



Epsilon Theory

## *In Praise of Bitcoin*

April 28, 2021

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**My go-to avatar, Ptolemy, the most famously wrong scientist ever, now with laser eyes!**

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One evening a few weeks ago, I was on a Zoom call with a bunch of academic, think tank and Fed economists for a Bitcoin discussion. A lot of names you'd know if you're familiar with those circles, the most famous one being Paul Krugman (who, btw, I found to be charming, genuinely open-minded, and surprisingly humble about the entire enterprise of academic economics). I had been invited to be on the anti-Bitcoin 'side' of the discussion, but they needn't have bothered. Because there was no pro-Bitcoin side.

Krugman led with a simple question – *what's the use case for Bitcoin? Not a theoretical thing, but an actual use of Bitcoin to solve a problem in the real world?* – which led to an hour-long, extremely earnest and altogether unsatisfying conversation about financial transfers out of Venezuela, trade

settlement and securitization on a blockchain, and Taylor Swift's ability to control the scalper/resale market for her concert tickets.

All of which are real things. All of which are interesting things. All of which are good things. But none of which are what got 20 busy people on a Zoom call at 8 pm on a Thursday night.

***None of which ARE Bitcoin.***

Now, to be fair, there were no old-school Bitcoin maximalists on the call, or if there were, they were too intimidated to make an Austrian economics, hard money, neo-goldbug, Bitcoin-is-the-inevitable-global-reserve-currency argument in front of Paul Krugman. LOL.

But I finally couldn't take it anymore.

*Is this really why we got on the phone tonight? To talk about a novel form of digital rights management? To talk about payment transfers out of authoritarian third-world countries? Are these REALLY our questions about Bitcoin?*

Answer: of course not. What got these academic, think tank and government economists on the phone that night was Bitcoin trading at \$50,000. The question that everyone *truly* cared about, but a question that everyone danced around for the better part of an hour, was this: ***Is there any there there in the price of Bitcoin?***

To which everyone, including the supposedly pro-Bitcoin contingent, said no. Not just no, but *no, no, no*. The price of Bitcoin was an illusion. The price of Bitcoin was the madness of crowds. The price of Bitcoin had no connection to any fundamental economic activity, just like gold had no connection to any fundamental economic activity, and thus – to this audience – could have no inherent value *by definition*.

I think this is very wrong. And I'll tell you, like I told this Zoom call, why I think there is a lot of inherent value in Bitcoin.

**Because Bitcoin is good *art*.**

**Or better yet, because Bitcoin is elegant and beautiful *fashion*, sitting at the intersection of art and commerce.**

**Most importantly, because owning Bitcoin has been an authentic expression of *identity*, an extremely positive identity of autonomy, entrepreneurialism, and resistance to the Nudging State and the Nudging Oligarchy.**

I've been saying that Bitcoin is art for more than six years, from *The Effete Rebellion of Bitcoin* (Feb. 2015) to *Too Clever By Half* (Feb. 2018, my most popular note ever!) to *Riding the Cyclone* (June 2018) to *The Spanish Prisoner* (July, 2019), and it's been a very frustrating place to be. Frustrating because

public stances on Bitcoin are almost immediately turned into cartoons – either you’re the grumpy grandpa “Bitcoin is worthless!” cartoon or you’re the laser-eyed cultist “Bitcoin will be the world’s reserve currency!” cartoon, with no room in between.

The value-deniers, like the Zoom crowd the other night, think I’m agreeing with them when I say that Bitcoin is art. I’m not. The true-believers think I’m trolling them when I say that Bitcoin is art. I’m not. The creation of good art is – in my opinion – what we are put on this earth to do. It is our highest calling. It is my highest praise.

There is lasting value in good art, because it is a *very* scarce thing and it never gets used up.

Bitcoin is itself an NFT, a unique digital art work instantiated on a blockchain. It’s the most valuable NFT in the world. I don’t mean a Bitcoin, obviously that’s a fungible thing. I mean THE Bitcoin ... the 21 million Bitcoins that make up the Bitcoin Project. The notion that Bitcoin would ever “go to zero” is ludicrous. Good art is always worth *something*. But how do we *measure* that something ... how do we put a *price* on the value of good art at this particular moment in time? It’s a REALLY tough question.

There are no cash flows to art. There are no fundamentals to art. There is no “use case” to art.

**There is only story. There is only narrative. There is only *common knowledge* – what everyone knows that everyone knows – about the value of art, common knowledge that emerges from our social interaction with story and narrative.**

***In every respect that matters, Bitcoin IS Epsilon Theory.***



**The Epsilon Theory Manifesto** (June 2013)

So yes, I’ve been saying that Bitcoin is art for a long time now. But what I haven’t been saying – or at least not as loudly – is that bit about identity, and that’s the part that needs to be shouted today. So here it is again, this time a little louder.

***Most importantly, owning Bitcoin has been an authentic expression of identity, an extremely positive identity of autonomy, entrepreneurialism, and resistance to the Nudging State and the Nudging Oligarchy.***

**This, too, IS Epsilon Theory.**

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*WHY AM I SHOUTING ABOUT IDENTITY?*

**BECAUSE THE ARTISTIC BITCOIN IDENTITY I ADMIRE AND VALUE HAS BEEN SUBVERTED BY THE NEUTERING MACHINE OF WALL STREET AND THE REGULATORY PANOPTICON OF THE US TREASURY DEPT.**

**BECAUSE WHAT MADE BITCOIN SPECIAL IN THE FIRST PLACE IS NEARLY LOST, AND WHAT REMAINS IS A FALSE AND CONSTRUCTED NARRATIVE THAT EXISTS IN *SERVICE TO WALL STREET AND WASHINGTON* RATHER THAN IN *RESISTANCE*.**

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Yes, the Nudging State and the Nudging Oligarchy strike back. They always do when it comes to money. Not with imperial stormtroopers or legislative sanction, but with golden handcuffs and administrative surveillance.

It's not that the State and the status quo institutionalization of capital – call it Wall Street, for short – have any desire to ban Bitcoin. Why would they do that? No, far better to accommodate and swallow Bitcoin, like they have every other financial “innovation” for the past 1,000 years. Far better to neuter the censorship-resistant and anonymity-preserving aspects of Bitcoin, and turn it into another gaming table in the Wall Street casino.

In my dystopian vision, Bitcoin isn't banned or criminalized. Pfft. That's a rookie, weak State move. No, I see a future where *everyone* buys Bitcoin. Where you are *encouraged* to buy Bitcoin. Where Bitcoin is *sold to you* morning, noon and night. Where normie economists get on conference calls late at night because they're Bitcoin price-curious.

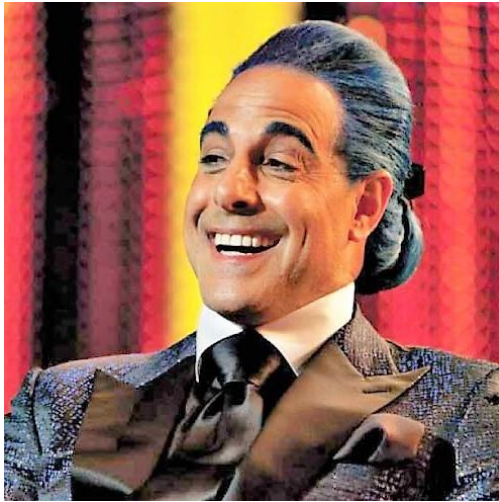
***Except it's not really Bitcoin.***

Instead, it's *Bitcoin!*<sup>™</sup> — a cartoon version of the OG Bitcoin, either a Wall Street-abstracted representation of the *price* of Bitcoin or a government-painted version of Bitcoin in Dayglo orange. Either way — abstracted or painted — your *Bitcoin!*<sup>™</sup> is trackable and traceable, fully KYC and AML and FBAR and SWIFT and every other US Treasury acronym-compliant. Either way, your *Bitcoin!*<sup>™</sup> has all the revolutionary potential of a bumper sticker and all the identity signaling power of a small tattoo on your upper arm.

***Bitcoin!*<sup>™</sup> doesn't stick it to the Man ... *Bitcoin!*<sup>™</sup> IS the Man.**



## Welcome to the MMXXI Hunger Games.



Hunger Games (Feb. 2021)

The abstracted version of *Bitcoin!*™ is a Wall Street specialty.

What is *Bitcoin!*™ in abstracted form? It's a securitization or representation of Bitcoin ownership that promises the price appreciation of Bitcoin without the hassle of Bitcoin ownership. It's a casino chip that represents the *price* of Bitcoin. Michael Saylor, for example, is only too happy to sell you a MicroStrategy casino chip. Or maybe you'd prefer to play on the Canadian crypto ETF felt? Or try your luck at the wheel of a Morgan Stanley private fund?

Why does Wall Street loooove abstracted forms? Because there are no fundamental limits to how many of these *Bitcoin!*™ casino chips Wall Street can sell. It doesn't matter if all the OG Bitcoin HODLers keep on HODLing. It doesn't matter if the vast majority of all the Bitcoins ever mined *never* get caught up in the Wall Street neutering machine. There are an infinite number of games that can be created around the price of Bitcoin as a reference point, just like there are an infinite number of bets that can be made on a football game. There are an infinite number of rehypothecations and derivative representations that can be made off the millions of margined Bitcoins that have already been captured by Wall Street-custodied accounts.

The only limiting factor on how many of these *Bitcoin!*™ casino chips Wall Street can sell is the effectiveness of the **narrative** they have created around Bitcoin itself, that Bitcoin is a "hedge against inflation" and a "store of value" that is uniquely positioned to "protect your portfolio" against "dollar debasement" because it is "hard money" immune to "money printer go brrrrr".



It's rather artistic in and of itself, right? Selling an unlimited number of *Bitcoin!*™ casino chips off a meme slamming unlimited fiat money printing? Creating an unlimited number of entertaining market games and venues where we can use our *Bitcoin!*™ casino chips?

If these narratives and casino games sound familiar, it's because this is *exactly* the same process of abstraction, securitization and leverage that Wall Street has been using for the past twenty years with precious metals.

What is the GLD ETF? It's *gold!*™. What is a unit in an ETF basket of gold miner stocks? It's *gold!*™. They and their many kin are securitizations of gold ownership that promise the price appreciation of gold without the hassle of gold ownership. They are casino chips that represent the *price* of gold.

I'm old enough to remember when people bought and sold gold coins in private transactions. I guess we'd call that peer-to-peer today. I'm old enough to remember when well-meaning people would have earnest conversations about gold as a reserve currency, just like well-meaning people today have those earnest conversations about Bitcoin. I'm old enough to remember how quickly those conversations died out after State Street launched GLD in 2004 and took in a billion dollars in a few days. Turns out people didn't really want the grumpy grandpa identity of owning physical gold in some Mad Max world as much as they wanted *gold!*™ in their financial portfolios as an abstracted insurance policy against central bank error.

It's exactly the same with *Bitcoin!*™ today.

You think "institutional adoption" is driven by a spirit of personal autonomy, entrepreneurialism, and resistance to the Nudging State and Nudging Oligarchy? You think Paul Tudor Jones and Mike Novogratz want to BITFD? LOL.

The ONLY difference to Wall Street between gold and Bitcoin is that *gold!*™ is tired and *Bitcoin!*™ is wired. The king is dead. Long live the king!

**This is the artistic genius of Wall Street – the creation of new product to *trade* and new assets to *manage*, all through the alchemy of securitization and leverage. This is Flow.**



It's like Ash said about the chest-bursting xenomorph in *Alien* — you may not admire the creature itself, but you gotta admire its purity. *Unclouded by conscience, remorse, or delusions of morality*. Yep, that's Wall Street.

Ditto the US Treasury.

If there's a Western governmental institution that is more unclouded by conscience, remorse, or delusions of morality than the US Treasury, I am unaware of what that institution might be. But unlike Wall Street, which is motivated by Flow, the US Treasury has an entirely different (but highly compatible!) goal.

**The goal of the US Treasury is to see all of the money in the world.**



That's really all it is. That's what Anti-Money Laundering (AML) regulations are all about. That's what Know Your Client (KYC) regulations are all about. That's what Report of Foreign Bank and Financial Accounts (FBAR) regulations are all about. That's what the Treasury-led Society for Worldwide Interbank Financial Telecommunications (SWIFT) is all about. That's what the Bank Secrecy Act (BSA) is all about. None of these programs are really about taxes. None of these programs are really about catching crooks or fighting terrorists. All of these programs are really about information for information's sake regarding the greatest source of power in the world and the *raison d'être* of every government on Earth: **money**.

**The US Treasury is the Eye of Sauron — a gigantic panopticon tower that sweeps the world with its unblinking gaze, seeking out the owners of power, i.e. money.**

**The US Treasury can't see Bitcoin. It can, however, see *Bitcoin!*™.**

The giant all-seeing eye of the US Treasury is primarily built on two regulatory structures — the Bank Secrecy Act (BSA) to compel transparency and reporting by financial institutions on their clients and themselves, and the Report of Foreign Bank and Financial Accounts (FBAR) system to compel transparency and reporting by individuals on their financial institutions and themselves. There are a dozen more acronyms and programs involved here, all overseen by Treasury’s Financial Crimes Enforcement Network (FinCEN), but to keep things simple I’m going to refer to all of this as ***the BSA/FBAR regulatory panopticon***.

Everything in plain text in the next two paragraphs is regulatory policy as it currently stands with the BSA and FBAR. Everything in bold italics is a ***new policy proposed in the past few months*** and expected to go into effect shortly. Taken together, I think it will be clear how Treasury uses the combined BSA and FBAR instruments to mark your Bitcoin with a DayGlo orange fluorescent paint and create their highly visible version of *Bitcoin!*™.

**BSA** — If you are in the business of money in any way, shape or form (what Treasury calls a “money transmitter”), and you do any of that business in the US, then you are subject to the Bank Secrecy Act. Note that this money transmitter designation and BSA jurisdiction explicitly includes peer-to-peer exchanges that work with self-hosted wallets. If you are subject to the BSA, then it is your affirmative obligation to collect complete identifying information regarding clients who transmit or receive more than \$3,000 over your systems, and to collect *and immediately report to Treasury* complete identifying information regarding clients who transmit or receive more than \$10,000 over your systems – ***including any cryptocurrency (“convertible virtual currency”) transmitted to or from a self-hosted wallet***.

**FBAR** — If you are a US entity (citizen or resident, any type of US-registered corporate or trust structure, etc.) and you have any sort of account (banking, securities, custodial, etc.) with any non-US money transmitter, anywhere in the world, and *at any time during the course of the year*, you have in the aggregate across all accounts more than \$10,000 in value in those accounts – ***including the value of any cryptocurrency holdings (“convertible virtual currency”) in those accounts*** – then it is your affirmative obligation to report complete identifying information regarding each of those accounts to the IRS in a Report of Foreign Bank and Financial Accounts (FBAR).

I think the intent here is crystal clear. Whatever rules were in place yesterday regarding transfers of dollars or rubles or pesos through US-touching money transmitters or by US entities ... well, now those exact same rules are going to apply to Bitcoin. As soon as your virtual currency holdings land in *any* financial institution that cooperates with or does business in or is regulated by the United States ... BAM! your Bitcoin is painted DayGlo orange and becomes the Treasury-preferred form of *Bitcoin!*™.

**When these regulations go into full effect, as I understand them, the only remaining safe harbor for keeping your Bitcoin hidden from the BSA/FBAR Eye of Sauron will be to maintain a self-hosted wallet that never connects with a money transmitter that does business in the US.**



That's a safe harbor for the moment, but ultimately nothing is safe from the Eye of Sauron. While 2019 guidance explicitly states that "a person conducting a transaction through an unhosted wallet to purchase goods or services on their own behalf is not a money transmitter", and so is not subject to the Bank Secrecy Act directly, the **December, 2020 proposed rule-making doc** also included this doozy of a comment.

The Treasury Department has previously noted that "[a]nonymity in transactions and funds transfers is the main risk that facilitates money laundering."

The Financial Action Task Force ("FATF") has similarly observed that the extent to which anonymous peer-to-peer permit transactions via unhosted wallets, without involvement of a virtual asset service provider or a financial institution, is a key potential AML/CFT risk in some CVC systems.

FATF members have specifically observed that unregulated peer-to-peer transactions "could present a leak in tracing illicit flows of virtual assets," particularly if one or more blockchain-based CVC networks were to reach global scale.

Importantly, as explained below, while data contained on some blockchains are open to public inspection and can be used by authorities to attempt to trace illicit activity, FinCEN believes that this data does not sufficiently mitigate the risks of unhosted and otherwise covered wallets.

That last paragraph doesn't mince words. Even if the blockchain facilitating a crypto currency allows for "authorities" to trace transactions, "the risks of unhosted and otherwise covered [i.e., hidden from the Eye of Sauron] wallets" are too great to let stand. LOL. I think we all see where this is going.

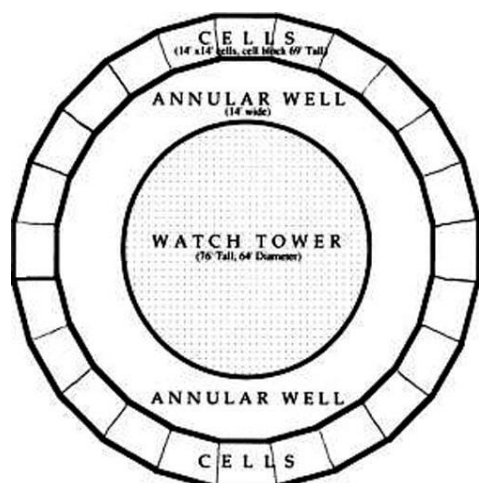
The response I get from the Bitcoin and larger crypto community to what seems to me to be the clear intent and path of Treasury regulations is always this: ***well, good luck enforcing that!***

Unfortunately, that's the evil artistry of panopticons like the Eye of Sauron or Treasury's BSA/FBAR regulatory structure: ***we are driven to willingly enforce their discipline on ourselves.***

A panopticon is an institutional structure that creates a permanent feeling of being watched. Maybe you are and maybe you aren't at any given moment. But you're never sure that you're NOT being watched. And if you ARE being watched, then you better 'fess up and cooperate before you get your head stuck on an orc's pike. Did I mention that the penalty for a willful failure to make an FBAR report was the *greater* of \$100,000 or 50% of the unreported foreign assets?

Moreover, a panopticon structure allows you to see the behavior of others. And they of you. If the discipline imposed by the Watcher includes obligations to snitch — and that's exactly what the Treasury requires here, with obligations on money transmitters to report on clients, and obligations on clients to report on money transmitters — a panopticon sets up a classic Prisoners Dilemma game, where the *only* equilibrium is for both the money transmitter and the client to volunteer information about the other.

Once you start looking for panopticons in our modern world, you will find them *everywhere*. And of course there's an Epsilon Theory note on this.



**Panopticon** (March 2014)

**“Transparency” has little to do with freedom and everything to do with control, and the more “radical” the transparency the more effective the control ... the more willingly and completely we police ourselves in our own corporate or social Panopticons.**

*You’re not opposed to “transparency” are you? Why would you be opposed to “transparency” unless you have something to hide? You’re not a ... a ... terrorist-lover, are you? No, I didn’t think so.*

It’s not just that Wall Street and the US Treasury dominate **policy**.

Far more perniciously, they also dominate **narrative**.

And that’s why I’m writing this note.



**Too Clever By Half** (Feb 2018)

Frankly, I doubt that the policy battle can be won. This has been my view since I first started writing about Bitcoin, and nothing has happened to change my mind. On the contrary, Treasury’s moves to make crypto visible and controllable have happened faster than I thought they would. I mean, I’m *hopeful* that we are at least at some point of policy equilibrium with the proposed rule changes to BSA and FBAR, an equilibrium that will at least allow self-hosted crypto wallets to exist in peace. But hope, unfortunately, is not a strategy.

The inevitable result of financial innovation is that it ALWAYS ends up empowering the State. When too clever by half coyotes misplay the meta-game, that’s all the excuse the State needs to come swooping in. Just as they did with Bear and Lehman in 2008. Just as they’re doing with Bitcoin today.

So, no, I don’t think I can help much in the policy battle.

***But I think I can help a lot in the narrative battle.***

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*THE BITCOIN NARRATIVE MUST BE RENEWED.*

**BITCOIN HAS BEEN AN AUTHENTIC EXPRESSION OF *IDENTITY*, A POSITIVE IDENTITY OF AUTONOMY, ENTREPRENEURIALISM, AND RESISTANCE TO THE NUDGING STATE AND THE NUDGING OLIGARCHY.**

*IT CAN BE AGAIN.*

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Wall Street and Treasury are running a psyop with their creation of *Bitcoin!*<sup>™</sup>, and it's necessary to think about Bitcoin in those psyop/narrative terms if the goal is to preserve an active community with an identity of autonomy, entrepreneurialism, and resistance to the Nudging State and the Nudging Oligarchy in the context of Bitcoin specifically and crypto more generally.

That's *my* goal, anyway.

I'm not in this for Bitcoin-as-global-reserve-currency. I'm not in this for Number Go Up. I'm not in this for "store of value" against that gosh darn "dollar debasement". I'm not in this for Flow. I'm not opposed to any of those things, and I don't think you're a Bad Person if those are your things. They're just not my things. I'm in this for Bitcoin as good art and the inspiration it provides to a community that shares my values and goals for making a better world.

**Phase 1** of this anti-psyop campaign is to identify Schelling points (game solutions that people arrive at by default in the absence of direct communication ... also called focal points) so that people who share this goal of community organization and narrative reclamation can find each other.

**I think that one of these Schelling points is maintaining a self-hosted wallet and the capacity for peer-to-peer connections away from the Eye of Sauron.**

Starting today, **Epsilon Theory will accept Bitcoin as payment for all annual subscriptions through our BTCPay server.** It's a plain vanilla Raspberry Pi set-up. We're not holding ourselves out as crypto mavens. We're signaling an identity of autonomy, entrepreneurialism, and resistance to the Nudging State and the Nudging Oligarchy in the context of Bitcoin.

**Phase 2** of this anti-psyop campaign is to use the Narrative Machine to measure and visualize the narrative archetypes and story arcs of *Bitcoin!*<sup>™</sup>. In exactly the same way that there are only, say, a dozen archetypal scripts for every TV sitcom episode ever filmed, or in exactly the same way that there are three acts to every modern movie screenplay, so is there an underlying structure and a finite number of underlying archetypes to the media coverage of every market entity.

**We believe that we can measure these narrative structures and archetypes as they apply to *Bitcoin!*™, and map those structural dynamics to market behaviors.**

Seeing is believing, and I think there is no better way to prove the existence of *Bitcoin!*™, in both its Wall Street-abstracted and its Treasury-painted form, than to show the psyop in action. I think this sort of analysis and visualization will get a lot of people who would otherwise be quick to dismiss our claims to take a fresh look at the ways in which we have been nudged.

**Phase 3** of this anti-psyop campaign is simply to call things by their proper names. That starts with locating the value of Bitcoin in its elegant art and its ability (like all elegant art) to inspire great things *away from* the art itself. Yes, great things away from Bitcoin itself, so that even if *Bitcoin!*™ dominates financial markets (which it will), the story arc of Bitcoin doesn't end there, but generates a thousand new initiatives to improve our world.

**We don't have to tell a story of price. We don't have to tell a story of apocalypse. We don't have to scold or "educate".**

**We can tell an Old Story of autonomy of mind and generosity of spirit within a new context of Bitcoin and crypto.**

You know, a couple of thousand years ago, a really smart guy — the most subversive, revolutionary guy you can imagine — had a good line. *Render unto Caesar what is Caesar's.*

*Bitcoin!*™ definitely belongs to Caesar. It's part of his game. But Bitcoin doesn't have to be. It can be part of our game. Still. Again. And that will change everything.

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