



STING in the tail...

Politicians are often in a rush to regulate. But their ill-considered actions can create disastrous results.

SYED KAMALL delves into the world of unintended consequences...

There is a story that, during the colonial rule of India, a British administrator of Delhi devised a cunning plan to rid the city of dangerous snakes. His plan was simple. He would pay local residents a bounty for each Cobra skin they delivered. What could possibly go wrong?

Never slow to exploit an opportunity, enterprising locals started to farm cobras as a way of earning extra cash. However, the authorities soon grew wise to this and ceased payments. The result? Locals released the now worthless snakes into the wild - leading to an increase rather than a decrease in the population of cobras. This phenomenon of unintended consequences has since become known as the “cobra effect”.

How foolish of the British colonists, you may think. But French colonial rulers were no better when, years later, they offered a similar reward for rat tails in order to reduce Hanoi’s rat population.

Once again, payments were stopped after the authorities noticed the number of rats running around without tails and realised they were deliberately being released back into the sewers to procreate and produce more rats... thereby increasing the rat catchers’ revenue.

You would think these two examples would be enough to warn us of the dangers of unintended consequences, but it seems not.

In 1958, the Chinese dictator Mao Zedong launched the Four Pests Campaign as part of the “Great Leap Forward” to transform China from an agricultural society to a modern Communist one. He

vowed to remove pesky flies, mosquitos, which spread malaria, and rats that carried the plague. The fourth pests were the sparrows which not only helped themselves to fruit, grain and seeds, but were declared by the Chinese government to be “public animals of capitalism”.

However, sparrows also enjoyed feasting on insects, which had hitherto prevented the infestation of crops. You get the idea. Reducing the number of sparrows led to a loss of crops which in turn led to the Chinese great famine.

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If you type the words “Cobra effect” or “unintended consequence” into a search engine you’ll find many more examples – ranging from prohibition of alcohol and drugs leading to a rise in organised crime through to anti-pollution measures leading to more pollution.

However, not all unintended consequences are negative. Think of the “invisible hand” made famous by Scottish philosophers Adam Smith and Adam Ferguson.

As Smith wrote in *The Wealth of Nations* in 1776 “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest”. In other words, an unintended

consequence of entrepreneurs acting in their own self-interest – often wrongly described as selfishness by socialist critics – leads to benefits for the wider society.

Friedrich Hayek built on Adam Ferguson’s work on social structures being “the result of human action, but not the execution of any human design”, when he came up with the notion of the spontaneous order of markets.

Classical economics textbooks usually falsely criticise free marketeers for believing in the fairy tale



of a “perfect market” with “perfect information”. Hayek and other Austrian School economists argued that it is the hundreds, thousands and millions of transactions that occur between sellers and buyers for mutual benefit on a daily basis which, when aggregated, lead to the spontaneous order of the market.

Markets are not perfect and entrepreneurs exploit asymmetries and imperfect information, but overall they lead to “a more efficient allocation of societal resources than any design could achieve”.

So while there are indeed positive unintended consequences, we should also continue to be vigilant

about negative unintended consequences when dealing with some of the more pressing problems of today.

For example, as politicians look to tackle environmental problems and pollution, they should perhaps learn the lessons of previous negative unintended consequences.

In 2001, the then Chancellor of the Exchequer Gordon Brown introduced a system of car tax to incentivise motorists to switch to diesel cars in order to meet lower CO2 emissions targets set by the 1997 Kyoto climate change conference. However, the “dash to diesel” also led to an increase in the emission of harmful nitrogen dioxide and particulates.

In 2005, the UN Intergovernmental Panel on Climate Change (IPCC) decided to reward companies for destroying another greenhouse gas, Fluroform (also known as HFC-23), with

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carbon credits, which could be cashed in.

Since HFC-23 is a by-product of a common coolant, companies responded by producing more of the coolant in order to generate more HFC-23 to be destroyed and hence earn more carbon credits. Unsurprisingly, the European Union suspended payments for the destruction of HFC-23 in 2013.

Next time a government



announces a new policy to tackle this problem or that, let us hope they have thought through the consequences – intended and unintended. Or as the 18th century Scottish poet Robbie Burns wrote “The best-laid schemes o’ mice an’ men, Gang aft agley (often go astray)” •

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