Twitter Thread by Travis Kimmel

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After much investigation and conversations with people on here, I've formed a relatively robust theory of what may be happening with Tether.

This thread will attempt to lay it out with neutral language for the purpose of discussion.
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Before we start, please note that 'robust' doesn't mean 'accurate', it just means that:

1. the theory is internally consistent
2. it accounts for participant behavior

…but it's important to remember that this is still hypothesis-stage thinking.
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First, let us note that the BTC ecosystem has clearly stated goals. They believe that:

1. Bitcoin is a new global reserve money.
2. They intend to create an alternative financial system around it.

Let's just take them at their word and assume that's directionally accurate.
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Next, a postulate: most people do not understand the current monetary system very well. This is exemplified by the "BRRR" meme and other variants of thinking which presume that the Fed prints money.

That's not how the system actually works, as discussed elsewhere.
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In reality, what's happening with the Fed is a bit more subtle and involves various forms of duration swaps and clerical activities that the populace at large gives more credence than those activities actually deserve.

Money is very complex.

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BUT the dominant mental model of money (in particular amongst the Bitcoin and hard money crowds) is one in which the Fed prints money, and as a result inflation is inevitable.

It's not a stretch to imagine that the alt-money replica set is using this mental model as a guide.
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Situational update - we are now here:

1. Bitcoin is a new global reserve money.
2. They intend to create an alternative financial system around it.
3. Their mental model of the financial system is "BRRR-centric"

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I've seen some curious resurgent apologist-style arguments about Tether printing, which go like this:

"Look the Fed does it I don't see the problem"
"Tether is an integral part of the crypto plumbing."
"The dollar is also backed by nothing."

Which is interesting…
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Because it's the sort of statement that would be consistent with an attempt to create an alt-money system with a BRR-centric mental model of how the Fed and reserves work.

So…. well, I suspect this may be what's happening here from the perspective of ecosystem participants.
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And this is where we run into a set of issues as well: that's not, in fact, how our monetary system creates money.

The current system has evolved, over time, various checks and balances around money creation — checks and balances that can only be evolved, not designed.
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In fact, most "sociocultural primes" (language, money, governance) are like this - they cannot be designed, they must be incrementally and gradually evolved.

They are woven in too deep; we may only edit them slowly.

This is why Esperanto (a designed-language attempt) failed
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What's particularly curious in this case is that using a flawed mental model of the current monetary system to create a new alternate one is likely to have… well, unintended consequences.

Because it’s being designed out of whole cloth, the system constraints are unclear.
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In our current debt-based monetary system, there are constraints on money creation. From the supply-side, borrower solvency acts as a constraint. From the demand-side, appetite for debt acts as a constraint.

These constraints, evolved over time, create systemic equilibrium.
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In a ‘fresh’ system, the constraints are not clear.

Many of us suspect that Tether issuance experiences no solvency-centric constraint, and this worries us.

There is observably no demand constraint (as yet).
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Let's pause here and note that the alt-money participants likely do not believe they are doing anything amiss — from their perspective, they are simply replicating the tropes of the current monetary system as they understand it.

But an unconstrained system burns too hot.
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And it’s this heat that worries some of us observers: these systems have a tendency to self-immolate when they run hot for too long.

And that’s why putting governors on them is important.

And that’s why we want an audit to see 1:1 USD-only backing.
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Realtime 1:1 USD-only collateral adds a governor to this system to prevent it from running too hot, and that governor is the need to source a specific form of collateral.

Making this a requirement would be good, and prevent the system from going supernova.
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Unfortunately, the participants within the system are hostile to this idea, and hostile to external input generally. The “cyber hornet” moniker is apt, but unfortunately it’s ultimately also a disservice to this new ecosystem.

Problems lie ahead.
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What problems, specifically? Well it’s hard to say — this sort of super hot system can experience breakdowns in a number of ways.

But the lack of equilibrium will eventually be a problem, and that sort of problem has historically caused pain for market participants.
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And when that pain comes, it will put the ecosystem at odds with the State — for representative democracy states are wired to dislike and solve things that cause their citizens pain.

In a conflict with the state, the state will win.
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And this is why I’d like to see the Tether situation mopped up — it’s unsustainable.

And when it breaks down, it will lead to conflict with the State.

And conflict with the state will slow our progress toward what could be the beginnings of an exciting new monetary system.
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