In book five of The History of the Peloponnesian War, Thucydides describes how the Athenians sustained surprisingly large losses in battle and how the Spartans prevailed. He also describes what each side didn’t know about the condition of the other side. Problems arise when decisions are based on incomplete information.

Athens didn’t know of the desertion and revolt by the Spartan-oppressed Helots, who were used as slave fighters (even though the Helots outnumbered the Spartans 7 to 1). For their part, the Spartans didn’t know that Athens was under financial pressure because it was using its hoard of gold and silver to pay mercenaries. Athens utilized mercenaries because of population losses from the plague and because it had the money, especially silver from its own mines, but the costs of war were exceeding the incoming revenue.

Thucydides outlines the details of new alliances and why they were made. He lists the changes taking place in, among and between the various city states of ancient Greece, and he names their leaders. He also describes the reasons why those city states made decisions. Thucydides has given us a nuanced record of information asymmetry and what it means in war and diplomacy.

One city state didn’t know the full story about the other. Deception and intrigue were part of the mix. Treaties remained in force (until they were broken) even as each antagonist sought advantage – but without being fully informed. Information incompleteness and asymmetry also explain why the Athens–Sparta treaty dissolved and conflict ensued. Such outcomes have been the case for all of recorded history.

We see the same principles operating today in the news flow...
about the detente with North Korea. In a previous note we cited Kim Jong Un’s father’s attempt at the deception of nuclear disarming in order to obtain economic benefits. And we saw what occurred afterwards as the younger Kim expanded his nuclear development program.

The press and the analysts are quiet now on the events that occurred last September at the North Korean nuclear test site and whether its full collapse effectively demolished Kim’s nuclear program. Now Kim is inviting foreigners to witness the destruction and closure of the test site. Who is deceiving whom? What is the true backstory? When was it known and by whom?


So what can we believe? What is the backstory? And how much asymmetry is there in the information that we have by which to evaluate these developments? What do we learn from Thucydides that still applies today? The answer may be found in a quote at the end of this commentary.

We will pause for a moment and share a backstory loaded with asymmetric information. This is about how the United States came to declare war on Germany in 1917. This is a clear example from history, only 100 years ago. It is about

TheBrowser.com offers this summary of the situation: “When World War One broke out, and Britain cut Germany’s transatlantic telegraph cable, Germany shifted its diplomatic traffic to the neutral American cable — apparently unaware that the American cable crossed British soil. The British tapped the cable and in 1917 decrypted a German telegram urging Mexico to make war on the United States. This telegram was enough to bring America into the war. But how could the British reveal the telegram, without revealing that they tapped the American cable?” (Hat tip to Politico.)

Here is another take on the Zimmermann telegram story from Smithsonianmag.com and a photo of the telegram: https://www.smithsonianmag.com/history/document-deep-dive-what-did-the-zimmermann-telegram-say-29792028/.

My point about information asymmetry is simply that we really don’t know everything there is to know and cannot necessarily believe any of the news sources, including even those that attempt to report neutrally. The neutral or centrist ones are preferred, but they too may not have a full story. And it goes without saying that when we see Fox defend Trump and attack the Democrats and when we see CNN do the opposite, we are really just viewing the polarization of America from one side or the other. These news providers are practicing intentional information asymmetry. Hannity and Maddow are mirror images of intentional asymmetric informational discourse.

But even those who try to be scrupulously centered and factual are exposed to information asymmetries. The World War One story is a good example. The newspapers of the day reported an
event that was sourced from one telegram without their knowing that it was a secondary source.

As consumers of news we need to be aware of the risks of such asymmetries. As investors we are required to be vigilant.

Here is another example involving a policy issue that is roiling financial markets. The policy was either the result of poor research by US policy makers during the China trade war rollout, or it was purposely implemented to apply leverage on China. With information asymmetry at work, we will never know. Apparently, and in a policy reversal, President Trump has now decided not to bankrupt China’s second largest telco.


When it comes to the policy-making role, here is Thucydides’ warning to us. He is citing a discussion between the Athenians and the Melians about truce negotiations in the year 416 BC. This is the English translation of an ancient Greek text from 2434 years ago. It seems very appropriate today.

“The Athenians said: Well, we shall not bulk out our argument with a lofty language, claiming that our defeat of the Persians gives us the right to rule or that we are now seeking retribution for some wrong done to us. That would not convince you. Similarly we do not expect you to think there is any persuasive power in the protestations that though you (Melians) are a Spartan colony you have never joined their campaigns, or that you have not done us any harm. So keep this discussion practical, within the limits of what we both really think. You know as well as we do that when we are talking on the human plane questions of justice only arise when there is equal power to compel: in terms of practicality the dominant
exact what they can and the weak concede what they must.”

And there it is: “the dominant exact what they can and the weak concede what they must”.

Thucydides has warned us from ancient history. Graham Allison warns us by using the ancient lessons to understand the history of the last 500 years. And Allison is hardly alone as he warns about US-China. We also advise reading Yale University Professor Paul Kennedy’s The Rise And Fall of the Great Powers, a discussion of “economic change and military conflict from 1500 to 2000.”


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