

NOTES FROM: *Skin in the Game*, by Nassim Taleb

SUMMARY: I've never read a Nassim Taleb book that didn't *fundamentally* change how I view the world, and this one's no exception. In a sentence, it's about why you should never trust anyone who doesn't suffer the consequences of their own bad advice, and why a person is virtuous only insofar as they've taken a *real risk* for what they believe.

Sharing the downside risk when something goes wrong is a key component of fairness, and the strength of any system is tested by exposure to adverse events. Or, in the immortal words of Warren Buffet, *when the tide goes out, you can see who's been swimming naked*.

Throughout the book, Taleb shows how accountability through risk is the *only* way to build trust, fairness, and long-term stability into any system. Bankers and economists should *lose something* when the people who take their advice lose *everything*. The families of politicians should have to go to war. And academics...well, Taleb takes a *dim* view of academics!

Skin in the Game is also quite *practical*, in that it provides you with criteria you can use to determine how much you should believe people when they offer you advice. If their bad advice will never come back to haunt them, *you probably shouldn't listen to them*. It also gives *you* something to live up to, since you can't call yourself ethical or virtuous if you don't have skin in the game yourself.

"The entire point of the book is that in the real world, it is hard to disentangle ethics on one hand from knowledge and competence on the other."

"Skin in the game is necessary to understand the world."

"In academia there is no difference between academia and the real world; in the real world, there is."

"If you have the rewards, you must also get some of the risks, not let others pay the price of your mistakes. If you inflict risk on others, and they are harmed, you need to pay some price for it."

"If you give an opinion, and someone follows it, you are morally obligated to be, yourself, exposed to its consequences."

"You cannot separate knowledge from contact with the ground. Actually, you cannot separate anything from contact with the ground."

"Guide your learning through pain."

"By the exact same reasoning evidenced by other situations, a doctor would inject a patient with 'moderate' cancer cells to improve his cholesterol numbers, and proudly claim victory after the patient is dead, particularly if the postmortem shows remarkable cholesterol readings."

“Real life has second, third, fourth steps, etc.”

“Multidimensional problems often have single-dimensional representations, like multidimensional health versus your cholesterol reading.”

“Empirically, complex systems do not have obvious one-dimensional cause-and-effect mechanisms, and under opacity, you do not mess with such a system.”

“One should avoid engaging in an action with a big downside if one has no idea of the outcomes.”

“The principle of intervention, like that of healers, is ‘first, do no harm.’”

“Those who don’t take risks should never be involved in making decisions.”

“We have no choice but to have fewer of these immune decision makers.”

“Decentralization is based on the simple notion that it is easier to ‘macrobullshit’ than ‘microbullshit.’”

“Decentralization reduces large structural asymmetries.”

“But not to worry, if we do not decentralize and distribute responsibility, it will happen by itself, the hard way: a system that doesn’t have a mechanism of skin in the game, with a buildup of imbalances, will eventually blow up and self-repair that way. If it survives.”

“Government interference in general tends to remove skin in the game.”

“Interventionistas don’t learn, because they are not the victims of their mistakes.”

“You will never fully convince someone that he is wrong; only reality can.”

“Evolution can only happen if risk of extinction is present.”

“Systems learn by removing parts, *via negativa*.”

Via Negativa: “The principle that we know what is *wrong* with more clarity than what is *right*, and that knowledge grows by subtraction. Also, it is easier to *know* that something is wrong than to find the fix. Actions that remove are more robust than those that add, because addition may have unseen, complicated feedback loops.”

“Risk transfer blows up systems.”

Hammurabi: “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.”

“We are vastly better off complaining about lawyers than complaining about not having them.”

“Deal with weaker states as you think it appropriate for stronger states to deal with you.”

“Treat your children the way you wished to be treated by your parents.”

“Start by being nice to every person you meet. But if someone tries to exercise power over you, exercise power over him.”

“Avoid taking advice from someone who gives advice for a living, unless there is a penalty for their advice.”

“We may not know beforehand if an action is foolish - but reality knows.”

“You do not want to win an argument. You want to win.”

“What matters in life isn’t how frequently one is ‘right’ about outcomes, but how much one makes when one is right.”

“Many exposures are highly nonlinear: you may be beneficially exposed to rain, but not to floods.”

“What works cannot be irrational.”

“Those who talk should do, and only those who do should talk.”

“Things designed by people without skin in the game tend to grow in complication - before their final collapse.”

“Having skin in the game can make boring things much more interesting, like reading the footnotes in the financial statements of a company you’re investing in.”

“When you have skin in the game, you develop almost magical powers of intelligence and energy.”

“Unlike the drug addict who loses his resourcefulness when he’s not trying to score drugs, what you learn from the intensity and focus you had when under the influence of risk stays with you.”

“Many kids would learn to love mathematics if they had some investment in it, and, more crucially, they would build an instinct to spot its misapplications.”

“If you do not take risks for your opinion, you are nothing.”

“And I will keep mentioning that I have no other definition of success than leading an honorable life.”

“People who are not morally independent tend to fit ethics to their profession, rather than find a profession that fits their ethics.”

“Artists have their soul in the game.”

“The principal thing you can learn from a professor is how to be a professor. If you want to learn about courage and virtue, engage in courageous and virtuous acts instead of just reading about them.”

“Beware of the person who gives advice, telling you that a certain action on your part is ‘good for you’ while it is also good for him, while the harm to you doesn’t directly affect him.”

“The ethical is always more robust than the legal. Over time, it is the legal that should converge to the ethical, never the reverse.”

“Laws come and go; ethics stay.”

“No compensation is worth the feeling of shame.”

“It may not be ethically required, but the most effective, shame-free policy is maximal transparency, even transparency of intention.”

“The scaling of ethics doesn’t work as well. The general kills the particular.”

“Scaling matters, I will repeat until I get hoarse.”

“Blaming people for being ‘sectarian’ - instead of making the best of such a natural tendency - is one of the stupidities of interventionistas.”

“You know instinctively that people get along better as neighbors than as roommates.”

“There is no way you can get the same cohesion in a larger city as you get in a smaller community when the ‘other’ is a theoretical entity, and our behavior toward him or her is governed by some general ethical rule, not someone in flesh and blood. We get it easily when seen that way, but fail to generalize that ethics is something fundamentally local.”

“Groups behave differently at a different scale.”

“Critically, people share some things but not others within a specified group. And there is a protocol for dealing with the outside.”

“The skin-in-the-game definition of a commons: a space in which you are treated by others the way you treat them, where everyone exercises the Silver Rule.”

“The ‘public good’ is something abstract, taken out of a textbook. The individual is an ill-defined entity, where ‘Me’ is more likely to be a group than a single person.”

Geoff and Vincent Graham: “I am, at the Fed level, libertarian; at the state level, Republican; at the local level, Democrat; and at the family and friends level, a socialist.”

“There is no problem if people have a conflict of interest, if it is congruous with downside risk for themselves.”

“The right precautionary approach is to consider the unseen as potentially harmful.”

“Studying individual ants will almost never give us a clear indication of how the ant colony operates.”

“All it takes is a small number of intolerant, virtuous people with skin in the game, in the form of courage, for society to function properly.”

“A small intransigent minority can end up shaping the choices available for the rest of us, as in GMOs, and kosher foods etc.”

“People who drive manual cars can always drive automatic, but the reverse is not always true.”

“Genes follow majority rule; language is ruled by minority.”

“Languages travel; genes less so.”

“Once a moral rule is established, it will suffice to have a small, intransigent minority of geographically distributed followers to dictate a norm in society. The sad news is that one person looking at mankind as an aggregate may mistakenly believe that humans are spontaneously becoming more moral, better, and more gentle, with better breath, when this applies to only a small proportion of mankind.”

“Outcomes are paradoxically more stable under the minority rule - the variance of the results is lower, and the rule is more likely to emerge independently across separate populations.”

“What emerges from the minority rule is more likely to be black-and-white, binary rules.”

“Yes, an intolerant minority can control and destroy democracy. Actually, it will eventually destroy our world.”

“The stock market is like a large movie theater with a small door.”

“The best way to detect a sucker is to see if his focus is on the size of the theater, rather than that of the door.”

“It’s preferable to have an army of sheep led by a lion, than an army of lions led by a sheep.”

“Revolutions are unarguably driven by an obsessive minority.”

“The entire growth of society, whether economic or moral, comes from a small number of people.”

“Society doesn’t evolve by consensus, voting, majority, committees, verbose meetings, academic conferences, tea and cucumber sandwiches, or polling; only a few people suffice to disproportionately move the needle. All one needs is an asymmetric rule somewhere - and someone with soul in the game. And asymmetry is present in about everything.”

“Human nature is not defined outside of transactions involving other humans.”

“Almost nothing of relevance concerns a person in isolation.”

“A group of neurons or genes, like a group of people, differs from the individual components - because the interactions are not necessarily linear. So far, we have no fucking idea how the brain of the worm *C. elegans* works, which has around three hundred neurons. *C. elegans* was the first living unit to have its genes sequenced. Now consider that the human brain has about one hundred billion neurons, and that going from 300 to 301 neurons, because of the curse of dimensionality, may double the complexity.”

“Someone who has been employed for a while is giving you strong evidence of submission.”

“Evidence of submission is being displayed by the employee’s going through years depriving himself of his personal freedom for nine hours every day, his ritualistic and punctual arrival at an office, his denying himself his own schedule, and his not having beaten anyone up on the way back home after a bad day. He is an obedient, housebroken dog.”

“If the company man is, sort of, gone, he has been replaced by the company’s person. For people are no longer owned by a company, but by something worse: the idea that they need to be employable. The employable person is embedded in an industry, with fear of upsetting not only their employer, but other potential employers.”

“The best slave is someone you overpay and who knows it, terrified of losing his status.”

“The wolf wants the comfort and security of the dog’s life, until he understands what the collar is for. He then runs away, and is still running.”

“Freedom entails risks - real skin in the game. Freedom is never free.”

“Another aspect of the dog vs. wolf dilemma: the feeling of false stability. A dog’s life may appear smooth and secure, but in the absence of an owner, a dog does not survive. A wolf is trained to survive.”

“Freedom is always associated with risk-taking, whether it leads to it or comes from it. You take risks, you feel part of history.”

“You don’t signal competence if you don’t take expensive risks for it.”

“Cursing today is a status symbol, just as oligarchs in Moscow wear blue jeans at special events to signal their power.”

“What matters isn’t what a person has or doesn’t have; it is what he or she is afraid of losing.”

“Universal suffrage did not change the story by much: until recently, the pool of elected people in so-called democracies was limited to a club of upper-class people who cared much, much less about the press. But with more social mobility, ironically, more people could access the pool of politicians - and lose their jobs. And progressively, as with corporations, you start gathering people with minimal courage - and selected because they don’t have courage, as with a regular corporation.”

“People whose survival depends on qualitative ‘job assessments’ by someone of higher rank in an organization cannot be trusted for critical decisions.”

“When doing the right thing goes against your job description, you're not going to do the right thing. When decision-makers have skin in the game, however, as a substitute for their annual ‘job assessment,’ things can begin to change and we can picture a different world.”

“To make ethical choices, you cannot have dilemmas between the particular (family, friends) and the general.”

“Financial independence solves many ethical dilemmas.”

“Intellectual and ethical freedom requires the absence of the skin of others in one’s game, which is why the free are so rare.”

“Always do more than you talk. And precede talk with action. For it will always remain that action without talk supersedes talk without action.”

“Beware the slightly erudite who thinks he is an erudite.”

“There is no difference between ‘pseudo-intellectual’ and ‘intellectual’ in the absence of skin in the game.”

“True equality is equality in probability.”

“Skin in the game prevents systems from rotting.”

“Static inequality is a snapshot view of inequality; it does not reflect what will happen to you in the course of your life.”

“You do not create dynamic equality just by raising the level of those at the bottom, but rather by making the rich rotate - or by forcing people to incur the possibility of creating an opening.”

“The way to make society more equal is by forcing (through skin in the game) the rich to be subjected to the risk of exiting from the 1 percent.”

“If intellectuals are overly worried about inequality, it is because they tend to view themselves hierarchically, and thus think that others do too.”

“People mistake empiricism for a flood of data. Just a little bit of significant data is needed when one is right, particularly when it is disconfirmatory empiricism, or counterexamples.”

“Time is equivalent to disorder, and resistance to the ravages of time, that is, what we gloriously call survival, is the ability to handle disorder.”

“You can define a free person precisely as someone whose fate is not centrally or directly dependent on peer assessment.”

“The people you understand most easily are necessarily the bull-shitters.”

“Never pay for complexity of presentation when all you need is results.”

“People who are bred, selected, and compensated to find complicated solutions do not have an incentive to implement simplified ones.”

“In a particular conversation, people need to be equal, otherwise it fails.”

“Verbal threats reveal nothing beyond weakness and unreliability.”

“Send non-cheap signals instead that show you have acted in the past and are willing to act now.”

“It is impossible for anyone to write a perfectly, rationally argued document without a segment that, out of context, can be transformed by some dishonest copywriter to appear totally absurd and lend itself to sensationalization, so politicians, charlatans, and, more disturbingly, journalists hunt for these segments.”

“The great Karl Popper often started a discussion with an unerring representation of his opponent’s positions, often exhaustive, as if he were marketing them as his own ideas, before proceeding to systematically dismantle them.”

“Virtue is what you do when nobody is looking.”

“I know of no ethical system that allows you to let someone drown without helping him because other people are not helping, no system that says, ‘I will save people from drowning only if others too save other people from drowning.’”

“Courage is the only virtue you cannot fake.”

“If I were to describe the perfect virtuous act, it would be to take an uncomfortable position, one penalized by the common discourse.”

“Sticking up for truth when it is unpopular is far more of a virtue, because it costs you something.”

“Some people only express their opinions as part of mob shaming, when it is safe to do so, and, in the bargain, think that they are displaying virtue. This is not virtue but vice, a mixture of bullying and cowardice.”

“Relations between populations are often completely different from relations between their governments.”

“Survival comes first; truth, understanding, and science later.”

“You don’t need science to survive, but you must survive to do science.”

“How much you truly ‘believe’ in something can be manifested only through what you are willing to risk for it.”

“What is rational is that which allows for survival.”

“When you consider beliefs in evolutionary terms, do not look at how they compete with each other, but consider the survival of the populations that have them.”

“Not everything that happens happens for a reason, but everything that survives survives for a reason.”

“Rationality is risk management.”

“Unless you are perfectly narcissistic and psychopathic - even then - your worst-case scenario is never limited to the loss of only your own life.”

“Individual ruin is not as big a deal as collective ruin.”

“In a strategy that entails ruin, benefits never offset risks of ruin.”

“Every single risk you take adds up to reduce your life expectancy.”

“Rationality is the avoidance of systemic ruin.”