

## Unintended Consequences \*

Rob Norton

The law of unintended consequences, often cited but rarely defined, is that actions of people—and especially of government—always have effects that are unanticipated or "unintended." Economists and other social scientists have heeded its power for centuries; for just as long, politicians and popular opinion have largely ignored it.

The concept of unintended consequences is one of the building blocks of economics. Adam Smith's "invisible hand," the most famous metaphor in social science, is an example of a positive unintended consequence. Smith maintained that each individual, seeking only his own gain, "is led by an invisible hand to promote an end which was no part of his intention," that end being the public interest. "It is not from the benevolence of the butcher, or the baker, that we expect our dinner," Smith wrote, "but from regard to their own self interest."

Most often, however, the law of unintended consequences illuminates the perverse unanticipated effects of legislation and regulation. In 1692 John Locke, the English philosopher and a forerunner of modern economists, urged the defeat of a parliamentary bill designed to cut the maximum permissible rate of interest from 6 percent to 4 percent. Locke argued that instead of benefiting borrowers, as intended, it would hurt them. People would find ways to circumvent the law, with the costs of circumvention borne by borrowers. To the extent the law was obeyed, Locke concluded, the chief results would be less available credit and a redistribution of income away from "widows, orphans and all those who have their estates in money."

The first and most complete analysis of the concept of unintended consequences was done in 1936 by the American sociologist Robert K. Merton. In an influential article titled "The Unanticipated Consequences of Purposive Social Action," Merton identified five sources of unanticipated consequences. The first two—and the most pervasive—were ignorance and error. Merton labeled the third source the "imperious immediacy of interest." By that he was referring to instances in which an individual wants the intended consequence of an action so much that he purposefully chooses to ignore any unintended effects. (That type of willful ignorance is very different from true ignorance.) A nation, for example, might ban abortion on moral grounds even though children born as a result of the policy may be unwanted and likely to be more dependent on the state. The unwanted children are an unintended consequence of banning abortions, but not an unforeseen one.

"Basic values" was Merton's fourth example. The Protestant ethic of hard work and asceticism, he wrote, "paradoxically leads to its own decline through the accumulation of wealth and possessions." His final case was the "self-defeating prediction." Here he was referring to the instances when the public prediction of a social development proves false precisely because the prediction changes the course of history. For example, the warnings earlier in this century that population growth would lead to mass starvation helped spur scientific breakthroughs in agricultural productivity that have since made it unlikely that the gloomy prophecy will come true. Merton later developed the flip side of this idea, coining the phrase "the self-fulfilling prophecy." In a footnote to the 1936 article, he vowed to write a book devoted to the history and analysis of unanticipated consequences. By 1991, Merton, age eighty, had produced six hundred pages of manuscript but still not completed the work.

The law of unintended consequences provides the basis for many criticisms of government programs. As the critics see it, unintended consequences can add so much to the costs of some programs that they make the programs unwise even if they achieve their stated goals. For instance, the United States has imposed quotas on imports of steel in order to protect steel companies and steelworkers from lower-priced competition. The quotas do help steel companies. But they also make less of the cheap steel available to U.S. automakers. As a result the automakers have to pay

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more for steel than their foreign competitors do. So policy that protects one industry from foreign competition makes it harder for another industry to compete with imports.

Similarly, Social Security has helped alleviate poverty among senior citizens. Many economists argue, however, that it has carried a cost that goes beyond the payroll taxes levied on workers and employers. Martin Feldstein and others maintain that today's workers save less for their old age because they know they will receive Social Security checks when they retire. If Feldstein and the others are correct, it means that less savings are available, less investment takes place, and the economy—and wages—grow more slowly than they would without Social Security.

The law of unintended consequences is at work always and everywhere. In 1968, for instance, Vermont outlawed roadside billboards and large signs in order to protect the state's pastoral vistas. One unintended consequence was the appearance of large, bizarre "sculptures" adjacent to businesses. An auto dealer commissioned a twelve-foot, sixteen-ton gorilla, clutching a real Volkswagen Beetle. A carpet store is marked by a nineteen-foot genie holding aloft a rolled carpet as he emerges from a smoking teapot. Other sculptures include a horse, a rooster, and a squirrel in red suspenders.

In the wake of the Exxon Valdez oil spill in 1989, many coastal states enacted laws placing unlimited liability on tanker operators. As a result the Royal Dutch/Shell group, one of the world's biggest oil companies, began hiring independent ships to deliver oil to the United States instead of using its own forty-six-tanker fleet. Oil specialists fretted that other reputable shippers would flee as well, rather than face such unquantifiable risk, leaving the field to fly-by-night tanker operators with leaky ships and iffy insurance. Thus, the probability of spills will increase and the likelihood of collecting damages will decrease as a consequence of the new laws.

### **About the Author**

Rob Norton is a columnist for *eCompany Now* magazine and was previously the economics editor of *Fortune* magazine.

### **Further Reading**

Hayek, Friedrich A. *New Studies in Philosophy, Politics, Economics and the History of Ideas*. 1978.  
Merton, Robert K. *Sociological Ambivalence and Other Essays*. 1979.