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MoneyBits

Sideshow

— Opinion

The bitcoin ETF hype misses the bigger story

The leading cryptocurrency will turn out to be a sideshow whose only role is to pave the way for state-backed digital money and tokenisation.

John Kehoe *Economics editor*

Enter the AFR Economics editor. The article makes the case that the legitimisation of bitcoin through the ETFs essentially blesses the use of digital assets. This will usher in an era of government issued central bank digital currencies which people will *naturally* prefer to bitcoin.

Unbacked cryptocurrencies such as bitcoin are one, but they don't have any of the traditional features of money. The fundamental issue here is one of trust – or a lack of it.

We have come a very long way but it is still remarkable the lack of general understanding in the financial press. Firstly the "lack of trust" is absolutely a feature of bitcoin. You do not need to trust anybody. As a user you are essentially your own central bank and cryptography takes care of the rest. It is only state issued money that requires trust, bitcoin does not.

We must trust that the government will not devalue the money (which they do); we must trust that the government will not put restrictions on the money; again, they do.

One of our theses as a fund is that there is a generational shift in that trust. Younger generations do not trust government money and they absolutely do trust mathematics and therefore the fundamental integrity of bitcoin. That shift is very obvious when you look at the age cohorts holding digital assets.

More than that though, the idea that the government might replicate the features of bitcoin by using a blockchain is nothing short of bizarre. Australian dollars are already almost entirely digital, we can send the money instantly to each other via a database. The whole idea of a CBDC simply solves a problem that doesn't exist. Let's be honest, fiat currencies work. They work really, really well. They run on Oracle databases which are fast and efficient, money arrives instantly, payments happen instantly. Their issue is they do not store value over time.

A CBDC isn't going to make any of that better, it's simply an attempt to co-opt some of the attention of digital currencies back to government issued money.

The bigger picture is not CBDCs. The bigger picture is that the state no longer needs to mediate peer to peer transactions. The insane privilege of the state issuing money is going to end over the course of the next 50 years.

States across the world have abused their monetary privilege. The trust is broken. CBDCs won't save them.

$40,000

I was away last week and walked past this house. Absolute beachfront, lovely pool, balcony overlooking the ocean. Hot day, amazing place.

Subsequently, I discovered the classic Australian story that the block could have been had for $40,000 ‘not 20 years ago’. 20 years ago though nobody would have wanted it. It was probably a ruin, times were different and everything around it was worth the same. Only the people that could see the opportunity took up the offer.

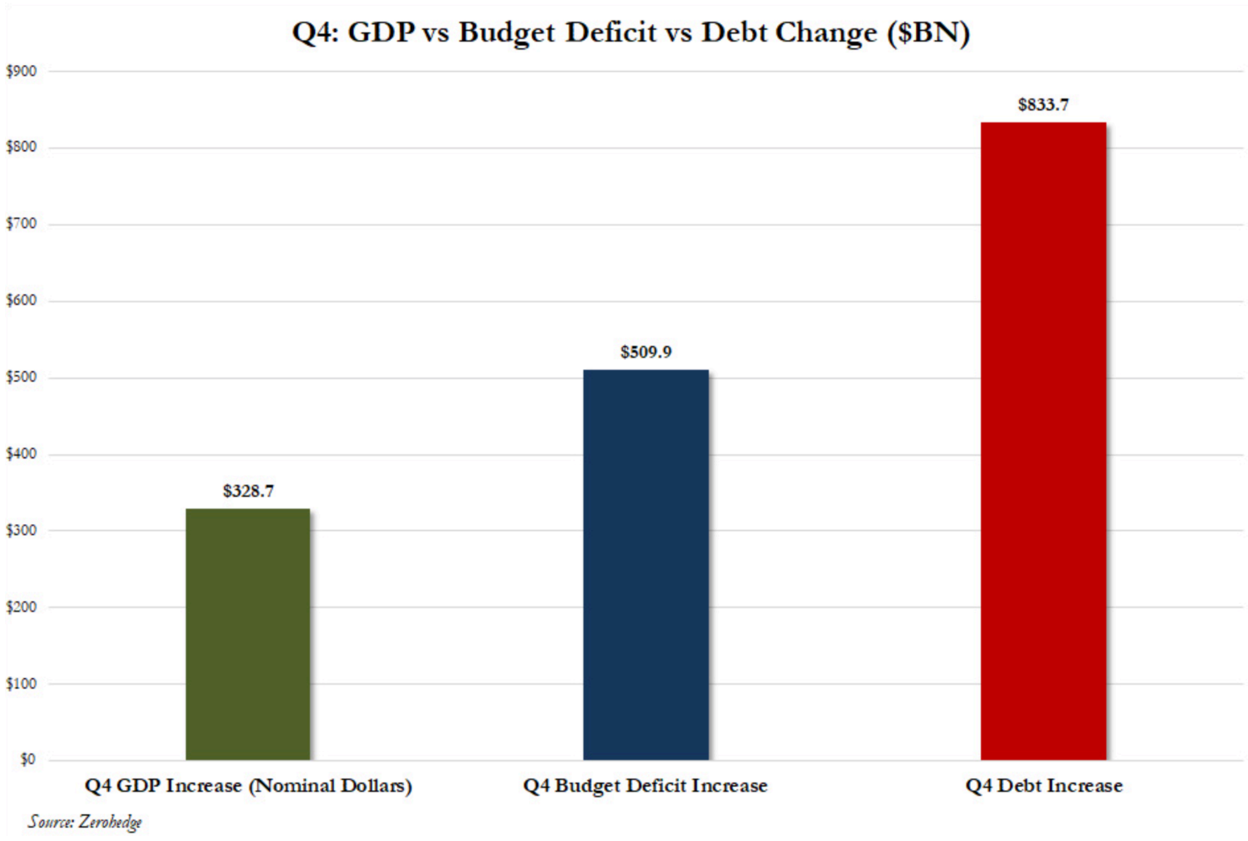
Everyone laments this kind of thing, “If only it were 1985, I’d have bought …”

It’s almost never true that the best times for X or Y were 20 years ago, or in the “good old days”. There is always an amazing opportunity sitting right there in front of you.

The problem is not lack of opportunity. I think the $40k beachside property is there today, I think it’s obvious.

It’s not even money that holds people back, it is the fear of being wrong and looking foolish.

Growing all the time



Q4 US GDP figures were met with a cheer this week. The White House was jubilant (and they presumably deserve some credit).

If nominal GDP goes up by $300bn and you borrowed $500bn to make that happen while incurring another $300bn in interest payments; is the number actually good or did you draw down on the future to boost the present?

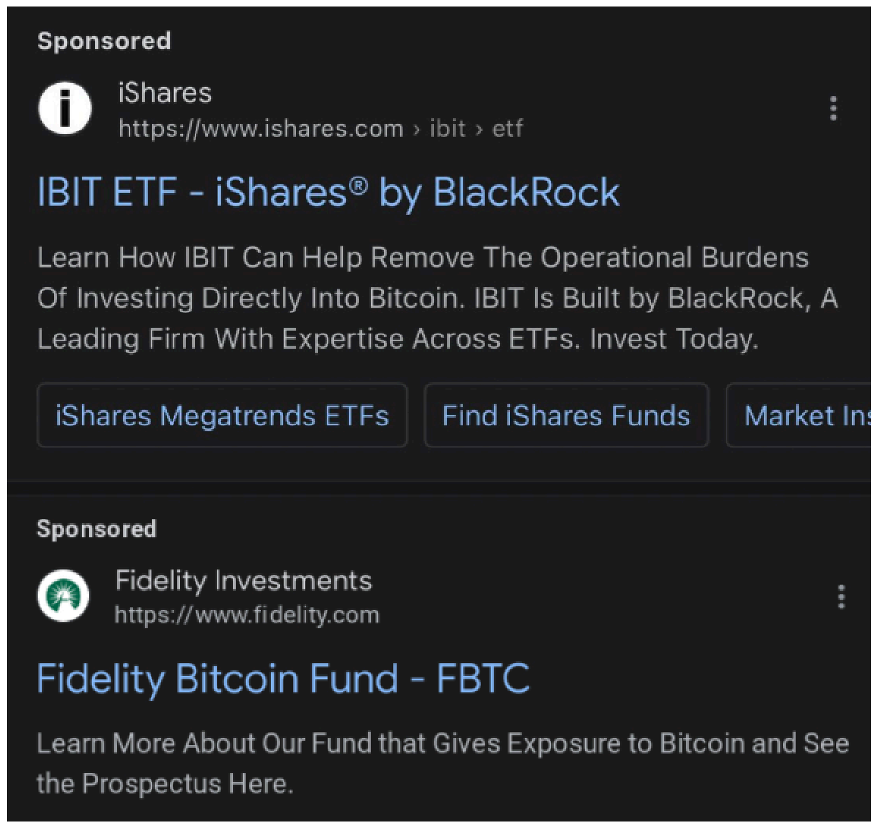
Perhaps this is a massive oversimplification.

Ban

Some years back, you may recall, Facebook, Google, Twitter all banned advertising for crypto companies. Google’s own ban has lasted five years. For your safety of course.

Now BlackRock has come calling, and the ban was lifted on 29th January. BlackRock’s ETF proudly stands at the top of the sponsored searches.

I suppose it’s right and proper. Everyone has played by the rules here. Advertising only regulated products which it would not make sense to ban. It makes me wonder though.



Euro-Trash

A new deal has emerged in Europe. It will capture the digital asset industry, fine art, luxury cars, airplanes and yachts. Fine company indeed. In Europe going forward, should you wish to transact in such assets and spend €1000 or more, the trader will need to carry out enhanced due diligence, which will be like opening a bank account.

> According to the agreement, CASPs will need to apply customer due diligence measures when carrying out **transactions amounting to €1000 or more**. It adds measures to mitigate risks in relation to transactions with self-hosted wallets.
>
> Other sectors concerned by customer due diligence and reporting obligations will be **traders of luxury goods** such as precious metals, precious stones, jewellers, horologists and goldsmiths. Traders of luxury cars, airplanes and yachts as well as cultural goods (like artworks) will also become obliged entities.

It represents an enormous regulatory burden on high value items. Digital assets sent to self hosted wallets will face even more burdensome reporting.

The original USD10,000 rule for Anti Money Laundering was instituted back in 1972 before the burst of inflation of the 70's. It was never indexed to the price level though so it became more and more burdensome.

$10,000 from the early 70's would be about $75,000 today.

Instead of seeing an increase, Europe has chosen to drop the level to €1000. Aside from anything else this will mean the photocopying of IDs, passports and bank statements in every jewellery shop and art gallery in Europe. A massive honeypot for thieves since none of it will be properly protected.

The fact is, KYC is not the cure. It long ago became the problem. At what point will people say "enough"?