

## Financial mkts & time as policy variable

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### Synopsis

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Technology is the greatest driver of modern life. Financial markets have embraced it wholeheartedly to leverage the speed of transactions, sometimes to an amusing extent that a finance company employs more people with technology background than those with finance background! The fastness of technological innovations aided the mesmerising rise of finance capital. It brought speed that was thrilling till it took the flights of fancies. The global financial crisis reminded all of us that simple adage that speed not only thrills but kills as well.

The steep fall of the financial markets and some of its glitzy innovations reminded us that technology can be both transparency enhancing and ♦♦♦opaque♦♦♦ at the same time. Ironically, it can reduce and increase asymmetry ♦♦♦ both information and power. It can increase information asymmetry at a practical level because there are limits to human brains to absorb and act on the huge amount of information released by high-technology-aided markets.

Information may be available but not consumable or fully digestible. Because the speed and magnitude of the information flow is simply mind-boggling, identifying the right information has become almost impossible.

We are facing a world of ♦♦♦plenty♦♦♦ here. It is not a menu of choices but a huge avalanche that has to be negotiated in flash of a second. Since brain is not able to match this mad race, financial markets have turned more techno-savvy even in areas that need human touch.

So they invented sophisticated mathematical models for trading: models to substitute judgements. So mechanisation of brain is the result, a sort of conveyor-belt approach to investment/financial decision making processes. This has converted human beings into robots with a pre-set goal/target of fast growth/accumulation.

This growth-only philosophy, in the immediate run, has made everyone a ♦♦♦ tiger-rider♦♦♦. At a time when the real tigers are facing extinction human beings wanting to become tiger-riders make a natural imbalance leading to major shake-outs. We remember the story of a fictional tiger-rider, a simple man burdened by the weight of his ♦♦♦ creating♦♦♦ a god. He did this by using a very simple technique of putting dry grains in a pit, placing an old statue above it and covering with soil.

And when he poured water the grains expanded and pushed up the ♦♦♦ god♦♦♦ and a miracle was born. Are we creating such false gods and becoming tiger-riders? Do we carry the weight of conscience or ride the glory of our immense power of creating demi-gods? These are questions that transcend the boundaries of the financial world and need a wider spectrum of knowledge to answer. Or we may have genuinely no answers to them.

Look at the way the human robots are treated these days in the labour markets. Almost all are temps, having no attachment to their organisations. The top management prefers to be temps by choice, others by design. Everyone is motivated by bigger and faster results to sustain themselves. A brave new world of broiler chickens! Earlier they used to talk of quarter to quarter life, now it is moment to moment. Who cares about the long term consequences! No wonder, edifices turn into houses of cards!

This maddening race for constructing houses of cards has put the economy and society in peril. But regulators and policy makers are supposed to be constructing structures to protect the edifices, howsoever brittle they may be. For generating the right incentive alignment and by exhorting the robots not to make house of cards. In a Robison Crusoe world no such alignment and hence no regulation was needed. The regulators♦♦♦ dilemma, in a world of billion entities, is how to bring about that desired alignment when each one lives in an island unto himself. And wanting to grow like broiler chickens?

Can ♦♦♦ informed policy-making♦♦♦ cope up with the speed of robotic motives and speed? Can the slow human intervention create rules and laws (which are institutions that generally change only over long period, decades) to take care of the speed of the avalanche? These are practical questions which got tested in the current financial crisis when policymakers and regulators had to respond to the unfolding debacle in a matter of moments. They also realised that the leisure of time, which used to be a policy tool in the past-was gone.

In our quest for momentary glory when almost everyone is ready to be a tiger-rider travelling at the speed of sound (and wanting to accelerate to the speed of light) perhaps the only rule that the regulators could yell out was to request the players to wear seat belts. Thereafter, the regulators could close their eyes and pray that the players reach maximum

speed, stillness, and equilibrium  so dear to the economist forefathers of modern finance. So that, as they claimed, deviations from equilibria are temporary. Let greater speed make dis-equilibria temporary. Amen!

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