



MACRO Voices
with hedge fund manager Erik Townsend

Mike Green: Bitcoin's Role in the Future of Digital Currency

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Erik:

Joining me now is [Logica Funds](#) partner and chief strategist Mike Green. Mike, it's great to have you back on the program, I want to talk about the digital currency revolution that I predicted in my book two years ago. And actually, I'd like to expand that because I don't think it's just a digital currency revolution. I think we eventually get to where currencies are digital, and also where we have a fully tokenized financial system, meaning that stock markets, commodity markets, real estate markets, registries of deeds, everything, eventually, I think is tokenized. And that's not next week or next month, that's over the next 25 years. I predict that's what happens.

Do you agree with that general view? And with respect to digital currencies, is it just one great big global digital currency? Or is it lots of different digital currencies that make up the future economy?

Mike Green:

So I share your view that we are unquestionably heading towards some type of a digital series of currencies and that almost all securities are heading in the same direction. We already have elements of that, as you know, and for those who who think about the difference between a gold coin and a dollar bill, right? That serial number on the dollar bill is kind of the first attempt at digitizing is the first attempt at trying to create an audit trail, we have very few features that track that unless it makes its way through the banking system. And so we can see that, but I don't think there's any question that we will embed greater power and flexibility into the currencies going forward.

And the easiest way to do that is to move to the digital realm. If I think about the importance of that, or like what that could mean, for example, there's a wide variety of ways it can be used. It can be used in a us in a manner that creates greater restrictions, right effectively creates the Chinese social credit type dynamic where every piece of currency can be tracked. But we could also choose not to do that. And that's actually part of the reason why I wanted to come on and speak about this, because I do think that we are broadly missing an opportunity to have an informed discussion around what are the choices that we make as we go through this process.

Erik:

I couldn't agree more with that. But before we even get there, I want to start with digital currency itself, because you'll hear a lot of people who don't understand this will say, look, what's all this talk about digital currency, the financial system has been digital for 30 years. And I think that those people are mistaking digital, our computerized accounting systems, which keep track of conventional currency, which is anything but digital, with this new innovation. And we have to credit the inventors of Bitcoin for this breakthrough in both computer science and in finance, of inventing secure digital bearer assets that allow the actual title and ownership of an asset to be conveyed electronically, through a computer network.

We didn't have that 15 years ago, it didn't exist. Now it does. And we're just starting to get our heads around what that means, I think where you're headed is boy, we really ought to be having some public discussion about how to embrace this technology for the benefit of society. Before we even get to that, let's just talk about what the benefit is, of having secured digital bearer asset based currency, as opposed to just using digital accounting systems to keep track of fiat currency that we've been doing for the last 30 years. What's the significance of that difference? Why is it important?

Mike Green:

Well, among other things, it allows you to break from just the traditional financial system itself, right? So the way that we have tried to digitize or create these accounting systems are inherently built around the limitations of a non digital currency.

If I deposit \$1, into my local bank, the only way I can have access to that via an ATM is through the accounting systems and records associated with that banking system. So if my bank systems are down, and the ATM cannot verify, there are systems that might allow me to tap into credit, right? But ultimately, that system is broken, unless my bank is able to respond with its accounting systems and say, yes, this is here. Right?

When you talk about the innovation of Bitcoin, for example, what I would argue is that its primary innovation was in decentralizing that database, so that everybody has a record of what I have, whether I can spend that digital dollar or digital Bitcoin. So that's, I would argue, is the single biggest criteria differences. It takes away some of the scale advantages, for example, that exist in the traditional banking system, where JP Morgan is able to more efficiently offer those accounting systems and those credit approval systems simply by virtue of scale than my local bank. It changes that calculus quite dramatically.

Erik:

Mike, I would just add my own perspective to that, which is there's a huge difference in terms of disintermediation and elimination of counterparty risk if you wire a million dollars into my bank account with XYZ bank in New York City, what I've got is I, as an unsecured creditor of that bank now have an additional million dollars in my account balance, which I can get out of that bank, if they don't default. As long as everything goes my way in the bank doesn't fail in a colossal way where my you know, the million dollars, it's well over the government insurance limit, so I would be potentially losing some money.

Whereas if you send me electronically, a transfer of digital currency for a million dollars, I've got the cash. It's exactly as if you handed me a million dollars in you know, freshly printed \$100 bills, I've got it once I'm in possession of it, I don't have to worry about any counterparty. So it's almost like holding physical gold. Because when you hold physical fiat currency, you still have a counterparty, which is the government. When you hold gold, you don't have a counterparty. And I would argue that when you hold a digital currency, which everyone universally agrees has value.

And we're not at that point yet, because there's a lot of people that think that you know, Bitcoin and other cryptocurrencies have value, a lot of people think that they'll eventually go to zero or be outlawed, or what have you, when we eventually get to the point where there is widespread and uniform agreement, and acceptance that a one or more digital currencies have purchasing power and value and store of value capability, then we can eliminate all kinds of counterparty risks. disintermediate eliminate the middleman and the financial system just gets much better.

Now, here's the crazy thing about how this is going down. As I think a bizarre manifestation of the fact that it was the inventors of Bitcoin, who deserve credit for inventing the technology needed to make possible digital bearer instruments, what we have is there is no conversation going on, about how to adopt that technology and how it should be best adopted to benefit society and improve the financial system. Instead, you've got what curiously seems to be almost a generational divide based on age, older investors just tend to have this attitude of I don't believe in all this crypto, whatever it is stuff, I'm going to ignore it, it's not real money. And then you've got very, very, I would call them zealots almost in the Bitcoin community, the so called Bitcoin maximalists, who were absolutely convinced that if there is going to be a future, where digital currency systems are the center of the financial system, well, then surely since Bitcoin is where it all got invented, then it just has to be Bitcoin that becomes that currency.

Let's start with whether or not that is a smart assumption, the people who assume it has to be Bitcoin, but then move on to Okay, if you don't have that assumption, how come we're not having the public discussion or discourse about how we should adopt this technology?

Mike Green:

Well, I, there's a lot to unpack there. First, your addition to my point in terms of the elimination of the credit risk, right, the way that we have chosen to do that, to this point is I'd highlighted is through economies of scale, right? So if I'm going to send a million dollars, or I'm going to send a billion dollars, I want to deal with a large counterparty to whom that is a small risk, I wouldn't use the local bank. Right? So it's driven consolidation of the banking system in the same way I was referring to before.

Your point about the dynamic of older versus younger investors, and I would remove the word investors, right? Because I don't think that there's an awful lot of investment that's happening in this space yet, outside of the venture capital investments that are occurring around the components of decentralized finance, and some of the innovative processes that are that people are attempting to recreate the traditional financial system. That, again, is predicated on this economy of scale and addressing things like counterparty risk and the cost through economies of scale.

Many could argue that those are created diseconomies of scale on a social basis now, which is part of the reason I think this is an important discussion. When you talk about investment, as distinct from speculation, that's where I think we actually have to kind of draw the line. I think there's an awful lot of people in Bitcoin, who are speculating that, like other Silicon Valley type inventions, and we have no idea whether Bitcoin came out of Silicon Valley or whether it came out of, you know, a Chinese viral lab.

The reality is that that is speculation. We don't know if Bitcoin is going to be the solution. We don't know if Ethereum is going to be the solution or any of the other tokens that are out there. People are speculating as to their value. And I think that's a really important distinction to make. Right? When we look at something like Bitcoin, there's a very excited group who adopts the kind of Bitcoin maximalists approach that says, if we make it large enough, then they have to accept it. It can't be shut down. And they have some evidence for that the models that have functionally broken the laws and grown to a certain size have been allowed to flourish. And so, you know, we can point to Netflix and Twitter and Facebook becoming communications companies, YouTube becoming a communications company without seeking communications licenses, growing to a scale that it would be unthinkable for the most part to shut them down.

Same thing happening with Uber and Lyft in transportation, where they have grown to a size that it became, "unthinkable" to shut them down. Even though they were very clearly in violation of the regulations that were required to obtain taxi medallions or various other components. Airbnb in the lodging industry is unlicensed lodging, and has grown large enough that it is "unthinkable" to shut it down. That fundamentally is the Bitcoin maximalist argument, that if it becomes large enough, that the authorities will be unwilling to shut it down because of the public outcry.

I think, you know, as I said, there's evidence to support that. But I do think that money is actually a very different construct. Because while local government can benefit from the dynamics associated with the sale of taxi medallions, and can benefit from the revenues associated with that. It's really only when you get to the state level, that you start to deal with the consequences attempting to disintermediate the state from money. I don't think it's the same calculus.

Erik:

Mike, as you say, the Bitcoin movement has gained a huge amount of momentum. And one of the things I said in my book is, although I predict that Bitcoin will be outlawed, because frankly, it does pose a very serious threat to government's monopoly on the issuance of money. And therefore it is very much in the interest of government to outlaw it. When it gets to a certain point, when it gets to the point where there's significant institutional adoption, it becomes politically inexpedient to outlaw it. I think 2021 is going to be the year that this comes to a head. I think, by the end of 2021, either there are major major, you know, concerted efforts by governments all around the world to dramatically regulate and potentially completely outlaw Bitcoin, and other privately minted cryptocurrencies.

Or we get to a point where it really has become impossible to outlaw them. And if that happens, then I would predict the distinction they put on it as they say, Okay, look, these crypto assets are not money, only the government can issue money. If you want to have your crypto assets, you can have them but as soon as they start to behave like money or are used like money, that's the part that we're not going to allow. Because I just don't see how governments are going to stand by and say, oh, some really smart guys invented this cool thing that really is very innovative and really smart. And so therefore, we're just going to give up our monopoly over the issuance of money. And let these guys that invented Bitcoin be in charge of issuing money for the entire planet and its financial system. That's just crazy to me.

So how do you see this playing out? I just described, what I see is kind of a conundrum that I think has to resolve in some ways by the end of the year, but I don't ever see it going to the point where governments just say, Okay, well, we missed our chance to be in charge of money. Now bitcoins in charge of money, we're gonna stand down and just adopt Bitcoin to run our economies on. I don't think that ever happens. How do you see this playing out?

Mike Green:

It is, you know, I actually am incredibly skeptical on Bitcoin. I think that one of the wonderful things about it is that it is the proverbial all things to all people it is a mirror that reflects what you want to see in it. Right. So some descriptions are it is a commodity that has extraordinarily low storage and transportation costs, some

descriptions are that it is money, some it's just that it's a store of wealth that magically makes you money. So to me, I think one of the underlying features of Bitcoin is this idea that it has survived. I don't think that's true. And I actually think that 2021 is going to be a year in which we discover that what we think is today, Bitcoin is actually not Bitcoin. And I know that sounds cryptic, and I'm not prepared to reveal a lot of the work that I've done in this area.

But I do think that the general theory that Bitcoin is going to evade the response from the US government for long enough for it to become fully established is misplaced. And I would suggest that in the process of the enthusiasm for Bitcoin as a mechanism for protecting your "wealth" from the US Government or other major sovereigns, the one you're opening, there's a very clear avenue open to attack. Which is simply to declare that, fine, you want to be a currency? Bitcoin is a currency, therefore taxes are no longer against a realized gain as you would have in a security, your taxes have to be marked to market on an annual basis. And so if Bitcoin goes from 20,000 to 40,000, even if he didn't sell you owe taxes on that difference. That at a minimum, I think, is coming.

And ironically, it's the worst nightmare for Bitcoin. Because it would create a tremendous supply of Bitcoin, particularly in the United States, that I would suggest the Bitcoin maximalists have under appreciated. I think the second thing is, is that this focus on Bitcoin and the idea of the separation of money from the state, which does not work in the simplest form. It's predicated on a failed Austrian view that there is some inherent intrinsic value to money, that money is the most marketable commodity. That dynamic, I think, is actually distracting us from the ability to have that deeper conversation about what features do we want in money? What is it important to us to have anonymity? Is it important to us to not have tracked what we purchase with that money. It's important to establish the ownership of that money. But what I do with it may not be the government's business. And there may be very valid reasons for that.

But we're not having that discussion because we're so enthusiastically embracing the get rich, quick dynamics of this store of value, and taunting the no coiners with the have fun staying poor, that we're doing what we're doing and many other aspects of our society, We're shutting down the communication that allows us to, to engage in a discussion about what are our shared objectives and aspirations.

Erik:

I think that right there is the most important point in this whole digital currency, situation, Mike. And it's one that nobody's talking about, which is, you've got people who are assuming that Bitcoin or Ethereum, or whatever, some cryptocurrency invented by people who have no governmental license or, or endorsement or approval to be coining money, they think their invention is going to become the new money that runs the whole global economy. And then you got people who are ignoring this, this worthy revolution.

And I think you and I agree, there is a breakthrough here that warrants a revolution in a redesign of the way that money itself works. I think this is bigger than the internet, I think it's bigger than the personal computer. I think it is a massive change.

But what's going on right now is we've got the technology and the people who understand it, are not engaging in a public debate about how society broadly should adopt this. They're assuming that it's their place to go and try to invent their own currency system, which they'll push as becoming the new global currency, or the center of the financial system to replace the US dollar. Because it sounds good to them to have that outcome. That's kind of crazy. So how do we get to an actual public discussion about how this technology should be adopted, in order to advance the economy and the global financial system,

Mike Green:

Well, I think part of the challenge is that we have ceded so much control to the technologists at this point. Whether that's in the form of wealth, or whether that is in the form of control of public discourse, I would simply highlight the de-platforming of Donald Trump as an example of that type of ceding of control. Right? When we do that, we're engaged in a decision to suggest that some people have more merit in that discussion than others, simply by virtue of the power and affluence that they have collected under the current regime.

And, you know, if you if you glance back to Socrates, for example, and dig yourself deep into philosophy, you know, the theory under Socrates and Plato's Republic was the idea that the philosophers should actually be the governors. Right? Well, you know, @jack is not a philosopher, certainly may fancy himself one, right. And we've got lots of pseudo philosophers that operate throughout our society at this point, that drop down from the mountain and bestow us with their wisdom.

But the reality is, is that we are not having a conversation about what we want as a society, we've effectively ceded that discussion to a sub segment of our population. And then focus on the technology I think exposes us to extraordinary risks in terms of how it moves forward, right, it directs us, It directs our society towards one that is functionally corporatist, directs us to a society that is inherently lacking in empathy and understanding of the needs of the average citizen. We need to involve the lawyers. We need to involve the philosophers. We need to actually have this discussion in the same form of framework that we would have had it in the negotiations around the US Constitution.

What do we actually want? That was what was unique about the United States was that it was founded during a period of the Enlightenment in which those discussions were hammered out. And you and I had the discussion, what is really needed is a series of Federalist Papers. And the idea that we're going to have a brilliant exposition of how things can be, and that that can be brought into the public debate, as we discuss things

like digital currency. And it's not easy, because there are features of digital currency that seem at their core inherently good. Right? Should we be able to track all purchases? Because we want to make sure that we can capture the criminals in our society? Absolutely. Right? That sounds like a great idea. Until you realize that that feature also may prevent American citizens from making purchases, that might be frowned upon. Right?

So and cause them to make purchases that display virtue. So do suddenly we see an increase in tithing and giving to churches because we are concerned that the government is watching what we're doing. That sends a false signal to the markets, and the price of church goes up, price of alcohol or drugs go down, right? Now those could be viewed as good. But as a society, we should have that conversation.

Erik:

Mike, what we are seeing very clearly is governments are responding, sort of kind of responding. They're definitely engaging in the design, and in some cases, the deployment and rollout of cbdcs Central Bank digital currencies. And it seems like to my own dismay, they're focused on the need that I think they correctly identified to figure out how they're going to participate as central banks to issue digital currency, they got that part, right. But they're not engaging with the crypto community to learn anything from what the crypto guys have figured out, or at least not very much. And they're certainly not staging a public discussion to invite a public discourse about how this should work, and what degree of privacy we should trade off for security.

You know, this, the way Bitcoin was designed was to eliminate most government controls and prevent governments from being able to monitor and oversee private financial transactions. As you've said, there's an argument that goes the other way, when do we get to the point where the public has a say in this, and we the people get to decide what we want our new digital money system to look like? I don't hear the Bitcoin crowd being the slightest bit open to considering the needs of what it would take to have governments actually endorse what they see in Bitcoin as the future of of money. And I don't see central banks, really extending any kind of interest in what the public wants, in terms of how these trade offs between privacy and security are made. When do we get our say?

Mike Green:

Well, I think that's ultimately a big part of the challenge. And it's one of the reasons why you're hearing me raise my voice with increasing stridency around this, right?. This is similar to the dynamics for those who have heard me talk about the active manager versus passive manager dynamic. Vanguard and BlackRock now spend more lobbying the US government, individually than the rest of the industry does in total. And

as a result, you know, similar to a Cantillon type effect, they have access to the government first, they control the dialogue.

So just the same things happening, you know, with the Facebooks, Googles, etc, the world it is presumed that because they have the most engineers and because they have exhibited success, that they have the best vision and the best capability to deliver on this. You know, I've even heard people say, suggest that, oh, you know, Google should build a cryptographic currency that can then be licensed to governments around the world, right? These are patently absurd ideas. What we need to actually do is start to raise our voices into a dialogue that allow us to do that. And as I said, you know, the Federalist Papers allowed us to do that by publishing into the common domain, insights and thoughts on the structure of the Constitution and the government that allowed the population and the public to think about how to elect their representatives to the Constitutional Convention. Right? It turns it into a negotiation and a discussion.

As we exist in America today and America is ultimately going to set these standards, it's unrealistic to think that it's going to happen elsewhere. As it exists in the United States today, I was just that those conversations are largely captured by the technological elite, the academic institutions, and the focus is not on the features that would be valuable to the construction of growth and independence and price formation. It's being focused on the idea of how do we take a banking system and convert that directly into a digital currency, embedding things like KYC into the currency itself, right?

Now that that creates a really interesting type of question. Right? So KYC stands for know your customer, right? It's the reason why we have this within the banking system is the banking system has a unique characteristic, it can multiply money. Right, it can take the currency that is created by the state and under license, it can expand that. When we talk about trying to embed those characteristics into the currency itself, I think we're making a mistake. Right? Now, again, that's just my voice. But the banking institutions do play a role, right? The ability to make credit based expansion, I'm going to as a banking principle, extend risk of money institution, by taking capital and lending it to another individual creating deposits and expanding the money supply in that manner. Right? That that is hugely valuable, as long as it is done well. And it is done with responsibility.

But when we try to take that away, and we embed it in the currency, what we're effectively doing is taking all the knowledge of how they effectively the use of proceeds and handing it back to the state. And there's a reason why it should be separated. There's a reason why currencies, as I indicated or spending in new highlighted this idea, that digital bearer asset, right? The anonymity around that is hugely valuable. It helps in the formation and the efficient processing of capital, that people don't necessarily need to know who is doing what, they just need to see the price signals and volume signals that allow the aggregation of that information. The only way I think this happens is for

individuals to begin to raise their voices, vote better, put in place elected representatives that actually are considered of this and not purely subject to the corporate lobby.

Erik:

Let's talk about what's going on in the Bitcoin space, particularly with respect to institutional adoption. Because I think you and I see this very similarly, we both agree that there needs to be a digital currency revolution. We need to move off of paper money to digital money in digital bearer asset tokenized, cleared on a distributed ledger kind of technology, the stuff that was invented by Bitcoin.

You and I have both agreed that there's lots of reasons we think that Bitcoin as a private invention, which was designed with features that were intentionally conceived in order to offend governments in order to make it much more difficult for governments to trace financial transactions and so forth. We thought that that would not be successful, and that CBDCs, or what I call SBDCs, Silicon Valley companies, designing digital currency systems, but not for the purpose of selling them, or making them appeal to the same libertarian crowd that loves Bitcoin. But rather designing them for the purpose of selling them to the central bankers saying, look, we've designed the technology so that you can create your central bank digital currency, using our Google bucks or Apple bucks, or, you know, whatever the technology is. It seemed to me, like Facebook's Libra project, was potentially the first Silicon Valley digital currency. It's kind of flopped, at least temporarily, but I think it will be resurrected.

And I think other companies will do that. But you know what, in the meantime, Mike, we see big institutions buying into bitcoin in size. It's not just you know, guys that are speculating retail guys buying a few bitcoins to see what happens. We see major corporations putting tens or hundreds of millions of dollars into bitcoin positions as a store of value. We see major financial institutions taking big positions in Bitcoin. These are people that are smart enough to understand the hesitations that both you and I have expressed about why Bitcoin is not likely to ever become the center of the financial system. There are people who did hesitate to invest in it for years because they had that understanding. But just in the last year or so, they've started buying in size. What the heck is going on?

Mike Green:

Well, I think in simple terms, that the participation of large financial institutions or financial speculators, and we tend to presume that they have quote, unquote, done the work. My experience, I mean is, you know, the way that I approach things is a little bit different. I tend to look deeply into the market structure to understand why something is behaving. I think about a market as a series of transactions, which ultimately represents a series of constraints as compared to some form of information.

The institutional space is by and large doing an analysis of Bitcoin where they look at the price behavior that is exhibited historically, that it is largely an uncorrelated asset that has risen sharply. And they presume that the information contained in that history of prices suggests that Bitcoin has value. Within a portfolio construct, they're doing nothing differently than they would if they were looking at any individual company or ETF and saying, Okay, this seems to have value in terms of a diversifying component associated with our portfolio. In the case of a security like Coca Cola, there may be some perfunctory analysis around, you know, what does their 10 k say, what is the management team, say, etc. but they certainly aren't digging in and trying to understand the formula of Coca Cola, they're not trying to understand, you know, doing their own independent research on the acceptability of sugary drinks or caffeinated drinks, etc.

So the level of research I think people tend to under appreciate how little research is done in these decisions. And I would just highlight, you know, people's excitement around things like Paul Tudor Jones putting a small amount of money into it or MassMutual* putting \$100 million into it, right? MassMutual* is an institution with I believe somewhere in the neighborhood of \$300 billion in assets, for them to put \$100 million into something is really the equivalent of you and I buying a \$2 lottery ticket. And that sounds insane, but that is pretty darn close to the level of scrutiny that I would suggest that it came through. The flow of money into this space, I think increasingly is taking on the character of, once you do your homework, then you'll understand and your homework consists of talking to somebody else who you think did their homework and speaking to somebody else who you think did their homework. And it really is how offensive that can sound people in the industry who work very hard and think that they do a good job.

But the simple reality is, is a very little due diligence is being done in this space. And unfortunately, the involvement of institutions creates a self fulfilling components very similar to something that we spoke about, or we wrote about in a paper from Logica called policy in a time of pandemics, social media and passive investing, where it's presumed that the price going up is evidence of the validation of something like Bitcoin.

And I would just suggest that right now we're caught in a speculative mania. Where people are moving assets into Bitcoin, under the expectation that it has asymmetric payoff, similar to a St. Petersburg type paradox. Where what price do you put on something that effect that potentially has a small probability of an infinite valuation? Right? So an infinite valuation of something, even if it's at a very small probability implies an infinite valuation of the asset itself. That's not right. But it is a way of thinking about it. And I would argue that that's what people are doing.

*Mr. Green actually said "MFS" rather than "MassMutual" in the interview, but it was later determined that he spoke in error and the institution in question was MassMutual, not MFS.

Erik:

That's actually very consistent with my view, Mike. Because I think what you're saying is they're looking at this institutions are saying, look, this, whatever it is, Bitcoin, whatever you want to say about it, it's gaining lots and lots of capital. Whatever it is, people are investing in it and we don't want to be left out, we want to be part of it. I don't think that analysis, I don't think that the purchase of Bitcoin, that most of these institutions are engaging in, is based on a contemplation of number one, there needs to be a digital currency revolution where we replace paper fiat currency with digital currency. And number two, I think that Bitcoin is going to win the contest, and it's not going to be CBDCs it's going to be Bitcoin. I don't think that analysis is occurring in the minds of institutions. It's occurring in the minds of Bitcoin maximalists, who are investing or speculating, I should say, with retail sized capital flows.

And that's driving you know, that what I think is a fantasy about Bitcoin is going to replace the US dollar at the center of the the global financial system. I don't think that ever comes true. But I also don't think that the institutional investors who were buying Bitcoin, believe that that's even a consideration. Do you think that they're buying Bitcoin because they think it might be the replacement for the US dollar? Or is it just because it's something that for whatever reason, seems to have a lot of capital flowing into it? Let's play this momentum trade and make a buck on it while it's working?

Mike Green:

Oh, unquestionably it's the latter, right? Now, there any of those portfolio managers that are making that choice will have analysts that are effectively Bitcoin maximalist, right? And those Bitcoin maximalists that work for them, will fervently believe that their bosses choice to allocate some capital to this idea that they have presented as having this infinite upside is evidence of their bosses belief. But having done this for a very long time, I can assure you that their bosses will flip on a heartbeat, if it moves in the opposite direction. By the way, the analyst will likely lose their job.

Erik:

What I think is missing from all this is When did those big boys, the portfolio managers, wake up and recognize, Hey, wait a minute, there really does need to be a digital currency revolution where we literally replace the entire planet's money system with digital currency systems that are not likely to be Bitcoin, they're likely to be something else. And that's a much more important trend that we need to start to get our heads around. I don't think that's even begun to start yet. Do you? And if so, to what extent has it started?

Mike Green:

I agree with you. I don't think it has started. I also think that you are focusing on the wrong group for those insights. Right? portfolio managers, and macro investors are, for the most part, not currency theorists. Right? They are not even economists in and of itself, right, is largely, a an applied sciences is currently practiced.

As compared to a deep theoretical science, and they thoughtfulness about what do we want to accomplish as a society, right? An economy, you you've probably heard me say this before, is functionally just people doing favors for other people in exchange for tokens. What we incentivize and how we try to shape that economy, how we choose to allocate those resources, is largely assigned in most free market economies, or for free type market economies is assigned to the market to send those signals and economics is the study of that it's not the design of that system.

And so you know, and that's economics far before you get to finance, which is ultimately truly just Applied Economics, right? A combination of accounting and Applied Economics that is designed to profit from the system as it exists. None of these people are the people you should be turning to for the design of the system.

Erik:

I'm not suggesting that we should be turning to them for the design of the system. But at some point, the financial community needs to recognize that a redesign of money itself is coming. It's necessary. It could arguably to be described as slightly overdue, because it's been more than a decade that the underlying technology has been known. And it's being adopted by a bunch of people who are so excited about it, that they just can't help themselves. And they think it's their place to coin their own money. And I just don't see that being the end solution.

So how do we get to the point, and I think you're seeing it in decentralized finance, not in the currency space. But in other asset markets. Abaxx Technologies is a company I'm involved with, is using tokenization. to modernize commodity futures markets, other people are doing the same thing with stock markets. But in terms of the recognition that we need a tokenized currency system to replace paper fiat money for the whole planet. And I don't think it's necessarily one great big global currency. I think it's several different central bank issued or central bank endorsed digital currencies, where the technology probably comes from Silicon Valley, but the actual issuer of the currency is a central bank. Nobody seems to really be thinking about that.

And even the... I've talked to the IMF guys that were doing the study on central bank digital currency, and you know, they don't even see the picture. The opportunity to design digital currency systems with radically enhanced monetary policy tools that go way beyond anything that we do now with monetary policy, is such an obvious low hanging fruit opportunity, that not a one of these central bank guys that's looking at digital currency technology has even woken up to the possibility of yet. How do we get to the point of getting the non Bitcoin you know, the Bitcoin guys, you got to give them

credit, they've got the right vision, they just think that they can coin their own money, which I don't see happening. How do we get their passion, somehow transfused into central bankers and people who are looking at these digital currency systems and get them to do something smart to design the right digital currency system of the future?

Mike Green:

And so, you know, I think you and I disagree a little bit on this. First, I would suggest the idea that this needs to come out of the private sector is a uniquely, you know, is a byproduct of you and I having grown to maturation in the aftermath of the Reagan revolution, right? The idea that the government would license effectively a technology that is produced by Google, or by Microsoft, in my view is is very deeply flawed.

At the end of the day, what we're talking about is a system that needs to be built within this public sphere. In an environment of public service, which is a long standing principle of democratic governments, is the idea behind serving in Congress, is the idea behind being appointed to become an ambassador or being appointed to the national security Advisory Committee. You need to separate your responsibility to the corporation to produce something that can be made profitable, with something that can be produced for the benefit of the public, for the benefit of your fellow citizens. And I don't think that's possible within a corporate environment.

So I actually disagree with the very simple view that this is going to come out of Silicon Valley. I think that the people that do it could come out of Silicon Valley. But I think it's a very different statement than saying it's going to come out of the corporations in Silicon Valley. The second thing that I would draw attention to in in this framework is the idea that the central banks themselves have the capabilities and the skills, I would say that we're defaulting it to them.

And again, by not putting it into the public sphere and not discussing what the features that we want. We naturally gravitate towards status solutions that result in increased surveillance, right, effectively try to achieve the objectives of the state, as stated in the simplest forms, right? I want to prevent crime. I want to use this to reduce the amount of nefarious influences that can be done. But there's often very little consideration, I think we see this explicitly in the behaviors of central banks, there's very little consideration of the unintended consequences of that.

Again, very simply, if you make a currency truly traceable, and transparent in terms of its uses, you're going to see citizens move to accommodate that they will reduce their consumption of things that are frowned upon by the state, sending false price signals to the state for the supply of things that are perceived as virtuous within the state. And different states can have different views of what's virtuous, and what's frowned upon. Right? Russia has a very different view than I would hope the United States has China would be an example of a society that has a radically different view of

what should be encouraged and what should be frowned upon. And again, I think the design of the currency should reflect the objectives of the country. And that can only, in a democratic country, that can only be obtained by effectively putting it to the people and their elected representatives.

Erik:

Okay, so far, we've been talking about what needs to happen, what should happen in order to get to the eventual digital currency revolution that replaces government issued money with new money that's digital and I think is probably government issued. I think we agree on that point. Some people think it's, you know, Bitcoin takes over the world.

Let's come back, though, to Bitcoin and other cryptocurrencies like Ethereum, because I know a lot of our listeners are going to be focused on Okay, so, you know, what do you actually say about Bitcoin? Is that a good thing? Or is it a bad thing? Are you bullish, or bearish?

Whether we agree or not, there's a lot of people who think that Bitcoin is on its way to becoming the digital currency system of the future that's going to take over the whole planet. And they think that the growth in Bitcoin is being driven by a growing recognition or belief system that Bitcoin does have a realistic chance of replacing government issued currency as the center of the global financial system. Do you think that there is any truth whatsoever to that? And if not, we'll Okay. What does that mean?

Considering that right now, the price trend is very strongly up in in Bitcoin and also in Ethereum and other cryptocurrencies? What do you tell people who are trading this stuff?

Mike Green:

So I'll be very clear that I don't know what is going to happen to the price of Bitcoin, whether it goes to zero or whether it goes to 100 000,500 000, 10 million? I have absolutely no idea. What I would suggest is that we tend to lump all of these things together without considering how they take their basic form. And, you know, I would describe Bitcoin, as a speculative commodity that has a unique asset, a unique feature to it is the only commodity that can be produced from electricity alone, right? That that is its defining feature. That is exactly the same thing as making aluminum. You just skip the bauxite, you dump a ton of electricity in and you get Bitcoin out. That Bitcoin can be stored or it can be sold for Fiat. Those are your two choices.

In the framework of storing it, we refer to it as a store of wealth, we call it digital gold. And that is a fundamental, is predicated on a fundamental misunderstanding of the role of gold in financial systems. It is based on this Austrian framework that money has some inherent value associated with it. That's very far removed from the reality, right? Money as we think about it in terms of coinage is simply an accounting system. It goes

back to the beginning part of the discussion we were having about what is the difference between having digital a non digital currency, digital currency just makes that accounting system infinitely easier. And as a result, it loses many of the requirements of the features that we have. So serial numbers on dollar bills or coins that have rigid edges so that we can more accurately identify people have shaved the edges of them reducing the counterfeiting type dynamics. Right.

But at its core, when we think about Bitcoin, to me, it's just a terrible commodity. In the simplest form, Ethereum is something different. And I think it speaks to the broader decentralized finance and tokenisation type dynamic. Ethereum is a base layer on which effectively contract law can be written. And the tools for editing and efficiently writing those contracts, I think are inherently valuable, right?E Effectively an Ethereum based smart contract can replace an s one perspective, it can replace a credit document, it can replace a mortgage application. What should be happening in Ethereum? is I think, a very different conversation than it should be happening in Bitcoin. Bitcoin, it becomes a question of does the commodity have value? And does the commodity...is the support for the commodity? Does it in some way represent risk to the society and the state as it's currently constructed? And I think the answer to that is unequivocally it represents extraordinary risks.

And, you know, not to tease people. But I do think that we will discover that the reason that Bitcoin is shut down is surprisingly, not simply because of the threat that it represents to the state's ability to tax. But because of an actual national security threat associated with it. And I unfortunately have to leave it at that.

The dynamics around Ethereum, I think, speak to this broader issue of how should we be focusing our resources and involving people in building the tools that provide the very effective evaluation and auditing of those smart contracts within the construct of a legal system that exists within states, right? How do we escalate and effectively move away from the extraordinarily firm arbitration of a smart contract that delineates? This is exactly what will happen, to a common law or a judicial based system in which we can have a discussion around was this the intent of the parties? Did a hidden clause represent fraud? How do we identify those types of dynamics? And that I think is a very fruitful discussion to be having around the questions of decentralized finance tokenization, smart contracts, etc. Bitcoin, I think is I mean, to me, it's it's certainly fascinating to watch the price adoption of it, but it's actually quite uninteresting.

Erik:

Mike, as we close, our accredited investors know that you run a fund, which is only available to accredited investors, they can contact you for information about investing. But I also know that you're working on a series of writings that are going to address not just digital currency, but everything from gold, to digital currency to the role of the state in the issuance of money, and so forth. As you alluded earlier, some of

those things you're not ready to publish yet, but it's all coming, I believe on your website. So please tell our listeners, where can they subscribe or tune in to make sure they don't miss that when it comes out?

Mike Green:

Sure, you can sign up on our website at www.logicafunds.com, we have a tab that would allow you to sign up for the release of our white papers. We try to regularly publish on interesting, you know, thought dynamics, whether that's the components that have led to the underperformance of the value factor to refer to the dynamics of policy setting in a world of information being obscured by passive investing and other stuff.

And you know, this series has been one that is overdue for the very simple reason that as I began to think about the role of gold and began to focus on how to explain how, you know, I think about the role of gold in a financial system. It rapidly morphed into a much broader dynamic trying to understand the Bitcoin phenomenon. And I'm excited to start getting this out there. But in the simplest form, like I want to always emphasize on this, that nothing that we put out is investment advice. It's, you know, the thinking of one of the principles, who's involved at the firm and largely represents, you know, a thought experiment more than anything else.

Erik:

And for the benefit of the accredited investors and qualified purchasers in the audience, you can also find information about the funds that Mike is involved in managing there at LogicaFunds.com we're gonna have to leave it there in the interest of time, Patrick Ceresna and I will be back right after this message from our sponsor.