# Getting Under Nassim Nicholas Taleb’s Skin

By Gene Callahan

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Nassim Nicholas Taleb hates being called an “intellectual,” so let’s instead refer to him as a thinker, and go on to note that he is one of the most important thinkers of our time. That importance comes not so much from the volume of work he has produced, as from the fact that, with each new book, he gives his readers a significant and novel lens through which one can look at the world. Furthermore, each book has grown out of the previous one, so that something mentioned briefly in one book would become the theme of the next one. And all of this work has been unified by the theme of how to handle life in the face of “the dark forces of time and ignorance,” is informed by a deep knowledge of probability and statistics, and is gleeful in its skewering of those who understand just enough about uncertainty to massively screw things up.

Taleb made a significant amount of money as an option trader, and his experience dealing with risk in that market has had a significant impact on his thought. After achieving financial independence through trading, he went on to earn a PhD from the University of Paris. He has since held a variety of academic posts, and published his first volume on uncertainty, *Fooled by Randomness*, in 2001. In *The Black Swan*, his most famous work (described as one of “Twelve Books That Helped Change the World” in the UK *Sunday Times*), Taleb highlighted how little we really can say about the “tails” of probability distributions that we suppose we can model. The book has been credited with foreshadowing the financial crisis of 2008. The importance of “tail risk” might be understood, in the context of that meltdown, as follows: the banks investing in mortgages relied on models that assumed the risk of a nation-wide decline in housing prices in the US was minute. But how “minute” is minute? Once in 100 years? Once in 1000 years? Once in 10,000 years? The banks chose the “extremely unlikely” end of that spectrum, but they did so based upon... only a few decades of data on the US housing market!

“Anti-fragility” was a minor theme in *The Black Swan*, but it became the major one of his next full-length work (he released a book of aphorisms in between) *Antifragile: Things That Gain from Disorder*. This work introduced a whole new category into our thinking about the impact of randomness on entities in the world. Before Taleb identified a new class of phenomena, things were generally thought of as being robust -- able to withstand some random shocks -- or fragile, and easily broken by such shocks. But *Antifragile* insisted on the need for a third category, the eponymous “antifragile,” signifying things that become stronger when stressed. The concept caught on slowly at first, but is now finding applications in medicine, nutrition, exercise, finance, politics, physics, and information technology.

*Antifragile* also introduces a story that is probably crucial to understanding Taleb’s famously cantankerous public personality. (Full disclosure: Taleb is my colleague at the NYU Tandon School of Engineering, and in person, he is polite and friendly.) Taleb’s great-grandfather was dying, and called his son (Taleb’s grandfather) to his bedside. He let his son know how disappointed he was in the fact that no one was badmouthing him: that meant his son was too wimpy to be capable of generating envy.

Taleb has made sure he will never face such criticism himself: he takes glee in launching feuds with prominent intellectuals, such as Steven Pinker, Mary Beard, Cass Sunstein, or Paul Krugman, and, in fact, has coined a new term to describe such foes: IYIs, or “intellectuals yet idiots.” Among the characteristics of IYIs is that they go on and on about their concern for the poor, but never hang out with those of lower social status; they praise “diversity” but have never gotten drunk with a minority cab driver or spent time in a Jamaican nightclub; they are proud of their braininess but have never read Michael Oakeshott or John Gray; they are self-proclaimed egalitarians but are obsessively concerned with their status in their university or their reviews in *The New York Times*. They place great faith in “statistical” studies without understanding anything about the foundations of statistics, and they follow the most-recent publicly promulgated dietary guidelines without ever noticing that such guidelines continually contradict the set of guidelines issued just a year or two previously. They pretend to be good “Darwinists” while holding in contempt traditions that have survived for thousands of years. But, perhaps most importantly, they don’t lift barbells in the gym, instead spending time on fancy treadmills and hyper-specialized weight machines. (I joke with “most importantly,” but Taleb himself does point to exercise choice as an important indicator of an IYI.)

His new book, *Skin in the Game* (dedicated to Ron Paul and Ralph Nader), extends observations made about asymmetrical risk in *Antifragile* into a thesis about how human institutions “learn” over time. In addition, the book analyzes large swaths of ethics as concerned with unequal distributions of “skin in the game.”

Taleb begins by discussing Antaeus, the mythical son of Mother Earth and Poseidon: he was unbeatable in a fight, at least so long as he could keep contact with the ground: his mother! But Hercules was able to defeat him by lifting him in the air and crushing him: this is a lesson to “keep our feet on the ground,” i.e., to keep in contact with the practical world, and not fly off into an abstract heaven of theorizing disconnected from reality. But modernity is plagued by abstract theorizers lacking all practical experience; as Taleb puts it, “The curse of modernity is that we are increasingly populated by a class of people who are better at explaining than understanding” (14).

He immediately extends this trope to modern Libya. Here he goes after the “interventionistas” (foreign policy theorists with no “skin in the game,”) who have repeatedly urged us to intervene in foreign countries -- Afghanistan, Iraq, Libya, Syria -- whose governments did not meet the interventionistas abstract standards for political acceptability. Each of those interventions made life for the average person in the country being “saved” significantly worse -- and yet the interventionistas pay no price whatsoever for wrecking the lives of millions. Instead they keep appearing on CNN and PBS as “experts” who should guide the rest of us as to what country we ought to bomb next. Taleb contrasts the interventionistas lack of skin in the game with rulers in the ancient world, who would often appear at the front in any wars they undertook: he cites the Roman emperor Julian the Apostate, who died with a Persian spear in his chest.

Taleb next describes the “Bob Rubin trade”: Robert Rubin, who was Treasury Secretary under the Clintons, returned to the “private sector” at Citigroup, from whom he received $120 million in compensation in the decade after his leaving “public service.” However, when the house of cards, which his advice helped to construct, collapsed in 2008, he suffered no consequences for his role in the meltdown. Instead, it was hard-working plumbers and crab fishermen and farmers and Spanish grammar specialists who paid the price in the form of trillion-dollar, taxpayer-funded bailouts of insolvent banks. And note: Rubin is merely a synecdoche for “banking professionals” in general here: in that the government will decide that certain banks are “too big to fail,” it will permit employees of those banks to take extraordinary risks for extraordinary short-term profits, as those bankers know they will suffer little-to-no consequence should their actions ultimately result in catastrophic losses. If I can collect $5 million bonuses for seven years, what do I care if in year eight every investment I sold my clients loses 90% of its value?

And the idea we can “regulate” our worries away, is, as Taleb notes, nonsense: “The move [towards hedge funds] took place mostly because of the overbureaucratization of the system as paper shufflers (who think work is mostly about paper shuffling) overburdened the banks with rules -- but somehow, in the thousands of pages of additional regulations, *they avoided considering skin in the game*.” In other words, lawmakers could simply have made bankers personally responsible for the meltdowns they create, by, for example, fining Bob Rubin $115 million for his role in the 2008 financial crisis. But the IYIs instead devise a new, bizarrely complex set of financial “regulations,” that, they assure us, will mean that “this can never happen again,” but which will instead simply allow a new Bob Rubin, trained at his Ivy League school to master such bureaucratese, to game the system anew.

This leads us to the application of “skin in the game” to ethics through the idea of symmetrical risk: don’t put *someone else’s* skin in the game without putting your own in as well. Taleb shows the idea is at least as old as the Code of Hammurabi, which declared that if a builder constructed a house that collapsed and killed the occupant, the builder should be put to death. The “eye-for-an-eye” principle behind Hammurabi’s code does not, he assures us, need to be taken completely literally: we don’t actually need to cut off the leg of the surgeon who accidentally amputated the wrong leg of a patient: it is probably enough to “cut off” his golf club membership with a large lawsuit settlement, so that not only the patient is at risk during the operation.

In an interesting application of the idea of “skin in the game,” Taleb explains how an intransigent minority with a lot invested in some topic can impose its views on a much larger populace that is relatively indifferent on the topic. For instance, despite perhaps 90% of a populace not caring about eating GMO foods, the 10% who object to them might make their sale unviable: if even one person out of ten at a party refused to eat GMO foods, it is much simpler to just order 100%-non-GMO foods, than it is to worry about keeping two separate food tables, especially since people who aren’t concerned about GMOs will still happily eat non-GMO foods. Taleb uses this principle to explain why most soft drinks are kosher, despite only a couple percent of the population caring about whether their soda has a kosher label: since it costs little more to make kosher drinks than non-kosher ones, it is simpler just to make all drinks kosher than it is to produce and distribute two sets of beverages.

The “Lindy effect,” mentioned in *Antifragile*, gets its own chapter in the new book. This principle gets its name from the story of actors meeting at Lindy, a New York City deli that boasts of its famous cheesecake. Those actors, speculating on how long a run some Broadway show would have, made the observation that the best predictor of a show’s *future* run was how long it had *already* run. If a show had been running for three days, one’s best bet would be that it would run another three days. And if it had run for 30 years, the best bet is it would run for another 30. This principle, Taleb contends, applies to social institutions and practices in general: if, for instance, the Buddhism has lasted 2500 years, our best bet for how much longer it will be around is “another 2500 years.” Meanwhile, the current progressive obsession with identity politics, having been around for 10 or 15 years, will most likely disappear in another decade or two. It is *time*, and not the opinion of “experts,” that is the ultimate judge of the value of social practices.

On the topic of religion, Taleb contends that we know far too little to actually determine the “rationality” of some belief; instead, we need to look at the effect beliefs have on the believers’ behavior, and on their society as a whole: “There is no such thing as the ‘rationality’ of a belief, there is rationality of action” (220). This approach, I think, is a shortcoming in Taleb’s work: while he defends traditional religions, he does so based solely on the beneficial *practical* effects of the beliefs they promulgate. The idea that there might be something transcendental at the core of some religion, something worth respecting *even if* the practical effects of doing so might prove disastrous, does not seem to be of concern to him.

Even Christology is examined in light of the book’s overarching theme, and Taleb finds that the Church Fathers were wise: Christ *had* to be fully human, or he wouldn’t have had “skin in the game”: a divine figure just playing at being human, a la Zeus or visiting angel, isn’t really risking anything.

The conclusion of the book addresses the issue of why “ensemble risk” cannot be treated the same as “time risk.” The difference can be understood by considering a game of Russian roulette with a bullet in one of six chambers. The rules are that if the “house” pulls the trigger and you live, you get a million dollars. If 100 people play, we can say that the expected payoff for each is $833,333.33. But we can’t say that the expected payoff for a single person playing 100 times is $83,333,333.33! Instead, we expect, with near certainty, that he will be dead. And if he dies on the second trigger pull, he does not get to play the other 98 times. This demonstrates why an individual cannot expect to get the “average” return from the market: at some point, he will lose enough that he will “cry uncle” and leave the market. Taleb contends that social scientists repeatedly mistake ensemble risk and time risk, leading to, for instance, their condemnation of risk aversion as “irrational.”

Taleb packs plenty more to chew on in a relatively slim volume, but we are out of space. So I close by noting that if you have enjoyed his previous books, this one will not disappoint you. And if you are unfamiliar with his work, then *Skin in the Game* will be a great place to remedy that problem.