The Signaling Crisis

"The present crisis was also proven to be a crisis of signaling, its proportion being, perhaps, particularly a result of its signaling difficulties, if not the very coarse expression of the working networks applied by the signaling system."

It is well known that in market theory – as a regulation mechanism – an essential role to the functioning of the economy is given to the signals received by its agents and to the meaning that is attributed to these signals. In time, interest has also grown for the function and behavior of the signal emitter. Something, though, has remained outside of both the explicative model as well as understanding: how are the signals being emitted.

In the context of the sovereign debt crisis, signaling becomes truly problematical, taking forms which exceed the economical and these often being received on a geopolitical note.

The pervading opinion that the market is the direct source of the signals is not only an error which somewhat guiltily perpetuates, but also a way of lessening the epistemic status of Economics. In fact the states of the subjective are illicitly transformed into something objective and the confusion that the objective would have an immanent action is perpetuated. In a curious way, the material option is being asserted according to inverted rules, belonging to an extra-human logic, methodologically instrumented by mechanical perspectives, cancelling any subjective determination, resulting in the space of economicity being emptied of the anthropical.

The depletion of the inter-subjective character of the states of economical rationality is shown to be, paradoxically, the reason for the fact that the signaled trends do not coincide with the market trends. Between what goes on in the market and what is being signaled a widening gap emerges, which is hard to explain in rational terms: the market contains neglected signals, which are falsified and truncated by the signalers right under the shield of objectivity.

There is no doubt that the reality of the market came to be different from the reality represented by the signaling (at least starting with the present crisis), in spite of the fact that the assumption used is wrapped with pretense of rational rigor. And this because, in fact, the signaling function attributed to the market has been institutionally employed in a manner defying the perception of correctitude.

The present constitution of the global economy presents a sui generis model of the signal emitters in the regulation of performance. On one hand, the state of financial rationality is answered for by the Big Four auditing firms, and on the other hand risk evaluation is handled through the exclusive filter of three rating companies – a true oligopoly.

The present crisis was also proven a crisis of signaling, its proportion being, perhaps, particularly a result of its signaling difficulties, if not the very coarse expression of the working networks applied by the signaling system. Starting with the dot-com crisis, the instances of failure due to signaling are symptomatic with regard to both audit, as well as risk evaluation. The institutional signaling of market trends has minimalized the adverse effects of the arrangements made in order to favor over-profitability. The febrility of speculative innovation for the maximization of short-term gain has been justified by creative accounting and certified by the rating agencies. What was until yesterday a source of risk has become practice, declared as a rule of corporate governance.

The immediate consequence of these evolutions was that the epicenter for the functioning of societal systems through more supple formulas for the balancing of market trends, the goals of government and individual action, was critically destructured. It was all possible as long as government has limited its mission to covering social transfers and to tolerating the practices of the lender-of-last-resort, while the individual was considered as a source for the trust in the system.

Thus, associated with the passion for deregulation, counterfeiting the institutional signaling of the market's trends of failure has led to the creation of a monster of profit at any cost, a type of managing the workings of the economy in accordance with the "the end justifies the means" irrational principle. The mechanisms for moderating the instability of the economy were inactive, or left to idle. The speculative propensity seemed to satisfy the demand for added value, questioning the credibility of the fundamentals of the space of economic rationality by way of extending the informal circuits, off-the-books statements and of virtualizing value. The immediate gain, as an effect of the speculative bubble and of over-stimulating demand through cheap-credit, was considered normal by the signaling system.

The bad part is that after the explosion of the thus-created system, the signaling of market trends did not itself adopt a normal behavior, whose feature would be prudence, but has taken to manipulating information. The occasion arose with the inflammation of a nodule of the bad government: sovereign debt. The alert signals are emitted in such a way that the attention is deflected towards the periphery of the global economy.

The incertitude surrounding the consolidation of the exit from the crisis, equivalent with the risk of a powerful relapse, shows the same attitude of signalers of favoring the instability factors. Overall this means the abandoning of the prevention role which institutional signaling has with regard to the behavioral fluctuations of agents and their influence over the economic cycle.

The system for alerting us of market failures in the global economy has itself opted for speculation.

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