Mitchell's Musings 12-1-12: Way Too Much information

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"Whoa—way too much information."

New Yorker, 4-15-02

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In other musings, I have questioned whether we get too much information from public data releases. For example, the "advance" estimate of real GDP growth in the third quarter of 2012 was released on October 26. On a seasonally-adjusted, annualized basis, real GDP was reported to be rising by 2.0%. The second estimate released one month later was 2.7%. There will be a third release in the future and then a complete revision beyond that. The difference between real GDP rising at 2.0% vs. 2.7% is actually considerable; it's big enough potentially to affect, say, Federal Reserve monetary policy. So could we not have waited for a more complete figure? There are lots of other examples. The assumption often seems to be that more data released more frequently is inherently a Good Thing. But there is no testing of that assumption. Can we say that economic policy was improved? Can we say that whatever gyration in financial markets the very preliminary data engendered produced a social benefit?

The belief that more data and more information is better is obviously at least questionable. Since the human beings that have to analyze the data have a limited capacity to do so, flooding them with information may lead to a reduced quality of decision making. I happen to live in a city – Santa Monica, California – whose city council evidently believes that a large flow of information will improve public decisions. Santa Monica has a population of about 90,000. It operates, as do many smaller cities in California, under a city manager system. The idea of a city manager system is that a professional executive is hired to run the city administration on a day-to-day basis with general policy to be made by the council.

That's the theory. But here are some items that went before the council at its meeting of November 27, 2012:[1]

> ***Coin-Operated Telescopes and Binoculars on the Santa Monica Pier and Palisades Park –*** *recommendation to authorize the City Manager to negotiate and execute a License Agreement with Fare Share Enterprises for the installation and maintenance of new coin-operated telescopes and binoculars on the Santa Monica Pier and Palisades Park.*
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> ***256 Santa Monica Pier Leasehold (Rusty's)*** *– recommendation to authorize the City Manager to negotiate and execute an Amended and Restated Lease Agreement with Hospitality Industry Management Group, LLC d.b.a. Rusty's Surf Ranch for 256 Santa Monica Pier.*
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> ***Bid Award for the Purchase of Asphalt Materials for Street Maintenance*** *– recommendation award Bid No. 3098 to Vulcan Materials Company, in the amount of $155,000 for FY 2012-13 for the purchase and delivery of asphalt materials, with one additional one-year renewal option in the amount of $250,000, for a total amount not to exceed $405,000 over a two-year period.*
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> ***Bid Award for Purchase of Three Bin Trucks*** *– recommendation to award Bid No. F4028 to Wondries Fleet Group in the amount of $127,183, for the purchase and delivery of three bin trucks to the Resource Recovery and Recycling Division.*
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> ***Banking Services Agreement with Wells Fargo Bank*** *– recommendation to authorize the City Manager to negotiate and execute a contract with Wells Fargo Bank, in an amount not to exceed $375,000 for banking services over a five year term.*

None of the items above can be said to be basic city policy; they are all administrative and implementation decisions. For example, is the decision on what kind of garbage trucks to purchase basic policy? Do the elected members of the city council have any expertise regarding garbage trucks? Members of the city council all have "day jobs," i.e., some other claims on their time. The more time they spend on garbage trucks, asphalt, and coin operated telescopes at the beach, the *less* time they have for basic policy. Even if they ultimately don't discuss these matters and approve them as "consent items," they are choosing to decide to do so. A flood of information can be a distraction and a diversion from what is important. Note also that if something subsequently goes wrong with, say, the asphalt contract, those who negotiated the deal can pass the blame onto the city council members who approved it.

[1] Source: http://www.smgov.net/departments/council/agendas/2012/20121127/a20121127.htm.

I have seen the same process at work in my university. If you look at the UCLA's organization chart, at the top we have a chancellor and an executive vice chancellor who correspond loosely in business terms to a CEO and a COO. There are far too many reports[2] feeding into them and as CEO and CEO they have limited capacity to analyze the data flow as a result. The result is a process that comes down to "call me if you have a problem," which means in practice that you don't get called until the problem gets out of hand. (Who wants to tell their boss – until things have reach a crisis stage – that you have a problem?)

In good times, a system of information overload can work tolerably well, mainly because there is money around to fix the resulting problems. Santa Monica by municipal standards is a well run city. But it is also an affluent city that has benefited by a rush of high-tech firms that want to locate within it. That rush, in turn, leads to commercial development and spillovers such higher property taxes and a customer base for upscale restaurants, retail, and hotels. The city thus has a tax base sufficient to deal with problems.

Similarly, when my university operated during generally prosperous times – which in California means roughly World War II to the end of the Cold War – things also ran reasonably well on the campus. But the system came under strain once there wasn't a steady flow of fix-it money to handle problems inherent in a system with an information overload at the top.

So why doesn't the system correct itself once the strains have become apparent? Is it because the people at the top are control freaks who resist delegation? In any particular organization, that explanation might be valid. I always advised students in my labor economics and other classes that if a problem occurs once or twice, it could just be a mistake. But if the problem continues beyond once or twice, there are likely to be incentives involved that make keeping the defective system in place attractive to key players, but not necessarily those at the very top.

Somewhere in the 1990s, management "delayering" as a concept came into vogue. It was said that firms had become too bureaucratic and that you could just get rid of redundant layers of senior and middle managers, thus making firms more nimble and saving on overhead.[3] Of course, if you flatten a hierarchy, the people at the top get more reports as do those in the remaining layers. And the possibility, and probably the reality, of an information overload can develop.

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[2] I am using the term "reports" in the management sense, i.e., people who are subordinates rather than paper reports.

[3] http://www.economist.com/node/12677027.

Naturally, those displaced folks who had once been employed in the eliminated layers were not happy about their fates. Some readers of this musing may recall the profiles of displaced (downsized) managers – sad tales – that appeared in the *New York Times* in the mid 1990s.[4] But those displaced managers are - by definition - not in the system anymore. Usually the survivors - with their added responsibilities - are depicted as overworked victims of the “new normal.” But that view may obscure the incentives and advantages for them of a system in which too much information flows to their superiors.

I can make a confession since what I will now report occurred in the distant past. From 1979 to 1990, I headed the Institute of Industrial Relations at UCLA as its director. As a department head at the time, I ostensibly reported directly to the chancellor’s office, i.e., to the CEO-COO pair described earlier. In principle, all of our financial accounts were monitored. And we produced, as required, lengthy annual reports with all kinds of detailed charts and tables; lots of information. But I saw to it that we maintained as complicated a set of accounts as possible. And our annual reports were compendiums of information overload. Everything was done by the book. But the book was hard to read.

Because we had a semi-commercial side, charging for conferences, training programs, and publications, there was a mix of business and academic accounts. Some money was ultimately from the state; some was “private.” But there was also a degree of fungibilty between the accounts. What the university wanted to know from time to time, particularly when there were budget squeezes, was whether we had any unspent or excess funds in reserve that could be reclaimed by the powers-that-be. By shuffling money around, however, and by burying our “rainy day” reserves in several hard-to-find places, we saw to it that there never seemed to be anything that was unspent or could be reclaimed. And the reserves were divied up in various accounts and never appeared amidst the flood of other data in our annual reports. In effect, providing a flood of data to the top created *de facto* autonomy and a wall of protection.

I surely was not the only university manager who understood that fact back then. There are university managers today that still understand it. In fact, there are managers everywhere, not just in universities or city governments that understand it.

I can see the objection forming that I am giving public sector and nonprofit examples and that such things could not occur in the more efficient private, for-profit sector. But delayering as a management fad was developed and centered in the private, for-profit sector. And it has persisted as a concept there. The idea that shallow hierarchies necessarily produce nimble, flexible organizations continues to the present. The idea also persists that those managers who

[4] http://www.nytimes.com/specials/downsize/glance.html.

have been given a broader span of control are sad victims of cruel overwork relative to managers employed in the steeper hierarchical organizations of the past.

An alternative view, however, is that delayering – although unpopular with those unfortunate downsized occupants of the displaced layers – can be quite popular with the managers who remain. They get *de facto* autonomy and – because the general rule is that the more responsibility and reports you have, the more you should be paid – they get a financial reward to boot. So the notion that the system will self-correct (if delayering goes too far) may not be valid. Those who operate the system have an incentive to perpetuate it. They are likely to resist creation (or re-creation) of new layers above them.

Bottom line: Wherever you see excess information – whether it's official government data or insufficiently steep management hierarchies – ask yourself what are the incentives that perpetuate the system. Someone wants the system to continue or it wouldn't. Someone benefits from it. Someone keeps it going.