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Editorial

Documentation in depressed times

At the time of writing, October 2008, the economic crisis affecting much of the developed world has driven almost all other issues from the news media. The prospect of a rerun of the Great Depression of the 1930s seems not entirely a fanciful prospect, though to those reading this editorial in calmer times this may seem to have been little other than media hyperbole.

Those who, like myself, have no particular insight into the ways of bankers, may claim the right to bemusement at what we see unfolding. Those who, again like myself, tend to assume that good information and good communication keeps away this sort of thing will wonder what went wrong in this particular respect.

Economic theory, I am led to believe, makes an assumption that market participants operate rationally, utilising perfect information for optimal performance. We seem to be so far away from this situation that it may not be worth even asking the questions, but – looking at the images of traders in meltdown still plugged into their screens and phones – we might wonder what went wrong in information terms.

Was it simply deliberate misinformation? Lurid stories of rogue traders spreading false rumours to collapse share prices look good in tabloid newspapers, but surely a robust market should survive such things.

Was it information avoidance? Did those involved simply choose to not ask about the problems of toxic stock, sub-prime bundles and the rest? Were the immediate profits to be made so attractive that it was better not to know what they were based on?

Was it undue complexity? Is it really true, as numerous commentators have suggested, that those who bought and sold complex financial products simply did not know, and perhaps chose not to find out, what their nature was? Or were they simply too complex for anyone other than the mathematical prodigies who invented them to fully understand? Does anyone, in fact, comprehend the market any more? Is it now a chaotic system, which is beyond being comprehended?

Over-reliance on technology? We have not heard so much as in the past about the automated trading systems which respond to, and hence amplify, small moves in the market, but perhaps they too have played some part.

Or is this a matter of ethics, and ‘right dealing’ with information, rather than problems with the information per se? Do we need to look at motivation and reward structures, rather than market information, for the cause of the problems? [Somewhat in the way that knowledge management always seems to come to look at people rather than systems?]

I do not have any answers, or even suggested answers, to these questions. I hope that someone is considering them. If the most significant communication system in the developed world – and a communication system is what a market in essence is – can collapse in this way, then surely there can be no clearer example of our failure to deal sensible with information and knowledge for the common good (or indeed anyone’s good).

David Bawden