

# Good Thought This Thought

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Your weekly newsletter

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## Fourth Newsletter - More in depth!

*In this issue, we discuss some topics in depths. Have you ever wondered why banks and bankers are they way they are? A bit toxic, innit? We have an explainer here! Looking to spend some money? We have the first version of our new segment, Product review. And a preview to a yet-to-be-released book. Enjoy it all in this weeks newsletter.*



## Voices in your walls – a conspiracy.

by MR ME

After speaking with some authorities, it seems we are not allowed to discuss the voices in your walls anymore. This is for the benefit of the public, or so they said. More details were not given. Is this a government conspiracy? Why would they want to hide the truth about the obvious existence of the voices in your walls? Is the government following you? Did they put the voices in your walls? Are they following you? *You are special* after all. But what do they want? Unfortunately we will never find out.

### This Week's content:

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## The country of Theseus – A preliminary chapter of my book

by MILO GRILLO

Let's do a little thought experiment. Consider two friendly neighbouring countries. Besides their population size, they don't have too much in common. One is well known for her beautiful mountains and her proud alpinists. The other is a coastal country with strong sailors. Both countries are homogeneous and their citizenship is based on bloodlines, as you can often find in the old-world. Two old democracies.

One day, a sailor decided to emigrate, and in their place, an alpinist immigrates. This was unheard of, and had never happened before. But as they come from friendly nations, they are welcomed. Now both are living as migrants. A month later, some family members decide to join the migration. And over the next weeks, many countrymen followed. Somehow, this process accelerated, until at some point, half the people in each country migrated there only recently. Eventually, we reach a point, where there is only one sailor left in our coastal country, and one alpinist in our mountainous nation. Both surrounded by foreigners, but at the same time, foreigners in their own nation.

Eventually, they also left to join their families. We end up with two nations, filled with foreigners. Two peoples, who rule over each other's land. Clearly, this makes little sense. At this point, the nations may as well – and reasonably should – trade their sovereignty, such that they rule over the lands where they live, not being ruled by some foreign group. It would have made sense to make this trade a few migrations earlier. But when? At the halfway point? That would seem to be premature, as in a case of forward-backward migration around this halfway point, sovereignty would continuously switch between the countries. When does a country stop being a country or become another one?

This view of sovereignty is a very ethnic

one. The rule of some land is based on some (ancestral) God-given birth-right after all. And it is the view most modern nations, whether they realise or not, have adopted. To have your nationality, and thus the sovereignty of which you take part, be determined not by the parents you're born to, but the land you're born on, is not a much better solution. Yes, the extreme case as in the Country of Theseus would be temporary, as the next generation would have the sovereignty of the lands they live on. But they would still lock people to a land, where their parents happened to be at the moment of birth. An ancestral tyranny.

Consider instead a geographical-cultural perspective to sovereignty. People in a group form a community, and a community builds a culture. A culture, which holds the collective habits of the people it describes. Even when these people have severely conflicting views and habits, the fact that multiple viewpoints exist within the community is part of its culture. And more crucially also the way they resolve their conflicts. A culture is made by habits and formed by interaction. Neighbouring communities form a nation, and the aggregation of their likely similar cultures forms one overarching national culture and identity. These cultures should be able to make decisions about themselves, in particular govern themselves. Not be governed by those whose ancestors happened to inhabit the lands they live on a hundred generations ago.

Instead, let a country and its lands be ruled by the nation, which is made up by communities of people. When the first sailor arrives in the mountains, they are not a hermit. They have a daily life, in a community strange to them. But they are in that community nonetheless. And, together with the other members of that community, they form a culture. A culture which adapts to them. And they adapt to the

culture. Yes, even if the culture does not accept the foreigner, it adapts. And this does not mean they change their habits to conform, but they do change their interactions within this new community. And so they become part of the culture, as one gear spinning in a complex system.<sup>1</sup>

But not only have they joined a new group, they have disconnected from the old community of sailors. They can still feel connected to their background, as people within a commu-

nity can feel connected to different religions, subgroups and other affiliations. And communication lines can be open. But the rules which determine how people can live their lives, are made by those who live together. No longer can they decide over the lands where they happened to have been born. No longer are they tyrants over others far away, and being tyrannised by their neighbours.

## Good Picture This Picture

by FRANK "Timon" DE VELD



Photo of the Week: Old memories.

Do you want a chance to get the photo of the week? Send in your suggestion to [milogrillo@hotmail.com](mailto:milogrillo@hotmail.com) with 'Good Picture This Picture' in the mail title.

<sup>1</sup>An example are the labour migrations in Europe in the '60s. Many migrants were not welcomed by the general population, but they were part of the system, and became part of the national culture as soon as they had arrived.

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## Product Review: The fanny pack

by MILO GRILLO



About one week ago, I bought a fanny pack. As you are likely aware, a fanny pack is a small pouch that you can wear as a belt; and they look absolutely *ridiculous*. They give this sort of nerdy 80's & 90's vibe. And let's be honest, it just looks stupid.

### Pockets size

But I must apologise to all I have ridiculed for wearing a fanny pack. Fanny packs are great. I have much more pocket space, without the risk of anything falling out. My stuff is in reach, but I don't have to carry a bag in my hand or on my shoulders. No reduced mobility at all. I even felt comfortable doing calisthenics exercises, without having to worry about my phone falling or being in the way.

### The koolkid paradox

Those wearing fanny packs, or any stupid article for that matter, are actually *cooler* than the rest. Yeah, let that sink in. As they look so ridiculous, you should have an above average inherent coolness to you, or a sigma-mindset confidence, which makes you not care about the opinion of others. Those who don't wear fanny packs don't wear them, because they are actually **not cool enough** and would look too ridiculous doing so.

### Rating

A cheap accessory, easy to carry, and actually beneficial to your daily life. Those items come rare. I would recommend it to basically everybody.

★★★★☆ (4.5 / 5)

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What product should I review next? Let me know! Feel free to send in suggestions.



# The problem with bank(er)s.

by MI LO GRIL LO

Bankers are crooks. But you knew this already. Everybody found out in 2008. Whereas before the housing crash, it was seen as a respectable job (by some), now the occupation has a horrible reputation, but why is that? And is it well deserved (spoilers: yes it is).



Figure 1: Don't be fooled by this man. He is a banker!

## The problems

So far so good. The business model sounds reasonable, doesn't it? Well, upon closer inspection, there are some major flaws. You see, there are a few asymmetries at play, and the bank is on the suckers side in all of them. For every low risk investment they make or loan they provide, their returns are capped. For instance, they will not make more than 5% on their 5%, 30 year fixed mortgage rate. However, with a small probability, the mortgage can default, resulting in a much larger loss. The probability of losing is small, but the incurred loss is not! And by blinding optimism and fundamental ignorance of tail-events (that's what makes them tail events after all), risks are always miscalculated (see previous edition). Not only that, but if one thing breaks down, for example a mortgage defaults, likely many things break down as a mortgage defaulting is likely caused by economic downturn, which defaults many mortgages and which goes hand-in-hand with lower real-estate prices, putting enormous stress on the banks.

## The business-model

Let's start with the basics, how do banks make money? First, they offer clients a service by allowing them to deposit money with them. They pinky-promise to keep it safe (so you don't have to worry about it), and simultaneously offer you easier payment options than straight up cash. But rather than asking a fee for this (some do, but this is not the money maker), they often *give you* money, a very low interest rate, but money nonetheless. So how does the bank benefit? The bank uses your money to make many low-risk investments. This can be by providing mortgages or by buying treasury bonds. Low risk-low reward, but numbers is the name of the game.

## Bank run

In a worst case scenario for a bank, people ask their money back. You see, banks don't have your money. They have invested most of it. Sometimes in things they can sell easily, called liquid product (such as treasury bonds), but often in much tougher places, such as mortgages (illiquid products). And banks can't quickly turn a mortgage into cash. Only a small percentage of money deposited (depending on regulations) is actually kept in the bank. So what happens if too many people ask their money back? The bank **has to** return it. It is not their money after all. So they are forced to sell their investments, possibly with a preventable loss (preventable by patience). This causes a downward spiral,



in which the bank is losing money, and people want their money bank, causing the bank to lose more money etc. And in the end, the bank crashes and people don't have access to their money.

## Toxicity

Even if the probability is small, this will eventually happen to **all** banks, as terminal events are unavoidable if they exist. And the banks know this. *Bankers* know this. Under regular conditions, they can make spectacular 'low-risk' returns, without an eye for the lurking long-term risks, which are hard (if not impossible) to calculate.<sup>2</sup> All these returns are short-term. Bankers suck each other off, and give themselves huge bonuses for the supposedly great work done in regular times, and they flee as soon as adversity shows up (and they never see it coming). The few bankers who stay, then hold **your** money hostage, often while still paying themselves big cash bonuses. The government is then quasi forced to pay the depositors for compensations of loss, forced by public opinion and fear of a larger economic crash if people and businesses lose their money; a compensation that should have been not from tax-payers, but from the bonuses the bankers of previous years awarded themselves for their 'excellent' investing. It was not excellent investing. Bankers are not in the business of investing excellently. Bankers are in the business of making money now, is a superficially safe way, and find a new place to work once everything comes falling down. And that system is completely toxic.

## The solution

Let's try to end on a positive note. How do we solve this toxicity? Clearly, banks offer a service to society, as many prefer to store their money safely – to the best of their knowledge – in a bank. And mortgages and access to other loans have become a vital part of the economy, made possible by banks. It seems the bonus system bankers seem to enjoy the most, should be overhauled, to ensure the incentives of the banks and the bankers align better. Instead of a yearly cash-bonus, they should be offered an (illiquid) contract, which an extremely long maturity. And the value of these contracts should be the first thing that is used to pay depositors in case of a crash. This would at least give the bankers the incentive to think about the long-term risks they expose themselves to, reducing the probability of an (eventual) terminal event, and making the occupation of banker at least slightly more moral. A bank could be treated more like a utility. They are similar in nature already, in the sense that they provide a near-necessary service to all, but competition does exist. They would be in closer control of government, and their rescue nets would be all public information, even before one goes bust.

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The above presented solution is not the only possible solution, and the entire story is a great simplification of reality. Do you have any thoughts on how to solve toxicity in banking? Please let me know, I am interested in your thoughts!

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<sup>2</sup>Fun thing to do: ask a banker, or anybody who makes (financial) projections for a living to show their 2018 projections of 2019 - 2023. None of them will have accounted for a pandemic and a war in Europe.