Joe (00:00.974)
So it's crypto week in Congress. The House is considering the Genius Act, which is going to regulate stable coins. So one of the provisions there is that it's going to require investment in certain US treasuries. Do you think this is the key to solving all of America's national debt problems?

James (00:18.277)
It's going to solve all the problems. It's going to solve all the problems. No, man, look, it's interesting. It's a little bit of a double edged sword, right? Crypto is always, this is one of the few areas where my very dear friend and partner, Peter Schiff, and I disagree. Peter loves just shitting all over crypto and I don't. think crypto is imminently useful and I think it's fantastic asset class to me. Anything that disrupts the banking system is a good idea.

The banking system is so bad. It's just bad. It's terrible. Very few people ever really have like a banking experience like, wow, that was really great. What a pleasant use of my time that was. It's just horrible, right? Opening an account, closing an account, sending money, all these things, these very, very basic things. And when you think about all the different functions and industries in the world that our human civilization really relies on, you know, there's only,

you know, a handful of them, right? mean, you know, with food, energy, finance, mean, these are transportation, these are some of the most essential elements of human civilization. Most of these things are really impressive in the way when you think about, you know, people that have to drill for oil and gas and all those sorts of things. I mean, the incredibly difficult things that they have to do and to get that stuff out of the ground and move it thousands of miles and put it in form of gasoline or electricity and all that. It's so seamless and

Hardly anybody on the planet even knows how it works. And we don't need to, because all works so well. Finance is a thing that we see is one of those critical functions. And it's so bad. It's so bad. So anything that it's just, it's bureaucratic, it's cumbersome, it's inefficient. takes days and days to send money and all this stuff. Like it's still giving people satchel sort of cash on the Pony Express to ride on horseback across the countryside.

You every time, you you send an international transfer and some bank goes, oh, it'll take three to five days for the money to get there. And I'm like, are you putting it on a boat? Is this on a ship? And you're going to, you know, it's ridiculous. And so anything that disrupts that is a good idea. And crypto very heavily disrupts that. Crypto gives you a sense where you can be your own banker. You don't need a middleman anymore between you and your money. You don't need any of stuff. And I think it's great.

James (02:40.677)
I think the way the government is looking at this from the Genius Act, and I got to about this, maybe genius is a strong word. I'm not sure the Genius Act is

genius, but I think it might actually be pretty clever. And what they're ultimately trying to do, the US government needs money. I don't know if you notice this or not, but I mean, when you're running multi-trillion dollar deficits every year now, you need cash. You gotta always come up with cash. And so where do they always get that money from? They used to go to foreign governments, foreign central banks, big corporations.

domestic banks and they would sell treasury bonds and treasury notes and T-bills at auction. And that's how they would, you know, finance the deficit and increase the national debt every year. Well, now it turns out that there's all these, especially foreign governments and central banks that are losing confidence in the United States government. They're losing confidence in U.S. government finances and by extension, essentially the U.S. And so they're kind of moving away from treasuries now. Foreigners have less of an appetite to own and buy and invest in treasuries.

So they got to make that up from somewhere. Well, where is there a bunch of money sort of sitting around that might not really be invested or deployed anywhere? And they're looking at say, hey, crypto. And Donald Trump had this magic epiphany moment during the election where all of a sudden he got very extremely pro crypto because of course the crypto community was giving him lots and lots of money. So he'd become the most pro crypto politician in history up to this point. And he got lots and lots of crypto money and his meme coin, all this stuff.

And I think what they're looking at now is saying, hey, there's a lot of money there. And we think about there's a couple trillion dollars that's sitting there, trillions of dollars that's sitting in crypto. I think that politicians are looking at this saying, if we can divert some of that crypto money into stable coins and have those stable coins required to own US government bonds, specifically in this case, the legislation requires them to own short term US government bonds.

That's a great way to plug that gap because say, man, we might lose $300 billion in money from the European Union and China that's not going to be coming into treasuries here. How are we going to make up for that? Well, they can go get that money from the stable coin market now. Right. And so that big money that comes sort of out of Bitcoin, out of maybe some alt coins, things like that goes into these stable coins that are now being regulated by state governments and by the federal government that would then be that. And then with those proceeds, they would have to buy

James (05:07.353)
treasuries and that's now all of sudden how the treasury is able to plug the gap to the tune of potentially hundreds of billions of dollars a year. Maybe even you get to a number that's in the trillions, right? So that's, think, one of the things that could be very clever about this.

Joe (05:20.984)
But you're saying that stable coins could also be a disruption to the banking system and improve it in some way?

James (05:27.299)
Well, just about anything could be an improvement to the banking system, I think. It's actually quite interesting that in some respects, where would, so if all of a sudden there were, and this is gonna happen, okay, so the Genius Act creates a regulatory framework for basically anybody to go and start their own stablecoin.

And if it's below a certain threshold, if the market cap of your stable coin is below a certain threshold, you can be regulated at your state level. And which is, which is cool because what that means is exactly what the founding fathers intended is that all the states are going to be in competition with each other. So states will immediately set off this, this sort of land rush for every state to try and create their own alt core, sorry, their own stable coin regulatory framework to become, you know, like we're the, we're the cool state and able to be Wyoming, maybe it'll be Florida. You know, we're the, we're the best state.

to set up your stable coin in. And if you're above a certain threshold, then you become regulated at the federal level. But the idea is across the board that if you create a stable coin, so somebody says, okay, I'm gonna have my one token, my Joe token is gonna be worth one US dollar. It's your responsibility as the stable coin issuer to maintain that. And so they give you these requirements and these regulations. Here's how you do that. Here's what you're supposed to do. So people go and they give you all these dollars in exchange for your token.

What are you allowed? What can and can you can and cannot do with all those dollars that people give you? So you've got a hundred million dollars in stable coin, a hundred million dollars backing it on the other side with US dollars and US dollar assets. What are those US dollar assets that you can have that are backing your stable coin? Well, they're saying it includes things like specifically short-term treasuries. So what I think they're hoping for is that that creates an inflow

of all these short-term treasuries, but specifically short-term treasuries, 90-day T-bills, 28-day T-bills, right? Why are they forcing stablecoin issuers to buy short-term stuff instead of the long-term stuff? It's in the treasury's best interest if people buy 30-year treasury bonds, right? Because that allows them to lock in for a really, really, really long time. know, the short-term stuff means that there's interest rate risk. If interest rates go up, they have to refinance that short-term debt.

James (07:47.231)
whole lot more frequently. But if it ends up being, you know, the problem with the long-term stuff is if you buy a bunch of 30-year treasury bonds, and all of a

sudden something happens in the bond market, and the value of your bond just tanks because of changes in interest rates, changes in, you know, government credibility, all these things, what are you going to do? You're going to say, well, I guess we got to wait 30 years for us to be able to get all of our money back, right? We have to sell at a loss. We have to wait 30 years to get all of our money back.

can't do that with a stable coin. have to maintain constant liquidity. So that's why they say it's short term, 28 day, 90 day, 180 day T-bills. Those are things that you're allowed to buy. again, I think they're hoping that a lot of that money for stable coins will come from Bitcoin. It'll come from, let's say, the risk assets, Bitcoin, altcoins, et cetera, and from altcoins into stablecoins. But the reality is that a lot of that's going to come from the banking system.

as well. There's going to be people that people are going to take US dollar deposits from the banking system and they're going to move it into stable coins. Right. So that's going to take money out of the banking system. going to reduce deposits in the banking system. And the reduction in deposits mean that banks are going to have to sell assets to come up with that liquidity. Banks are going to have to sell. What are bank assets? What do banks own? Well, they own US government bonds. So banks are going to have to sell. They own the longer term ones, right? They own 10 year

Joe (09:10.402)
the longer term ones.

James (09:14.309)
20-year, 30-year bonds. They also do own short-term stuff as well. But you're going to see banks having to sell five-year notes, 10-year treasury notes to create enough liquidity so they can give the depositors back their money so the depositors can move their money into the stablecoins. Then the stablecoins will take that same money and they're going to buy short-term government bonds. buy these 90-day T-bills, 20-day T-bills. So essentially,

In some respects, it sort of screws the Treasury Department a little bit because the Treasury Department is now going to have to, the Treasury Department wants to sell the longest debt it can, 10-year notes, 20-year bonds, 30-year bonds. Instead, they're to be trading that stuff out for 28-day T-bills. Banks are going be selling 30-year bonds so the government can turn around and issue 28-day T-bills to these stablecoin issuers. And that's going to actually end up being a problem for the Treasury Department.

So there's gonna be more money flowing into treasuries, which is a good thing, but in some respects, it's actually gonna probably shorten the average maturity curve for US treasuries. And that's a problem for the federal government. That's a problem for the Treasury Department. So that's why it's not gonna solve all their problems.

Joe (10:22.37)
Did they miss?

Did they miss that or do they have some other goal in mind?

James (10:29.965)
I think this is part of just fulfilling a campaign promise, you know, that Trump wants to be the super pro crypto president. I think the Genius Act does bring money into this and I think they view that as good thing. I also think they want to focus on, you know, America, the innovator, America, look at us, we're doing all these innovative things and I think that's cool. My view, and you and I were talking about this earlier, is that I think crypto is great. I think crypto is great for estate planning, asset protection.

your personal freedom where you can no longer have a middleman between you and your money. I think all those things are great. And yes, it's innovative. It's a lot more innovative than the banking system. The banking system is just, I mean, the bank system is just dying. I've talked about this before. It's astonishing how some of the most critical components of the global banking system are still using Windows 7. You know, I mean, you've got ATM machines that still use Windows XP. It's like you got banking systems that are written in COBOL and FORTRAN and these like ancient

programming languages that nobody's even heard of anymore. It's a joke. So yeah, like that stuff, it should be disrupted. And anything is more innovative than that. However, comma, I also don't think that, I don't think that widespread crypto adoption is going to move the needle on US economic productivity. That's the reality of the situation that like if all of a we're all transacting in stable coins,

of the banking system. Yeah, maybe there's a little bit more efficiency and maybe a little bit less wasted time and maybe there's labor that can be better allocated in other industries, etc. But I don't see this huge productivity boom in crypto as we would have, for example, in AI or widespread adoption of nuclear power or a lot of other emerging technologies, robotics, etc. I mean, you have a nuclear powered, small scale nuclear reactor powered robotic AI, driverless taxi, you know, type revolution, the productivity gains in the economy are so much greater, so much greater than all of we're all using crypto. I just don't see the economic gains there. I see the personal freedom gains and a lot of benefit. think that's fantastic, but I don't see widespread economic gain. And I don't, so I don't, I don't think that's really part of it.

Joe (12:42.414)
We had a question from a reader that was wondering if the stable coins would be a way to diversify outside of the US dollar.

James (12:54.531)
Would stable coins be a way to diversify out of the US dollar? No, not with the US dollar stable coin. I mean, because the reality is under the genius act, a US dollar stable coin is going to be the issuer of that stable coin is going to be a US company, US regulated entity, which it's not right now. I mean, that's the thing. Like crypto was always the, you know, kind of the wild west. was

not really any regulation. And so it was all about, you know, it was a trust ecosystem. I had to trust the issuer. had to trust the counterparty, you know, including even like the person you're dealing with, you didn't necessarily even have to know, let alone trust that person. But the issuer, if anybody's got half a brain before they go and load up on some altcoin, they're going to want to understand it. They're going to want to know who's behind this. You know, they might look at the code if they have those skills, et cetera. And, you know, so it was based on trust and now it's going to be based on a regulatory frame.

And what you're going to see once the Genius Act gets passed, and I think almost certainly it will, is you're going to see all these different agencies. You're going see agencies that aren't really part of the Genius Act or maybe have a small part of it just sink their little clenches into stablecoins. And you're to see the Elizabeth Warrens of the world and Consumer Financial Protection Bureau and all these kind of leftist agencies start encroaching more and more into stablecoins. And my concern is that

you fast forward five to 10 years, stablecoins are really going to suck because there's going to be so much bureaucracy behind them because once you start that, there's really never been an instance in the history of regulations where you start regulating something and then later on they have like, they'd start reducing all that stuff. They build it and build it and build it and build it, maybe to certain point they go, we need to deregulate a little bit. But it's like they start the deregulation from a really, really high point. And so, my

My guess is that you project forward a few years, it could be just as crappy as banking is today. And that's going to be a problem. And that's not what it is. Stablecoins today, crypto in general, it is very much buyer beware, but you have a lot of freedom. And now it's going to be US agencies issuing US denominated stablecoins backed by US domiciled assets. That's not a way to diversify anything really out of the US dollar.

James (15:10.793)
makes it easier to hold US dollars without a middleman, right? Because you can self-custody your stablecoin asset, but you're still completely exposed to the US dollar. And all the things, if the US dollar has a really nasty inflationary episode, guess what? So your stablecoin is going to have the same problem. If your government becomes very confiscatory and decides they want to go into all the civil asset forfeiture, whatever,

And people find out, yeah, Joe's got all this stablecoin. Well, guess what? It's all getting frozen because they can lean on the issuer, which is a US company with US regulators and all this stuff is gonna get frozen. And all these things, so from an asset protection perspective, it doesn't make any sense. From a anti-inflation hedge perspective, it doesn't make sense. it makes sense for me, personal freedom, self custody. I don't have to deal with the banking system anymore, but it doesn't really make sense as a long-term sort of hedge to diversify away from the US dollar.

Joe (16:09.048)
Thanks for those insights, James.