

**Long Finance  
Made From Real Money**

**Professor Michael Mainelli**

[transcript of a talk to Long Finance: Enduring Value Conference 02010]

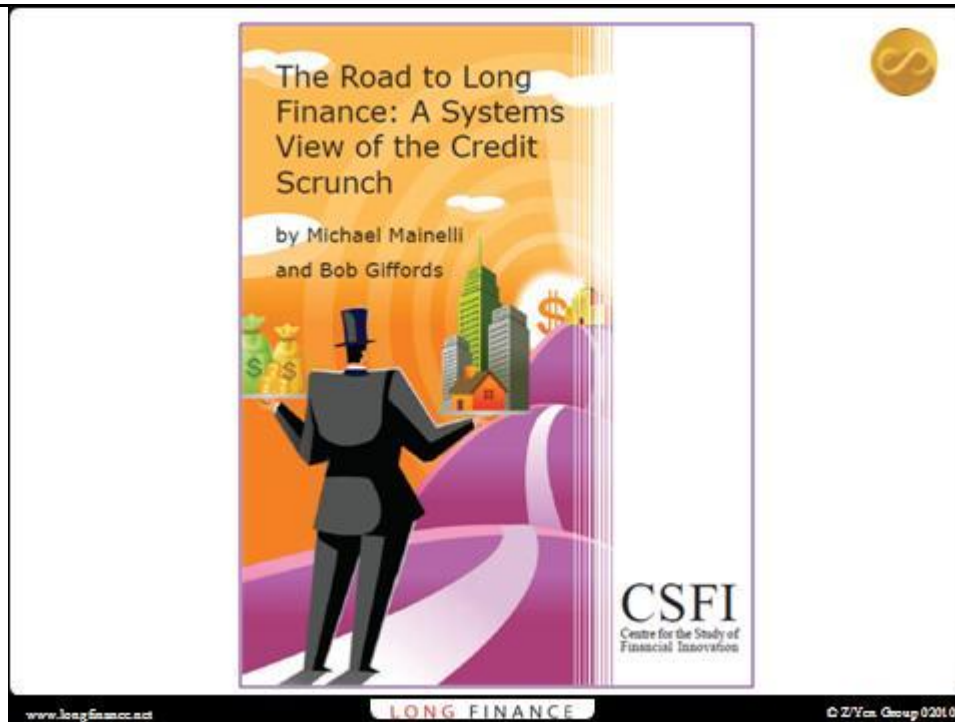
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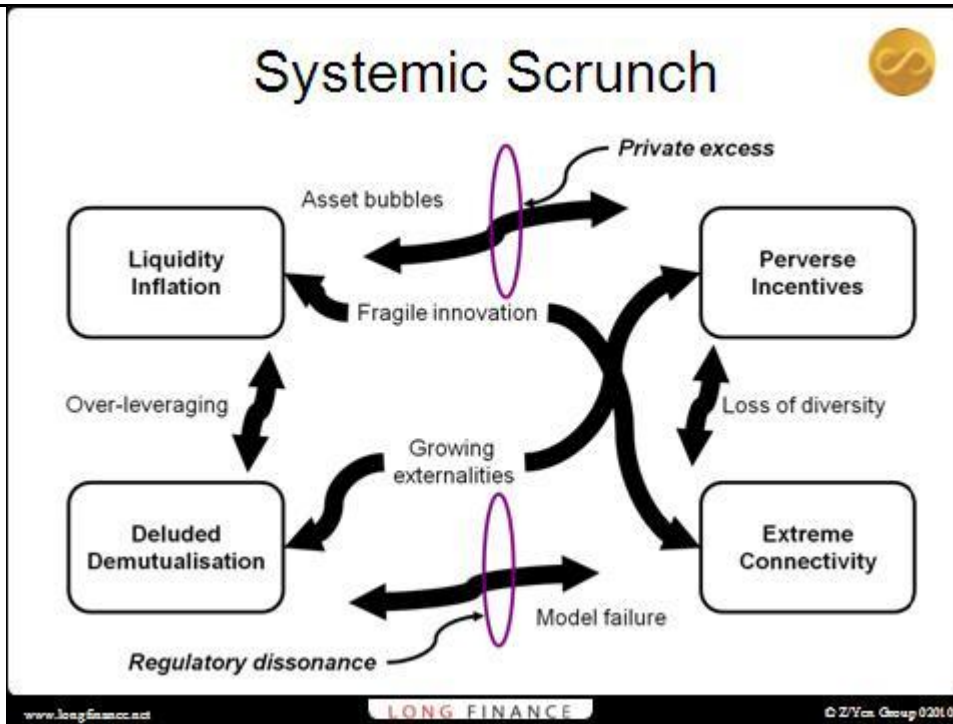
Ladies and Gentlemen, welcome to Long Finance. As we say in Commerce, “To business”. Time is short; our programme is long. Which is rather ironic as we’re talking about Long Finance – our financial system over the next 75 to 100 years.

The Long Finance initiative began with a conundrum– “when would we know our financial system is working?” I want to spend a moment retracing our steps.



When Ian Harris and I founded Z/Yen in 1994, we started writing about systemic weaknesses - accounting, sustainability, transparency, credit ratings, liquidity, regulation, you name it. Over the years we filled columns for the Journal of Risk Finance and others. Over the past five years I filled 29 Gresham lectures with things I wanted to get off my chest. My wife may find that surprising as she'd probably rather I got some things off my stomach, but there you have it. Along the way others joined in. In 2005 Jan-Peter Onstwedder helped us establish the London Accord for environmental, social and governance investment research.

When the credit crunch broke in 2007 we wrote about the religion of regulation and the wicked problems of good financial markets. Our key question was "when would we know our financial system is working?" In presentations around Europe and the USA we posed this question to audiences, to clients, to dinner companions.



So when Bob Giffords approached us about writing a book analysing the financial crises we had a lot of material to combine with his thought-provoking ideas. We term the current financial crisis, “Credit Scrunch”, in the firm conviction that much more is at stake than just recovery from current economic confusion. Scrunch means to crush, crumple or squeeze. Our booklet analysed the Credit Scrunch as a systemic failure with multiple causes and multiple effects. We believe that an important discontinuity requires a holistic rethink and response. The booklet is in your packs today, and is distributed free online.



And from all this we decided to do something. A Kitchen Cabinet came together – their names are on the back of the flyer. Seeking a name, I pondered a project I'd heard about, Long Now, a crazy attempt to build a clock that bonged once every hundred years with the cuckoo coming out once every thousand. Long Now was looking at 10 millennia. I wondered if finance could look forward just one lifetime. We contacted the Long Now folk and instantly found immense support and common ground. Anthropologist Claude Lévi-Strauss concluded that, « Le savant n'est pas l'homme qui fournit les vraies réponses, c'est celui qui pose les vraies questions ». “The learned man is not the man who provides the correct responses, rather he is the man who poses the right questions.” What strikes me most wonderfully about Long Now is the impertinence of their questions.



Financial systems haven't been working. I once wrote, “something threatens the entire global financial system: the entire global financial system”. Historian Niall Ferguson concurs: “By the end of 2007, 15 megabanks, with combined shareholder equity of \$857 billion, had total assets of \$13.6 trillion and off-balance-sheet commitments of \$5.8 trillion [\$19.3 trillion total] – an aggregate leverage ratio of 23 to 1. They also had underwritten derivatives with a gross notional value of \$216 trillion – more than a third of the total.” [“There's No Such Thing As Too Big To Fail In A Free Market”, The Telegraph, 5 October 2009] Global GDP is only \$55 trillion and was controlled by an oligopoly of 15 investment banks, four auditing firms and three credit rating agencies which reduced diversity and encouraged herd behaviour. But the \$10 trillion of rescue money has been spent on (1) increasing money supply radically (2) reducing your motivation to save with inflation round the corner, and (3) consolidating the banking sector further. We need to question things.

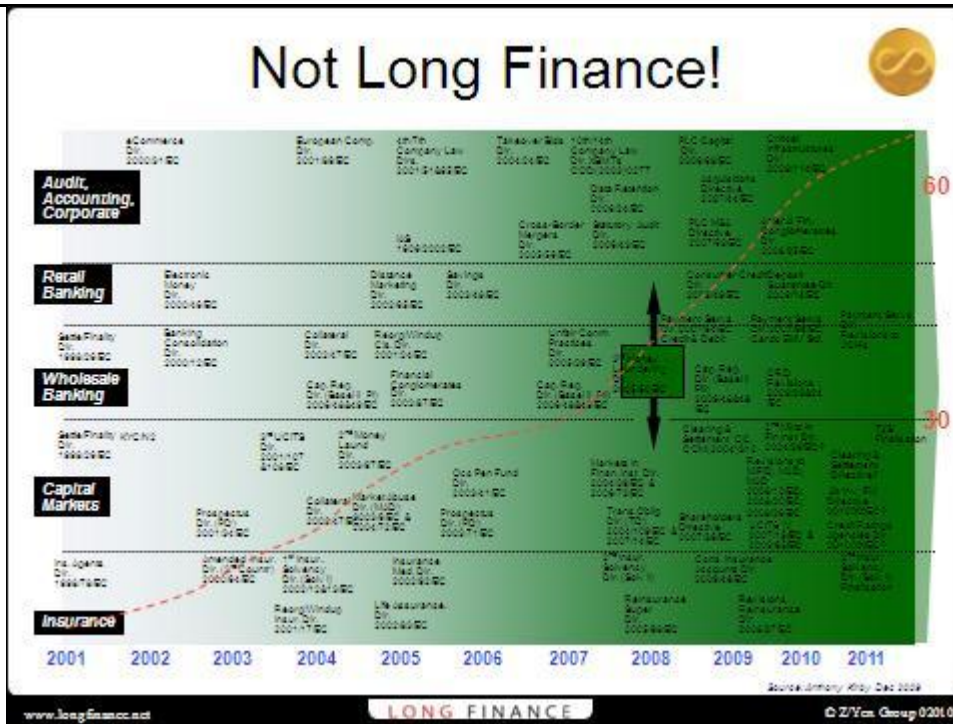
Mason Colley pointed out that “the question you're not supposed to ask is the important one.” It surprised us that despite the biggest crash in our lifetimes we heard few good questions, just murmurs in the hallways about when things might return to normal. Everyone has their favourite fixes, some of them contradictory, but the question we should be asking far more stridently is ‘When Would We Know Our Financial System Is Working?’ Over the past two years we've realised we're hardly alone. At our last Long

Finance event nearly 40 people out of the 120 who came were still debating in Gresham's courtyard 90 minutes after the event finished.



More permanent solutions need impertinent questions, such as “when can we fund a forest?” or “when can a 20-year-old responsibly enter into a financial structure for his or her retirement?” An average 20-year-old today should, under reasonable actuarial expectations, live to 95. Most 20-year-olds with whom I chat assume they’ll live to 120. So the question implies a financial structure that should last 75 to 100 years. Such questions raise hosts of related issues. Such questions draw in actuaries, accountants, demographers, insurers, bankers, investment managers, politicians, savers, consumers and 20 year-olds.

Long Finance is a collaborative vehicle dedicated to renewing long-term commerce from an intellectual and systems perspective. Long Finance aims “to improve society’s understanding and use of finance over the long-term”. Long Finance wants to combine Long Now ([www.longnow.org](http://www.longnow.org)) vision with intellectual rigour and the community aspects of the London Accord ([www.london-accord.co.uk](http://www.london-accord.co.uk)).

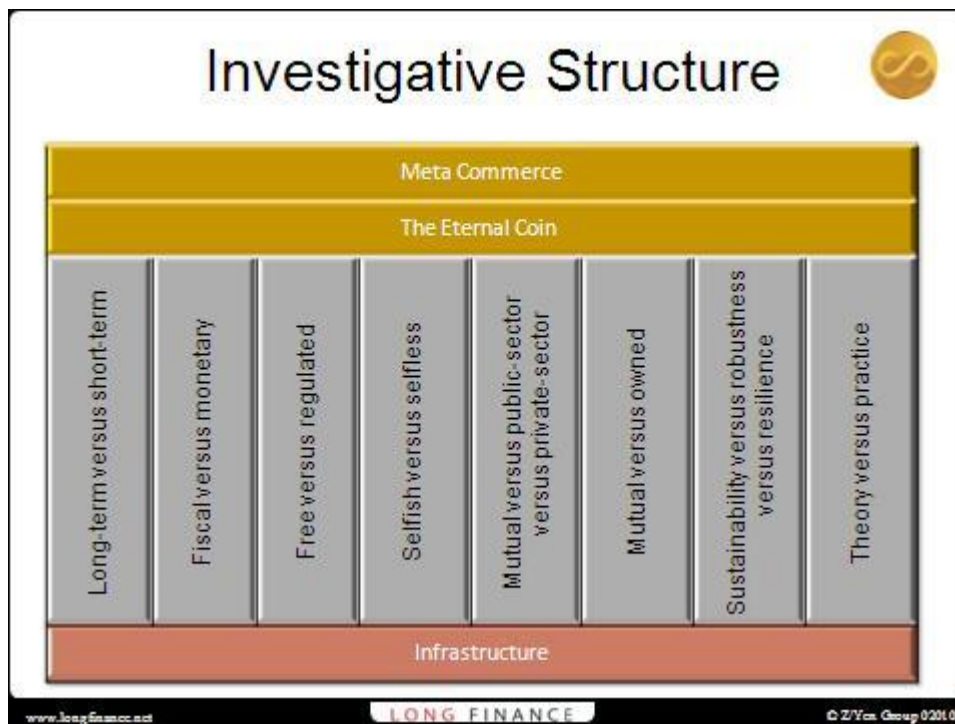


Long Finance intends to move commercial, regulatory and government thinking from responsive to anticipatory and from local to global. And current government thinking about reform is confused; incremental at best, and overly complex. This slide shared by Anthony Kirby of Ernst & Young is an overview of just EU initiatives, and takes account neither of national, nor international, nor G20 reforms. Long Finance intends to avoid the thickets of current micro-reforms, taking the debate towards innovative solutions.



The iconic focus of Long Finance, comparable to the Clock of The Long Now, is the paradoxical concept of Enduring Value and, thanks to speculative fiction author Neal Stephenson's push for something physical, The Eternal Coin. The Eternal Coin is a thought experiment that speculates on whether a coin that never loses value could exist and, if such a coin could exist, how might it be constructed. Value is, of course, intrinsically tied to future exchange, calls on future wealth. The logos are based around a Möbius strip – the coin you can't flip because it has one side. The coin's motto is "Real Money, Made From Eternal Coins" and "Eternal Coins, Made From Real Money". Of course a Möbius strip is also without end, an endless conveyor belt of values from the past to the future.

The Eternal Coin project should be explainable to the 'man on the street', and link the research. We're designing an online game where people can create their own currencies and talk about what enduring value means in a sustainable financial system. Will it be combinations of currencies, bonds, shares, energy, forestry, land, water, or carbon or Bernard Lietaer's Terra? We're exploring mobile applications so people can trade Eternal Coins in a giant scenario planning exercise with prizes. We're looking to create pedagogical materials leading perhaps to events rolling round the world.



In 1900 David Hilbert assembled leading mathematicians in Paris to set out a successful roadmap for the 23 big math problems. His meta-mathematics roadmap resulted in 17 of the problems being solved so far. Emulating David Hilbert's successful approach, we'd like to host a meta-commerce discussion, creating a roadmap for commerce and finance research. We have mapped out eight themes for research based round a travelling series of events. As well as reports or software, each theme should produce Eternal Coins, for example the sustainability team might issue 'peak' – a basket currency weighted by the remaining life of key resources.

## Impertinent Questions – A Selection From Over 80 Proposed Research Projects



| Core Theme  | Sample Research Questions   |
|---|---|
| 1. Long-term versus short-term                        | What are secrets of success among the finances of the institutions, e.g. the Vatican? |
| 2. Fiscal versus monetary                             | How might we price counter-cyclicalities?   |
| 3. Free versus regulated                              | What is the value of high velocity trading?   |
| 4. Selfish versus selfless                            | Do codes of ethics make a difference?   |
| 5. Mutual versus public-sector versus private-sector  | How might retirement 'cohorts' work?  |
| 6. Rational versus behavioural                        | What can we learn from harsh climates - finances of the Inuit or the Bushmen?         |
| 7. Sustainability versus robustness versus resilience | Is there a way to value abundance rather than scarcity?                               |
| 8. Theory versus practice                             | Rejecta Economica – what might be learned from discarded economics?                   |

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We're seeking formal research funding for the themes, and I give you a sample here, ranging from studying the finances of institutions of longevity, e.g. the Vatican, or what we can learn from economics in harsh climates, the Bushmen, the Inuit. We want to challenge thinking. Had Long Finance existed in 1900 I hope it would have challenged you with ideas such as "automotive insurance will be commonplace in five decades" – why would everyone need a car? Or, "in the future you may be paying for shopping and meals with Bakelite" – how can plastic be used as money?

Some answers might reveal themselves to be a boring slog of regulatory reform, or a concession that there are no answers. Some answers might be revolutionary, e.g. direct personal retirement cohorts – you are chosen to join an impartially selected group of 600 people distributed around the globe who, under the management of a central coordinator, are responsible directly for each other's retirement. The central coordinator directs your 'retirement cohort' to save and sets out the long-term transfers of risk and reward. However, the central coordinator, he or she, never controls your money, quite possibly held in some safe haven and governed by international law. The cohort is your most important social network because it, not the state, is responsible for financial security in your retirement. Likewise, we intend to investigate innovations such as peer-to-peer risk transfer, counter-cyclical pricing or government bond-cuffs.

Our first two publications are in your packs today and free online. An Eternal Brevity – where Malcolm Cooper looks at history using Eternal Coins. A Finance Short – where David Steven takes a Long Finance view of the contemporary mortgage market.





Money as a medium to exchange value across space and time cuts to the heart of what our society values. An equitable society requires fair exchange globally and with future generations. A sustainable society requires us to treasure scarce resources in an increasingly crowded planet. If you don't value it, you won't sustain it.

When you think about it, we have to be able to exchange in trust with the global community, present and future. Anglo-Saxon models aren't the entire answer. The German ambassador, who is in the audience today, once pointed out to me that despite two world wars and two economic collapses, his grandfather's pension was still paid. Our Eternal Coin thought experiment forces us to contrast our values with to our great great grandchildren's. This leads to my Zen koan – "If you have some trust, I shall give you trust. If you have no trust, I shall take it away from you."

So why today? The objectives are simple. (1) Long Now people are here to inspire us that projects like theirs can make a difference. (2) You may be inspired by Long Finance thinking to ask impertinent questions. (3) We want to engage you with a different event that adds hope and humour to some serious subjects. Time is too pressing for open discussion among 400 people, though many of you pre-submitted questions that will come up in the panels. I do hope Long Finance links you with others inspired to think about renewing our commerce with each other.

Once you look through the lens of Long Finance, you realise that many of today's sustainability issues arise because society's core risk/reward transfer system, finance, isn't yet capable of handling long-term risk/reward transfers. I'm betting it's worth founding a Long Finance Institute to develop new approaches – or you can collect from me in 02078 when I'm 120.

Thank you.

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And now you must open your hymn books towards the back to the page marked “My Fund Man”. For those of you without hymn books please look inside your programme. I’d suggest you warm up your vocal chords as Brother Ian Harris shall lead us through our first Interlude.