Funding the Future

Clinging to straws

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Unsurprisingly, given what else I get up to these days, I now spend less time talking to academic colleagues than I used to, but I am still on the staff at Sheffield, although the Professor Emeritus role is unpaid, and, as a result, I was in conversation with colleagues around some issues yesterday.

Three themes emerged from our discussions.

One was the absolute irrationality of markets. There was unanimity on the subject of the forthcoming crash and, in fact, why it had not already happened, given current stock market valuations. The pretence that returns can be made from the investment in AI now happening is so obviously absurd that nothing can, in our collective opinion, justify what is happening with regard to investment in this sector. This is not to deny the significance of AI; it is to question the rationality of markets and the resource misallocation they create.

Secondly, I was surprised at the feedback from research projects going on in Sheffield, which suggests that the trend that I noticed recently of Berkshire Hathaway, in its role as an investment fund, holding extraordinary levels of cash, is becoming increasingly commonplace. There is apparently a very marked tendency for investment funds to now hold ever-increasing sums in cash because, so the story goes, there are no good investment opportunities available for them.

This scarcity is apparent in several ways, with issues related to environmental projects being particularly notable. Good managers capable of thinking up such schemes are in incredibly short supply, and whilst schemes that are themselves environmentally essential can be identified, working out how to monetise them is hard at a microeconomic level, so they do not happen.

After that, there is also a problem of scarce resources when engineering contractors are distracted by the demands of projects like HS2, Hinkley C, Sizewell C and a third Heathrow runway, all of which I think are environmentally destructive.

The result is that money in many investment funds cannot find a use. We agreed that this implies that the business model in question is fundamentally flawed. I understand that colleagues are going to be looking at this issue.

Thirdly, I was told there is growing undergraduate interest in modern monetary theory and related topics. There had to be some good news, and in this case the result is that the academic staff are having to become more acquainted with these themes because students want to write their dissertations around this theme.

Three themes, then. In one case, we were just observers, as yet. Another will be studied, and the last will require an action that I think will be beneficial.

There is, however, an obvious connection. In the case of the first two, it is a market failure in the allocation of resources because of false expectations about the appropriate monetary evaluation of the benefits of investment activity, where externalities are not taken into account or compensated for.

The third theme might be in its infancy, but it suggests something important in the context of the first two, and that is that the ability to question might still, somewhere, exist despite the demands imposed upon students to conform to the expectations of a society that has got most of its economic values wrong.

I saw some hope in that, and I have to cling to straws these days.