

## MY SAY: Of financial and education system failures

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The Edge Malaysia - 02/15/2010

As leaders in all sectors contemplated what to do next at the recent World Economic Forum in Davos, more US banks were reportedly failing due to the economic crisis and were being seized by the regulators. The number of bank failures this year is expected to peak from last year's figure of 140. That compares with just 25 banks which failed in 2008 and only three in 2007. Collectively, billions have literally been lost over this period.

Meanwhile, US President Barack Obama has criticised "fat cat bankers" as he tries to curb Wall Street's greed by pushing for a regulatory revamp and curtailing the power and size of banks. Amid the resistance from the financial industry, it was therefore not surprising that the unofficial theme of the forum was allegedly "First, kill all bankers", as the *Wall Street Journal* quipped. Bankers, some even said, were as unpopular as "terrorists" and ought to be on the run too.



The book *The Quants* suggests that a new breed of math whizzes conquered Wall Street and nearly destroyed it

Apparently, they are not alone and may not be the only ones who are responsible. Fingers are also being pointed at some mathematicians and computer scientists. This is according to *The Quants* by Scott Patterson, which was released early this month. "Quants" is the term for those adept at using mathematical wizardry and extremely fast computers to siphon off billions of dollars from the market.

Patterson, a *Wall Street Journal* reporter, seems to suggest that this new breed of "culprits" could also have inflicted damage resulting in the economic meltdown, at least in part. Being tech-savvy, they tend to dominate Wall Street before descending on it, thus the subtitle, *How a New Breed of Math Whizzes Conquered Wall Street and Nearly Destroyed It*. The maths whiz is described as "the technocrat who makes billions not with gut calls or fundamental analysis but with formulas and high-speed computers".

"Instead of looking at individual companies and their performance, management and competitors, they use math formulas to make bets on which stocks were going up or down," remarks the author. It is likened to a targeted secret trading mission within the banks to make large bets on the market.

Patterson cites one of the most secretive quant funds, with assets of about US\$6 billion and offices in major financial cities worldwide as an example. "It was a well-oiled machine that did little but print money, day by day," aided by the application of mathematics to ransack the financial markets.

While all this was happening, the authorities had little clue as to what was going on and how the losses mounted on Wall Street. Similarly, commentators and analysts were bewildered at the volatility of the stock market. Over time, the quants, too, found themselves in the same boat even though they did their utmost to minimise the impact. Reportedly, the more they tried to save the situation, the worse it got. The downward

spiral continued.

Given the lack of transparency, the reality is even more difficult to comprehend, let alone rectify, so that heavy losses continued to bleed the system. The quants by now could only watch helplessly as their net worth evaporated, giving rise to a myriad of questions. Why did it go wrong? Did their luck run out? Is this what is called a 'casino economy' where no one wins all the time, and where for every winner, there are many more losers?

To be sure, however, the book seems to suggest that the collapse of the global financial system was, at its core, a failure of modern financial theory and its most ardent disciples, writes Mark Zandi, chief economist of Moody's Economy.com and the author of *Financial Shock*.

If this is the case, is there not an intimate connection between the failure of the financial theory and the education system that gives rise to it? In short, the next logical question would be, to what extent is the failure of modern educational theory and its most ardent disciples implicated in the crisis? After all, the current education system seems to have no shortage of its own version of quants who are raking in billions with their own version of what education should be, causing a widespread downward spiral of the very fabric of society, beyond just the financial current crisis.

That schools and universities are failing is no longer news except that they do not cause one to sit up as quickly as when banks actually fail, as Patterson describes. For example, the front-page story of the Feb 5 issue of *USA Today*, entitled "Failure rate for AP (advanced performance) tests climbing", asked whether schools were pushing millions of students without adequate preparation and whether a race for higher standards meant schools were not training enough teachers to deliver high-level materials.

Fortunately, we don't have to wait for another book to find out the answers.

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