



AxisOfEasy #6: The Hanseatic League of Decentralized Crypto-States

Charles Hugh Smith, Jesse Hirsh, Mark E. Jeftovic

AxisofEasy Salon #6: The Hanseatic League of Decentralized Crypto-States

Mark Jeftovic, Jesse Hirsh, and Charles Hugh Smith

Mark Jeftovic:

Melville. You know I've never read that novel of his.

Charles Hugh Smith:

Yeah it's not well-known. I don't know how I stumbled on it but it's actually really funny because he's describing all these people interacting on a riverboat and there's a bunch of con men and then they're running into fickle people and selling patented medicine. And then...it's just brilliant because it's really how America works. There's a bunch of con men, there's a bunch of marks who are skeptical because they've been conned, and yet, we fall for it, right? Hope and change.

Mark Jeftovic:

Well, I –

Charles Hugh Smith:

So I thought, yeah. I thought it was a good topic.

Mark Jeftovic:

Save it for the podcast, that bit. But the hope and change...well maybe I should save that for the podcast. I always used to say that was a change you can only believe in.

Charles Hugh Smith:

Yeah

Mark Jeftovic:

Yeah, have you read *Phishing for Phools*? By Shiller?

Charles Hugh Smith:

No..

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Mark Jeftovic:

It's a great book.

Right on that theme. Hang on I'm going to test this.

[opening credits]

Charles Hugh Smith:

Tensions are running high.

Jesse Hirsh:

Yeah, people are pissed.

Charles Hugh Smith:

Yeah, and it's funny because it's just, you know, I follow California, right? 40 Million people and my sister and mom are there and, you know, I still keep an apartment there. The cases are going up after a complete rigid lockdown. What is that saying? I mean, I don't think it's saying anything very good. I mean, after a complete, very strict lockdown, you got more cases than you did last week?

Jesse Hirsh:

Well, I mean for sure it would have been worse without a lockdown, right? I think you know certainly what's happened here in Ontario and Quebec is that the infections that kept occurring after the lockdown were overwhelmingly healthcare workers.

That it was people who worked.

And this was one of the big insights that came out of Italy. That hospitals were the problem. That the centralized healthcare system was a real liability – not an asset – when it comes to dealing with the pandemic. That people went to the hospital to get sick rather than go to hospital when you're sick. And I imagine with a state like California where the population is intensely concentrated – around the two or two and a half if you include San Jose, kind of megalopolises – so that's where the centralized healthcare...the huge healthcare institutions are probably a huge factor when it comes to the continuing of the spread post lockdown.

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Mark Jeftovic:

That makes sense. Then you question: *well, what's going to happen when they reopen?* You know, like Florida and Georgia.

Charles Hugh Smith:

So far they're cheering, claiming that they dodged the bullet, right? "*We've reopened and cases are still declining, yayy*" It's only...and you know it's funny, you know the thing called the lag time? A latency period?

How you doing, Mark?

Mark Jeftovic:

I'm good. Will the cases... I mean, if the cases go up, it's one thing. What about the hospitalizations, the ICUs and the fatalities, right? That's really...

Jesse Hirsh:

Yeah.

Mark Jeftovic:

Because I think that a lot of people can be infected without being hospitalized or put on a ventilator or, you know, dying for that matter.

Jesse Hirsh:

But we also have to recognize that we've shook up the snow globe so much. Or to use a different analogy, that Humpty Dumpty really can't be put back together.

There are a lot of people who won't go the hospital now even though medically, they might; or medically, they ought to. And, you know, I say that from my own experience. If I get sick with COVID, I would rather die at home than die at the hospital. And I think that there are a lot people who, you know...they have no incentive to go to the hospital right now. So I think part of the difficulty in quantifying this pandemic is we're relying upon institutions as the touch point or the nodes to measure it when I think that we have ample reason to believe that more and more people are distrusting institutions and are choosing to forego institutions even at their own peril because they would rather die with their family than die alone – which is the fate that you would face if you were to go to the hospital and find yourself that gravely ill.

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Mark Jeftovic:

Well that's an excellent point that I was going to bring up in this week's edition which I'm going to do a very quick intro to – right now.

Hello everybody. Mark Jeftovic here with Charles Hugh Smith from Hawaii and Jesse Hirsh from the Ottawa Valley, who's experimenting with the blur background – and it looks great – and we are here with Axis of Easy Salon #6. We're recording this on May 28th, we should have it online by May 28th.

Quick bit of housekeeping, we've got a request to provide transcripts so we're now doing that. We put episode 5 transcript up today on the show notes page and I'm hoping to have the transcript up each Monday by the time we get this episode up on the air.

So, to your point, I was thinking about this issue of credibility – institutional credibility – because it seems to me like, governments of the world have kind of the great shock of their bullets in terms of what is credible and what isn't credible, and I think this is almost the terminal event of destroying any credibility institutions had left; because now, if something...I'm not saying corona virus isn't serious, but I do think that we are – probably the three of us are in loose agreement that it hasn't been handled effectively by our institutions. So now, if a real existential threat came along, like let's say Ebola or a pandemic that really spread the way corona virus did, and people were dropping in the streets with blood spewing out of their heads, people would now still say: *ah, remember corona virus 2020? It was all a big nothing burger* comparatively or something, and so now, this whole idea of government knows best, if it ever had legs – I don't know how it can have legs after this episode because it's just been a debacle from beginning – and we're in it, so not till end but in the midst of it – and I really...you know there are times where I go from being the American capitalist libertarian to: you know I understand that might not be the most realistic approach and I really want to believe in governance and I really want to believe in progressive institutions than have some faith in them and then they let me down. Every single time. As much as I want to believe.

Jesse Hirsh:

Well, I think it's worth drawing two distinctions.

Not all institutions are equal; the same way not all authorities are equal. And I think what we're seeing is a crisis of legitimacy of the old regime of the existing institutions; but politics abhors a vacuum, nature abhors a vacuum, and I think what we may see is the emergence of new institutions. And that's where I'm a little worried because I kind of feel

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that last week, when I started to really critically reflect on which institutions – at the very least I didn't feel were entirely competent and dysfunctional these last two months – and Amazon is kind of right up top that list. And you know I say this not because I like it but because I worry about it, and I really found Charles' piece about the plantation and the plantation economy really quite compelling. And it really kind of reinforced this idea of Amazon becoming a company store, and it's really because they are the least dysfunctional or the least incompetent in an era in which institutions are facing this crisis of legitimacy.

But I also anticipate that other institutions are rising and that those institutions, while imperfect, or conversely benefiting from a pretty horrid landscape of incompetence, I think that we shouldn't be dismissing institutions as a whole, but recognizing the basis by which those institutions gain their legitimacy. And authority has changed because so many of them are incompetent or unresponsive, or just not relevant to the way in which people are living this crisis. And that's where in particular, I've been watching *Tiktok* and I've been looking at *Tiktok* as a venue by which people are expressing their dissent; they're expressing their boredom; they're expressing their creativity in ways that are fundamentally different or at least have been different than social media and corporate media as a whole. And I think there's positives and negatives there that are worth getting into.

Charles Hugh Smith:

Well let's hold that thought about new institutions because I think that's a fascinating topic, but I'm just going to backfill just momentarily about the dynamics of why our old institutions have failed, why they're hollowed out, why they're dysfunctional. I think there's two drivers – at least two drivers.

One is – and this is kind of the cycle of human nature – they started out idealistic, right? And then, they were fueled by people who share that value system. And then a generation or two later, it's just serving vested interests. In other words, you go to work with these institutions for a secure paycheck and a fat pension and basically, your job is to dissipate any accountability. That's really what institutions – old institutions have become good at. Dispensing with accountability so they're not accountable.

Well I'll put that in file 13 and it'll be dealt with, or well you're completely being handled, you know, etc etc which is what we see with Youtube. For instance, I quote new institution that's also dysfunctional because if you complain about being demonetized, *oh well that's in process and we'll get back to you in a few months*. That sounds exactly like the rest of the pure hypocrisies. But so that slow infiltration and the loss of idealism and accountability and it's now just protecting the vested interests within the institution.

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My favorite example is cities can't, at least in the US, can't fill potholes anymore. And so the city I live in part time – Berkley – which is so progressive, really high tax, huge revenues flowing to the city government. Some streets haven't been touched in 20 years. The city reluctantly admits this. Then they say well, it's going to take us 20 years to catch up and we're going to need to float a hundred-million-dollar bond to fill the potholes – so it's complete dysfunction. You can't fill the potholes, you can't keep anything open, you can't process anything, and then complaints are just shoved off. There's no accountability.

The second driver is, in the US at least, the healthcare system has been hollowed out by the obsessive monomaniacal drive to maximize profit for the owners regardless of anything else. And if you talk to doctors and nurses and people in the front lines, is that they all agree on this. Everything's been hollowed out in order to maximize profit. And that's the story of the American economy. I think maybe less so the Canadian economy but you guys can correct me on that.

Jesse Hirsh:

No, it's pretty much parallel. I mean, instead of profit, it's efficiency, but it's the same corporate mentality. It's optimization, right? The logic of optimization whether in the purpose of profit, or whether in the purpose of taxpayer savings and it ignores the necessary functions of the organization. It ignores the knowledge that exists in individuals and how to harness that knowledge. And I think it's frustrating. And I'll push back a little. That I don't actually think that Youtube is the new institution. I think Youtube is an old institution and so far is that it's older than 10 years. That's how fast our culture moves. That's how fast – certainly how fast the things have changed in the midst of this pandemic.

But I think you're absolutely right when it comes to the abdication of responsibility; or because when you were describing that the purpose of institutions is to avoid responsibility, I quickly thought well, the path of ambition – the path of career advancement in those institutions is similar – to avoid responsibility and to avoid accountability. And so, it's such a weird perverse game that rewards mediocrity, that rewards a kind of obstructionism – for a lack of a better word – that's incredibly frustrating especially when we live in a culture where anything is possible. Where maker culture and 3D printing and these types of knowledge. I mean, in the last couple of years, I've been teaching myself how to be a mechanic, how to do carpentry, how to operate heavy machines; not on a professional capacity but purely out of personal pleasure. But the fact that all this knowledge is out there that allows me to do so...I think creates a further contrast with the stupidity of institutional logic. And the fact that it's not properly harnessing that the actual knowledge and the actual passion that's there but instead, it's hollowing out. It's optimizing in a way that is far more machine like that it is human.

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Mark Jeftovic:

Well, we hit on a great term for it in a previous podcast, Charles, when we were talking for one of your audiobooks. And it was institutional lethargy, and that's...you know, it's the Peter pyramid that everyone rises to their level of incompetence and there is this – you get rewarded for not rocking the boat, and you get penalized for trying to do things better, or more efficiently or whatever.

I mean, to Charles' point about the medical system in the US – I'm not in the US so I don't have a great vantage point on it – but it would seem that it has succumbed to financialization the way everything else has succumbed to financialization. And I think financialization is a symptom of the decay in the monetary system itself. It's just that debt super cycle, and how much debt it takes to get a unit of output per GDP. And so, you don't get your returns from building actual businesses anymore. You get your returns from financial events; like they harp on this a lot.

In Canada, we have single-payer health care. It's not, you know, there's a lot of people in the states that think single-payer healthcare would be the end of humanity as we know it and we, you know, just in here and living it and it's not a perfect system. We have our grips about it but it's not, you know, it is what it is and it has succumbed to something else other than financialization, and I would say it's that institutional lethargy that it's got to be done in a certain way. You see pockets of places where an initiative might break out within a hospital or a group of hospitals that say we're going to reorder the way we sort of approach things, and maybe they make a go of it and they have some traction with it but for the most part, those are the twin dynamics.

Jesse Hirsch:

And I think to make this as explicit as possible especially given our recurring theme, I think that we're describing a centralization. That whether it's centralized for the purpose of profit, or centralized for the purpose of managing control – that's where you're disincentivizing people at the periphery, disincentivizing anyone who's not at the center from doing anything valuable, anything innovative. There's no reward for doing anything counter to the system and the people who are in in control, the people who are in the center as Charles was suggesting, they just don't want to be held accountable. So they do everything they can to create this corporate bullshit, and that, I think, is part of the problem; regardless of the sector, regardless of the industry. And that's why you're increasingly getting the social divide between those people who believe in

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decentralization and everybody else. And everybody else is a huge basket of people who either benefit from the centralized system, or are oblivious to the choice at hand. But I think the people who see decentralization both as innovation but also as something better as something more meaningful. I think that that audience is growing and growing.

Charles Hugh Smith:

Yeah, I want to follow up on that, but I want to refer back to something that you guys have been writing about in the past – that we spoke about in previous salons that I think is worth re-emphasizing here in Jesse’s context of centralization – is the way that centralization institutionalizes inequality. And Mark, you’ve written about your kind of prognostication – that inequality is probably going to soar because of these dynamics – are now being amplified, right? So that the horrendous inequality we have now is only going to get worse, is possible.

And Jesse, you’ve written that to me, very compellingly, about the inequality and access to broadband internet. I mean talk about – that’s the most basic form inequality, right? Along with all the other forms.

So if we tried to envision a new institutional kind of model, well then, decentralization and getting rid of all the all the middle layers which disperse accountability would be the way to go, right? Where the user has some kind of vote over the management of whatever system he or she’s engaged in. So that the management is actually directly responsible to the users. There’s no file thirteen, no three layers of management, and it’s like, well, if the users are disgusted enough and feel that it’s gone down the tubes, well, they can automatically get rid of the existing management, and there’s some democratic process for getting a new management. And I don’t know if that’s possible but that would be the ultimate in decentralization.

Jesse Hirsch:

Well I could almost, I mean I almost feel that we alluded to this last week or the week earlier about sort of cooperatives, and I do – I’ve been following this as part of the feature tools acts as an easy stream, but I could almost see software starting to emerge.

That makes it really easy for worker revolt. That makes it really easy for the people who actually run the corporation to take on this software that automates some of the managerial tasks; but more importantly, distributes responsibility and decentralizes the tasks that are traditionally done by management. So instead of having a separate tiller within the organization, you distribute those roles amongst everyone in the organization

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with an incentive structure perhaps, for them to want to do some of the stuff that people don't want to do. And while it's simplistic to suggest that the workers' revolution is a software tool away, I actually think that there's a little bit of truth to the idea that the software that would enable people to imagine running a company. To imagine running an organization without the bloatware at the top.

Well, it's not that radical of a concept. And it's exactly the type of bottom-up phenomenon that the internet encourages on a regular basis.

Mark Jeftovic:

What you're talking about – a decentralized autonomous organization. The DAO.

Jesse Hirsch:

Although I'm not a full DAO, I'm imagining a hybrid DAO but please...

Mark Jeftovic:

Yeah and I've always thought especially from the progressive side of the equation that we're looking for worker equality and worker relevance. I'm like, why are you just buying up shares for the workers? Why aren't you distributing equity to the workers? Why aren't the workers agitating for equity stakes in these companies?

Forget unions, forget labor contracts, forget minimum wage and cost of living increases. Everybody should – all of them should have chunks of equity in the company – and then that's the mother of all alignments. Everybody suddenly wants the same thing now. They want the company to be profitable and they want to be able to distribute those profits among the equity holders that happens to be the workers.

And you do see that happening. Like some of the.. I noticed that the places in Toronto that I shopped like the *Big Carrot* and *The Sweet Potato* are worker owned cooperatives now, so I mean it's kind of happening there. I don't – I can't think of any software companies that are like that at the moment, but it wouldn't surprise me if they exist or if it starts to become a thing. I know what easy – we're moving towards that, we just started in the last year. We started creating like an equity structure to start getting everyone there to start converting in investing integrity stakes in the company. So...

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Jesse Hirsh:

I mean the thing about equity is it's never equal. But to your point, I think it aligns interest in a way that can be very powerful. And that's part of the way that Silicon Valley is managed talent – is you know certainly amongst the senior developers, amongst the emerging field developers, like what used to be self-driving car is what made more recently have been virtual reality. That's been a way to sort of buy people's allegiance. But it can only be done so before, because what's interesting about these Silicon Valley companies is that they provide all the perks imaginable. They make their people rich until they leave. Why is that?

Mark Jeftovic:

I would say one of the distinguishing features about that is that the return on equity in those Silicon Valley ventures happens out of that financialization dynamic. It's not like we've created a business, and every single one of my shares is paying me a seven percent dividend every year for the rest of my life that I've known it. It's like no, we're losing money. Every dollar we bring in, we lose a dollar forty. And we need to raise another venture round to keep going. And we're on a treadmill that's going up like this and what we have to do is get that escape velocity so some stupid whale like Google or Facebook or Twitter buys us. Or we can just put the whole thing off on the public in an IPO. We cash out all those equities via options and then we're gone. And on to the next gig. And that's different from what I'm talking about, but I understand how people would think that it's the same thing.

Charles Hugh Smith:

Yeah, well, I would just throw in a comment on my system. The CLIME system. The Community Labor Integrated Money Economy which is basically my attempt to sketch out what Jesse was describing, which was software that would handle a lot of the management and basically organize – herd the cats of humanity – into like: *okay you guys, in order to get this community back – labor backed money, you know that you can spend, you're going to have to follow these rules. You're going to have to have a democratically operated enterprise.* Right? Which fulfills scarcities in your community. And here are the rules and here's how you follow it. It shouldn't be that complicated. And so, okay, if I want the money I got to get to this. I have to run a democracy and we have to fill scarcities in the local community.

And so, the incentive structure's there and everybody gets what everybody wants for their labor; which is recognition, dignity, and cash. Now I understand this is pie in the sky because every government wants most of all is to control its own money right? So you're

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talking about a decentralized money that doesn't recognize borders. that's really frightening to the powers to-be which rule fundamentally based on being able to print their own money which they can use to buy force – to coerce their populations. And that's Civics 101, right?

Jesse Hirsh:

Although that was true in the context of nation states, and while a cyberpunk may be in the realm of fiction, I think there are more and more of us who see a correlation between the world and vision, and cyberpunk in the world and reality. And I think about this a lot.

Between the context of the Canadian state – because the Canadian state has largely survived in the shadow of Empire, right? First it was the British Empire, the last hundred so odd years has been the American Empire; but right now, Canada's relationship with the United States is “on thin ice” – to use a Canadian metaphor.

And China as an ascending Empire intimidates the heck out of Canada and really, you know, Canada's not ready to switch imperial allegiance from the United States to China, but it's also worried it may not have a choice.

And then throw into that the factor of Facebook as a rogue state or alphabet; aka Google as a rogue state, or Amazon as a rogue state, and the nature of the Canadian government is they look at these corporations and they go: there's really not much we can do about these companies. There's really not much that we can do in terms of controlling the impact of these companies.

Now you know Facebook is particularly interesting because of Libra and creating their own currency. And Canada, not really being in a position at all to do anything about it, so I kind of wonder if you know, mid level countries like Canada who have somewhat developed economies still have a ton of natural resources and that's often the basis by which the economy is being valued.

I wonder if these states are going to be forced to not act as nation states but act as network states, which means maybe adopting a currency they can't control. Or maybe being part of a federation or network of countries where they have really modest influence. But its protection against China or it's protection against the United States or protection against Facebook. And so, I kind of feel while I will disclaim and say still within the realm of fiction, that the type of network environment depicted in cyberpunk is increasingly relevant and true for smaller countries who don't have the privilege of relying upon the power of the state. Because the craze is of legitimacy means people won't believe in that anymore. So they're going to have to find other ways to maintain power or maintain control. And I think that might involve such radical ideas as giving up control of their

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currency in exchange for, say, maintaining some sense of sovereignty when it comes to control of their territory.

Mark Jeftovic:

I'll just jump in quickly and then I'll let you talk, Charles, because I can see you're ready to say something, if that's okay.

So it brings us to two places that we've talked about a lot where I have written in the past. CLIME brings us right back to: whoever controls the money system controls society. Right now, we live in a world where the US dollar is the world reserve currency; and so, it's king dollar. And the US pax Americana. And that era, I think everybody involved whether they care to admit in polite company or not, we all know at least it's not going to last forever, right? We don't know if it's going to end in 10 years or 50 years or 6 months, but at some point, the US dollar is not going to be the world reserve currency and that means something else has to take over.

Now, nation states may say: well we're going to get together, we're going to have a Bretton Woods – we're going to create an SDR, we're going to do some sort of world money and everyone is going to accept it. And maybe the patient will not accept the transplant and something like CLIME or local exchange currencies just spring up into the void. And so, whoever controls the money, controls society.

Well, that becomes this massive fragmentation in decentralization where people are taking direct control over their – what passes for currency in their own area; and that there can be overlaps. There could be a local exchange currency in a city like Toronto that could suddenly have some kind of interaction or overlap with Facebook's Libra. Because I've said before, when Facebook announced Libra, that Libra could become more relevant to a lot of people's lives. Their Facebook account could be more relevant to their lives than their state-issued passport. And so, that gets us to the snow crash scenario.

And even Jesse, to your point about Canada's Imperial Allegiance, I mean, there might not even be a US empire as a choice, because I can actually see the US following a trajectory similar to the soviet empire in late 80s or early 90s. That it's just like *everything was forever until it was no more*. That book that I brought in I think on the last episode where no one could see – no one could envision the breakup of the US empire in their right mind until it just started happening, and then it just seemed to be the most logical thing in the world. And the way the east coast and the west coast that flyover America just loathe each other. They're not even letting each other eat in each other's restaurants. It's like, you're a republican, we're going to hound you out. Go eat in the next town, racist. It's just I can see that turning into three different countries, five different countries. Like, I

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can, you know – and then, it’s really – we do arrive in that snow crash type scenario where there’s nation states, city states, computer networks, religious cults, the whole thing. It could be quite the milieu of entities.

Charles Hugh Smith:

Well, yeah, I want to jump in here. To me, this topic is endlessly fascinating because it really is. We’re talking about the nuts and bolts of a whole different way of living which includes like, ultimately more sustainable for living on a finite planet, right? That’s the other factor.

I want to mention in the context of you guys comments – the Hanseatic League, which was basically a bunch of city states that bound together; and basically. a trading network. And then, because they were this – the sum was greater than the parts – they became a kind of quasi-powerful state and that they each retained autonomy right? But together, they were a formidable force and I don’t – I’m not an expert on the Hanseatic League, so I’m not sure if it fielded an actual military force, or if they could coordinate their military forces when they were facing some sort of military threat. But they lasted quite a while. And I think that was a model that mirrors at least some of what Jesse’s suggesting.

And so and again, what’s the foundation for this idea? Human cooperation, right? We’re always beaten to death with social Darwinism and how humans compete and destroy each other and all that stuff, but we also have the genetic foundation for cooperation which has a lot of power in it too. You know, my dream scenario for the CLIME system is that the currency, created when people are doing labor in their community which serves the communities’ interest, would become a reserve currency for smaller nations that said: *okay, you know we don’t have the capital to acquire gold, right? And the bitcoin is already owned by the whales, so we can’t use bitcoin. We can create our own cryptocurrency but who’s going to believe it, right? I mean if we control how it’s issued, then it’s not going to have any value, right?*

So a global cryptocurrency that was created in a decentralized, localized fashion would be an ideal – a reserve currency because its issuance was limited. There’s only so much human labor that can be produced in everyday, so it’s not like the central banks, like the federal reserve, which can print trillions of new units out of thin air. This is actually a limited source. So therefore, it’s trustworthy.

Anyway that’s my little pitch for my fantasy which is the CLIME system’s currency becomes a reserve currency for the kind of small nations or regions or city states that you guys are talking about.

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Mark Jeftovic:

I want to jump in very quickly. I did some thinking about CLIME a few weeks ago, and made some notes about it. Unfortunately, I don't think I brought that notebook today, but I don't – if I'm understanding you correctly – I would just push back on the idea of CLIME being a reserve currency or cryptocurrency in a macro sense.

I actually – when I sort of started sketching it out – how it would flow, it would be every city state or every locality, it would be a reserve currency unto itself, and each one might have its own CLIME system. And where I wound up in my mind with it, was that, again, protocols versus platforms. The overarching global phenomena of CLIME or something like it to take hold. And I just look at it as a protocol for local exchange currencies.

And Charles, you're taking it one step further by saying we're going to issue currency units based on GDP, or value created within the community that's using the currency. And so, each community would probably have its own CLIME that would possibly be tailored to suit the specific requirements of that community.

And the one place I wound up at, when I sort of sketched it all out – what would a system look like to help manage these currencies is you can't convert these into cash because you have to remove the incentive to gain the system to sort of like, *okay I'm going to pilferage this community's local exchange currency so I can walk away with like ten bitcoins or 50,000 dollar bills or something*. It has to only be convertible to services and products within the context of the community that's being used.

That was the one thing I wound up at when I sort of sketched it all out in my notebook which I should dig out one of these days and see where I got with it.

I can't remember which one of you I just cut off.

Charles Hugh Smith:

Jesse, go ahead.

Jesse Hirsh:

Yeah, I don't think you cut anyone off, I think that's where the conversation went.

I was stuck thinking about whether the local currency should be exchangeable or not. Because I could see pros and cons of both.

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I agree with you. You don't want the corporate radar scenario or the speculator scenario where as a currency speculators used to be accused of devastating an economy when in fact, they just found the weak points of the economy and exploited it; and therefore accelerated its collapse.

You know, there's arguments as to why you do want people to be able to take their value between communities. And you do want a type of exchange, but allow me to take a tangent that I hope brings us back full circle. Because I think, fundamentally, we're talking about trust. And in this case, it's meta-trust in terms of the trust of the currency. But it's also individual trust in terms of trusting the person who's providing you with the service. Or trusting person who's buying that service. Because they're giving you a currency that you're able to cash in or translate or use in your community. And I think one of the things that the last 10 years has taught us from a technology perspective is that there is value in an actual reputation or ranking system that measures trust of the participants in the network that then allows strangers to easily do exchanges, right??

This is Uber, this is Airbnb, this is a lot of the platforms that were able to disrupt and find sectors. They had reputation and ranking systems that were mediums of trust. Totally flawed, easily gained, but they were the basis for a lot of these "sharing economy" platforms. And while I think that that era is dead, I think that what we are going to see evolve is the role of reputation and ranking system.

And so, I wonder how they correlate to currency. Because not all plumbers are equal, right? Not all companies are equal. Not all service providers are equal. Not all potential employees are equal. And you know, we could have a blindly communist system which imposes egalitarianism in a way that this is just ludacris and inefficient. Or we could have a socially just system that still acknowledges difference. Not necessarily hierarchy, but difference. That someone who has 30 years' experience as a carpenter is probably worth paying more than an apprentice who's been a carpenter for a year. And that's okay. And I think that it's important when we think about systems, to think about the role that reputation ranking played a trust.

And I bring that back full circle because what if Toronto, let's say, produce better machine learning models than San Francisco. Or then Singapore. Or then Shenzhen. Or then Paris. And as result, the local currency developed in Toronto would be worth more than these other centers because the value of the labor that exists in that jurisdiction is reflected in the value of the currency, if we're describing a currency system that is reflective on that labor value. And maybe that's worth an exchange. Maybe your Toronto dollar should count as two Paris dollars. So it's cheaper for us to buy Parisian fashion than it is for people from other cities. Again, I'm not objecting to any of these, I'm just

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trying to articulate my thoughts on whether you could actually forbid exchanges, or whether exchanges would be tied to labor value, would be tied to trust, would be tied to reputation and ranking as a kind of ecosystem of value. Because I think that's the other problem with the old world of financialization. It was disconnected from labor value. It was disconnected from environmental value. It was disconnected from the broader ecosystem of value that I think we're going to be able to start recognizing in a kind of networked economy that can at least try to measure these types of different cases.

My dog is lying at my feet and every once in a while she moves and hits the corner of the camera so it shifts. She may start to bark before we're done as a warning.

Mark Jeftovic:

I was thinking, just quickly, I think to your point, let's say CLIME – a CLIME local exchange currency protocol came into being. I think you're right and it makes sense that there would be exchanges within the protocol within the jurisdictions. And where I got in my thinking about it is you can't – to prevent gaming, you should be able to convert any of these into currencies that are outside the protocol, right? That's where you sort of get the plundering and game in the system. But to people who would say: oh no you have to have a nation-state currency to sort of balance it all out. I don't think you do and that's actually – if you look at history, there's been long periods of time, especially during economic upheaval, when cities issued their own currencies, and of course the company store issued their own scrip. And there's this great scene in the another Neal Stephenson book; you know that series that tracks the trajectory of the development of money overtime. There's one....

Jesse Hirsh:

Cryptonomicon?

Mark Jeftovic:

Yeah, yeah, that's the final book in the series but there's another one that – it's like back in the 1300s or something, and these guys are in this market and they're haggling over the price of something but they're doing it in five different currencies. It's like well, I have this Dutch Florins or these guilds from this city. And they're just sort of like, trying to find – but they could do it – and that's how it happened in those days. And so, I think we could end up in a scenario where, I mean, cryptocurrencies right?

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Right now you have this weak point where I feel really unsafe trying to get into or out of an exchange with cryptocurrency. Because I feel like the moment I take my crypto out of a cold wallet and put it on an exchange, it's going to pull a QuadrigaCX on me, and it's going to vaporize, and it's going to be gone before it ever hits my bank account. Because all it takes – I've seen it enough of times – you just log into some exchange platform that you've been using for months or years, and suddenly, there's a new kind of screen you've haven't seen before that says: *We've temporarily suspended withdrawals. Contact support for a timeline.* And that's it. It's game over. But, you can get in between cryptocurrencies without ever going into, you know – there's no egress or ingress required. You can get from the Ethereum to the Dash to Zcash to Litecoin without even using the centralized exchange. In the same sort of mechanism – could occur using local exchange currencies or CLIME.

Charles Hugh Smith:

Yeah, I totally agree. I think what we're looking at is a chaotic-free market. And as long as it's transparent, that's what's lacking in like the financialized things. We don't really get to see what happens in the stock market. It's gamed by bots trading millions of shares per second and all that stuff.

In a truly transparent like free-for-all, then all these currencies – local currencies or whatever, are going to find some kind of value. And there will be some kind of gaming possible. And I think that's – a little bit of friction's okay. if it's not centralized, it can't really dominate, you know.

If somebody can figure out some way to make a few bucks swapping these currencies, okay, we can. The system can stand a little of that kind of friction because that's human nature, right? And to your example, that's exactly how money was handled in previous eras in Europe and in China where they printed paper money long ago because commerce needed a small money for local commerce, right?

So I think we can look at this and say: what we really need is a decentralized free transparent market for the value of all currencies. And if we try to deny that, all we're going to do is create a black market for everything.

Jesse Hirsh:

Well, and that, I think, is an important point.

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Because if anything, what we've seen over the last 10 years is if there's a will, there's a way, buddy. I mean just about any value you can imagine. Any product whether virtual or physical is being exchanged. Is having its value being determined by a market. whether that market is an open market, a secret market, a transparent market. Networks are by definition, markets. Anyone can create a network; anyone can create a market.

I think that very much, the goal should be transparency, so that at least people – or at least as a society or societies – we have an opportunity to understand what's going on? But I think at the same time, what we've been describing is value. And we've been describing about local values, we've been describing labor value.

You know, Charles sort of alluded to environmental value which is something that I think we need to take more seriously as we move forward. And I think part of the problem with the existing currency environment is it has no values. Or that its values are really narrow in terms of the interests of the tiny elite whose only value is their own enrichment. And I think that's what becomes possible when you have a currency that is programmable. When you have a currency that is configurable. And not in terms of digital money – in terms of a digital environment – is really quite exciting.

Charles Hugh Smith:

Yeah, and you know, to put it in really simple terms, the way that we create money in nation states is emitted by a central bank or treasury and it flows to the top of the pyramid, right? The banks, the financiers, the corporations. I mean, it is, you know, we didn't get money from the federal reserve, right? So it's intrinsically unequal and unfair. Whereas in the CLIME system or something similar, the money is created at the bottom of the pyramid. So everybody that participates gets the money at the bottom. There is no top where it's created at the top and flows to the top. So it's already more equal.

But to your point Jesse about value, I think I have always envisioned the CLIME system as running parallel with a market system. In other words, a decentralized bazaar of – everybody's pursuing their own interests and here's goods and services – and that's parallel to the CLIME system. It's the CLIME system's forte – creating money at the bottom of a pyramid. That then the person who earns it can spend it however they want. They want to buy something outside of the CLIME system? Fine. As long as that person takes the CLIME currency, hey, it's whatever, right? That's the beauty of it. The money is created at the bottom for serving your community. But if you want to buy something outside, that's fine.

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And then Mark, my scheme – and this is open to debate. I don't consider it like it's fixed – like this is the perfect system. But I had envisioned the idea of a dual CLIME currency. That the l'argent – at one – being the localized currency, which is traded freely. You want a Nigerian one? You're going to trade with the Ontario one? Fine. There's going to be a balance of the value of labor in Nigeria as opposed to Canada. That's going to be sorted out in the free market, right? Because it's clearly difficult to create the same value in Nigeria as in a developed world country but there might be an international l'argent in which you can buy an international l'argent in which the price of your local currency fluctuates all the time just like any other currency. And that could be the reserve currency that have to be like the global measuring stick.

Mark Jeftovic:

I'll just jump in with two quick things.

So one, we've been talking a lot about the CLIME system in this episode. So to really get a deep dive into the CLIME system, you got to get Charles' book, *A Radically Beneficial World*. Part two of that book is a deep dive into the CLIME system that we've been talking about.

And then to Charles' point, that whole dynamic of money created at the top of the pyramid under today's system benefits the people at the top of the pyramid, and then doesn't benefit everybody else is the Cantillon effect – which was a term I didn't know but I've been writing about unwittingly without knowing the term for over 10 years – by Richard Cantillon, who discovered that newly created money is not neutral.

The way the system works now, the people who are closest to the creation of the money experience the increase in money as rising asset prices. And everybody, the further away you get from the creation of money, you experience the new money as cost of living inflation. So that's the dynamic that in my mind feeds wealth equality, wealth inequality. That's the underlying dynamic of it. Okay.

Charles Hugh Smith:

Absolutely. You've summarized it perfectly. That's why the system is intrinsically unequal. Jesse?

Jesse Hirsh:

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Words to end by?

Mark Jeftovic:

We could be there actually. Although it's a bit of a shorter episode than usual this week but...

Jesse Hirsh:

I mean, it felt to me like it was a good point to end because I think it speaks to the nature of centralization vs decentralization of bottom up vs top down. And in particular, the idea that value comes from the grassroots. It doesn't come from the center. When it comes from the center, it's not our value, it's their value; and part of what's happening now I think is a rejection of that type of projected values. Or instead people are saying, you know, I can think for themselves – I can think for myself. I know the kind of world I want to live. I know the kind of people I want to listen to. The world I want to listen to. I think that's an important dynamic.

Charles Hugh Smith:

Yeah, I really like how you just put it.

Value starts at the bottom or is created at the bottom of the pyramid. Not at the top. And I think that's a great summary. And money is created at the exact opposite.

Mark Jeftovic:

Charles, I'm going to ask you to restate what I'm going to try to muddle through right now. Because in the first half of *A Radically Beneficial World*, you say something along the lines of – it's sort of in your, you know – as you're setting the table to present the idea of CLIME, you say something about a system whose incentive structure is created to nurture inequality can only result in inequality, so you have to create a different system with a different incentive structure.

That's a very clumsy way because I don't have the book in front of me. Do you know that sort of...it's sort of like a maxim that you sort of lay out in the first half of that book. Do you know what I'm referring to?

Charles Hugh Smith:

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Yeah, and unfortunately my memory...

I have to refer to my own book. but yeah I think you've basically nailed the basic idea which is also what Jesse was describing; which is we need an entirely new incentive structure that incentivizes creating value for the community and everybody else at the bottom of the pyramid, and then rewards those people with what we all want or need – money.

As opposed to the system now which incentivizes gaming a corrupt system by getting us close to the top of the pyramid where you get the money, and then you can exploit the bottom of the pyramid. And so, that's the idea of CLIME. To create an incentive structure that's not perverse, that's actually beneficial to participants and the planet.

Mark Jeftovic:

Okay, so, you want to end it there guys? I'm going to try to get this online tonight. This is the 28th and then look for the transcript of this on Monday, which is going to be on June 1st.

So thanks Charles Hugh Smith, Jesse Hirsh. I'm Mark Jeftovic and we will see you next time.

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