jagged the route, the better it is for them.

And of course society —here the retirees —has the exact opposite payoff. Retirees get less upside than downside. Society pays for the losses of the bankers, but gets no bonuses from them. If you don't see this transfer of antifragility as theft, you certainly have a problem.

What is worse, this system is called "incentive" and supposed to correspond to capitalism, so supposedly the managers' interests are lined up to those of the shareholders. What incentive? There is upside and no downside, no disincentive at all.

I take the now-called "Robert Rubin trade", after one Robert Rubin former treasury secretary, who earned 120 million dollars from Citibank in bonuses over about a decade. His risks were hidden but the numbers looked good... until. Then Citibank collapsed and he kept his money —we taxpayers had to compensate him retrospectively since the government took over the banks losses and helped them stand on their feet. This time of payoff is very common, thousands of other executives had it.

Some people suggest a "clawback provision" to remedy the problem. I find it highly insufficient and still contains a high degree of transfer of fragility. It would be done as follows: managers cannot cash the bonus immediately, can only do so three years later if there are no losses. But this does not solve the problem: the managers still have a net upside, and no net downside. At no point his own net worth is endangered.

Which Adam Smith?

Many right-wingers-pro-large-corporations fellows keep citing Adam Smith, famous patron saint of "Capitalism", a word he never uttered[cxv], without reading him, or using his works in a self-serving selective manner —he is equated with the modern version of capitalism, and ideas that he is most certainly did not endorse in the shape they are presented[*].

Well, in Book IV of *The Wealth of Nation*, Adam Smith was extremely chary of the idea of giving someone upside without downside and had doubts about the limited liability of joint-stock companies (the ancestor of the modern limited liability corporation). He did not get the idea of transfer of antifragility, but he came close enough. And he detected —sort of— the failure of risk management that comes with managing other people's business, the lack of pilot on the plane.

> The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own.

[*] I have had the same experience with journalists citing each other about my books without the smallest effort to go to my writings —my experience is that most journalists, professional academics and other in similar phony professions don't read original sources, but each other, largely because they need to figure out the consensus before making a pronouncement —as we will see in the next chapter.

Further Smith is even suspicious of their economic performance as he writes: "joint-stock companies for foreign trade have seldom been able to maintain the competition against private adventurers."

The Antifragility and Ethics of (Large) Corporations

Have you noticed that corporations sell you junk drinks, artisans sell you cheese and wine. And there is a transfer of antifragility from the small in favor of the large —until the large goes bust.

The problem of the commercial world is that it only works by addition, not subtraction (*via negativa*): pharmaceutical companies would not gain from your avoidance of sugar; the manufacturer of health-club material would not benefit from your deciding to lift stones and walk on rocks (without a cell phone); the stockbroker would not gain from your limiting your investment to what you see with your own eyes, say your cousin's restaurant or an apartment building in your neighborhood; all these firms have to produce "growth in revenues" to satisfy the metric of some slow thinking MBA-analyst sitting in New York. Of course they will eventually self-destroy but that's another conversation.

Now consider companies like Coke or Pepsi that I assume at the time the reader is poring over these lines that they are still in existence —which is unfortunate. What business are they in? Selling you sugary water or, subsequently, substitute for sugar, putting into your body stuff that messes up your biological signaling system, *causing* diabetes and making diabetes vendors rich with the compensatory drugs. They certainly can't make money selling you tap water and cannot produce wine (wine seems to be the best argument in favor of the artisanal economy). But they dress it up with a huge marketing apparatus, with images that fool the drinker and slogans such as "125 years of providing happiness" or some such arguments. I fail to see why the arguments we've had against tobacco firms don't apply —to some extent— to all other large companies that try to sell us things to put into our bodies.

The historian Niall Ferguson and I once debated the chairperson of Pepsi Cola as part of an event at the New York Public Library. It was a great lesson in antifragility as neither Niall nor I cared about who she was (I did not even know her name). Both of us came totally unprepared (not even a single piece of paper) and here she showed up with a staff of aides who, from the printouts of web pages and their thick files probably had studied us down to our shoe sizes (I saw in the green room an aide perusing a printout with an ugly picture of me in my pre-bone obsession, pre-weightlifting days). We could say anything we wanted with total impunity and she had to hew by her party line, lest the security analysts issue a bad report that would cause of drop of two dollars and thirty cents in the stock price before year-end. In addition, my experience of company executives is that, as evidenced by their appetite for spending thousands of hours in dull meetings or reading bad memos, they cannot be possibly remarkably bright. They are no entrepreneurs. Someone intelligent —or free— would have perhaps imploded under such regimen. So Niall immediately detected her weak point and went straight for the jugular: her slogan was that she contributed to employment by having six hundred thousand persons on her staff. He immediately exposed her argument with the counter-argument —actually developed by Marx and Engels— that large bureaucratic corporations seized control the state just by being a "big employer", and could extract benefits from such condition at the expense of small businesses. So a company that employs six hundred thousand persons was allowed to wreck the health of citizens with impunity and benefit from the implied protection of bailouts (just like American car companies) — whereas artisans like hairdressers and shoe-cobblers do not get such immunity.

A rule then hit me: with the exception of, say, drug dealers, small companies and artisans tend to sell us healthy products, ones that seem naturally and spontaneously needed (in addition to the natural pride of the maker); larger ones —including pharmaceutical giants— are likely to be in the business of producing wholesale iatrogenics, taking our money, then, to add insult to injury, hijack the state thanks to their army of lobbyists. Further, anything that requires marketing appears to carry such side effect. You certainly need an advertising apparatus to convince people that Coke brings them "happiness" —and it works.

(For those who thinking of the story of Steve Jobs; I consider him a true artisan, perhaps even an artist. It is so rare to be able to scale artisanal like that without losing the spirit).

Artisans, Marketing, and the Cheapest to Deliver

Another attribute of the artisanal. There is no product that I particularly like that I have discovered through advertising and marketing devices: cheeses, wine, meats, eggs, tomatoes, basil, apples, restaurants, barbers, arts, books, hotels, shoes, shirts, eyeglasses, pants (My father and I have used three generation of Armenian tailors in Beirut), olives, olive oil, etc. The same applies to cities, museums, art, novels, music, painting, sculpture (I had at some point an obsession with ancient artifacts and Roman heads). These might have been "marketed" in some way, by making others aware of their existence, but it is not how I got to use them —word of mouth is a potent naturalistic filter. Actually, the only filter.

Consider the concept of "cheapest to deliver" in financial markets. The futures markets for commodities work as follows. The parties need to deliver upon expiration a certain product according to some specifications. The contract for, say, Live Cattle Future specifies delivery of a live cow of a certain minimum weight. By a mechanism called arbitrage, the market assumes the worst and prices it at the sickliest, lightest, cheapest possible thing one can get that can still be called a cow and meets the minimum weight, and, of course, be technically alive but barely so. Operators do not actually need such a sick cow, but it serves as an incontrovertible benchmark that eliminates all complications regarding quality. So it is a simple, healthy, pricing mechanism. In other words, just a heuristic.

But the problem is that such mechanism of *cheapest-to-deliver-for-a-given-specification* pervades whatever you see in the shelf. Corporations, when they sell you what they call cheese, have the incentive to provide you with the cheapest to produce piece of rubber containing the appropriate ingredients that can still be called cheese, and study how they can fool your taste buds. Actually, it is more than just an incentive: they are structurally designed and extremely expert at delivering the cheapest possible product that meets their specifications. The same with, say business books:

publishers and authors want to grab your attention and put in your hands the most perishable journalistic item available that still can be called a book. This is the mechanism of optimization at work, in maximizing (image and packaging) or minimizing (costs and efforts).

I said about marketing by soft drink companies that it was meant to maximally fool the drinker. Anything one has to market is necessarily either inferior or evil. And it is highly unethical to portray something in a more favorable light than it actually is. One can present a product but I wonder why people don't realize that, by definition, what is being marketed is necessarily inferior otherwise it would not be in an advertisement?

First, marketing is bad manners —and I rely on my naturalistic and ecological instincts. Say you run into a person during a boat cruise. What would you do if he starts boasting of his accomplishments, telling you how great, rich, tall, impressive, skilled, famous, muscular, well educated, efficient, and good in bed he is, plus other attributes? You would certainly run away (or put him in contact with another talkative bore to get rid of both of them). It is clearly much better if others (preferably someone other than his mother) are the ones saying good things about him, and it would be nice if he acted with some personal humility.

Actually this is not so far stretched. It has happened to me as I was writing this book, to overhear on a British Air flight a gentleman explain to the flight attendant less than two seconds into the conversation (meant to be about whether he liked cream and sugar in his coffee) that he won the Nobel Prize in Medicine "and Physiology" in addition to being the president of a famous monarchal academy. She did not know what the Nobel was, but was polite, so he kept repeating "the Nobel Prize" hoping that she would wake up from her ignorance. I turned around, recognized him and the character suddenly deflated. As the saying goes, it is hardest to be a great man to one's chambermaid. And marketing beyond conveying information is insecurity.

Now we saw and accepted that people who boast are boastful and turn people off. How about companies? Why aren't we turned off by companies that advertise how great they are? So we have three layers of violations:

First layer, the mild violation: companies are shamelessly self-promotional, like the man on the British Air flight, and it only harms them.

Second layer, the more severe violation: companies are trying to represent themselves in the most favorable light possible, hiding from us the defects of their products, still harmless as we tend to expect it and rely on the opinion of users. Third layer, the even more severe violation: companies are trying to misrepresent the product they sell by playing with our cognitive biases our unconscious associations and that's sneaky. The latter is done by, say, showing a poetic picture of a sunset with a cowboy smoking and forcing your association of great romantic moments with some given product that, logically, has no possible connection to it.

It seems that the corporate system pushes companies progressively into the third layer. At the core of the problem with capitalism —again, please do not invoke Adam Smith as we saw that he was not at all an advocate of the limited liability managerial corporation— at the core lays the problem of aggregation. A corporation does not have natural ethics anymore; it just obeys the balance sheet. As we saw, the nation-state is no longer naturally interested in humanism (the death of a "foreigner" is not its direct business), the problem with the corporation is that its sole mission is the satisfaction of some metric imposed by security analysts, themselves prone to charlatanism.

A corporation does not feel shame. We humans are restrained by some physical, natural inhibition.

A corporation does not feel pity.

A corporation does not have a sense of honor —only marketing documents mention "pride".

A corporation does not have generosity. Only self-serving. Just imagine what would happen to a corporation that decides to, unilaterally, cancel the receivables —just to be nice. Yet societies function thanks to random acts of generosity between people, even sometimes with strangers.

All of these defects are the result of the absence of skin of the game, cultural or biological —an asymmetry that harms others for its overt benefit.

Now, such system would tend to implode. And it does. As they say you can't fool too many people for a very long time. But the problem of the implosion of such a system is that it does not matter to the managers — because of the agency problem, their aim is their own personal cash-flow. There is an additional asymmetry. They two game the system.

My only problem is that corporations being so fragile, long term, and eventually collapse under the weight of the agency problem, the fact that managers milk them for bonuses and ditch the bones to taxpayers, And force them to rescue zombies. Corporations normally would collapse if it were not for the lobby machines: they hire a large number of people to build their machine to inject sugary drinks into your esophagus then start hijacking the state. In the United States large corporations control some members of congress. All it does is delay the corporation's funeral at our expense.

Marketing and "Nudging"

When giving lectures around the world I invariably end up in the same place as business school charlatans. In finance there is no problem: treat (most) financial economics professors like ethically-challenged beneficiary of a free-option and reality-challenged subhumans, with a bit of disgust in the way I look at them (while giving respect to the lower ranking persons); since I am an option trader (or now ex-trader) I look them in the eye and they leave me alone, easily intimidated since they are halfmen and afraid of entering technical arguments with me in front of their students. In other words, both ugly ethically and of low-technical competence. Then I realized the same ethical ugliness prevails among these "marketing gurus".

The very idea of marketing should not exist ethically. Now they are teaching you to misrepresent your product? In universities? 2 PM marketing 101 teaching you to manipulate customers, then, at 4 PM there is the ethics class on the third floor? I can understand that when someone writes a book, he needs to let others know about its existence —you are helping both sides. The next time a history of the Levant is published, I need to know about it, even if it is an advertisement. Also an ad signals to me that some effort has been put into it in order to make it worth the advertising. The same with conferences. But cognitive manipulation ....

But at the time of writing something rather disturbing is taking place — with economists recruiting our cognitive biases in order to impose their "rationality" on us. ..{the nudge nanny state}

Big Data

{This is a bit technical so the reader can skip the argument with no loss. Another asymmetry with a free option give to the researcher. There is a difference in medical research between observational studies, in which the researcher looks at statistical relationships on his computer, and the double-blind cohort experiments. The former produces all manner of results that tend to be, nine time out of ten, spurious —yet these observational studies get reported in the papers and in some scientific journals. Thankfully, they are not accepted by the Food and Drugs Administration as they know better. The *Fooled by Randomness* effect is accelerating. There is a nasty phenomenon called "Big Data" in which the researchers have brought cherry picking into an industrial level. Modernity provides too much variable (but too little data per variable), and the spurious relationships grow much, much faster than real information, as noise is convex and information is concave.}

THE ALAN BLINDER SYNDROME (SEPARATION BETWEEN THE ETHICAL AND THE LEGAL)

As someone who claims to be as independent as one can possibly be, with nothing to lose, and fear of nobody (except my mother's occasional reprimands), I am even more obligated than anyone else to expose hidden scams. I felt ashamed not having exposed the following one for a long time.

The story is as follows. At Davos, during a private coffee conversation that I thought aimed at saving the world from, among other things, moral hazard and agency problems, I was interrupted by Alan Blinder, a former Vice Chairman of the Federal Reserve Bank of the United States, who tried to sell me a peculiar investment product. It allowed the high net worth investor to go around the regulations limiting deposit insurance (at the time, $100,000) and benefit from coverage for near unlimited amounts. The investor would deposit funds in any amount and Prof. Blinder's company would break it up in smaller accounts and invest in banks, thus escaping the limit; it would look like a single account but would be insured in full. In other words, it would allow the super-rich to scam taxpayers by getting free government sponsored insurance. Yes, SCAM taxpayers. Legally. With the help of former civil servants who have an insider edge.

I blurted out: "isn't this unethical?". I was then told in response "we have plenty of former regulators on the staff", implying that what was legal was ethical.

It took long, a couple of years, before I reacted to the event and did my public *J'accuse*. Having spent these years immersed in the classics, a certain sense of grandeur (from which I am looking for a cure) inhibited me from reporting of journalistic anecdotes —Alan Blinder is certainly not the worst violation of my sense of ethics; he probably irritated me because of the prominence of his previous public position and the Davos conversation was meant to save the world. This is a model of how people use public office to, at some point, legally profit from the public.

Tell me if you understand the problem in its full simplicity: former regulators and public officials who were employed by the citizens to represent their best interests can use the expertise and contacts acquired on the job to benefit from glitches in the system upon joining private employment —law firms, etc.

Think about it a bit further: the more complex the regulation, the more bureaucratic the network, the more a regulator who knows the loops and glitches would benefit from it later, as his regulator edge would be a convex function of his differential knowledge. This is a franchise, an asymmetry one has at the expense of others. (Note that this franchise is spread across the economy; the car company Toyota hired former U.S. regulators and used their "expertise" to handle investigations of its car defects).

Further, what infuriated me was an Op-Ed by Blinder and the dean of Columbia University Business School opposing the raising by the government of insurance limit on individuals. Blatantly, the public should not have the unlimited insurance that Blinder's clients benefit from. This is the classical conflict of insurance dressed up under the name economic theory and scholarship.

I have several remarks.

First, the more complicated the regulation, the more prone to arbitrages by insiders. This is another statement in favor of heuristics. 2300 pages of

regulation will be a gold mine for former regulators. The incentive of a regulator is to have complex regulation. Again, *less-is-more* should be central.

Second, the difference between letter and spirit of regulation is harder to detect in a complex system. The point is technical but complex environments with nonlinearities are easier to game than linear ones with a small number of variables. The same applies to the gap between legal and ethical.

Third, regulation, like drugs, have side effects, and like drugs, can harm the patient. People do not mention that regulation helped promote crisis of 2008 with scientistic probabilistic methods of risk measurement in replacement to age-tested heuristics —these methods blew up banks.

Fourth, we need a more severe monitoring of the activities of public officials and a solution to the following conflict. In African countries, government officials get explicit bribes. In the United States they have the implicit, never mentioned, promise to go work for a bank at later date with a sinecure offering, say $5 million a year, if they are seen favorably by the industry. And the "regulations" of such activities are easily skirted.

What upset me the most about the Alan Blinder problem is the reactions: people found it natural that a former official would try to make money thanks to his former position —at our expense. Society cannot survive that way —as we will see in the next chapter.

SOUL IN THE GAME

Now, beyond the Thalesian and the Aristotelian, there is a class of people who escape the bureaucrato-journalistic "tawk": those with something beyond having their skin in the game. *They have their soul in the game.*

Consider prophets. Prophecy is a pledge of belief, little else. A prophet is not someone who first had an idea; he is the one to first believe in it.

Chapter x discussed prophecy when done right, as substraction, and detection of fragility. But if having skin in the game (and accepting downside) is what distinguishes the genuine thinker from *ex post* "tawk", with the benefit of retrospection, there is one step beyond that to be reached before becoming a prophet. So, as I said, if before the economic crisis many people had, Stiglitz-style, ideas of the sort of the one you may have in the shower —they thought of the *possibility* of the crisis, its *plausibility*, but did not give it as much credence then as they did after the event took place. It is a matter of commitment, or what philosophers call doxastic commitment, a type of belief-pledge which to Fat Tony and Nero needed to be translated into deeds. Doxa in Greek means *belief*, but distinguished from “knowledge” (episteme); to see how it involves a commitment of sorts beyond just words, consider that in church Greek it took the meaning of *glorification*.

Incidentally this notion also applies to all manner of ideas and theories: the main person behind a theory, the person to be called the originator, is someone who believed in it, in a doxastic way, with a costly commitment to take it to its natural conclusion; and not necessarily the first person to mention over desert wine or in a footnote.

Only he who has true beliefs will avoid to eventually contradicting himself.

Next

This segment examined the ethics at an individual level. Let’s take it further. Another layer of complexity erupts when we consider the behavior of the collective as distinct from that of the individual. At no point in history did we have people committing such ethical violations as, say, lobbying for tobacco companies, producing economic forecasts or similar matters and getting away with it by producing such argument as “because I have a family to feed” or “everyone needs to make a living”.

Chapter 14. Fitting Ethics to One’s Profession

On the virtues of vertical living -- In the middle of the middle class -- how to starve -- Palace to hut, and back --How the slaves can snatch control.

This chapter moves away from the agency problem to a deeper investigation of ethical issues. It is mostly about extensions to another of Fat Tony’s mottos: *Trust those who make a living lying down or standing up vastly more than those who make their living sitting down.*

***

{Testimony Congress —My War Against Risk Vendors

Fragilistas Stiglitz and Orzag are not the only case: there is an entire cottery of "risk vendors" who make money selling people computer systems that "measure" risks of tail events.

The very method of model- based quantitative risk management causes increases in risks, particularly hidden risks.

Risks need to be handled by the entities themselves, in an organic way, paying for their mistakes as they go. It is far more effective to make bankers accountable for their mistakes than try the central risk manager version of Soviet-style central planner.}

Now, the compatibility of some professions and service of the public. The Greeks had respect for the *banausoi*, those who had to make a living in the professions, but many argued against trusting them in running the affairs of the city on grounds that "a funeral goods merchant would not be trusted to wish for the good health of his fellow citizens". The point has been debated through the ages, from Xenophon to Seneca (who took the opposing point), but it is even starker today in the age of lobbyists and a shift in middle class values that tolerates the "everyone needs to make a living" even when such "make a living" is harmful to society.

In an antique city state, or a modern municipality, shame is the penalty for the violation of ethics; in larger organisms like the mega holy Nation-State, with a smaller role for face to face encounters, shame ceases to play its duties of disciplinarian. We need to re-establish it. (This is one of the causes of the fragility of the nation state).

Cleon, the hero of the Peloponnesian war, advocated the public renouncement of friends upon dealing with public affairs –he paid for it with some revilement by historians.

Cherry Picking

In Chapter x, during the series of adventures of the pair Fat Tony - Nero Tulip, Fat Tony {conducted} a debate (imaginary) with Socrates with whom he had nothing in common except the fact that he wrote nothing himself. But putting the two in the same room subjects us to a problem of asynchrony, a gap of about twenty five centuries. It is not easy bringing someone in a time machine and imagining his shock —for us, conditioned by the modern world, it is not a simple matter to identify the elements of our physical environment that would strike him the most. Questioned on the point by Fat Tony, Nero's speculative reply was that "it would perhaps be the absence of slaves". "We need to perform domestic duties, someone to follow us around carrying our personal belongings. These people never did small things themselves. Imagine Socrate's sorry figure of a bulging belly, on spindly legs, wondering *Opou oi douloi*? "

"But, Neeroh Toolip, there are slaves around", Fat Tony blurted out. "They often distinguish themselves by wearing this intricate device called a neck-tie".

Nero (faking an Italian accent): "Signore Ingeniere Tony, *ma che,* some of these tie-wearers are very rich, even richer than you".

Tony: "Nero, you fool. Don't be fooled by money. These are just numbers. Being self-owned is a state of mind."

So let us rephrase the horizontal man's thought in —as usual—three rules.

Primo. Never trust a man who *needs* to earn a salary (or, more specifically, has a dependent source of income) —unless he is on minimum wage. People in such bondage would do absolutely anything to "feed a family". And, what's worse, they will be educated enough to be able spin a self-convincing rationale for it. There are exceptions, of course, but a man on a middle-class salary is the one who has something to prove to you, not the other way around.

Secondo. People who earn their living lying down (or standing up) are several times more trustworthy than those who do so sitting down. But don't just jump to all the wrong professions —I do most of my reading (and, thanks to the advent of the laptop, some of this writing) lying supine and a large share of my quality time as a *flâneur*.

Terso. Take, once for all, the Fat Tony rule that freedom, dependence, slavery, and independence are much less related to level of income than to the type of individual concerned. And the difference is courage.

The Owner of Your Opinion

For Metternich, humanity started at the rank of Baron; for Aristotle as well as, though in a separate form, the English up until the twentieth Century, it started at the rank of idle free man, un-preoccupied with work —it never meant *not* working; it just meant not deriving your personal and emotional identity from your work and of course doing work as something optional, more like a hobby. In a way your profession does not identify you so much as other attributes, here your birth (but it could be something else). This is the *f*** you* money that allowed Thales of Miletus to gage his own sincerity. For the Spartans, it was all about courage. So as we saw, for Fat Tony, humanity starts at the level of "self-ownership".

Now self-ownership for our horizontal friend was vastly more democratic than for his thinking predecessors. It simply meant being the owner of your opinion. And it has nothing to do with wealth, rather with personal courage.

In other words, for Fat Tony, it was very, very specific definition of a free person: someone who cannot be squeezed into doing something he would otherwise never do.

Only he who is free with his time is free with his opinion.

Everyone Needs to Make a Killing

For what we are witnessing now is modernity's effect of people fitting their beliefs (or ethical systems) to their actions, rather than the reverse.

At no time in the history of mankind has the following situation been encountered, or seen in such an acute form. Say Mr. John Smith Jr., J.D., is employed as lobbyist for the tobacco industry in Washington, D.C., which, as we all know, is engaged in the business of killing people for profits (we will see with the powers of subtraction that if we stopped the industry from existing by, say, banning cigarettes, then everything else done by medicine becomes secondary). Ask any of his relatives (or friends) why they can tolerate it and don't just ostracize him or harass him to tears, avoid him at the next family funeral. The answer is likely to be: "everyone needs to make a living" —as they are hedging the possibility of their falling into the same situation some day. Ask him in person and he will most probably invoke his family responsibilities, and the most likely three answers are: "I have children to put through college", or "I need to put a roof over their head", or sometimes "I have a family and mortgage payments". Progeny can be used as ethical crutches, as if people had children in part to use them as justification for many of their actions and construct a self-narrative accordingly, convincing themselves in the process[cxvi].

The Horizontal and the Vertical

Now that I've outlined the ethical problem, back to the two friends and let's do some analysis. Tony kept telling Nero that he had a lot to learn, particularly on account of his lack of Brooklyn roots. To him, some bank tellers are closer to self-ownership, given that they can easily switch to another job paying just minimum wage, while the chairman of very same bank will be, typically, a pure slave. The employees at the bottom cannot be easily forced to commit acts of desperation, or, say, fit their beliefs to accord with an action they have taken *because they have to do so within their profession*, rather than act according to preset beliefs. Such self-spinning justificatory strategy is commonly known as cognitive dissonance, as the person find justification to resolve the mismatch between the initial set of mind and his subsequent actions. The simplest, and most visible example is that of a banker who can do crazy (but, of course legal) actions loading the world with risk just to get a bonus, then subsequently find the justification

that he is helping spur economic activity and that he is indispensable to society.

Or people can indulge buying lottery tickets and claim --and believe --that they are doing it "for their children" (again, children as ethical crutches). Or people can work for a soft drinks, or, worse, a cereal manufacturer and manage to convince you that they are selling goods that are good for humans' "health".

So unless they became ambitious and decided to upgrade their social rank, bank tellers, security guards, drivers of the corporate cars, waiters, hotel cleaning employees, construction workers, and persons in similar employment have little downside as their jobs are fungible. The distance between their current job and another one paying the same amount is very small, and there is a huge reservoir of jobs at the bottom of the pyramid --their reputation matters little beyond a clean criminal record and an official absence of psychiatric condition. So, in a way, these people are free.

The chairman of the company, on the other hand, will be scared of the security analyst who can give him a bad report, of the board of directors, of journalists who can say something unflattering (simply because they happen to be in a bad mood), of his own vice president looking to take his job (as he did with his predecessor). Falling means a severe loss of status. He would be able to live a life materially acceptable to many, but would be losing his expensive car, his wine collection, his opera subscription, his country house, and, correspondingly, his second wife. Other people who are too emotionally invested in a certain business will end up losing their friends. Academics, even when they have tenure, get over-socialized in a certain milieu —being ostracized can be too costly to them, so although they may have the financial buffer of a tenured position they will avoid expression their own opinion. Actually we've known that social exclusion —like exile —is the most painful form of punishment, with a sting that is even worse than that of jail.

Of course there is the addiction of a salary. I've written in an aphorism that the three most damaging addictions are heroin, carbohydrates, and a monthly salary.

Fitting Beliefs to Actions

I have just presented the mechanism of diffusion of responsibility by which In other words, *they fit their beliefs to actions rather than fit their actions to their beliefs*. Table 3 compares professions.

Table 5- Comparing professions and activities

OPPORTUNIST	ETHICAL
Gold-digger	Prostitute
Networker	Social person
Compromises	Doesn't compromise
Academic	Erudite, dilettante, amateur
Merchant, professional (Classical period)	Landowner (Classical period)
Employee	Artisan
Philosophy professor at a research university	Lens maker Philosophy teacher in a college or Lycée high school
Lawyer	Advocate
Brentano	Marx
Bureaucrat	Hobo
Finance Professor, Banker	Self –employed trader
Nonfiction writer, journalist	Essayist, even (alas) blogger
Politician	Activist