# Introducing Long Finance

By Chris Skinner

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## The Long Now of Finance

So I finally got to attend a free lunch!

This was the launch of the largest event focused upon using long-term thinking in finance that I've ever seen, and sponsored by many organisations including the Financial Services Club.

Around 400 folks gathered to hear the wise words of legendary thinkers and speakers, including my good friends Professor Michael Mainelli of Z/Yen Group and Bernard Lietaer, along with luminaries Brian Eno (yes, he from daze of old Roxy Music), Alexander Rose, Stewart Brand, Professor Sir Roderick Floud and fund manager Edward Bonham Carter.

This was all ably chaired by Faisal Islam from Channel 4 News.

The gathering will be a source of material for quite a while but, to begin with, it's worth discussing the opening session, a panel discussing: "The Long Now - Long-Term Thinking and Responsibility In The Framework Of The Next 10,000 Years".

What the hell is it all that about, you may ask. 10,000 years? Who the hell cares about 10,000 years?

Well, a lot of folks do and the Long Now is all about thinking for the long-term.

Brian Eno kicked off the session by talking about how the idea came to him, as he is the man everyone pointed to as the creator of the phrase: "the Long Now".

He said the idea came to him when walking around New York and seeing everyone rushing about, real fast.

New York – like many capital cities of today – is all about fast.

Fast this, fast that.

And everyone is passing through, as they don't see New York as their home but as their place of work. So they have very short-term thinking or, as Brian referred to it, they think like a "Short Man".

Ask the Short Man what he's doing, and he'll tell you his plan for today or this week. That's as far as the Short Man thinks. There is no life plan, or after life plan. Just the Short Now.

The issue however, as anyone thinking about what planet we will be leaving to our children and grand children and great grandchildren, is that short-term thinking is killing the planet. So how do we think long term: the Long Now?

It's challenging.

10,000 years from now is 12010 AD (which is why all the material of the Long Now refers to Now years with a 0 precursor; for example, this year is 02010).

10,000 years ago was 7990 BC.

There was no civilisation as such then. We had just converted from cavemen to men in caves and beaches and nomadics. Then, around 5000 BC, we became civilised (which is debatable).

10,000 years is hard to imagine or to see as relevant.

 

So what did the Long Now guys do to make it seem more relevant?

After all, the aim is to get us to think about what we will be leaving on this planet for the long-term, not just today.

The Long Now guys decided to build a clock that would last for 10,000 years.

A 10,000 year clock!

This would be a physical manifestation of the Long Now to inspire long-term thinking about what we leave on this planet.

The Clock was inspired by Danny Hillis, who had just created the world's fastest computer back in the early 1990s, and it is a physical manifestation of the longness of time.

A clock that will last for 10,000 years.

The first question is how can you build a clock that will last that long?

And Danny responded by creating five guiding principles:

1. Longevity: with occasional maintenance, the clock should reasonably be expected to display the correct time for the next 10,000 years.

2. Maintainability: the clock should be maintainable with bronze-age technology.

3. Transparency: it should be possible to determine operational principles of the clock by close inspection.

4. Evolvability: it should be possible to improve the clock with time.

5. Scalability: it should be possible to build working models of the clock from table-top to monumental size using the same design.

The five principles can easily apply to anything you want to build for the long term.

The Long Now team then built a prototype of the Clock in 1999, and are now building a massive underground 10,000 year clock in Nevada.

The clock has a really impressive algorithm which produces a different order for the ringing of the chimes each and every day for the next 10,000 years. That's over 3.5 million combinations of chimes!

Amazing stuff.

All in all, the Long Now is very impressive. It's also very academic, very expensive and very, very, very long-term, which raises the question ... so what?

OK, so it's a big underground long now clock, but what's it there for?

It’s there to get us to think about and answer long-term questions such as, what will happen to the clock if, in 1000 years, there’s another Dark Age?

It’s to get people to think long-term, which is what many are claiming we should now be doing in banking and finance.

And that was the point of this conference.

How can we think long?

I’ll add more to this entry through the week in bite-size chunks but, for sheer imagination, I like the idea of a 10,000 year clock.

Now, how about an Apple product that stays cool for more than one year?

**Comments**

*Posted by: twitter.com/socialtechno | February 02, 2010 at 01:48 PM*

It was an excellent event, and I'm sorry I didn't get to talk to you in person. I hope the project / community has 'legs'.

*Posted by: Christine | February 04, 2010 at 08:50 AM*

This is an interesting topic indeed. In 10,000 years from now, nuclear waste will still be pretty bad. Politicians all seem to be "Short Men"!
I watched a US film called "Idiocracy" http://en.wikipedia.org/wiki/Idiocracy some time ago (hey, I got it really, really cheap and sometimes there's just nothing good on the telly!) and it really had me thinking...

*Posted by: Oaxaca | February 13, 2010 at 08:35 PM*

Interesting. This article on the difference in mindset between East and West in terms of long term strategy versus short term thinking supports your core position.
">http://bit.ly/7LqjM8">

But what's worth reading that will blow your mind is the 20+ years of research by Bob Altemeyer on why the current system is set up the way it is, way in his book, The Authoritarians.
http://home.cc.umanitoba.ca/~altemey/

The Long Now should be as much an issue about mathematics and risk analysis as it is about psychology, anthropology and the politics of fear.

## The Long Now of Finance, Part Two

Following on from yesterday's blog about 10,000 year thinking, how does this relate to or work in finance?

The idea is to fund long-term projects.

The sort of massive projects that no-one knows how to fund.

The sort of project that governments shy away from as politicians only have four-year lives and thinking past the next term in office is hard for them.

The sort of thing like building a Pyramid or a Cathedral, something that is long lasting and changes humanity forever.

Who today would think about building such a thing?

Back in the heady Egyptian and religious fervour days of old, building a huge monolithic testimonial for prayer and worship was the thing to do. But then, back then, you were rewarded with something other than finances.

Today, no-one would build such things.

However, there are other things we could, and probably should build, such as flood protection barriers, and the Long Now guys used the example of two countries to illustrate this. One that thinks and funds Long and the other Short.

The Long thinking is in the Netherlands.

The Dutch Government spent €450 million building the Maeslant barrier to protect the reclaimed land across the Coast of the Netherlands.

Rather relying on a boy to stick his finger in the dyke, the Dutch government decided they would fund such a project because, if catastrophe ever struck and the land was flooded, it would pretty much wipe out the most important parts of Holland.

So if you're Dutch, a €450 million spend on an event that may never happen makes sense ... because if it did, the cost could be, let's say, €60 billion.

What could cost €60 billion?

The devastation and disaster caused by a major flood of the Dutch coast.

And this is also the cost of the sinking of the major American coastal city, New Orleans, in 2005.

Hurricane Katrina cost the USA over $80 billion.

That's €60 billion. If the USA had thought long, they would have spent the $1 billion it would have cost to build the flood defences for the southern coastline, and saved themselves $79 billion.

That's the thing about Long Finance, it thinks long-term.

 

It recognises that the investment of millions today will save billions tomorrow.

For each euro or dollar spent today, it recognises it will save 100 times that amount tomorrow.

So long-term finance thinks long and invests long to save when the short now happens.

Stewart Brand, author of the Whole Earth Discipline, then expanded on this commentary further by quoting from the classic book by Robert Heinlein: Time for the Stars.

In the book, released in 1956, Heinlein recounts the work of the Long Range Foundation (LRF), a foundation that thinks the way outlined above:

"The charter goes on with a lot of lawyers' fog but the way the directors have interpreted it has been to spend money only on things that no government and no other corporation would touch . . . To make the LRF directors light up with enthusiasm you had to suggest something that cost a billion or more and probably wouldn't show results for ten generations, if ever . . ."

The key to the LRF is that they only invest in things so expensive and so far out that it wouldn't be investable for a government. However, by adopting this strategy, they have become the most profitable company in the universe, making shedloads of cash thanks to those investments paying off when the inevitable disasters, catastrophes or just plain bets pay off.

Oh yes, there are long bets too.

For example:
"Over a ten-year period commencing on January 1, 2008, and ending on December 31, 2017, the S & P 500 will outperform a portfolio of funds of hedge funds, when performance is measured on a basis net of fees, costs and expenses." Predictor: Warren Buffett

But that's an aside.

The bottom line is that Long Finance and Long Banking looks at uninvestable projects, the big ticket items, and takes them on board precisely because they are good for the long-term health and protection of mankind. That's the nature of the Long Now.

Brian Eno likened it to the story of New College Oxford which, being British, was actually established in 1379 and isn't new at all.

The College's Great Hall has this fantastic arched ceiling with oak beams across.

After five hundred years, the beams inevitably were rotting and decaying so badly they needed to be replaced.

So the Dean of the College asked the groundsmen if they knew of anywhere to source some similar beams?

"Oh yes", the head groundsman said. "Five hundred years ago, when they built the college", he told the Dean, "the founders planted a forest of oaks of the same wood as the one's used in the ceiling just over there."

 

In other words, they had had the foresight to realise that, at a point in the Long Future, the ceiling beams would need replacing so they planted trees for just such an occasion in the Long Now. That's thinking Long, and this is what Long Finance is focusing upon.

I realise all of this sounds a bit tree-hugging or academic, but it's also critically important for those who care about an agenda that focuses upon more the just the right here, right now.

And, just in case you're wondering, yes, the College used the oak trees for their new ceiling and have since planted another small copse of oaks for the next time it may be needed.

 

## The Long Now of Finance, Part Three

In the last of three reports on the Long Now of Finance (Part One and  Part Two), the last part of the day focused upon new ways of banking and supporting 10,000 year thinking, with Bernard Lietaer opening the session with a dialogue around using demurrage to encourage this.

Demurrage is a hard thing to grapple with, as it gets into discussions about fiat currencies and usury which are far beyond the ken of a mere blog on banking ... or it is today anyway. If you want to know the ins and outs of all that stuff then go checkout a book like: “The Creature from Jekyll Island : A Second Look at the Federal Reserve” (ooh, that’s fun!), but the gist of the conversation goes something like this.

You plant a tree as an investment in the future.

When is it best to chop down the tree, and what is the tree’s value in a hundred years (remember the story about New College, Oxford from yesterday)?

Let’s say that you have $100 today, and you can invest that $100 in planting a tree which, in one hundred years, will retail at $1,000 based upon today’s pricing. So you now think the tree is worth that to you in a hundred years.

No.

In a hundred years, using interest based analysis of net present value and assuming you get a positive interest rate of 5% per year, then the tree is worth about $7.60 in a hundred years, based upon the deferred costs of your investment.

In other words, you are losing 5% per year by having your money tied up in an illiquid asset because you could have been earning 5% interest on that cash by putting it into other more liquid assets with faster, shorter-term returns.

This means you are punished for investing in long-term assets and incentivised to invest in short-term earning vehicles.

It is the nature of usury, interest and today’s financial market offerings.

But it doesn’t have to be.

According to Bernard, if you use demurrage, you can turn this on its head.

What is demurrage?

Normally, it is talking about a fee related to shipping costs but, in this context, it is the carrying cost of money. Here’s one definitive view from answers.com:

 

Demurrage is a cost associated with owning or holding currency over a given period of time. It is sometimes referred to as a carrying cost of money. For commodity money such as gold, demurrage is in practice nothing more than the cost of storing and securing the gold.

Now it's not a well known field or term, but it is focused upon making it worthless to keep your cash in short-term things and incentivises to invest in long-term things by exchanging your cash for something else of value, such as a basket of commodities.

So here's Bernard's idea.

You take your money and swap it for a Terra.

Terra is a complementary currency designed for long-term investing, and 100 Terra = 1 barrel of oil + 10 bushels of wheat + 20 kg of copper + 1/10 oz of gold + 1000 carbon emission units and so on.

The fact is that here, you are investing in commodities that have lifelong values, so you lose nothing but gain.

This is why, when we see a 'flight to safety', it's always oil, gold and commodities that fly through the roof in value. Meanwhile, the storage cost of your basket of commodities is passed to the issuer of the Terra currency who pay a demurrage fee.

The result is that you have a currency exchange that is: inflation proof by definition; automatically convertible without new international treaty; and provides a pure medium of exchange and planning currency, rather than a store of value.

Returning to our tree example therefore, the 100-year old tree is now worth $168,903.82 in a hundred years time, rather than $7.60, based upon the payment of a demurrage fee of 5% per annum.

In other words, it works the opposite way to the usury based system and encourages long-term investing.

It is also complementary to the commercial world of investing, and Bernard totally believes in this proposition. I've known Bernard for over a decade, and he knows his stuff. After all, he's worked and invested alongside George Soros and was formerly a Belgium Central Banker who came up with the idea of the euro, or the ECU as it was back then. He knows his stuff.

But ...

... after a decade, his idea still has not got all the buy-in it should have.

This is because people's behaviours won't change unless they have to, and because the thing he's talking about above is darned complex.

That's why fund manager Edward Bonham Carter said: "if you ask people to think about the world in thirty years, they won't because it's not in our nature to do that."

 

Professor Sir Roderick Floud cast doubt on Bernard's contentions too, stating that we over-estimate the extent of market volatility and underestimate the benefits.

The debate raged on, and will do so a long time into the future. The Long Now of the Financial Future that is.

The learning for me is that there is a way to evolve and morph capitalism for the future to protect us from the crashes of the past and to invest in a sustainable, long-term protection for the planet.

However, it's just so complex and difficult that most politicians, regulators, bankers and investors don't understand it, won't invest in it, can't see that far ahead anyway and need a good kicking if anyone wants them to focus upon it, e.g. force them to do it.

I guess that's why Edward Bonham Carter's comment that: "there are a lot of clever people out there. The challenge is to get them working on the problems before the dumb people get there", got the biggest laugh of the session.

 

## When's the next financial crisis and what will cause it?

I spent the morning with a group of futurists debating the long-term outlook for financial markets and am never sure about the usefulness of such debates, although there is definitely something of use in creating scenario plans for the future which is where we were focused.

The key question I kept asking myself during the conversation is: when will the next financial crisis take place, what will cause it and is it predictable?

To answer the first part of that question, we only need to look back in history.

If we take the first financial crisis as the fall of the Roman Empire then it was about 1,000 years until the second financial crisis occurred, with the collapse of the Medici banks of Renaissance Italy. Four centuries later, the South Sea Bubble and Great Tulip Collapse took place. 250 years after that, we hit the Great Depression; and 80 years after that we imploded in the Subprime Crisis and Global Credit Crunch.

Sure there were plenty of hiccoughs along the way - LTCM, Asia, Russia and Latin American implosions in the late 1990s for example - but global crashes have been notable.  Loosely speaking, global crisis are now occurring twice as fast as the previous ones:

1,000 years – the Roman Empire to the Medicis

400 years – the Medicis to the South Sea Bubble

250 years – the South Sea Bubble to the Great Depression

80 years – the Great Depression to the Subprime Crisis

On that basis, you could bet on the next crisis being anything between thirty and fifty years from now.

2040 to 2060.

So what would cause the next financial crisis? After all, we're only just trying to get through this one. Surely we can regulate to avoid another one?

Maybe not.

Here's a view you could take of the factors that contribute to the next financial collapse. I should say that it doesn't make for fun reading, but the logic could have some grain of accuracy.

**2011**

Banks globally are heavily regulated, taxed and governed to avoid another subprime crisis. The focus is on derivatives, liquidity, capital and governance.

 

**2012**

The European Union struggles through a fragile and fallow period of financial and political instability with Portugal, Italy, Greece and Spain managing to just about maintain Eurozone requirements. Unfortunately, it is at the expense of citizens and governments in many of these nations. In fact, the cuts and tight budgets in these Southern member states creates a major movement of economic migrants from Southern Europe into Northern Europe, with the associated tensions and fissures appearing between Northern Europe and Southern Europe as a result.

The outcome is that Europe never quite achieves the competitive economic zone it dreamed of becoming.

**2016**

China opens its markets to full financial servicing, with a rocking stock exchange in Shanghai that becomes the world's second major investment banking city by volume and value by 2020, just behind New York This is combined with a revaluation of the Remnimbi (RMB) that satisfies their critics but worries some, particularly the USA, as the Chinese currency is looked towards by the investment community as a possible alternative reserve currency.

**2019**

Rather than creating a reserve currency for the world, the investment community creates a basket of currencies to avoid too much exposure to risk in one economy – after all, they don't want a repeat of the 2008 crisis. The basket includes Euro, RMB and Dollar, along with Gold and other commodities. Nevertheless, the decision to place a weighting towards RMB rather than the Dollar creates issues for the USA, which has spent most of the 2010s in stagnation.

**2022**

The Middle East enters a major crisis, as oil becomes less needed as a commodity due to the rise of alternative energy sources and conversion of many motorised vehicles to electricity. Iran and Israel go to War and there is a huge effort by the United Nations to bring stability to the region. Eventually, Sovereign Wealth from the GCC outflows towards new and rising economies, such as Africa, and tensions continue to rage across the region on an ongoing basis.

**2025**

Africa's economy is raging onwards and upwards. Like the BRICs of the 2000s, Goldman Sachs creates a new investment portfolio known as CAGES – Congo, Angola, Guinea, Ethiopia and Sudan – where natural resources of platinum, cobolt, gold, diamonds, manganese, uranium, chromium and tantalite are abundant. Johannesburg is rising fast as one of the largest world financial centres.

China is now the largest trading partner and region with Africa, thank to their investments at the turn of the century. America finds this to be particularly challenging, as their view of Africa had been one of occupation and charity, rather than investment and growth, during this period.

But China doesn't care too much, as China has now become the world's largest economy.

**2028**

American and European investment firms decide to make RMB the reserve currency of the world, and drop the concept of the basket of currencies.

**2032**

The quiet rise of India as the world's second largest economy had largely gone unnoticed but, in 2032, for the first time China's economy had less than 3% growth. This was put down to the lack of skills in the country where skills were needed, and is a reflection of the aging population in China and lack of new blood. China's one-child policy of the previous century, and a distinct lack of female population for the overly male populated society that resulted, means that 2 in every 5 citizens has reached or is near retirement age. This, combined with strict immigration controls, places a strain on continued growth and industry.

**2039**

India's continually booming economy has created frictions between their Chinese border rivals, and a Cold War commences between the two nations. Like the Cold War of the previous century, no arms are traded or battles take place, but the economic controls freeze out much of China from India's trading partners and vice versa. The result is an economic climate where India's investment community trade with India and China's with China.

There are ripples through the Shanghai and Mumbai stock exchanges as a result.

**2044**

India continues to see success as a stable and harmonised country. China appears to be becoming more unstable as the government struggles to maintain investment and trading, and avoid the inflationary pressures created by their exposure to investments in Africa for future commodities that can no longer be utilised.

The economy fails to achieve growth rates above 1% for three quarters, and the government determines that the Remnimbi needs devaluation. This angers the USA and Europe, who have major investments in Chinese land and other illiquid stocks, along with major reserves of Chinese currency.

The decisions taken by the Chinese government force them to look towards India and Africa.

**2050**

The outflow of investment by American and European investment houses from China results in aggressive currency arbitrage between the Chinese RMB and the Indian Rupee, with the latter winning as the RMB's reserve currency status ends.

The resultant big time betting against the continued stability of China causes the Cold War between India and China to spill over into skirmishes.

The world sees a period of major instability ensue and the China Crisis is put down to currency speculation amongst the world's capital markets created by complex foreign exchange instruments intertwined between the major economies.

 

Nothing to do with housing this time.

Jeez, that was a depressing vision and I told you this conversation wouldn't cheer you up.

Thank goodness it’s just fiction.

**Comments**

*Posted by: Kunal | May 28, 2010 at 05:30 PM*

Sir,
The post doesn't cheer one up but certainly elaborates some of the problems that would stand before us tomorrow, a few decades down the line. Like Japan is today, India will be no different. With a paradigm shift in the lifestyle of the Indian population, there would be a demographic change.

*Posted by: Sandras | June 02, 2010 at 09:48 AM*

This is a great post. The purpose of learning history to predict the future. I think you're quite spot on with the "fiction". When it does happen with slightly variations of course, it won't be so much of fiction. However, post that take a realist view (negative and positive) at the future are not very popular as most people would rather bury their heads in the sand. Thanks for helping us take a peak into the future.

Sandras Phiri

 

## When will we know there won't be another meltdown?

As mentioned the other day, I will be at this year's SWIFT Show SIBOS focused upon a dialogue around the Long Now. The aim is to find some big super-crunchy questions about the long view of banking and finance, and try to answer them.

What sort of questions are we thinking about?

Here are a few to kick off the grey cell processes:

- When will we know that there will never be another systemic meltdown like the one we've just seen?
- If India and China become the world's leading economies, what will Europe and America be doing and how will financial markets change?
- Can we foretell a future where a human right includes "to not be poor", and what happens to work, life and war if there is no poverty?
- What would banks be doing if the movement of money as a value exchange died out tomorrow? Would banks be needed at all?
- If the world really is in meltdown due to climate change, how will commodity trading change, for example, will there be wars over water?
- Suppose we could travel around the globe in under three hours – just suppose man has created an engine that can get you 32,000 km in under three hours – woud that change anything in financial markets?

There's a few more like these, and if you have any to add then just mail them to me.

Meanwhile, I thought it useful to start a series of blog entries giving my own perspective on these questions.

First, when will we know that there will never be another systemic meltdown like the one we've just seen?
We won't.

I'll tackle the next question next week.

Oh, go on then, you knew I couldn't give a short answer didn't you?

For some years, it's been well known that the markets rise and fall like breathing. For three to five years, you make profits and find good returns, for the next one or two years, the markets correct and you lose a bit. You win some, you lose some.

It's an accepted way of doing things and the way the markets work.

But once in a while, a bubble forms that does not get reined. It steams and blows, and gets bigger and bigger until its fit to burst.

Imagine it is like blowing bubble gum.

You blow bubbles with the gum and most of them just go out and pop, or go out and come back in again.

 

Then you get a bubble that's the biggest you've blown all day and you don't know what to do with it, so you keep on blowing.

You blow and blow until the bubble is the size of your head.

Then the bubble bursts and splats all over your face.

Luckily that rarely happens but, when it does, it leaves a massive horrible mess all over that's difficult to clean up.

That sounds pretty much like the financial markets.

So how do we ensure the bubble doesn't grow so big or burst so messily again?

Well, it's not a matter of regulation, but more a market-led model of effective risk management.

Now we thought we had that in place pre-2008, but it obviously was not the case in hindsight.

Pre-2008 we focused upon market, credit and operational risk; now, we focus upon liquidity risk; in the future, there has to be more focus upon systemic risk circuit breakers.

What do I mean by systemic risk circuit breakers?

Basically systems that can monitor the interlinkage between firms, instruments, portfolios and assets, and alert when a total trade position of a trader, institution or market is systemically important and at risk.

That's what we should have had pre- the collapse of Long-Term Capital Management (LTCM), and it's what we should have had pre- the collapse of Lehman Brothers.

However, the two collapses were caused by different circumstances using different instruments. This is why the systems need to monitor across asset classes, across markets and across regions.

I'm not saying that's an easy thing to set up or introduce, although the single data repository of the DTCC is the first attempt to track such things.

But I don't think we can truly feel that another meltdown like the last one can be avoided until we have true tracking of all risk exposures globally in real-time on a central platform.

Yow! That sounds far too much like Big Brother.

And yes, it would inhibit trading because you would be concerned about your market movements being tracked so studiously.

Equally, who's doing the tracking?

An independent neutral body?

A government?

A regulator?

Nah ... not sure if we'll ever get to the stage where you could truly operate a capital market system with full pre- and post- trade transparency on a globalised basis through a single platform and view.

But, without that, we will never be certain that the markets can avoid another systemic meltdown.

Catch 22?

**Comments**

*Posted by: Paul Wallis | September 07, 2010 at 10:44 PM*

Chris,

You describe some key issues that should be addressed quickly.

You may recall comments I made on a couple of your blogs last Spring about the importance of creating business clarity in the financial system by understanding precisely how data (money) flows.

http://thefinanser.co.uk/fsclub/2009/04/who-caused-this-crisis-and-whats-next.html

One comment concluded:

"...Only by using methods and technologies to understand precisely how data flows will finance avoid further disaster..."

I still believe that:

"...We can think of the modern finance industry as one giant calculator with lots of feeds plugged into it. Data flows into the calculator along each 'pipe' and as long as all the values are accurate and they get there on time everything is ok. The trouble is traditionally the finance sector hasn't known when a feed has become blocked or unplugged, so a value is missing or incorrect and the calculator produces the wrong answer as a result...."

This is in contrast to industries like Oil & Gas and Nuclear where such understanding is critical - if a data flow stops things can go 'bang' in a big way. These industries know how everything is put together to make the business work. They have "joined-the-dots" of people, process and technology.

My colleagues and I believe the first 'flashcrash' was caused by a single data feed somewhere in the complex matrix of the financial system being compromised or having stopped flowing for some time.

http://think.obashi.co.uk/profiles/blogs/why-the-flash-crash-happened

Finance is not alone. The vast majority of organisations/sectors do not know how everything is put together to make the business work.

The reason so many public/private IT projects fail is that there is not enough clarity about how data flows through and between businesses - there are no standards for flows of data.

 

But we have learned, to our cost, that the impact of a major data flow disaster in finance far outweighs those in other sectors.

*Posted by: Ron Clarke | September 08, 2010 at 08:54 AM*

Re your second question, what happens to China when everyone in Europe / USA has a factory in thier home...

http://en.wikipedia.org/wiki/3D_printing

 

## Which nation will be next global superpower?

I thought I would tackle one of the big questions we are considering: What will America and Europe be doing when the economic power balance has shifted to Asia?

Regarding the shift to the East, this is not a Long question, as the shift has already happened, if you listen to some folks.

But does it matter?

If America is no longer the great superpower but just a power, does it matter?

If Europe has zero competitiveness due to its fragmented structures, does it matter?

And what about Latin America and Brazil, don't they matter?

And Russia?

And the Middle East?

The answer to all of the above is that of course it matters.

Any shift of economic or military power matters.

For example, we could pose a different view to the above if we really want to be Long, and ask: what happens when the balance of economic power is determined by Africa?

When we think of our land masses and populations, the real matters are determined by commodities, capabilities, processes and capital.

So let's look at these areas, and then consider who has the balance of power and who will get it.

When we think of commodities, we think of oil, metals, cocoa, gold and similar.

Those who have an abundance of scarce commodities that have value are naturally going to be richer than those who have none but need them.

The Middle East has lived on their oil riches for long and will do so for the near future but, in the Long Now, some will fail.

This is because the oil riches are a finite resource, and will eventually be drilled to extinction.

The illustration of this issue is no better exemplified by Yemen, where poverty is rife having squandered away millions in oil revenues years ago, and being unable to create any substitute.

This is unlike the Emirates, who ballooned into a prosperous construction, tourism and trading centre, built upon sand.

So when we talk about commodities we are talking about a finite property, which is why there is scarcity and value. From a Long Now viewpoint, it must beg the question: what are you investing your finite billions in today for the infinite post-commodity years later?

 

The answer is that these nations should be investing in education, knowledge, brains and science, as these capabilities build a sustainable future.

The capability battle is one that Britain used well to build an empire a century ago, and that America used well to create prosperity through the twentieth century. It's also what other nations, such as Singapore and India have realised in building their empires of today.

It's all about looking at things that humans can create that are of value and, by building leadership in this area, it means that your nation can stay ahead of the world when it comes to technological, scientific or commercial scarcity.

Britain had that scarcity during Queen Victoria's reign, with a technological leadership based upon naval and military strength. This allowed one small nation to colonise many other nations. By doing so, the strength of the nation increased by being able to access commodities of those nations, and gain commercial value, capital and further technological strengths which became a virtuous circle.

This leadership faded as the industrial revolution led to America, with its vast swathes of land and resources, to take over as the manufacturing engine of the world.

In America, that leadership came from building cars and computers, creating value through innovation, and through using knowledge to gain power over capital, commodities and resources.

Today, this is the piece that is shifting to the East.

China's leadership is based upon people, processes, resources and investment in capabilities for building cheaper, faster and better.

China's a nation that saw the weakness in the model of the world – the cost of manufacturing – and exploited it to gain growth. Now, having gained that edge, they are investing in all the other things to generate wealth from science and knowledge, and to maintain and sustain future growth.
This is why China has a space mission, as does India.

These are indicators of building capability leadership through scientific and technological research.

India saw a different weakness in the world's model – the cost of service – and their strategy was therefore to invest in knowledge, and specifically to use their brainpower to gain economic growth. The use of English language and investment in technology skills, restructured the world's knowledge chains in the same way as China re-engineered the world's supply chains.

It is these investments in human capabilities that led to other nations, who had the commodity resources to support the wealth of manufacturing and services growth in China and India, to also enter a growth phase, particularly Brazil and Russia.

Now, Brazil has invested in human capabilities to sustain their growth, whilst Russia is still a fragile economy due to a lesser focus on building such a sustainable future.

So that outlines two cycles of economic power shifts: commodities and capabilities.

 

The thing that now makes the difference is that, if you start with an abundance of resources and use the investment capability of such resources to create capabilities, which nations get the Long Win, as in they become a superpower.

This is all down to processes.

The two go hand-in-hand, and are easily reflected by Germany and Japan.

Since the 1970s, we all say that Germany and Japan are the world's leading nations in terms of their excellence in making cars and electronics.

This is because Germany and Japan had a huge squeeze on capital after the War, and therefore had to create efficiency and effectiveness in processes.

Luckily they could do that, thanks to a clean spread of land and knowledge that had a focus upon creating processes that maximised the efficiency and effectiveness of manufacturing.

Just look at the work of W. Edwards Deming in post-War Japan to see how Just-in-Time manufacturing re-engineered the world.

So where does this lead us to, in thinking of the Long Now future world?

Who will be the future superpower?

Not Europe, if the region continues in its current form.

This is because Europe has a problem with managing the four dimensions of commodities, capabilities, processes and capital, mainly because Europe is a grouping of 27 individual nations rather than a singular whole.

This is why Europe is bad at dealing with these, although some nations within Europe excel, as in Germany. This is why Europe is grappling with the question right now as to whether the Union can survive long-term if one or two nations are good at building a sustainable model of wealth, whilst having to give it all away to support the nations that aren't.

China and America are different as they are a nation and not a region.

Admittedly, they are not a singular whole either – China and America are a formation of many individual states, like Europe – but they do have centralised governance for strategic planning and control, as well as a common language and currency. Again, I know some will be tutting at this point, saying that Mandarin and Cantonese are different languages and almost half of America speaks Spanish, but it is fundamentally different. This is because these nations do have a cohesive structure for planning, investment and management of commodities, capabilities, processes and capital, whereas Europe does not. Europe may in the future but, right now, it does not.

Equally, many claim that Europe fails due to disparate and historical legacy infrastructures, whilst America succeeds by starting as a new Nation, with a new currency and agenda. China's a new nation, in terms of infrastructure, and again can exploit and leverage that capability.

So when we look at the capabilities criteria, China and America are the two large nations that both fit. Russia, Brazil, India and Africa would be the other contenders.

 

We can leave Africa off the list for the moment, as they suffer the same paranoia and fragmentation as Europe. Similarly with Russia, for they need some serious investment in people and capability if they are ever to maximise their resources and opportunities.

So, America, China, Brazil and India are the four Long Finance nations on the radar.

They are all single nations with central planning structures and a relatively new Nation mentality, which means that they are not bogged down by legacy infrastructures from an economic viewpoint.

They all have strong capabilities and access to resources, so we don't need to think of these as an issue.

Therefore, for the next century, the superpower from these four will be based upon processes.

And here's where it gets radical.

America has been very good on process, and India is very good on process.

Everything is in signed off in triplicate, checked, double-checked and authorised.

The thing is that this procedural approach to processes is not adept for the new millennia process, where the fast beat the slow.

Today's globalised world works in seconds, not years, and the heavy-duty processes and rigid disciplines of the twentieth century will fail in the twenty first.

So, for these reasons, America and India may be hindered culturally in the Long Finance twenty-first century, which leaves Brazil and China.

You probably think it's China, don't you?

China will be the Big Superpower of the twenty-first century.

Well, maybe not.

Maybe Brazil holds the balance of power for the Long Finance world.

The reason for this conclusion is that China will be contracting in power in 2050-2060, due to their single child policy.

The lack of new blood and an aging population could drag China's economic tiger into a toothless and clawless sloth in the Long View.

Meanwhile, Brazil has the commodities, capabilities, processes and capital to be the world's largest economic force in the next century.

If that's the case, North America will feed off South America, and will be the subservient economy to Brazil. It will be a reverse relationship to the structure of the twentieth century, where you had the poor South and rich North.

Similarly, Africa will have been raised from poverty, and India and China will still be forces of power, but not necessarily THE force of power.

Europe will still be fragmented, with member states fighting for capital and control just as they are today, and Russia will still be tipped as the next big economy and, if the government does invest more strategically in commercial capabilities and processes, it just might make it.

Meanwhile, I'm moving to Australia as, in the picture I've just painted, the world has turned upside down. All the wealth and control that was in the Northern Hemisphere has moved to the South, and so the natural juxtaposition of London will to live in Sydney.

Interesting.

Instead of coming from a land down-under, I'll come from a land up-over ...

G'day mates.

**Comments**

*Posted by: Edward Harkins | September 21, 2010 at 08:41 PM*

Hmmm... I maybe differ from your view of China and India as being large centralised, highly controlled ( and therefore stable?)entities. China and India have acute and deeply imbedded systemic fissures and tensions within their vast territories – that are actually the post-imperial remains of earlier empires.

The phenomenal and commendable growth and transformation they have achieved in recent decades contain the seeds of destruction – a veritable paradigm change waiting to burst forth. If either China or India falters significantly from its current arc of hyper-growth there very probably will be a social cataclysm of epoch-destroying proportions.

That the Chinese dictatorship is all too aware of this precarious position I do not doubt. But I suspect that they are at just as much of loss as to how to address this position as I am.

As for the Indians – I see no evidence of awareness on their part – only hubris and downright silly posturing.

*Posted by: Macedonian | September 22, 2010 at 08:07 AM*

The next power will be China, if we take the history into account.

I think that the power always moves WEST (any such too general rule has exceptions, but they are minor). Here is my view:

400BC - The strongest power was Persia (Iran). Then the strongest power were in the following order: Macedonia, Rome, The holy Roman Empire (Germany), Spain, England, United States. Pacific is big one, but it is also limited, and WEST of it is China. India is next.

I didn't have time to analize before Persia (history is my hobby, not main proffesion).

*Posted by: Sarah Elizabeth | September 22, 2010 at 02:52 PM*

It's hard to tell, based on history, the future trajectory of China's growing economy. What's interesting now is how China is embracing their new role as the second largest economy in the world. China alternately pounds its chest and belittles its own progress. Could this be to eschew global responsibilities that other economic giants have? Jeffrey Wasserstrom has some interesting insight as to China's actions after swooping past Japan's economy last month. You might find his article interesting, too. Check it out here: http://www.project-syndicate.org/commentary/wasserstrom3/English

*Posted by: Thebankwatch | September 23, 2010 at 05:07 AM*

RE: "America has been very good on process, and India is very good on process."

Not a bad observation Chris. It lands squarely on something I have been seeing as an issue but had not singled out the root cause, and this is it. China and Brazil are 'managed' systems and economies, and there is no debate - stuff just happens. Which is better?

Anyhow, this post covers so much, and stuff I think about all the time. It might just warrant its own post for me to answer semi intelligently. Some good stuff in the meandering here.

*Posted by: Chris Skinner | September 23, 2010 at 08:01 AM*

Thanks for the comments folks and a brief response.

@Edward, Macedonian and Sarah Elizabeth

China is the obvious near-term superpower, as mentioned, but the tensions between the Indo-China relationship will explode over time, as previously discussed here on the blog: http://thefinanser.co.uk/fsclub/2010/05/whens-the-next-financial-crisis-take-place-and-what-will-cause-it.html

As a result, and also due to China's single child policy, the future path is even more tipped towards Brazil.

@Colin @Thebankwatch

Great to hear from you - been a while - and love the fact that you concur with a point I've found frequently frustrating, e.g. the form filling, paper processing, checks upon checks management of process in India and the USA.

As you say, there's a lot covered here which probably warrants further depth of thinking ... however, as I got to over 1,000 words on this one, thought I'd see th reactions before posting more.

Thanks again everyone
Chris

*Posted by: Paul Peters | September 23, 2010 at 03:16 PM*

Am a bit surprised.. the framework of criteria only seems to focus on magnitude and more or less linear extrapolation. For example, Brazil's birth bubble happened from 30 to 20 years ago, and the

 

current birth rate is 1.2% which is effectively close a single child policy. So, Brazils population may grow to double it's current size, but will continue shrinking from there on.
But Family Planning (eugenics for the historically inclined) is not unique for China alone. It's being done on a global basis since the first meetings of the Club of Rome. And oddly enough the article referred to is about China rethinking their policy, which may be a natural thing to do as there is a natural tendency anyway when a society matures, becomes more healthy and prosperous that birth rates go down. Societal group dynamics and biology are mixed phenomena.

Also, what is the effectiveness of processes? I have had a company in Italy, and i think that more or less says enough.

Compared to a country like France which has 5000 laws, Italy has 70.000-90.000 laws, which makes it an unmoveable ball of entangled rules, and adhering to these rules means paying some 65% in taxes or other forms of subsidizing a business jurisdiscial system which employs more lawyers than the UK, France and Germany together..

It's about the utilitarien degrees of freedom that is facilitated by the processes, and this i guess is where well-oiled processes go more hand in hand with commodities and capabilities. Germany and Japan had big advantages here, they both received a long term and major cash-injection from the USA after their defeat. Both Germany and Japan also had an additional benefit, and that is that much of the post-war middle-management layer were for the most non-commissioned officers, molded on beforehand to work in a bureaucratic system of work processes.

But it deserves some extra attention that they also have very efficient production processes, with many interchangeable parts, due to the war machinery. Standardization and normalization is very important in such an industry because it gives redundance and thus resilience in the production process itself. When ordering a particular fiber, or some screws, or some sort of metal, the qualities are as expected. And with these commoditized building blocks one is then capable of building more and more differentiating products.

And it is these with these differentiations that an economy blossoms, although it also makes it more local. And as shown with many high-tech products it is path-dependence which is most important here, who gets there first.. and that leaves to compare a yearly $180 billion R&D funding from the different US governmental departments together, compared to the EU's Framework Program which is about $8.5 billion. Does Europe need really need so much less investment in the future?

And what is the exposure when interacting amongst one another. Quantity has a quality of its own, but is potential power the same as power in motion ? The USA has been acting like a superpower ever since the OpiumWars, but what if China, Japan do it in their own way by buying up large foreign companies, like is happening now. Or buy a stake in the US government, because the two together own more than a 25% of the US treasury securities which are used to fund the federal debt.
Then again, Japan's former prime-minister, Hatoyama, got forced out of office due to conflicts over a US military base which he had promised would be closed. And that raises the question, who owns who?

So, does it really make sense to divide the world in powers or superpowers, or does it make more sense at focussing on unifying capabilities amongst these powers? Although i do guess, considering the current number of EU countries without a government that we may be seeing the early demise of nations and countries as a valid governance model, but possibly a modality which is based on a European Union of city-state/province/regions which more reflects that actual geo-graphical distribution of people and activity.

 

Very nice food for thought, thanks for a great post.

*Posted by: Erik | October 22, 2010 at 11:17 AM*

Looks like everyone missed the obvious answer.

The next super power will of course be Belgium.

It has the commodities. Beer and chocolate are top quality and timeless.

It has the capabilities. We had cheque truncation in the 70's you know. We were pioneering electronic purse cards before the Euro was a reality. And we're headquartering SWIFT now.

It has the processes. Ten weeks later I'm still waiting for the inventory of the flat I'm renting and am still trying to figure out how to claim my doctor's bill from my medical insurance. Nevertheless, there are a lot of back doors and if you know the right people you can get things done, much like in China and India.

And it has the capital, that is of course if anything is left after the money gathered through 55% taxation rates (excluding local taxes) has been spent on a zillion local, departmental, regional and national governments.

So, Belgium it is. If it still exists of course.

## What happens when there is no more poverty?

I bet you're sitting there cynically thinking that's crazy.

Even the idea of poverty becoming meaningless is surreal.

It will never happen.

In most emerging economies, billions of people are living on under a dollar a day. These people have no choice but to live in poverty.

That's a crime.

Even in the world's most developed economies homelessness, drug addiction, prostitution and more is rife.

These are the causes, creators and propagators of poverty, and that's not only a crime but the fuel that flames the fire of crime.

Eradicate poverty and much of society's problems can be eradicated.

That's why this is important to governments and policymakers alike.

So what's the plan?

It's a basic one.

Children born into poverty are far more likely to remain poor and become impoverished as adults than children born into 'comfort'.

But then we have to think about what 'comfortable' means.

Comfort and being comfortable is basically one level above poverty and being poor.

So what is poor?

The world health organisation defines poverty as living on under a dollar a day.

One dollar or less per day.

Who lives on this?

Where do these people live and how do they live?

What does a dollar a day buy you?

What happens if you could make it two dollars a day?

Or five?

Or more?

 

Well a dollar a day or less is poor today.

Poor tomorrow will be defined differently, and the redefinition is already underway.

For example, we talk about a billion new consumers in the BRIC economies.

Bearing in mind my earlier discussions, we'll talk about another billion or more in the next wave, when Africans, Indonesians, Philippines and Ecuadorians come on stream tomorrow.

Plus the rest.

So here's the real thinking of the human rights groups: if everyone becomes consumers tomorrow, as is their want, then what are those who live on a dollar a day basic existence going to be doing?

Well, according to Human Rights Organisation, they will be 'comfortable'.

Being free from poverty- being comfortable - will be a human right.

Comfortable is not being poor, or rather comfortable is not being poor if you don't want to be.

Along with the right to be comfortable, other human rights will include to have an education and to be able to work if you want to.

In other words, human rights will have elevated up the Maslow hierarchy of needs from basic rights – to not be tortured, to have food and shelter – to the rights of worthinesss – to feel a senesee of worth, to belong, to be productive.

What does this mean practically?

It means that tomorrow's world will be one where the only people who are poor are those people who choose to be poor.

They may have drug addictions or other dysfunctional lifestyle behaviours, and it is these that make them poor, rather than being forced to be poor through birth or society's disdain.

Think of this in the example of the developed economies, and those who are poor choose to be poor.

They have welfare options, they have job centres to get them into work, they have health centres to clean them up and detox them, they have choices and could choose not to be poor.

But, due to their messed up lives, they chose to remain imporveished.

That's what the world believes all people will be able to decide tomorrow.

They will decide to be productive or poor, but it's their decision.

Their choice.

Because they have the basic human right to be comfortable and to not be poor.

Sure, it's not as simple as this. There are those who become poor or are born into poverty, and can never get out. It's endemic.

But society is and will and should be working to try to assist those parts of society that suffer this way, and this is what the human right of not being poor, being comfortable, is all about.

Translate this to Africa, and it means in the next generation of Africans, all countries and nations can get work if they want it, can get a wage if they earn it, can be productive and belong.

If this is the case – that no-one has to be poor, but just choose to be – then the world of finance becomes different.

In fact, it already is different.

For example, take microfinance.

Kiva, Grameen Bank and other world efforts develop communities such that they become productive and belong.

They are no longer poor.

Their children then become entrepreneurial and create businesses that succeed on a small scale.

They are no longer poor.

Their children become leaders and enterpeneurs and are wealthy.

Then poverty has gone.

Maybe forever.

What then?

The next human right would be that everyone is entitled to a bank account.

Now that's a bit of a dream ... and that's a Long Now discussion.

A final word from Amnesty International:

Poverty and human rights

Everyone, everywhere has the right to live with dignity. That means that no-one should be denied their rights to adequate housing, food, water and sanitation, and to education and health care. Amnesty International is increasingly documenting how human rights violations drive and deepen poverty. People living in poverty have the least access to power to shape the policies of poverty and are frequently denied effective remedies for violations of their rights. Amnesty International is working to hold governments, big business and other powerful actors to account for human rights violations which target people living in poverty, driving that poverty deeper still.

 

**Comments**

*Posted by: Sretko Povic | September 30, 2010 at 08:45 AM*

Every 30 years the world population doubles. We are currently on our way to 8 billion people. Those "consumers" we have, less than 20% of the world's population are depleting its resources and causing extensive damage to the environment. The idea that we could or would be able to bring the entire population of this planet to a consumer level is suicidal. I am not concerned about the planet it will be just fine once the humans wipe themselves out.

*Posted by: Robert | September 30, 2010 at 09:19 AM*

1° Let's focus on eradicating poverty rather than speculating on a world without poverty.
2° To consider than you can only exit from poverty by becoming a "consumer" or a "worker" is a very limitative approach.
3° Stabilizing the world population should be priority number 1. If we don't achieve this, there is no way we can have a decent future on Earth.

*Posted by: Paul Peters | September 30, 2010 at 12:03 PM*

We'll have to.
At this moment there are 27 million slaves in the world, a historical high, with the upside that it is in relative terms the lowest point since the abolishment. Life itself isn't dependent on riches or poverty, but we cannot ignore that we have made it so. This is an ethical, economical and social issue, but we're facing something much more immense... technology is moving so fast these days, that by 2020 or 2025 we'll be faced with unemployment figures above 50%, and this is happening in a way that is more or less unavoidable and uncontrollable given our current economical models. Aritificial intelligence with the cognitive capabilities of a cat was realized about a year ago, and since some years a virtual human brain is hosted in Lausanne at the Blue Brain project.. these are pure computing projects, and not the only projects going on. We are nearing a turningpoint to choose between a Brave New World or The Island. To illustrate, from a recent ppt on a solution facilitating the nearby future, a little piece on our future fellow earthlings, "Rise of the machines":

Converging trends in different technological branches, bio-tech, nano-tech, robotics, artificial intelligence and information technology fuse and accelerate each other. Current forecasts predict machines equivalent of human intelligence within a 5 to 10 year time horizon. Not just a smart chess program, but a self-aware learning machine, a conscious virtual organism.
As most simple manual labour tasks have already been automated, increasingly complex human tasks will gradually be replaced, such as chatbots which are already replacing helpdesks, with customer satisfaction ratings outperforming regular off-shoring.

Designed in a modular way with impromptu cohesive congregation such virtual organism can gather knowledge by connecting with a pre-defined ontology of some domain. As adaptive learning machines they will replace front-, middle- and back-office functions, such as administrative secretaries, accounting, project managers.

Enter 2015, imagine a virtual accountant, as-a Service, working 24x7, 130 IQ, a redundant array of 100 brain-halves of which half are sleeping, day-dreaming, learning, and the rest is working, and always online.

 

Subscription fee for a virtual FTE costs at a quarter of employing a human. AI generations do not take twenty years, due to positive feedback loops of the converging and cross-fertilizing technologies they may realistically be just four months, three generations per year, with a capacity doubling every generation, which gives an eight-fold on a yearly basis. If the first year it could replace one FTE, the next year it can replace eight.

Yet also CPU power doubles every two years and network capacity slightly faster, which gives a capacity increase of about sixteen per year.

So, in 2015, for the price of one average business analyst, you get four virtual in return.
In 2016 that is 64 bots, 2017 gives 1024 bots, 2018 16.384, 262.144 in 2019.. and by 2020 you can have 4.194.304 virtual business analysts working for the price of one real.
And how about a virtual MBA? Virtual management consultants?

Not only will machines require civil rights, so will humans..

*Comment received via email:*

One conundrum I've always faced in looking at investment to alleviate poverty is that many definitions of poverty define the poor relatively, as below some %, typically, of median income. In the EU, poverty is defined as 60% of the national median disposable income (after social transfers). Thus the only way to eliminate poverty under this definition is to eliminate inequality. As ever, under this definition, Jesus said it first and best, "For the poor always ye have with you" [John 12:1-8]. What we are often discussing is inequality rather than absolute poverty.

from a lecture given by Michael Mainelli at Gresham College in 2007:
http://www.gresham.ac.uk/event.asp?PageId=45&EventId=641

*Posted by: Edward Harkins | October 04, 2010 at 12:55 PM*

Totally agree that we often conflate and confuse between poverty and inequality.

The Spirit Level is the latest in a developing seam of well-researched publications demonstrating that it is unjustifiable inequality that is core to many problems - rather than poverty as such.

An important qualification to this has to be that everyone in a civilised society should have unobstructed opportunities to a money income or assets that provide a decent level of good health and wellbeing. (Unobstructed that is, by unjust and inefficient barriers such as class structures, ideologies or plain old greed by established interests).

The Spirit Level indicated that if we take the current vogue for 'happiness' then it is the societies with the highest levels of equality - rather than wealth- that are the 'most happy'. Material possession is not the sole key to happiness.

Incidentally, I don't know that Jesus did say what it is posted above he said; or that he was first to say it. Our only evidence is a committee-written book written many years after his life by a, let's say, involved set of writers. What Jesus said or may have said, is a matter of faith and interpretation rather than fact.

I willing to wager that many other sage and good people said similar things to what it is asserted that Jesus said - and that there were probably decent people that even said it before him.

 

## If payments are free, who pays?

One of the big questions we want to focus upon during the Long Finance debates at SIBOS this year is: if payments are free, who pays? The discussion is all around the concept that payments have been so commoditised and disrupted that they are irrelevant as a source of value and revenue generation.

There's no margins there, and so what is it that a bank should focus upon?

How core is payments to banking?

Can banks exist without making payments?

What does a bank do if payments is not part of its business?

These questions may sound a little existential but I would propose that this is exactly the situation banks find themselves in today.

They exist with something that historically was a core strategic process – making payments – that is now non-core. If it was still core, then how come banks can outsource payments processing?

You don't outsource strategic processes, as they are the ones you use to leverage differential.

Therefore, payments is already non-core as banks move towards processors for cross-border euro payments and for global payments processing. For example:

Deutsche Bank and Logica form strategic alliance to outsource SEPA Direct Debits for EU banks

Citi provide the Agricultural Bank of China with international payments processing

So if we accept that payments processing is no longer core to banks, then what is?

Service.

Obviously, it's service.

It's the value add around the commodity of paying that is core to banks.

That's why so many banks are focusing upon new information services that enrich the transaction processing with financial management that is core.

That's why, at Finovate for example (where I am this week), most of the demonstrations are around enriched personal and business financial management applications and apps.

The idea of auto synching budgeting and billing across multiple platforms from desktop to iPad is the key to the new world of enriched and informed financial management.

That's what everyone is focusing upon.

 

If that's the case, then banks become more like energy providers, where they don't create or manage the payments grid, but just connect the customer to the grid in the best way they can.

"The best way they can" meaning differentiated, leveraged, sophisticated, functional, simple, intuitive, transportable ... terms that are new to many banks.

What we mean by these terms is that banks are suddenly focused much more on that front-end delivery of information about payments, rather than making the payment itself.

That's why a bank could launch based upon an operation that delivers free banking ... sponsored by Google ads.

That's why a bank could launch that offered to manage money and any other form of valuable asset, such as Facebook credits, in a single information portal.

In other words, banks move from being transporters of messages to safekeepers of information.

That's what eMe was all about at last year's innotribe.

eMe was all about creating a trustbox that banks could offer to secure a customers' most private information, including passwords and access details to all their investments and banking services, as well as to other information services such as their Facebook and twitter logons.

You see, if a person disappears then who's going to know that information?

Who can provide the friends and family with the news of their passing if no-one can log-on and tell them?

That's where a bank is moving, to being the trusted repository of valuable information that is managed in a simple, intuitive, leveraged and differentiated fashion.

Customers would pay for that ... and then the payments themselves? Well, they're free of course.

**Comments**

*Posted by: Dean Procter | October 07, 2010 at 06:22 AM*

I'm still a bit stunned that the govts didn't go for a better deal on the bail-outs, like a percentage of profits. That sure would have lead to better banking service quickly. (more expenses=less profits) The govts still wouldn't have got any dough but the public would have had better banking services quicksmart.

As for a 'financial meltdown', it hasn't even been re-cast yet has it? The stock market is still melting isn't it? At least it is on the way to being a half dozen 'gamers' in a room trying to out-supercompute eachother.

Payments - I'd expect banks not in the payment cycle will eventually be on their bicycles to nowhere.

 

*Posted by: CFOZone | October 07, 2010 at 02:19 PM*

So what banks exactly are moving in this direction--to becoming a trusted repository of information, and what are they offering?

Denise Bedell
Contributing Editor/Blogger
CFOZone.com

*Posted by: Dane | October 08, 2010 at 07:59 AM*

Can banks exist without making payments? - Yes. They existed for 50 years in Macedonia. No problems for the bank (=> no opportunities => no commission)

Macedonia was one country in the former Yugoslavian federation (the other countries were: Slovenia, Croatia, Bosnia, Serbia and Montenegro - there it existed, too). We had payments outside of the banks and centralized in the state owned institution since early 1960s. Banks only received information at the end of the day about movement of funds of their clients. They do not have payment counters, nor payments software or clearing houses - it was all centralized. In early 2000 all of the former Yugoslavian countries abolished that agency and returned payments to banks.

Payments were never free, neither in the state agency then nor in the banks now. :-) Now it costs about 10 euro cents for end of day delivery of funds, or 1 euro for real time settlement. Client chooses.

*Posted by: Chris Skinner | October 08, 2010 at 01:19 PM*

Wow Dane

Fascinating and interesting to see how Macedonia and CEE countries have adapted since joining the Eurozone.

Chris

*Posted by: Gijs Boudewijn | October 11, 2010 at 08:32 AM*

But Chris,

Interesting thought, fully agree with the commoditizing bit. But aren't digital legacy management services like you mention as the next (paid) step for banks not already being offered by parties like Entrustet, Legacy Locker and Data Inherit ?? Should banks buy those upstarts to provide those with the necessary trust? Would central banks oversee or supervise them?

*Posted by: Thuilliern | October 12, 2010 at 08:27 AM*

Hi Chris,
The post is very interesting . But the service is not the same for each client. For example, large corporates have not the same needs than you and me.
Another example, i can use paypal for buying A 30 $ book but i dont use paypal for my salary.

 

Who safeguards the safety of the information? If there is a problem, who can the client contact to solve it? People wants to have only one contact who is able to take care of their payments.

How can this works?

 

## Can we confidently create ways of investing for the long-term?

A fifth big question for the session I'm running at SIBOS, focused upon Long Finance, is whether there is any way to create a system that allows all of us to confidently invest for the long-term?

Creating a system for long-term investing - 1,000 years plus - is a tough call as everything in the commercial system today is geared to the short-term and making a buck. We short sell stocks, we focus upon quarterly results, we deliver a daily return, and we keep our eye on net present value.

It's all about cost-benefits and short-term return on investment.

How could we ever build a system that ignored interest and profit, and allowed us to invest in things that give returns in 100 years or 1,000 or 10,000?

Well it has been done before.

Do we honestly believe that the Egyptian Pyramids or the many Cathedrals of Europe would exist today if the builders of these monoliths focused upon short-term returns?

Admittedly, property and buildings is about our only long-term view. We take out twenty-five year plus mortgages and see that as a lifetime.

But then we also take out pensions for our end of life years, and invest in those instruments for decades too.

And maybe we take out burial insurance, which is the essence of how life assurance began in the burial societies of Ancient Rome.

So we do have a long-term view in some things.

Except that many of us cashed in our pensions to invest in those second homes that became a profit-generating vehicle through buy-to-lets and rampaging house price gains during the subprime years.

So even our long-term assets became short-term trades under the financial regime of securitised lending and collateralised debt.

Even if that proved to be a false illusion, as it turns out.

So, how can we can we confidently create ways of investing for the long-term?

Well there's a man I met a while ago who knows.

His name is Bernard Lietaer.

For those who know him, they'll know that Bernard is bit of a zealot when it comes to alternative currencies that focus upon community investing, rather than commercial investing.

But the idea has never really taken off.

Why?

 

Because it’s complicated and even though Bernard can point to hundreds of examples of community currencies, a global currency for investing in our planet for the long-term remains elusive.

He did actually create this currency a few years ago.

It’s called the Terra.

The Terra, or Trade Reference Currency (TRC), is based upon a basket of the 9-12 most important commodities, based upon their importance in worldwide trade. For example, 100 Terra would be the equivalent of 1 barrel of oil, 10 bushels of wheat, 20kg of copper, a tenth of an ounce of gold and so on. Any goods or services could be included or added over time, as they rise in importance, such that there is a continual holding of value in global trade and services.

In other words it would have the stability of a gold standard, but with a basket of commodities instead of just one single commodity, which makes it even more stable and is inflation-resistant by definition.

This idea also has history, as it was first presented in an article in the French newspaper "Le Fédériste" on 1 January 1933. The idea back then was to establish "L'Europa – monnaie de la paix" or “Europe’s Money of peace", based upon a basket of commodities.

Good ideas never disappear, but the question still remains: how would it work?

Here’s Bernard’s proposal:

“Technically, the Terra is an inventory receipt used as a supra-national trading currency ... It is different from previous commodity-backed proposals by having the storage costs of the basket paid by the bearer of the currency, making it a ‘demurrage charged’ currency (the opposite of interest), a device that insures its circulation as a trading tool. The Terra would also be an inflation-resistant currency, ideal to be able to compare results and contributions independently of the vagaries of the values of national moneys. Last but not least, the demurrage feature would realign financial interests with longer-term concerns, eliminating the conflict between financial priorities and long-term priorities including environmental concerns.”

In other words if you try to keep or hoard Terra, you get punished for it. This encourages you to invest Terra in long-term projects, and build Pyramids and Cathedrals.

“In ancient Egypt, when you stored grain, you would receive a token, which was exchangeable and became a type of currency. If you returned a year later with 10 tokens, you would only get nine tokens worth of grain, because rats and spoilage would have reduced the quantities, and because the guards at the storage facility had to be paid. So that amounted to a demurrage charge.

“Egypt was the breadbasket for the ancient world, the gift of the Nile. Why? Because instead of keeping value in money, everybody invested in productive assets that would last forever - things like land improvements and irrigation systems.

“Proof that the monetary system had something to do with this wealth is that it all ended abruptly as soon as the Romans replaced the Egyptian 'grain standard' currency with their own money system, with positive interest rates ...

 

“In Europe during the Middle Ages - the 10th to 13th centuries - local currencies were issued by local lords, and then periodically recalled and reissued with a tax collected in the process. Again, this was a form of demurrage that made money undesirable as a store of value. The result was the blossoming of culture and widespread well-being, corresponding exactly to the time period when these local currencies were used.

“Practically all the cathedrals were built during this time period. If you think about what is required as investment for a small town to build a cathedral, it's extraordinary ...

“Besides the obvious symbolic and religious roles - which I don't want to belittle - one should remember that cathedrals had an important economic function; they attracted pilgrims, who, from a business perspective, played a similar role to tourists today. These cathedrals were built to last forever and create a long-term cash flow for the community. This was a way of creating abundance for you and your descendants for 13 generations! The proof is that it still works today; in Chartres, for instance, the bulk of the city's businesses still live from the tourists who visit the cathedral 800 years after it was finished!

“When the introduction of gunpowder technology enabled the kings to centralize power in the early 14th century, the first thing they did was to monopolize the money system. What happened? No more cathedrals were built.”

So there’s the rub: building a currency based upon being punished if you keep it.

Not easy to see this working in practice while you have the conflicting system of interest-bearing currencies also in operation.

“As soon as someone negotiates a 100,000-dollar mortgage, money is created and begins circulating in the economy. But then the bank expects the recipient of the loan to pay back a total of 200,000 dollars in repayment and interest over the next 20 years. But the bank does not create the second 100,000 dollars. The receiver of the loan must get hold of that money—the interest—one way or another, and this forces him or her to compete with others. It’s simple: Some people must lose money or go bankrupt in order to put others in the position to pay off their loans.

“At the same time, this collection of interest results in a concentration of wealth: Those who have money ‘automatically’ get richer.”

As Bernard puts it: “My conclusion is that greed and the competitive drive are not inherent human qualities. They are continuously stimulated by the kind of money we use. There is more than enough food and work for everyone. There is merely a scarcity of money.”

So, it’s the system that causes the issue of short-termism, and how can you have a short and long term system working in parallel?

Well the two systems can be made to work together, and this has already been proven in Japan.

Japan has an aging population, as most of us know. If you don’t, then here’s the stats from the Ministry of Internal Affairs and Communications:

“Japan, among the world's most rapidly aging countries, has a record proportion of elderly people, accounting for 21.5 percent of the total, according to a government report. The number of people aged 65 or older totalled 27.4 million as of Sept. 15, up 0.7 percentage point from 26.5 million a year earlier. There were 7.13 million people aged 80 or older, the first time the figure has topped 7 million. Sustainability of the pension system remains a primary concern in Japan, where about 30 million people receive benefits. Population in the country may decline by 25 percent to 95.2 million by 2050 from 127.8 million in 2005, according to a health ministry forecast."

So what are they doing about it?

They are building a dual-currency system, where real money can buy you healthcare or you can get it by having your family work for you.

The system is called 'fureai kippu', and allows kids to bank time to support their parents and grandparents.

The beauty of it is that you get 1 credit for 1 hour of care, with the intention being that you invest the time caring for elderly people local to your area in exchange for others caring for your elderly relations who may live far away.

For example, I invest an hour in shopping for old Mr. Kawasaki in the Chiyoda district of Tokyo and, as a result, young Miyu in Sapporo mows my Gran's lawn for an hour.

Most important of all is that by encouraging familial ties to give care, the standard of care is far better than it would be for just some hired hand. This is because Miyu treats my Gran with a reverence recognised in my treatment of Mr. Kawasaki, as we consider these people should expect to be treated exactly as I would treat my Gran or Miyu would treat hers.

So, there is a way to get dual systems to work and, it seems to me, these are when the cost of providing something long-term is just too great, so you find an alternative way of doing it.

The building of infrastructure and things that are too prohibitively expensive in the short-term, such as caring for the elderly, in other words.

That's how Long Finance could work if governments wanted to make it happen.

**Comments**

*Posted by: Sean | October 19, 2010 at 07:57 AM*

I am not an expert in money or currency systems per se, but it seems to me that currency is fundamentally a measurement unit, a (temporary, centralized) store of value facilitating trade. Putting aside the legal aspects of what is or isn't permitted in terms of currency (legal tender) - technology is emerging that would allow a much more complex, distributed system of bilateral and multilateral accounting, moving the optimal system away from centralized currencies. (Heretofore, they were the least bad solution, with their failings more than offset by the advantages of having a common unit of account.)

The interesting question I think is how society makes this transition when the technology is ready (soon) given our deeply ingrained - to the point of being intuitive - sense of what money is. ie How does society overcome the need to quantify any unit of account as an equivalence of dollars or euros, etc.? Think of the transition from imperial to metric measures, only 10 (100?) times harder. Not saying it can't be done, in fact in the fullness of time, certainly in the long now, I fail to see how it isn't inevitable. But the transition is not obvious and I think will take one or two generations and/or a remarkable economic dislocation or failure of the incumbent system to emerge.

*Posted by: Dan Newman | October 19, 2010 at 01:07 PM*

This is a fantastic post, Chris. Thanks.

Money with a demurrage charge has the effect of introducing a negative discount rate. This, in turn, makes all sorts of long-term investments (such as reducing CO2) very attractive.

Regarding Bernard's comment that "Some people must lose money or go bankrupt in order to put others in the position to pay off their loans," this represents an ancient idea of what money is that we've moved beyond. Once upon a time, wealth meant only plunder and the concept of money being intrinsically 'evil' took hold. The ancient Greeks felt that way, and the French still do! In fact, money plays many roles – a measurement unit, as Sean points out, a store of value, and a medium of exchange.

Today, money supply grows through banking and wealth is not a zero-sum game. Indeed, banks are unique in our society in that they have the right (and indeed the purpose) of 'creating' money, which is why they should be carefully regulated.

 

## How will banking be different in 100 years?

This is the last of the six big questions we are tackling next week at SIBOS.   The final question is obviously the hardest.  How can anyone know what banking will be like in 2110?  That's like Star Trek or fantasy alley.

It's just stoopid.

Or is it?

Could bankers and futurists in 1910 have predicted what banking would look like in 2010?

No.

They would have had no idea about the internet, call centres and mobile telephones.

They would have no ability to even think about Facebook and Twitter.

The idea of flash trades and flash crashes would be an alien concept.

Real-time clearing and settlement would have been as easy to absorb as ET landing on their heads.

And real-time, global, corporate treasury supply chain management would be about as well understood as Paris Hilton.

Hmmm ... Paris Hilton?

In 1910?

Maybe ...

Anyways in 1910 Einstein had no theory of relativity, the A-Bomb was but a twinkle, the car was just taking off and the telephone was being delivered to offices to connect post rooms with post rooms.

We had never had a World War, and no-one knew there were going to be two.

Britain was still an Empire and, apart from America, still had colonies.

And banks were all paper-based record keepers, safeguarding money in their vaults.

Who could have predicted that they would have become safeguards of data a century later, as data became more valuable than money as an asset?

Mind you, there were some similarities a century ago to the way life is today.

Life was still as manic, as change occurred at lightspeed intensity in the Edwardian's eyes.

Trains and train tracks had connected all towns, and urbanisation had begun in earnest.

Banks were creating new commercial activities through bonds and securities, and the cheque allowed trade direct from consumer to business as easily as cash, but now over remote links.

 

Globalisation was occurring through the launch of airships and boats of immense size traversing the seas, allowing Europe and America and Asia to do far more trade that the century before.

In other words, there were parallels and differences, some of which could be foreseen and some of which could not.

And there were visionaries like H. G. Wells and Mark Twain (real name Samuel Clemens) who saw the rise of machines and automation, and the changes these could make to the world both good and bad.

For example, Mark Twain was one of the first people in the world to own a telephone, way back in 1877. In a remarkable prediction of the future, he had this to say thirteen years later: “one of the very most useful of all inventions, but rendered almost worthless and a cold and deliberate theft and swindle by the black scoundrelism and selfishness of the companies of chartered robbers who conduct it.”

Oh how times do not change.

So, back to 2010 and 2110, what can we think about the future with confidence?

Well, we’ve already made some statements.

There will be further financial crises.

In what shape or form, who knows, although a currency war and China crisis are likely.

Europe will continue to make progress and will achieve over 150 years of consolidation and co-operation by then, assuming the Union remains.

So there will probably be an integrated, single European market.

It is likely that the planet will have lost many languages, as English has taken over as the language of choice.

Technology will continue its irreversible march, although on a different plane. After all, by 2110, it is highly probable that all buildings, roads, areas of the planet will have chips embedded for wireless communications and so self-driving cars and ‘air pods’ will be the order of the day. In other words, yes, we will all be up in the air for certain.

In fact, it’s likely that America or China or India will have landed on Mars by 2110 and space exploration will have reached new heights. Holidays on the Moon could be the order of the day for example, if Virgin Galactic gets their way.

This will be important as large chunks of Earth may have become uninhabitable due to climate change, with the weather violent and unpredictable due to the Northern ice sheets melting in the 2020s.

Mind you, that could be good news for Greenland, where the Inuit suddenly find their mineral resources create great wealth.

 

Oil of course has long been plundered and used, and the Middle East is no longer a war zone as there's nothing left that is worth fighting for there.

Instead, Africa is the new war zone, as its resources and wealth has taken the Middle East's place.

In particular, the battle over natural water resources is the biggest issue, and this sparked a Third World War in the 2030s.

A World War in the 21st century is nothing like a World War in 20th century, and most of the War was played out through cyberterrorism wrecking the economies of several African nations as China and America played their war games out across the connections of the continent.

So, by 2110, we live in a world where everything is wirelessly connected, galactic tourism is the order of the day, and there are still wars, but far less and far better managed than ever before.

And so to banking.

Banks still exist in 2110, but they are nothing like the banks of 2010.

The banks are firstly regulated to be safe keepers of information, not money.

Second, banks are no longer bounded by physical entities, as many have transcended into functionality that can be plugged in anywhere. Even your car, fridge, watch, house are bank linked, so that when you fill your car with hydrogen – as mentioned, oil supplies ran out in 2067 – then the car makes a debit on your information account without any action being taken by the car driver.

Third, banks are available 24*7, but the relationship between consumers and corporates and banks is different.

It is now based upon information leverage.

In other words, banks now compete on their analytical engines and how these can maximise returns for their customers.

A little like the algorithmic trading machines of a century before, that optimised returns from trading in equities, banks have applied such techniques to customer data to optimise information usage and leverage for them.

This is provided on a free basis for basic services, such as keeping a tally of the credits and debits of your houses using electricity and car hydrogen, but information leverage for deposits, savings, investments and loans is provided on a percentage basis.

And this is where the banks have really been transformed.

Rather than making money from fees and charges to customers, banks make their profits from information leverage on the customers' behalf.

This means that the more banks make customer information sweat, the more they earn.

For a retail bank, it means using the customers' information – about their money but also their lifestyle, their social network, their family and relations, their home, their age, demographics, psychographics, geographics and more – is optimised to maximise their ability to cover all of their needs for a healthy and happy life.

For a commercial bank, it means using the corporate client's data – about their money but also their business, their suppliers, their customer relationships, their supply chain, their working capital, their employees, their shareholders and more – and making sure that this information is optimised to maximise the ability of the business to succeed.

And for an investment bank, it means taking the above and making it work for the client, the customer, the bank and for the planet.

In 2110, banking is all about the interests of those that banks serve rather than those that they employ.

As a result, banks are loved again.

## Banks are just safe keepers of data

Just sat through the first innotribe Long Now discussion and it proved to be interesting. A small but nicely formed crowd gathered and we talked about banking for the next century and investing in the world for the next millennia.

It all seems fairly esoteric maybe, but it did have one important outcome for me, which is a debate about trust.

We were talking about banks becoming safe keepers of digital information and someone made the point that to be this, you have to have trust in the safe keeper.

Another person then built upon this, and underscored the fact that it's trust in the guaranty that the safe keeper provides.

Traditionally in banking, the trust guaranty from banks has been in keeping your money, funds and investments safe and secure.

In the future, the feeling is that the trust guaranty will be to keep our data safe and secure.

Assuming a bank gets that licence to be the trusted holder of a client's information, you can then view the bank differently.

The bank can become a data miner for example, but not mining for financial data but data in any and all of its forms.

A bank may network businesses together to say that your business may benefit from a relationship with this business, based upon buying habits and supply chain and treasury similarities.

A bank may network people together, and create human relationships potentially even becoming a dating service for example. Amusingly, someone else in the audience said that they actually did this in their previous financial institution.

So a bank is no longer related to finance at all, but is totally focused upon being the best at utilising data and data analysis.

This fits with a theme I picked up on earlier this year, which was all about banks being inept at leveraging their data richness but that cloud computing and algorithms would change this.

After all, Apple's iTunes, Amazon's Superstore (it's no longer books) and Google are all data businesses who use the rich analysis of data as their key resource. In the same way that others use commodities or humans to create value, these businesses use data as their raw material to create value.

That's what banks of the future will need to do, and it's a theme I'm sure we'll come back to in the future.

Meanwhile, off to the plenary keynote now ...

## The Long Now: 2015? or 2115?

Well, another fruitful day at #SIBOS 2010.

After the morning plenary, I spent most of it debating big questions in the Long Now innotribe stream. The discussions today moved from trust to what 'long' means. For many, long means three years in their business thinking. But, in life, Long is eighty years or more. We deal with this in our lives but not in work. Strange.

It also became clear that we only think Long for two reasons: first, to leave a legacy of our imprint on this world, such as the Medici's benefaction of Michael Angelo to create the Sistine Chapel or the Egyptians and their pyramids; or to avoid a once-in-a-lifetime disaster, such as another Hurricane Katrina or the building of vaults to dump radioactive waste.

In these instances, people invest for 1,000 years projects, but it is rare and unusual.

We then talked about creating parables and stories that would illustrate 1,000 year thinking, such as the story of the price Alexander the Great paid his soldiers in 400 BC equates in Greek Drachma to the same price we would pay today for a solider in the British Army. Or the Swedish government who ordered timber for their Navy in the 1840s and, 150 years later, the Head of the Navy got a phone call from the Head of the Swedish Forestry Commission saying that their wood had arrived, where did he want it delivered (in other words, it took them that long to grow the trees!).

All interesting debates, which I'll blog more about next week.

## Using whales to fish for minnows

So the final SIBOS session just finished with the excellent thoughts of Paul Saffo of Stanford University, and a co-found of the Long Now, at the closing plenary keynote.

Paul covered lots of good stuff, and here's an interpretative summary:

We seem to be using ever more powerful technological tools in the pursuit of ever so much shorter goals. In fact, I would go as far as saying that we have used technological tools that are revolutionary in a way that appears to be similar to standing on whale fishing for minnows. A good example was the flash crash in May, which was like seeing the crack cocaine of the financial system in action.

So 2008 marked the end of the era of the great moderation, where everything went along according to expected principles for the decades before. What we are entering now is the era of the great turbulence, where everything is far less predictable.

In this context, is there something about capitalism that is inherently unstable, and what is the new normal in this long age of turbulence where pessimism is the new black?

The issue surely really lies with the fact that there are too many short-term views that are defining the long-term. Instead, we should think of the 2008 crisis as being more like a car skidding. Your instincts tell you to steer the wheel in the opposite direction, to slam on the brakes and to panic. That only makes it worse and your car will crash. Surely we should now be looking to the long0term and driving this industry through the skid, not steering blind.

 

We need to put back onto the balance sheet what is left out for example, and what is left out is social aspirations, the environment and the things that will be left for future generations.

Similarly, economies are just a conversation between buyers and sellers, citizens and governments, merchants and traders and banks and brokers. Those are horizontal conversations however, and what we need are vertical conversations between this generation and the next.

What do you want to leave your children, your grandchildren and their grandchildren?

So Long Finance is just a vertical conversation with future generations and today's generation.

Long Finance is purely Future Value on steroids.

And if science can use technology to look into deep time – for example the CERN project with the Hadron Collider experiment – why can't global finance?

He said a lot more about the different forms of capitalism too, with America's individual capitalism compared to Asia's community capitalism and Europe's cultural capitalism.

All of it was very wise and powerful stuff.

 

## Summary of the Long Now at SIBOS

All of last week at SIBOS was focused on the Long Now and Long Finance for me.

Working with a group of thought leaders that included Venessa Miemis, Thierry Touchais, John Hagel, Stefan Nusser, Michael Mainelli, Paul Saffo, Bruce Davis, Brett King, Nova Spivack and more, we debated big topic items all week.

And yes, there were some conclusions too, so here's the Long Blog Entry on the Long Now and Long Finance at SIBOS 2010.

First, it's difficult to get the concept across and make it meaningful. Someone said to me: "What are you doing this week?" and I replied: "Building the concepts for a banking system that will last for 100 years." They snorted dismissively and said: "Who cares about 100 years, I'm just interested in the next 100 days".

As a result of this comment, the week taught me about why the Long Now is important, as it is totally concerned with what we leave our children.

When we think in business, we think short. Usually the next month or quarter.

If you are in charge of strategy, then maybe you think about the next year or two.

If you're really lucky you get to think about the very long-term, especially if you are in charge of grand schemes like building, construction, oil or the environment.

Even then you are thinking long-term about how to make money rather than long-term about legacy.

What legacy are you going to leave your children?

Your wealth? Your savings? Your house? Your memories?

Does it matter?

Well, it's only when you think about your children, their children and their grandchildren that you start to personally think Long.

The Long Now asks: what is your footprint going to be on this planet?

Even then, not many of us want to leave a footprint on this planet. We just want to exist and enjoy the Current Now, not the Long Now.

Luckily, a few folks think differently, and I've blogged already about those thinkers who created Pyramids and Cathedrals.

Second, the Long Now is important for more than just a few bricks and buildings. Think about the current construct of our world? Our world is made up of forces that shape decades and centuries through decisions made today.

If Alan Greenspan had left office in 2000, would there still have been a financial crisis?

 

Where would Africa be today if there hadn't been a Live Aid?

Would the world be different if JFK had lived?

What would have happened if Neville Chamberlain hadn't signed a piece of paper with Adolf Hitler?

All of these decisions and moments in time shape the future. That's why the Long Now is really important.

We are shaping the next decades today as we reconstruct our financial system from its meltdown.

How do you want to shape this?

How should it work?

What happens if we rebuild it and it only lasts till 2020?

Could the world survive another economic shock of this size and nature so soon?

These are the fundamentals with which the Long Now grapples, so sure, focus on 100 days and let's just screw the children, the planet and our futures.

Third, Thierry Touchais gave a fantastic insight into Long Now thinking as he talked about the environment in the future.

Climate Change brings our world into sharp focus because we all now accept that this is important.

If you think you don't, do you recycle?

Do you think about carbon credits?

Do you fly as cheaply as possible, or do you accept there should be a carbon tax on your flights?

Finally, Paul Saffo finished our week with a view that again brought into focus the sharp reality of the Long Now.

He outlined the legal perspective, and said that rules and regulations were political fashion statements made to last a term in office.

Directives and legislation were structures made of cement, but that would only live for decades and not centuries.

What is really important is to focus upon the bedrocks of the system: the Magna Carta, the Constitution, the Napoleonic Code.

These are the Schema that rule our legal view of the world and, if these are shaken, our bedrocks of trust are shaken.

And here's the rub: the longer the system lasts, the more we trust it works.

 

If the system changed every year, you would trust nothing and no-one.

This is why Facebook is not a trusted global currency: they are too young and fragile.

PayPal can create a global currency: but it's not proven for the long-term.  It is still not wholly trusted as a global conduit.

Banks can offer global commerce and trading finance: it is trusted because banks have been around doing this for over five centuries (the oldest bank in the world still surviving is Monte Paschi de Sienna).

But has that bedrock trust been shaken?

If Facebook is the political fashion statement, and PayPal is the regulatory directive, have the banks that are the Constitution of the financial system cracked?

That is the question we were really grappling with last week: Do we need a new Magna Carta, Constitution, Napoleonic Code for the Financial Markets?

Is this what the authorities are creating right now anyway?

And no, we did not get an answer.

But what we did get was some illumination and, between the dialogue, some progress towards a view regarding what would ensure a robust financial market for the next century?

SWIFT, Long Finance, the Financial Services Club, IBM and others have determined to continue this work, and it will be interesting to see where it takes us.