

8. The Future of Finance

All right, our final class. We've been talking about what finance does, and really what finance is doing is allocating capital in the economy by providing a return on saving and by managing risk. Now, this is a crucial function. The world in which we exist today could not exist without it. Indeed, you cannot imagine any level of advanced civilization without finance.

The Relationship Between Finance and Civilization

- **Finance is directly correlated with a country's level of civilization.**
- Countries with well-established **property rights** and **contract law** tend to have robust financial industries.

The Organic Nature of Finance

- **Finance is an organic phenomenon** that evolved over time.
- Stock markets began in coffee shops where people traded pieces of paper.
- The role of **math, entrepreneurs,** and **scientists** has been crucial to the development of financial tools like **insurance** and **options**.

Trust and Regulation in Finance

- **Finance depends on trust:** The **rule of law** and **contract law** are foundational.
- Without these, **financial markets would not exist.**
- Countries that **protect contracts** and **property rights** are typically the ones with robust financial markets.

The Role of Regulation

- **Regulation attempts to prevent financial crime**—it's based on the assumption that all financiers might commit fraud.
- **Regulations** often aim to control the industry, but they can stifle innovation.
- **Overregulation** can limit entrepreneurship and new ideas.

The Growing Role of Financial Regulation

- **Financial regulations** have expanded significantly over time, especially in areas like banks, investment firms, and stock markets.
- More regulations create **a drag on market efficiency** and hinder the ability of

financial markets to adapt to changing conditions.

The Fragility of the System

- The **centralization** of financial systems, alongside government control of money, has **increased fragility**.
- A financial system that is highly regulated and controlled is more vulnerable to errors and crises.

The Role of Government and Central Banks

- **Money is centrally controlled** by governments and central banks, which sets the stage for **inflation, interest rates, and economic policies**.
- Mismanagement of monetary policy can lead to **economic instability** (e.g., inflation from **\$5 trillion** handouts).
- Governments often implement **artificial measures** to control markets, like **low interest rates**, to spur growth, but this can cause unintended negative consequences.

Housing Market and Regulation

- In **2008**, the government bailed out institutions like **Freddie Mac** and **Fannie Mae**, which controlled a significant portion of the mortgage market.
- Today, these institutions still control about **50% of mortgages**, and little has changed in terms of their structure and regulation since 2008.
- The **housing crisis** was caused by low interest rates and the **financial speculation** in the mortgage market.

Economic Myths and Inequality

- **Wages and productivity** are **aligned**, contrary to popular belief.
- **Productivity** and **wages** have increased in tandem when measured correctly.
- The myth of a **wage gap** is often due to misleading statistics and poor measurement techniques.
- **Technological advancements** have greatly improved the standard of living, even though **wages have not increased** in the same proportion.

Technological Impact on Finance

- The **future of finance** will be significantly influenced by **fintech** and **artificial intelligence**.
- **AI-powered algorithms** could potentially take over roles like mortgage

approval, eliminating the need for traditional banking processes.

- **Venmo** and **PayPal** are already decentralizing aspects of finance, allowing for peer-to-peer transactions without the need for banks.

The Changing Role of Banks

- **Banks are becoming less relevant** in the future financial landscape.
- With services like **Venmo**, **PayPal**, and **buy now, pay later**, traditional banking models are increasingly irrelevant.
- **Private firms** are increasingly taking on roles previously held by banks, such as lending.

Crypto and the Future of Money

- **Cryptocurrencies** represent a challenge to traditional finance systems by **decentralizing money**.
- In countries with **unstable currencies**, **stablecoins** offer a way to hedge against **inflation**.
- The **future of crypto** is uncertain but presents an alternative to centralized monetary systems.

Regulation of Cryptocurrency

- There is currently a **push for regulation** of cryptocurrencies.
- **The SEC** has expressed concerns about cryptocurrencies being used for **capital raising** outside traditional channels.
- However, crypto represents a **potential revolution** in finance that could undermine the power of central authorities.

The Fragility of the Current System

- The **current financial system is fragile** due to excessive regulation, low interest rates, and government intervention.
- Crises and downturns are more likely due to the lack of market forces being allowed to function properly.

Technology vs. Centralization

- The **future of finance** will depend on which force dominates: **centralized government control** or **decentralized technology**.
- **Fintech** represents the future of finance, allowing for **faster, more efficient capital allocation** and **better management of risk**.

- The outcome of this battle between centralization and decentralization will determine whether we experience **slow growth** or **significant economic progress**.

Conclusion

- The **financial system is increasingly fragile**, and the growing role of **technology** and **crypto** could either **upend or enhance** the current system.
 - The future of finance will hinge on the **balance between government control** and **technological innovation**, and the outcome is still uncertain.
 - **Innovation and deregulation** could lead to a more **efficient financial system**, but the **regulatory environment** currently remains a major hurdle.
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Thank you, guys!