



31 May – 03 June 2016
at ISEG – Lisbon School of Economics
and Management

How Societies Manage Risks

Economic, Legal, and Cultural Background

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Statements about risk

- Risk management has been there for ages.
- Modern society trades off innovation against risk avoidance, liability, and fairness.



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Prevention of accidents

More or less visible, e.g.

- Dikes
- Fire brigades
- Insurance
- Safety codes
- Legal system



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Types of risk

risk vs. uncertainty

Frank H. Knight, Economist, USA, 1921

small worlds vs. large worlds

Leonard J. Savage, Statistician, USA, 1954

known unknown vs. unknown unknown

Donald H. Rumsfeld, Politician, USA, 2002

D. H. Lawrence, Poet, UK, ca. 1915

Ibn Yamin, Poet, Persia, 13th cent.



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Liability ... and its restrictions

The ideal:

- Accountability, polluter-pays principle

The reality:

- Who would take a large-world risk if one is fully liable?

The “solution”:

- Lax or limited liability, e.g. insolvency



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Nuclear liability

- Framework of operator liability, public guarantees ... and possibly insufficient limits

Best protections:

- USA: private insurance pool with very high limit, upper layer illimitée xs \$12.5'''
“covered” by Congress
- Germany: unlimited operator liability, but layer illimitée xs €2.5''' is self-insured



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The WTC loss

Risk management “after the event”

- Survival of institutions: law within 11 days
- Channeling of compensations: SPV
- Creation of a strong spirit of solidarity

Bottom line: measures were unorthodox,
partly unfair ... but very effective.



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Thanks

For details see paper.

Feedback welcome, now or later.

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