

Interventionism inhibits innovation

Over the past 200 years, economic and technological development have launched the world out of misery¹. Our lives today are incomparably more comfortable and less dangerous than our ancestors'. The global life expectancy in 1870 was 30 years². Every single day since 1990, an average of 130 000 people have been lifted out of poverty³. Private investment is the main driver of our progress⁴, which is why we must encourage entrepreneurial risk-taking.

Currently, Norway suffers from a severe underappreciation of entrepreneurs^{5,6}. This leads politicians to overly intervene in financial markets, in turn upheaving essential incentive structures^{7,8}. In this essay, I propagate that interventionism inhibits innovation and therefore the progress of our global society. Firstly, I emphasize the importance of entrepreneurs and their lack of acknowledgement in Norwegian society. Secondly, I lay out the history of interventionism and its relation to recent governmental policies. Thirdly, I show how incentive structures are more important than immediate outcomes in complex systems. Fourthly, I conclude that the best action governments can take to foster entrepreneurship is to predictably stay away.

1. The entrepreneur

The entrepreneur sacrifices the secure corporate salary for hard work without any guarantee of success⁹. Essentially, the entrepreneur assumes risk on behalf of society, and most fail¹⁰. Despite their staggering importance for our well-being, Norwegian entrepreneurs are now being hounded to Switzerland⁸ and crucified in the media^{5,6,11}. They are portrayed as greedy capitalists exploiting society for private gain, while the opposite is closer to reality; the average entrepreneur sacrifices private gain for a slim chance to drive society forward¹².

On 28 September 2022, the Norwegian government announced special taxation for industries leveraging natural resources⁷. When the National Budget was launched a week after, an effectual doubling of wealth tax on marketable investments was revealed¹³. Recent history strongly warns against perverse incentives unconsciously created by intervening governments.

2. Interventionism

In 1998, the Federal Reserve summoned 14 of the world's largest banks to bail out Long-Term Capital Management¹⁴. LTCM was led by Nobel Prize-winning economists deploying advanced financial modelling to take highly leveraged bets. It failed spectacularly. For the first time in history, a business grew too big to fail with respect to its societal role while simultaneously failing in its economic endeavours¹⁵.

Bailing out LTCM was beneficial in the short-term. However, when governments bail out firms, they are translating financial risk into societal risk¹². Firms with societal roles will be incentivized to take greater risk, because the government partly assumes the risk. This hazardous incentive structure paved the way for the meltdown during the financial crisis in '08, where the bill from banks' reckless risk management was paid with taxpayer dollars¹⁶. Executives kept their bonuses, politicians kept their seats, while the working class lost their homes¹⁴.

Today, countries remain asymmetrically exposed to business. Governments are compensating firms for economic burdens like the Covid-19 pandemic¹⁷, surging energy prices¹⁸, and climate-related spending¹⁹, thus translating financial risk into societal risk by perversely incentivizing firms⁹. The recent aggressive tax policies in Norway are ill-conceived attempts to amend this asymmetric risk exposure by capturing the upside of economic activity^{7,13}.

3. Incentives precedes outcomes

The capital market is arguably the most complex man-made system ever¹⁶. That makes predicting consequences of interventions impossible, also for exceptionally bright individuals, evident from the case of LTCM¹⁴. In Norway, the haughty overconfidence in models are extensively exemplified just in the past six months: The capital risk estimation for the fish tax is bogus²⁰, the taxation on wind power eradicated the market for long-term contracts²¹, the international exchange of electricity increased domestic prices by orders of magnitude more than expected²², the Ministry of Finance seems unable to undertake basic calculations²³, the wealth tax was suggested slashed months after the increase was announced²⁴, and nobody agrees on what inflation is²⁵. Politicians and “experts” consistently neglect that no model predicts the future¹⁰. However, incentives do.

“Never, ever, think about something else when you should be thinking about the power of incentives”, said Buffet’s partner, Charlie Munger²⁶. Munger argue that regardless of whether you are aware of a perverse incentive structure, you cannot escape its claws. Politicians are themselves caught in a perverse incentive structure by being rewarded for displaying a willingness to act rather than improving society long-term²⁷, leading them to meddle in complex systems they do not understand. In a complex system, doing nothing is often the best action²⁸.

4. Predictably stay away

The best governmental policy for fostering entrepreneurship is to predictably stay away. This entails letting firms fail. “Removing bankruptcy from capitalism is like removing hell when preaching Christianity. Nobody cares anymore.”, elegantly put by Øystein Spetalen²⁹.

Equally important is allowing firms to succeed. “I don’t want the help of the government, I just don’t want the middle finger”, said Fredrik Haga³⁰, CEO and founder of Dune Analytics, who recently moved to Switzerland to avoid selling off his firm to pay wealth tax in Norway³¹.

Interventionism destroys business by eradicating foundational incentive structures. In complex systems, incentives are more important than immediate outcomes. Therefore, all governments, currently especially relevant for Norway’s, should weigh their interventions very carefully.

Let firms fail and let firms succeed. Predictably stay away to foster entrepreneurship.

5. References

See endnotes on page 5 for numerical referencing.

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6. Numerical referencing

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- ⁹ (Taleb, Antifragile, 2012)
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- ¹¹ (Rustad, 2022)
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- ¹³ (Jordheim & Solheimsnes, 2022)
- ¹⁴ (Lowenstein, 2001)
- ¹⁵ (Crane, 2014)
- ¹⁶ (Lewis, 2011)
- ¹⁷ (Grønstad, 2021) (NB! This is a great example of how immediate outcomes are prioritized over incentive structures. The author does not even use the word “incentive” once)
- ¹⁸ (Lier & Hagmansen, 2022)
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- ²⁰ (Carnegie, 2022)
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