# The Token Disconnect

These days I read a lot of cross-disciplinary commentary on the crypto asset bubble, and what strikes me as particularly strange is the sheer level of disconnect between people's lived experience of this mania. I've never seen anything else like this in technology and the topic will divide rooms. Between the software engineers, venture capitalists, economists, and the chattering class there is very little consensus at the base level of reality of what the heck is even going on. It draws parallels between the Indian proverb about the blind men and the elephant, or perhaps the idiom about the blind leading the blind.

To the overwhelming majority of us in the software engineering profession who live closest to the metal, we see blockchain as a technology that barely works and whose use cases (if any) are vanishingly small and niche. Blockchains are a solution in search of a problem, but in the meantime we're expected to pre-invest in "tokens" while the decades roll by with seemingly no progress on the fundamental question of "For what?". It all looks like a form of reverse-innovation where discovery precedes purpose. Perhaps it is our field's version of string theory, theoretically-plausible castles in the sky which are built on unfalsifiable claims and are only loosely tethered to reality. But what really triggers our engineer "baloney detection" alarm, is that it's a set of incoherent ideas attached to so many get rich quick schemes.

The venture capitalist class sees crypto in a vastly different and largely incommensurate way. At its core their profession is simply about one thing: returning money to their LPs. Crypto offers an genuinely exciting new financial tool for that purpose, arbitraging securities regulation. In the United States institutional and accredited investors are granted the exorbitant privilege of participating in buying private equity in early ventures, a benefit which is not given to the overwhelming majority of retail investors in the country. There are some valid reasons for this separation however they are wrapped in some controversy. After all, the median return on your average tech startup is zero and the level of risk involved in this type of investment is probably not suitable for your average dentist in Omaha who can't devote all his waking hours to due diligence on technical esoterica. On the other side of this debate we have Juicero and Theranos where allegedly the most sophisticated investors in the world got taken for a ride on the back of their own incompetence.

The accreditation divide is largely the fuel behind the Valley's obsession with crypto tokens and the 2017 ICO mania. Suddenly you have an asset class that you can buy from your portfolio companies that looks like a security, swims like a security, and quacks like a security, but is *not regulated as a security*. In fact it's not regulated at all. Close your eyes, and you're seeing dollar signs, dollar signs and limitless returns for your portfolio.

If there is any innovation in crypto assets it's not in software engineering, but in financial engineering. We've created a new financial product like an option contract on a startup potentially building something real, but in case they don't you can always exercise it early by simply dumping the stock on the public to cash out completely untethered to the company's success. You don't need to file a S-1 or have a coherent prospectus about attracting customers or business or revenue. Hell, the company doesn't even have to have a business model at all, and in fact the best performing crypto assets are the ones that literally don't do anything at all. They just need to tell a good story.

What's even more appetizing about the crypto-token-as-equity-proxy scheme is that instead of having to wait a decade for an initial public offering to dump your shares on the public, the shares can be made immediately liquid whenever you want, and you can dump the smoldering carcass of a "company" on the public markets directly without Wall Street getting their cut. Oh, and it's also like the 1920s again and you can insider trade, wash trade, and pump and dump and there's basically no enforcement. And in the rare case where there is enforcement the AG is probably only going to want the scalp of the entrepreneur who ran the scheme, not their investors.

In a way, good for them for figuring out this lucrative loophole in our system. But at the same time shame on them for exploiting this loophole because of its horrible externalities. At the most broad macro level, offering these unregistered securities on highly manipulated markets, on rails that you control, with no regulation or consumer protection means that your average fool from the public is getting taken to the absolute cleaners when buying these things. It's basically a license to print free money, and I imagine a lot of LPs in large funds are ecstatic about this. It's basically the perfect portfolio diversification for ESG, by buying this flavour of crypto fund you basically get pure unfiltered vice exposure through anti-ESG burn-the-earth fleece-the-rubes skirt-the-law crypto offerings.

The chattering class seems to have the most widespread range of beliefs on the crypto bubble, and most of them seem to be driven by pure opportunism. Historically it's always been true that some people absolutely can make money on the back of speculative manias, and there's more personal upside in inflating a bubble than popping it. Even if there were journalists with the hyper-niche specialization to understand the intersection of software engineering, economics, internet culture, and the political ideations of the scheme it's questionable what difference it would even make to write about such things. Like other historical market manias, this mania is a grassroots populist phenomenon of people driving large amounts of capital into schemes that emotionally resonate with their deeply held beliefs. There's very little analysis the Wall Street Journal could do on the fundamentals of these investments to alter the universal phenomenon of the virality of popular delusions and the madness of crowds. The central myth of the crypto ideology is faith in a fintech deus ex machina that will save us from ourselves, and that's a tough nut to deconstruct.

After looking at this phenomenon for the last decade, I'll give what I believe is the first rough draft of history. Silicon Valley ran dry on large breakthroughs in software, so we decided to invent the "blockchain", a simulacrum of innovation that organically fermented from the anti-institutional themes in the Western zeitgeist to spawn an absurdly large asset bubble with absolutely nothing at the center. There is no there there, and crypto morphed into a pure speculative mania which attracted a fanatic quasi-religious movement fueled by gambling addiction and the pseudo-intellectual narrative economics of the scheme. All conversation around crypto is now simply the sound and fury of post-hoc myth making to rationalize away the collective incoherence of the bubble in a near perfect exemplar of the motivated reasoning of economic determinism.

On the most basic human level, I suspect our generation still hasn't processed our shared collective trauma of the 2008 Global Financial Crisis and our anger is now still coming out in very unhealthy ways. With crypto we've decided to do the most American thing ever, *to commoditize our rage at the financial system into a financial product*. Because after all, we're just temporarily embarrassed millionaires and the only problem with CDOs wasn't the moral hazard, but that you didn't have a piece of the action. This time you have a choice, but I suspect history is going to have the same lesson to teach us about the perils of greed untempered by reason.