

# **Three reasons why Bitcoin can expose our financial system with far greater fraud and is not in the interest of main street and the public.**

## **Bitcoin is Work in Progress**

(1) Bitcoin is still work in progress. It is neither practical as a medium of exchange and fails as store of wealth. How can something that is still aspirational, promising to deliver as a form of money someday, be elevated to the status of an ETF? Would that not endanger the financial system by making it easier for capital to flow into Bitcoin, like how mortgage backed securities and CDO were used to channel money into the housing bubble? A massive misallocation of resources is usually a major ingredient to all past financial disasters. Just like we can't have a COVID-19 vaccine released publicly that is still a work in progress, nor can we have Americans placing their retirement savings into Bitcoin ETF, to a cryptocurrency that fails even on its own metrics as a definition of money.

## **Wildcat Banking**

(2) During the Wildcat Banking era in US, the same mantra was used about decentralization, like with cryptocurrency today. Yet this call for so called 'democratization' in both cases were driven in large part from the attractive profit margins. Why should the federal government have the monopoly authority on money. With help from Andrew Jackson, this period had local banks issuing its own fiat and the shutdown of the Second Bank of United States. Everyone had to become buyer be aware and were predictably exposed to frequent frauds. As a merchant, not only do you have to stay on top of your industry knowledge, but you had to also become proficient in which bank issued currencies were reliable and what discounts were appropriate. Imagine if merchants today had to contend with various blockchains with their proof of work and stake system, shards, beacon, lightning, multisig, and slashing. The complexity alone detracts them from their trade and yet opens them to potential fraud, like what we saw during the Wildcat Banking era. Such complexity doesn't foster modularity which is needed to gain economic efficiency. Otherwise, merchants and consumers will have to outsource their trust to rating agencies as another intermediate layer to give ratings (discounts) to the various crypto and blockchains, defeating the original purpose of creating frictionless, trustlessness. That's why a better case can be made for CBDC, given its technological, legal, and efficiency benefits without the risk to the system and to the environment.

## **Fragility**

(3) Can we have a currency that can become so volatile because of a governmental act by China to clamp down on its miners? Can we have a currency that can potentially fall to zero, like what we have seen with tokens recently, because of a codebase error? Bitcoin prices don't have a floor like a security. With a security, at least, you know as long as economic capitalism works and the law works, you know that the security is tied to some return generated by the underlying business of the company. You have known unknowns. However, with Bitcoin, the prices are only sustainable as long as someone else is also willing to see the same magic value in the crypto. The value is not tied to some underlying enterprise that generates future stream of income. You have unknown unknowns. That fragility in risk is what you face with cryptocurrency. A non-zero probability that it can fall to zero. And when we link Bitcoin tightly with our financial system, such as with Bitcoin ETF, that non-zero probability becomes a problem of multiple folds.

## **Two-Bit**

In conclusion, before Bitcoin, there was "Two-Bit". [https://en.wikipedia.org/wiki/Bit\\_\(money\)](https://en.wikipedia.org/wiki/Bit_(money)) Today, two-bit is used as a colloquial expression to refer to something as cheap and unworthy, like the currencies issued during the Wildcat Banking era, that can be found as relics in local historical museums. A novel technology doesn't make a currency. What we learned from the Wildcat Banking era is that the right legal and economic system is even more important. Note, our legal and economic system is a marvel of modern innovation in its own right. During the height of the Cold War, if USSR decided to spend half of their energy budget to mine Bitcoin, because of its innovative technology, despite long lines and empty store shelves everywhere, would the West not look at this amusingly as another massive misallocation of limited resources of their society? Whether centrally planned or decentrally planned, a bad idea can happen anywhere. A bad idea is equal opportunity, as seen from past bubbles. The key is how to ensure that our system stays robust to a bad idea. That it doesn't bring the entire system down with it. An ETF can only add fuel to such misallocation, jeopardize the robustness of our system, leading possibly to a disruptive hard fork of capitalism, like we arguably witnessed during 2008 Financial Crisis. How is this not "Two-Bit" today?

Above are points adding to the three previous submissions to SEC. I've attached my blog as reference for the reader of my previous submissions. (<https://lourdesciao.substack.com/>)

Regards,  
JC

