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Book Review

Antifragile: Things that Gain from Disorder

Nassim Nicholas Taleb
New York: Random House, 2012, 519 pp.

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No two buzzwords define the present crisis more than contagion and robustness in the world of economists and policy wonks. The current interrelated nature of the financial system has bred a fragile situation where the success of the greater economy supposedly hinges on its individual components, such as banks that are too big to fail. To combat this fragility, economists have increasingly sought to build robust institutions. Such institutions will remain strong in the face of adverse effects if an individual component of the economy fails—be it subprime mortgages, sovereign debt, deposit-taking institutions or investment banks. This prevailing approach to the crisis stresses that if we cannot battle contagion, we had better construct strong institutions to weather future storms.

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Nassim Taleb takes great issue with this approach in his new book *Antifragile*. His view is that constructing such so-called robust institutions is not sufficient as it continually fights yesterday's battle. Instead the focus should be in building "antifragile" institutions. Although often confused with robustness or resilience, an antifragile institution is not only unharmed by adverse events, but is actually strengthened by them. Building antifragile institutions will not only strengthen the global economic arena, but also has wide-ranging social applications.

Taleb's latest work builds on two of his previous works, *Fooled by Randomness* (2001) and *The Black Swan* (2007). The common theme underlying all three books is that there are events which are fundamentally unknowable—true uncertainties—in distinction to merely risky outcomes. Since we cannot know in advance what these events are, or what their effects will be, we should not exert too much effort in constructing contingency plans.

It is at this point that my first quibble with the book arises, and one it shares in common with its predecessor *The Black Swan*. Taleb bifurcates between two definitions of uncertain events. On the one hand he invokes random or fundamentally unknowable events. Readers of this journal will be sympathetic to this definition of uncertainty, bearing close resemblance to Mises's own use of "case probabilities" (1949, pp. 110–113), or Shackle's (1949) use of "non-seriable, non-divisible" events. On the other hand, it is also clear that Taleb also thinks of uncertain events as merely rare events. These are events located on the fat or long tails on a probability distribution. Even though he thinks that these represent true uncertainty, there is no doubt that he is referring to fundamentally probabilistic events.

This quibble aside, one can apply much of the remaining work cognizant that Taleb's terminology differs from that of the Austrian economists, and also that the domain of his theory is slightly different than he thinks.

Something is "antifragile" if it gets stronger from a negative event. What are some examples? Taleb applies the prefix of his book liberally to outline what choices we should be pursuing. Indeed, the body of the book gives a long list of antifragile actions that, at least on one level, boil down to doing the exact opposite of what you think you should be doing.

Authors should be shocked to learn that there is almost no news that can harm a writer's credibility, and that any publicity is good publicity (pp. 51–52). Corporations and governments that try to "reinstill confidence" should not be trusted because they would do so only if they were ultimately doomed (p. 53). Children shouldn't be on antidepressants as this removes a source of learning from the life experience and thus make individuals less capable of dealing with unwanted events later in life (p. 61). The sinking of the Titanic was a positive disaster as it put shipbuilders on their toes, and possibly avoided an even larger accident later (p. 72). The general theme is that those who make errors are stronger than those who don't—reliability, or antifragility—only comes when something is regularly tested by an unwanted event.

The theory has merit. Consider this lesson applied to central bank policies. In the wake of the dot-com bust a concerted effort by the world's central banks flooded the global financial system with liquidity. The liquidation of assets that should have happened never did, and as a result lenders and borrowers didn't learn their lesson on prudential money management. The seeds were sown for the larger crisis starting in 2007–2008 because a simple lesson was not learnt when the financial system's problems were still in relative infancy.

There is much to learn from this book and much to be weary. At the end of the day, Taleb reckons the best test of an anti-fragile institution is Mother Nature mixed with a healthy dose of time. In chapter 21 he criticizes the prevailing orthodoxy of "neomania," the mistaken belief that newer is better. Those institutions that have existed the longest are, in all likelihood, those that will continue to exist into the future. As an example, imagine that the year is 1988 and answer the following: which structure will last the longest, the Berlin Wall or the Great Pyramid of Giza.

In this test, as in much of the book, Taleb asks too much and too little. He asks too much because those institutions with the most longevity were once upon a time also the ones with the least. There must be a better test than longevity, as it only pushes the problem back in time to identify the source of antifragility. It cannot be turtles all the way down.

An applied example relevant to the present financial crisis would involve looking for those institutions that have been strengthened

by current affairs. The crisis has taken its toll on many aspects of the financial services industry, but some general types of products have proven surprising resili… antifragile. Governments with prudent fiscal policies—e.g., Germany, Switzerland and Singapore—have fared well and indeed been strengthened as finances deteriorate in more profligate countries. Investment funds capitalizing on what were once unorthodox strategies, such as gold and other precious metal holdings, have out-performed more traditional investments as the financial crisis worsens. Readers of this journal will also notice that their stock in Austrian economics has increased in value over the past decade. Question begging and failed policies developed through more mainstream theories have led many former outsiders to the ranks of Austrian economists. An unwanted event caused an offsetting positive outcome in all these scenarios. That is what being antifragile is about.

Taleb asks too little in this book by not exploring the true sources of antifragility. He comes close, alluding in many places that market-based institutions better combat the false security that planned institutions create. Explaining and elaborating on this link would do much to take the fundamental merits of antifragility to the next level. It would be, however, fodder for another book.

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