

# Interventionism inhibits innovation

Over the past 200 years, economic and technological development have launched the world out of misery<sup>1</sup>. Our lives today are incomparably more comfortable and less dangerous than our ancestors'. The global life expectancy in 1870 was 30 years<sup>2</sup>. Every single day since 1990, an average of 130 000 people have been lifted out of poverty<sup>3</sup>. Private investment is the main driver of our progress<sup>4</sup>, which is why we must encourage entrepreneurial risk-taking.

Currently, Norway suffers from a severe underappreciation of entrepreneurs<sup>5,6</sup>. This leads politicians to overly intervene in financial markets, in turn upheaving essential incentive structures<sup>7,8</sup>. 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 success<sup>9</sup>. Essentially, the entrepreneur assumes risk on behalf of society, and most fail<sup>10</sup>. Despite their staggering importance for our well-being, Norwegian entrepreneurs are now being hounded to Switzerland<sup>8</sup> and crucified in the media<sup>5,6,11</sup>. 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 forward<sup>12</sup>.

On 28 September 2022, the Norwegian government announced special taxation for industries leveraging natural resources<sup>7</sup>. When the National Budget was launched a week after, an effectual doubling of wealth tax on marketable investments was revealed<sup>13</sup>. 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 Management<sup>14</sup>. 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 endeavours<sup>15</sup>.

Bailing out LTCM was beneficial in the short-term. However, when governments bail out firms, they are translating financial risk into societal risk<sup>12</sup>. 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 dollars<sup>16</sup>. Executives kept their bonuses, politicians kept their seats, while the working class lost their homes<sup>14</sup>.

Today, countries remain asymmetrically exposed to business. Governments are compensating firms for economic burdens like the Covid-19 pandemic<sup>17</sup>, surging energy prices<sup>18</sup>, and climate-related spending<sup>19</sup>, thus translating financial risk into societal risk by perversely incentivizing firms<sup>9</sup>. The recent aggressive tax policies in Norway are ill-conceived attempts to amend this asymmetric risk exposure by capturing the upside of economic activity<sup>7,13</sup>.

### **3. Incentives precedes outcomes**

The capital market is arguably the most complex man-made system ever<sup>16</sup>. That makes predicting consequences of interventions impossible, also for exceptionally bright individuals, evident from the case of LTCM<sup>14</sup>. 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 bogus<sup>20</sup>, the taxation on wind power eradicated the market for long-term contracts<sup>21</sup>, the international exchange of electricity increased domestic prices by orders of magnitude more than expected<sup>22</sup>, the Ministry of Finance seems unable to undertake basic calculations<sup>23</sup>, the wealth tax was suggested slashed months after the increase was announced<sup>24</sup>, and nobody agrees on what inflation is<sup>25</sup>. Politicians and “experts” consistently neglect that no model predicts the future<sup>10</sup>. However, incentives do.

“Never, ever, think about something else when you should be thinking about the power of incentives”, said Buffet’s partner, Charlie Munger<sup>26</sup>. 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-term<sup>27</sup>, leading them to meddle in complex systems they do not understand. In a complex system, doing nothing is often the best action<sup>28</sup>.

### **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 Spetalen<sup>29</sup>.

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 Haga<sup>30</sup>, CEO and founder of Dune Analytics, who recently moved to Switzerland to avoid selling off his firm to pay wealth tax in Norway<sup>31</sup>.

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.

- Bakken, J. B., Feratovic, L., & Meisingset, S. (2022, 11 10). *Disse har flyttet til Sveits i år*. Retrieved from DN: <https://www.dn.no/marked/disse-har-flyttet-til-sveits-i-ar/2-1-1337486>
- Byberg, Ø. (2014, 01 13). *Finansavisen*. Retrieved from Øystein Stray Spetalen kåret til årets tåkelur: <https://www.finansavisen.no/nyheter/personlig-oekonomi/2014/01/oeystein-stray-spetalen-kaaret-til-aarets-taakelur>
- Carnegie. (2022). *Hørings svar fra Carnegie*. Oslo: Carnegie AS.
- Doménech, R., & Sicilia, J. (2021). *Private investment as the engine of economic growth and social welfare*. Bilbao: BBVA Reserach.
- Energi Norge & Norwea. (2022, 12 05). *Fornybar Norge*. Retrieved from [https://www.fornybarnorge.no/contentassets/29a2a8fbbd3d43a4a32121687ab08d22/innspill\\_ve\\_dr\\_horing\\_grunnrenteskatt\\_vindkraft.pdf](https://www.fornybarnorge.no/contentassets/29a2a8fbbd3d43a4a32121687ab08d22/innspill_ve_dr_horing_grunnrenteskatt_vindkraft.pdf): [https://www.fornybarnorge.no/contentassets/29a2a8fbbd3d43a4a32121687ab08d22/innspill\\_ve\\_dr\\_horing\\_grunnrenteskatt\\_vindkraft.pdf](https://www.fornybarnorge.no/contentassets/29a2a8fbbd3d43a4a32121687ab08d22/innspill_ve_dr_horing_grunnrenteskatt_vindkraft.pdf)
- FS. (2023, 03 10). *Mental Models*. Retrieved from The Power of Incentives: The Hidden Forces That Shape Behavior: <https://fs.blog/bias-incentives-reinforcement/#:~:text=Here%20is%20Charlie%20Munger%2C%20speaking,human%20cogniti on%20or%20human%20behavior.>
- Følsvik, P. H. (2023, 01 14). *Skatteflyktningene svikter den samme velferdsstaten som har gjort dem rike, og overlater regningen til vanlige folk*. Retrieved from E24: <https://e24.no/naeringsliv/i/MoPE7m/skatteflyktningene-svikter-den-samme-velferdsstaten-som-har-gjort-dem-rike-og-overlater-regningen-til-vanlige-folk>
- Grønstad, A. (2021, 10 14). *How the Nordic response to COVID helped reduce financial inequality*. Retrieved from LSE: <https://blogs.lse.ac.uk/covid19/2021/10/14/how-the-nordic-response-to-covid-helped-reduce-financial-inequality/>
- Haga, F. (2022, 08 31). *E24*. Retrieved from Jeg vil ikke ha hjelp fra norske politikere, bare slutt å gi meg midtfingern: <https://e24.no/norsk-oekonomi/i/7d9X2B/jeg-vil-ikke-ha-hjelp-fra-norske-politikere-bare-slutt-aa-gi-meg-midtfingern>
- Hagedorn, M. (2023, 01 30). *DN*. Retrieved from NRKs "Debatten" med samfunnsøkonomier: Mange meninger, men ingen peiling: <https://www.dn.no/innlegg/okonomi/makrookonomi/inflasjon/nrks-debatten-med-samfunnsokonomer-mange-meninger-men-ingen-peiling/2-1-1395329>
- Hassel, J., Roser, M., Ortiz-Ospina, E., & Arriagada, P. (2023, 03 10). *Our World in Data*. Retrieved from Poverty: <https://ourworldindata.org/poverty>
- Heying, H., & Weinstein, B. (2021). *A Hunter-Gatherer's Guide to the 21st Century: Evolution and the Challenges of Modern Life*. London: Portfolio.
- Jordheim, H. M., & Solheimsnes, P. A. (2022, 10 06). *E24*. Retrieved from Regjeringen øker skatten på formue og utbytte: <https://e24.no/norsk-oekonomi/i/696eAQ/regjeringen-oeker-skatten-paa-formue-og-utbytte>

- Kampevoll, F., & Lorch-Falch, S. (2022, 08 18). NRK. Retrieved from Fortellingen om kraftkablene: <https://www.nrk.no/norge/xl/fortellingen-om-kraftkablene-1.16060842>
- Lewis, M. (2011). *The Big Short: Inside the Doomsday Machine*. New York: W. W. Norton & Company.
- Lier, T., & Hagmansen, J. (2022, 12 16). E24. Retrieved from Regjeringen: 3.200 bedrifter får strømstøtte: <https://e24.no/boers-og-finans/i/kEM9qv/regjeringen-3200-bedrifter-faar-stroemstoette>
- Lowenstein, R. (2001). *When Genius Failed: The Rise and Fall of Long-Term Capital Management*. Munich: Random House Trade Paperbacks.
- Milne, R. (2022, December 16). *Rich Norwegians flee to low-tax Switzerland as wealth levy bites*. Retrieved from Financial Times: <https://www.ft.com/content/ca33dc93-78c0-4d7a-a647-cde18ab6a1fd>
- NOU 2022. (2022). *NOU 2022: 20 - Et helhetlig skattesystem*. Oslo.
- Pinker, S. (2018). *Enlightenment Now*. London: Penguin Books.
- Regjeringen. (2022, September 28). *Overskuddene fra naturressursene skal fordeles bedre*. Retrieved from Regjeringen: <https://www.regjeringen.no/no/aktuelt/overskuddene-fra-naturressursene-skal-fordeles-bedre/id2929123/>
- Roser, M. (2023, 02 22). *Our World in Data*. Retrieved from Technology over the long run: zoom out to see how dramatically the world can change within a lifetime: <https://ourworldindata.org/technology-long-run>
- Rustad, M. E. (2022, 02 09). *Bergens Tidende*. Retrieved from Rødt-topp om «skatteflyktninger» til Sveits: – Bare å flytte!: <https://www.bt.no/nyheter/okonomi/i/bGw6Xe/roedt-topp-om-skatteflyktninger-til-sveits-bare-aa-flytte>
- Taleb, N. (2001). *Fooled by Randomness*. New York: Random House. Retrieved from <https://fs.blog/survivorship-bias/>
- Taleb, N. (2007). *The Black Swan: The Impact of the Highly Improbable*. New York: Random House.
- Taleb, N. (2012). *Antifragile*. London: Penguin.
- Taleb, N. (2018). *Skin in the game*. New York: Random House.
- The Economist. (2022, 10 06). *The Economist*. Retrieved from A German aid package revives calls for solidarity with poorer EU countries: <https://www.economist.com/europe/2022/10/06/a-german-aid-package-revives-calls-for-solidarity-with-poorer-eu-countries>
- Trumpy, J., Rydje, O. M., & Risbakken, K. (2023, 01 19). DN. Retrieved from Lysbakken om DNBS Sveits-alarm: – Skattemoralen er problemet, ikke skattesystemet: <https://www.dn.no/marked/audun-lysbakken/sv/dnb/lysbakken-om-dnbs-sveits-alarm-skattemoralen-er-problemet-ikke-skattesystemet/2-1-1390612>
- Vladerhaug, R. (2022, 12 23). E24. Retrieved from <https://e24.no/norsk-oekonomi/i/VPQgz6/vedum-regner-igjen-oppjusterer-formuene-til-rike-utflyttere-med-12-milliarder>: <https://e24.no/norsk-oekonomi/i/VPQgz6/vedum-regner-igjen-oppjusterer-formuene-til-rike-utflyttere-med-12-milliarder>

## 6. Numerical referencing

---

- <sup>1</sup> (Pinker, 2018)
- <sup>2</sup> (Roser, 2023)
- <sup>3</sup> (Hassel, Roser, Ortiz-Ospina, & Arriagada, 2023)
- <sup>4</sup> (Doménech & Sicilia, 2021)
- <sup>5</sup> (Trumpy, Rydje, & Risbakken, 2023)
- <sup>6</sup> (Følsvik, 2023)
- <sup>7</sup> (Regjeringen, 2022).
- <sup>8</sup> (Bakken, Feratovic, & Meisingset, 2022).
- <sup>9</sup> (Taleb, Antifragile, 2012)
- <sup>10</sup> (Taleb, Fooled by Randomness, 2001)
- <sup>11</sup> (Rustad, 2022)
- <sup>12</sup> (Taleb, Skin in the game, 2018)
- <sup>13</sup> (Jordheim & Solheimsnes, 2022)
- <sup>14</sup> (Lowenstein, 2001)
- <sup>15</sup> (Crane, 2014)
- <sup>16</sup> (Lewis, 2011)
- <sup>17</sup> (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)
- <sup>18</sup> (Lier & Hagmansen, 2022)
- <sup>19</sup> (The Economist, 2022)
- <sup>20</sup> (Carnegie, 2022)
- <sup>21</sup> (Energi Norge & Norwea, 2022)
- <sup>22</sup> (Kampevoll & Lorch-Falch, 2022)
- <sup>23</sup> (Vladerhaug, 2022)
- <sup>24</sup> (NOU 2022, 2022)
- <sup>25</sup> (Hagedorn, 2023)
- <sup>26</sup> (FS, 2023)
- <sup>27</sup> (Taleb, The Black Swan: The Impact of the Highly Improbable, 2007)
- <sup>28</sup> (Heying & Weinstein, 2021)
- <sup>29</sup> (Byberg, 2014)
- <sup>30</sup> (Haga, 2022)
- <sup>31</sup> (Milne, 2022)