Funding the Future

Faith in financial markets is as close to a definition ...

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The midterm elections in the USA have still not all been called, but what was clear from the results was that the people in that country had rejected the AI model for the future.

They do not want vast numbers of massive new data centres that threaten lives, demand resources that we do not have, and will supposedly address needs of which we are not aware, but which are likely to seriously undermine the economic prospects of most people as well as our planet, whilst destroying their autonomy, especially those at work.

Briefly, the message was heard by financial markets, but the critical word is 'briefly'. After the initial shock, markets have risen again, and now Anthropic, the owner of Claude AI, which is used by just 2% of people in the world and which has revenues five times smaller than its last reported annual loss, is now planning the launch of its stock market flotation at a valuation that might potentially be $1.5 trillion.

Why is the company so confident that this valuation might be achieved? That is because the registered demand for shares has, apparently, exceeded expectations. Those who engage in these things are feeding a frenzy, yet again.

Simultaneously, they are doing something else. They are proving the disconnect between these markets, the sentiment of the tiny proportion of people in the world who engage with them, and the thinking of the vast majority of the people who will be impacted by the activities of this company, AI, and its resource use from now until far into the future.

At the same time, they are doing something else. They are increasing the risk of a financial crisis. As the FT notes this morning:

Banks are increasingly turning to credit insurance to lay off risks tied to their data centre loans as lenders seek to stretch internal limits to pour more money into the AI boom.

Barclays recently bought insurance to hedge its exposure to AI infrastructure loans,

according to a person familiar with its programme, while HSBC has also explored using the fast-growing product.

What is the message from this? It is that this economic madness has so captured the financial system on which we all know we depend, because the experience of 2008 proved it, that bankers are finding ways in which they can increase their exposure to the risk of another failure, whilst supposedly finding mechanisms through insurance markets to avoid the regulatory consequences of doing so.

Whether any insurance market can actually cover the risks of an AI collapse is hard to know. Do, however, recall that one of the biggest failures in 2008 was of an insurance company.

At the same time, wonder why it is that we can see breathless reporting of this irresponsibility, which does, inevitably, threaten one of the key forms of infrastructure on which this country depends, which is its ability to maintain a functioning financial system that allows people to have access to money, and to make payments using it to ensure that they can meet their genuine, current, physical needs.

If we had a government that was really defending us against risk, they would see that this is, at present, where our most immediate national risk is. We do not, however, have such a government.

If we had a government that understood its job was to defend us from risk, it would be stopping banks from taking these risks by direct intervention through the Bank of England, which is their regulator, at this point in time. We do not, however, have a regulator that is truly independent of the sector it is meant to regulate.

The result is that the cross-contamination of risks escalates in plain sight, with the probability of a crisis growing almost by the day.

My saying this is not hype. It is based upon simple facts. The reality is that no one knows what the market for AI might be. The evidence is very strong that people have very limited demand for it. There is also very little indication that companies are, as yet, willing to embrace it for many core activities, because the consumer and employee backlash is significant, and the prospects of them generating significant new profits from it, as a consequence, are low.

In that case, this is a bubble built by a very small number of people who work in the financial sector, who use what are, in effect, public funds, because they belong to pension savers and others, to pursue their own financial gain, whilst being totally disconnected from financial reality and sentiment, as the evidence makes very clear.

For anyone to pretend that this can end well is quite absurd. To be blunt, any rational appraisal does at present suggest there is no viable business model for AI at the scale

which the companies promoting it imagine. In that case, this bubble must burst.

All my risk warnings remain in place.

As importantly, the need to plan for a future where we must control the activities of financial markets, which are undoubtedly the biggest threat we face to well-being at present, is essential.

Forget all this discussion about threats from Russia, China, or anywhere else. The people who have done the most over the last 45 years to threaten the stability of the so-called Western states are the financial markets, which their leaders still pretend are the basis for their prosperity. They are doing it again now, and the faith of those who believe that this time they have got it right is as close to the definition of insanity as I think I will ever get.