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Intelligence Squared U.S.

Bitcoin Is More Than a Bubble and Here to Stay

For the Motion: Patrick Byrne, Tim Draper

Against the Motion: Eric Posner, Gillian Tett

Moderator: John Donovan

AUDIENCE RESULTS	
Before the debate:	After the debate:
39% FOR	25% FOR
38% AGAINST	68% AGAINST
23% UNDECIDED	7% UNDECIDED

Start Time: (00:00:00)

[applause]

John Donovan:

So, we are delighted that you are here and we are delighted about this partnership. So, what we want to do now is bring to the stage two of the people who helped organize this. One of them, of course, is our founder, Robert Rosenkranz who started Intelligence Squared about 150 debates ago and he's the primary reason that this organization exists and is doing so well. So please welcome to the stage Robert Rosenkranz.

[applause]

Hi, Bob. Hi, Bob.

Robert Rosenkranz:

Hi, John.

John Donovan:

And your senior director, senior director of the Adam Smith Society who's been fantastic for us to work with. Please welcome Allison Mangiero [spelled phonetically].

[applause]

Hi, Allison. Thanks very much. You can take a seat. We'll just chat for a couple of minutes about us all being here together and Allison, I'll start with you. I was just explaining to the audience a debate is actually -- a real debate is actually a rather unusual thing. So, for Adam Smith, why this partnership? Why turn this top towards a debate?

00:01:01

Allison Mangiero:

So, we like to say our sort of informal motto at the Adam Smith Society is free markets, open minds. So, what we try to do really debate and discussion is part of our mission and so we want both sides to be represented, but what we find is if you actually don't get both sides in the same room together on the same day and talking about the same point, then the conversations can kind of go past one another. So, it was kind of important for us to engage in this formal that you all obviously do so well.

John Donovan:

Because that's what debate does is it gets two sides into the same room on the same day and how rarely we see that.

Allison Mangiero:

That's true.

John Donovan:

Well, it's a pleasure to be working with Adam Smith and thank you for making all this happen.

Allison Mangiero:

A pleasure working with you guys.

John Donovan:

And Bob Rosenkranz, you've been to a lot of these debates now. You know what we do, but --

Robert Rosenkranz:

[laughs] I hope so at this point.

John Donovan:

You actually wrote a piece about Bitcoin. You began pondering this -- you published a piece in Forbes 2015 and, you know, nowadays things move so fast that three years ago, that's like three centuries ago. So, what were you thinking three centuries ago about Bitcoin in 2015?

Robert Rosenkranz:

Well, I was looking at it as a potentially very interesting financial product, one that had the anonymity of cash.

00:02:08

One that potentially had a way of transacting where people didn't have to know each other in order to establish trust, that had potentially the convenience of digital transfer, and as a potential storer of value and a financial product that had all of those attributes I thought would be extremely interesting.

John Donovan:

And looking back now, what were the kinds of questions that -- what were the pushback questions for you?

Robert Rosenkranz:

Well, the biggest issue for me then was this storer of value question, because it was not legal tender. It didn't have any physical or other claims behind it. It was -- the value was all in people's psychological appraisal of it and so I doubted it, frankly, as a storer of value.

John Donovan:

And now, again three centuries into the future to the present where we are now, as you look back how do you rate your assessment?

00:03:04

How good were you?

Robert Rosenkranz:

Well, considering that the price then was \$250 and the price now is about \$8,000 I think I was either wrong or early.

John Donovan:

What's the difference?

Robert Rosenkranz:

The difference between being wrong and being early?

John Donovan:

Yeah.

Robert Rosenkranz:
There is none.

[laughter]

John Donovan:
Bob Rosenkraz and Allison Mangiero, thank you so much for bringing us here and bringing us together on this stage. It's been a pleasure.

[applause]

I'll take the mic from you. Thank you. Bye bye. Thank you. And I'm going to have -- we're going to have these seats removed and in just a moment we're going to welcome our debaters to the stage and that will be one of those times when your spontaneous applause, your heartfelt spontaneous applause, would be much appreciated. We're good? Okay. Let's bring our debaters to the stage. We're going to welcome them one at a time. We're going to start with a round of applause please first for Gillian Tett.

[applause]

Up and down bitcoin goes and where it ends up well, if you do know that would you mind sharing with the rest of the class? Bitcoin the first cryptocurrency has been called a bubble, a fad, a scam, a tool for terrorists and crooks that is doomed to disappear and yet some fiercely smart people believe in Bitcoin, believe in it because they say it takes vision to see how this first of a kind digital currency will thrive and soar once everybody else recognizes its utility, that it will liberate us from the corrupting influence of central bank meddling in currencies like the U.S. dollar itself and from a system where the middle man is always taking his cut.

00:04:07

Bitcoin they say is the solution and just getting started. Wild price swings notwithstanding. So, which is it? Well, to us this sounds like the makings of a debate so let's have it. Yes or no to this statement: Bitcoin is More Than a Bubble and is Here to Stay. I'm John Donovan. I stand between two teams of two experts in this topic who will argue for and against that motion. As always, our debate will go in three rounds and then our audience here at the Adam Smith Society's 2018 national meeting in New York will choose the winner. As always, one side wins unless there's a tie, and if all goes well civil discourse will also win. Our motion is Bitcoin is More Than a Bubble and is Here to Stay. Let's meet our debaters. First, on the team arguing for the motion please welcome Patrick Byrne.

[applause]

00:05:00

Patrick, you are CEO and cofounder of Overstock.com, which was the first major retailer to accept bitcoin as a payment method. You're also CEO of T-Zero. That's an ICO trading platform that you founded. Wired magazine has called you, "The messiah of bitcoin." You have also been called the scourge of Wall Street.

[laughter]

Messiah and scourge, do you embrace these terms, this strong language?

Patrick Byrne:

Well, I'm reminded of a line of Oscar Wilde's when a play opened at the Abbey Theater. He got this rousing ovation. One man stood up and said, "You're a fraud." And Wilde stood up and said, "Frankly, sir, I'm inclined to think you're right, but in the fact of so much acclaim, who are we to disagree?"

[laughter]

John Donovan:

Thank you, Patrick Byrne. And your partner here today is Tim Draper. Ladies and gentlemen, Tim Draper.

[applause]

Tim, welcome to Intelligence Squared U.S. You're a venture capitalist. You're the founder of Draper Associates and DFJ and Draper University.

00:06:00

You were an early investor in companies some people may have heard of, Tesla, Hotmail, Skype. How does bitcoin compare?

Tim Draper:

Oh, this is bigger than all of those combined. This is bigger than the internet. It's bigger than the iron age, the Renaissance. It's bigger than the industrial revolution. This affects the entire world and it's going to be affected in a faster and more prevalent way than you will -- than you ever imagined.

John Donovan:

I wish we knew what you really thought. Thank you, Tim Draper. And again, the team arguing for the motion.

[applause]

And with the motion Bitcoin is More Than a Bubble and Here to Stay we have two great debaters arguing against. Please first welcome Eric Posner.

[applause]

Eric, you're an Intelligence Squared veteran. Welcome back. You're a professor at the University of Chicago. You are one of the most cited legal scholars in the United States, author of a lot of books, including "Radical Markets: Uprooting Capitalism and Democracy for a Just Society," which is going to be released next month.

00:07:06

In a sentence, in a sentence, what is a radical market?

Eric Posner:
In a sentence?

John Donovan:
In a sentence.

Eric Posner:
Professor? Well, a radical market is a market that is designed so as to promote both welfare and equality and many of markets need to be improved and this book suggests various ways that that can be done.

John Donovan:
You know, with the punctuation you used that actually was one sentence. Well done.

Eric Posner:
Yeah it was. I was careful about that.

John Donovan:
Thank you, Eric Posner.

[applause]

And your partner right here also a returning debater to Intelligence Squared, Gillian Tett. Gillian, welcome back to Intelligence Squared.

[applause]

Gillian, you're a best-selling author. You're an award-winning journalist. You are the U.S. managing editor of The Financial Times where you oversee global coverage of the financial markets. You at an Intelligence Squared debate back in January in which we were debating the

nation's economic outlook, you happened to mention that your 14-year-old daughter had friends who were buying bitcoin.

00:08:05

Would those friends vote against you if they were here for this debate?

Gillian Tett:

Well, if anybody here in the room has got a teenager in their lives, you know two things. First, if an adult said the sky is blue they all say it's red. And secondly, you do not ask a teenager for advice about anything let alone your investment portfolio.

[laughter]

So, I am sure that whatever I say they will say the opposite.

John Donovan:

Yep. Well, I get that. Ladies and gentlemen, the team arguing against the motion. Thank you to all of you.

[applause]

And so, we move on to round one. Round one will be opening statements by each debater in turn. Those statements will be six minutes each. Tim Draper, you can start making your way to the floor. Speaking first for the motion Bitcoin is More Than a Bubble and Here to Stay, here is Tim Draper, venture capitalist and founder of Draper Associates and DFJ. Ladies and gentlemen, Tim Draper.

00:09:01

[applause]

Tim Draper:

Well, thanks everybody for coming to this and thank you Intelligence Squared and the Adam Smith Society and our makeup girl who tried to make me look better.

[laughter]

I wanted to say that this is sort of the perfect audience. It's a bunch of millennials and it's -- this is all going to be in your hands. It's what happens to the world. Do we have a world that you kind of grew up in where you are deeply in debt. You are coming out with a bunch of facts that don't help you get employed, and you're coming into this world that this -- your grandfather's Fiat world that's very controlled and constrained and you're saying what?

00:10:00

Does this make any sense? And you have a major opportunity right now. All of the sudden this amazing thing happened. Satoshi Nakamoto [spelled phonetically] came up with a new kind of currency and now let me take you through a history of currencies. We used to use shells and we'd carry around shells, but then they got too bulky and then we moved to gold and then gold got too bulky and we kind of ran out of it and then it was the promise of gold or the promise of silver, and that was like a silver certificate. And then it was like the full faith and credit of the U.S. government and that's the federal reserve note. And you're looking at it and you're kind of going okay, well what is this? It's just paper. And they say the full credit of the U.S. government. There was a huge debate much like this, huge battle about should we go off the gold standard and people said no, it's just paper.

00:11:07

We can't do that. We have to be on the gold standard because gold is really what this country is built on. And but paper, it just sort of abstracted things and then it got further abstracted. Currency, what did currency become? And all of the sudden there's this currency. It's awesome. Because we have like the federal reserve note, you are relying on a third party to hold your currency, right? You rely on a bank. I -- whenever you walk down a street of a city look at the biggest buildings in the world. They're all banks. That's your money that's gone into their buildings. Think about it. I mean, when you go to Las Vegas it's like, you know, why are all these beautiful buildings here?

00:12:00

Well, it was your money. It's the same idea. So now you've got this new currency and your trusted third party is 100,000 computers that are all focused on making sure that every single transaction is done perfectly. So, it -- now do you think that humans are going to make sure that every single transaction is done perfectly? I've had 15 times where a bank statement was wrong. In fact, the bank actually gave me \$2,000,000 at one point just here. It was there in my statement. I had to call them, talk to 15 people, figure out where that -- why I had this extra \$2,000,000 and why and, you know, to give it back I had to go through about 15 people. So, in this case you've got a new currency and it's virtual and it's something that transcends geographic borders.

00:13:09

So, you don't have to be reliant on your country. I had this great guy who came up to me and he said, his name is Sebastian Serrano [spelled phonetically], and he said, "You know, I lived in Argentina all my life and my family fortune disappeared three times and I'm only 30 years old and it's just disappeared to currency manipulation." And, you know, as you know the Argentinian peso has dropped 30 percent a year. Same thing with Nigerian Nira [spelled phonetically] or whatever. Anyway, Sebastian said, "I'm going to start this business and I'm

going to build it all on bitcoin. And he did and it was -- and it's an enormous success. He has since created a new currency called Ribio [spelled phonetically] and it's one of the top currencies of the world, cryptocurrencies of the world.

00:14:04

Now people ask things like is it a bubble. I -- the whole premise of is it a bubble is ridiculous because our last bubble, what was that? The internet bubble. Was that a bubble? You guys still use the internet. I see some of you actually using it right now.

[laughter]

That was no bubble. That was an amazing transformation of our world. It affected many different industries. It affected information, communications, banking. It affected -- well, it didn't really affect banking. Banking had a way of kind of slipping through. It affected gaming. All sorts of things were affected by the internet. Cars -- or taxis. So, now we've got another currency that has the ability to change enormous industries and it will change -- it can change banking, insurance, real estate, and government itself.

00:15:09

Am I out of time?

John Donovan:

Your time is up. Thank you very much.

Tim Draper:

So, I want you to -- I want to make sure that you vote for no bubble or whatever.

[laughter]

I am dying. I am really anticipating and enjoying the idea of hearing from these two because I --

John Donovan:

Let's let --

Tim Draper:

Have no idea how anybody would vote no here.

John Donovan:

Thank you, Tim Draper.

[applause]

Well, our next debater is going to make that argument. The motion is Bitcoin is More Than a Bubble and is Here to Stay. Here to argue against that motion, Eric Posner, law professor at the University of Chicago. Ladies and gentlemen, Eric Posner.

[applause]

Eric Posner:

Thanks very much. I'm going to start with a quotation.

00:16:02

"When the profits of trade happen to be greater than ordinary, overtrading becomes a general error." And I assume you're all familiar with that quotation. It's from "The Wealth of Nations" by Adam Smith. He was talking about the great South Sea bubble of 1711 to 1720. Adam Smith, the great theorist of the free market, was also a keen observer of the world around him. He understood that bubbles occurred and they existed. The South Sea bubble, which was kind of a speculative mania in the stock of a company that was supposed to invest in South America destroyed many fortunes, damaged the British economy significantly and continued to reverberate up until through the rest of the 18th Century when Smith was writing "The Wealth of Nations." Now what exactly is a bubble? Many people are skeptical despite the long historical record of bubbles culminating in the most recent bubble in your lifetime, the real estate bubble of the early 2000s, which led to the financial crisis and the great recession.

00:17:05

A bubble occurs when the price of an asset deviates from its underlying value and the deviation is maintained for a significant amount of time. And the question is why does this occur? Isn't the market price supposed to reflect the actual value? And the explanation is complicated. Usually there's some kind of accident, sometimes a new technology. That's what happened in 1711. People get excited. The early movers make big profits. Everybody else sees this and they think well that's easy. They just bought this thing. We can do the same. As people chase their tails or their neighbors trying to get rich, the price spikes. Now, the price can go up in an asset just because that asset is very useful and so we have this pattern already of the prices of bitcoin going up and then down a little bit. And the question is, does that reflect the bubble mentality, the speculative mania, or something real?

00:18:00

So, what I want to do in this opening statement is just to give you three reasons to think that a bubble is taking place now. And the key idea I want to convey with you is that the very elements of bitcoin that its supporters cite as support for their view that bitcoin is this great new thing, is also the greatest vulnerability for bitcoin. So first, anonymity. Okay? So, bitcoin transactions are anonymous or more accurately pseudonymous. People use codes that are difficult to trace back to them. And this of course is attractive. People want to keep their

financial transactions private. Two problems with this. The people to whom this is most attractive is criminals. That's why there's a great deal of criminal activity in the bitcoin market. Bitcoins are very good for money launderers, drug criminals, human traffickers, and many other criminals. And then there's another problem, which is that bitcoin is only anonymous for very sophisticated people, sophisticated criminals, especially.

00:19:08

Ordinary people can't master the technology. And as a result, ordinary people have come to rely on intermediary institutions, a bit like banks. Wallet companies, for example, exchanges, and you don't get anonymity with those companies. Those companies typically insist on the identity of their customers. So ordinary people don't really get anonymity ultimately if the government believes that they're engaged in criminal transactions. Sophisticated people, sophisticated business people, and criminals do. Second feature of bitcoin, the fixed money supply. There can never be more than 21 million bitcoins because of the way that the program was designed. This is said to be good because national currencies sometimes are subject to inflation, which can be a nuisance and in extreme cases a terrible -- cause terrible problems.

00:20:00

The problem, though, is the fixed money supply is no good either. Fixed money supply leads to deflation, which is just as bad as inflation. People will hoard the currency as they are with bitcoin because they believe they'll be able to buy more goods and services in the future. A currency that is not used is dysfunctional. Bitcoin can't be successful as long as there's a limited money supply. But even more important than that, government's control of the money supply is absolutely essential for addressing financial crises like the one we lived through in 2008 and addressing recessions like the one we lived through in the years after the financial crisis. If the money supply is truly fixed the government is helpless. Back when the United States was on the gold standard in the 19th Century, there was an endless cycle of speculative manias, crashes, and terrible depressions, far worse than anything we've experienced since the great depression. Now this leads to a third point, which is in fact the money supply is not really fixed. That's actually a bit of a myth and it's connected to the third element of bitcoin that its supporters cite, which is the decentralization.

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The idea that nobody controls it and so we don't have to worry about manipulation. Okay, now that is false and it's important to understand -- understand that that's false. It's true that bitcoin isn't like the dollar, which is controlled by the central bank, a bunch of political appointees, but it is controlled by the bitcoin miners, the so-called miners, the people who create bitcoins as a part of the transaction confirmation function that they serve in this currency network. It turns out that a very small number of people own the vast majority of bitcoins and the way that it works is when the Bitcoin protocol needs to be changed -- and that has to happen, and it has happened several times -- it's the Bitcoin miners -- the people with 51

percent of the computing power -- who determine that. Who are they? We don't know. Probably a lot of foreigners, possibly foreign governments. I'll have another Adam Smith quote for you, but I'm out of time.

00:22:01

So, I'll just say Bitcoin is a bubble. Vote no on the motion. Thank you very much.

John Donvan:

Thank you very much, Eric Posner.

[applause]

You've heard the first two opening statements, and now onto the third -- to debate in support of the motion, here is Patrick Byrne, CEO of Overstock.com. Ladies and gentlemen, Patrick Byrne.

[applause]

Patrick Byrne:

Bitcoin is more than a bubble. It is here to stay. You should vote yes. Here is why. First of all, for 6,000 years, humans who engage in consensual exchange have had to go about it one way. Well, we have this trouble of -- this problem of trust. How do we solve trust? I'm trading you a camel for your gold coin. How do I trust that you debase the coin or not? So, we -- there are people who create business models -- in that case, a mint. The guy who has a monopoly on violence in an area creates a mint, puts his face on the coin; says, "If you debase this, I kill you.

00:23:00

That's a business model -- the way to monetize his monopoly on violence. There's lots of business models. But that enables us to engage in our trade. Lots of business models -- lots of institutions, I should say, have that same feature. Land titling, for one thing. Visa cards, for another. If you come into my store, I don't know you. You don't know if you can trust me. I don't know if I can trust you. We each just trust Visa just like we each just trust the land titling office or we each just trust the mint. So, for 6,000 years, that's the way we've been going about solving things. We create these central institutions that -- since we can't trust each other, we just trust them. For the first time in 6,000 years, we can have consensual exchange among strangers that is trustworthy. In other words, we have a way to do something that for 6,000 years humans have done by creating these institutions. We can now -- and those institutions have accumulated, like barnacles on the hull of civilization.

00:24:04

Some of them are private corporations. Some of them are functions of government. But remember, we -- you know, they didn't come out of a burning bush. We created them, so we can go about achieving our ends. It's now possible to achieve those functions without those institutions. And we can see -- we will see many of them -- this is why Tim is correct. This is -- I heard somebody snicker when he said, "This is bigger than the Internet." It's much bigger than the Internet. The Internet disrupted publishing. I've been in a Silicon Valley company where there's 160 institutions on the wall. By institutions, I mean everything from notary publics to Wall Street, to many of the functions of lawyers and judges -- can all be reduced to smart contracts and such. So, our -- so, we will not have to rely on those central institutions nearly as much, going forward. Here's a big one that's really important to us, and I'm going to -- here's a big one that's really important.

00:25:06

I -- some of the old-timers here may remember the Soviet Union. And there was this country that tried to run itself, setting prices -- 23 million prices on 23 million things. The screws on this stand would have been sent by some bureaucrat in Moscow in a big ledger book -- and such, eventually on computers. And we think that's ridiculous. See how silly these people were to try to run a society with them setting prices on 23 million things? But here in our society, what's the single most price -- what's the single most important price any society faces? It's the price at which we discount the future against the present, which is to say interest rates. And currently, those are -- that price is being sent in a central department of Central Planning called the United States Federal Reserve. Now, my worthy opponent -- Eric Posner -- believes that we need government to manage that.

00:26:06

What did he say? We need government that can -- needs to address the money supply to manage the economy. People like this is -- you have to -- when you -- I think of -- there was a Great London School of Economics professor who has described certain people's mentalities -- the economy is this big engine. And they're the workmen, with the baseball caps, and the coveralls, and the screwdriver. And only they know just how to fine-tune it, just how to get the carburetor right and such, and you got to -- when you hear that, remember the Dilbert strip. The pointy-hair manager in the corner, who always -- "He knows what's best." He's in the corner. "He knows better than those people out in the cubicles do. He knows what's best. You know, what could possibly go wrong? Every day he's got a different solution to something." And that is the mentality of the people who think that we need government to do all these things for us. They need to manage our money supply for us. Well, here's a different way to think of it -- how we used to think of it.

00:27:01

We have to communicate with each other information about value and scarcity. That's what a price is. It's a packet of information about value and scarcity so we can all communicate to

each other. We want a form of money that we can communicate that information to each other without having to go through some field -- some form by which we send that signal, through some field that any government mandarin controls. Then we can really communicate the truth to each other. The mandarins want to have their hands on the dial to be able to adjust that field and distort that signal to serve their own private political ends. That's why they're against Bitcoin. They don't want a form of monies that mandarins can't control it. And regarding that point, you know, we have seen in the last financial crisis that the oligarchs -- they have bought themselves some senators.

00:28:03

They bought themselves congressmen. They bought themselves the esteemed regulators to whom Mr. Posner bows. They bought themselves all kinds of things. One thing that they can't buy is the laws of mathematics. They can't buy the mathematics that underlies cryptography, which is why we should rebuild our social institutions on crypto -- and in particular, Bitcoin. Thank you.

John Donovan:

Thank you, Patrick Byrne.

[applause]

And our final debater against the motion -- Bitcoin is More than a Bubble and Here to Stay -- is Gillian Tett, best-selling author, U.S. managing editor of the Financial Times. Ladies and gentlemen, Gillian Tett.

Gillian Tett:

Thank you.

[applause]

Well, thank you. Well, I come last, but not least, to tell you why you should vote against this motion. And I tell you that not because I am an esteemed professor of law and finance -- like Professor Posner -- but because I am both a journalist and trained as a cultural anthropologist.

00:29:06

And as an anthropologist, I can tell you three things about money. Firstly, that societies all over the world have used all kinds of things to create money over history. There is nothing special about fiat currency. Secondly, fiat currency has problems, as you've heard. I will admit that. But thirdly, and this is a key point -- the problems with fiat currency today are nothing compared to the problems with Bitcoin. And to understand that, you have to go back for a moment and think about first principles and think about what money does. Because, if you believe that Bitcoin is so valuable, you have to believe it's a fantastic type of money. So, what

does money do? Well, as you all know, it's, one, a medium of exchange; two, a store of value. And sometimes, three, an investment too.

00:30:02

So, think about it. Bitcoin as a medium of exchange, compared to fiat currency. Well, I don't know how many of you in the room have actually got Bitcoin, but any of you who have got Bitcoin will know it's a pretty lousy medium of exchange right now. You can't actually do very much with it. Yes, you can buy stuff on Overstock, and I've given you a free promotion, Patrick.

[laughter]

Thank you. I work on commission.

[laughter]

But not in Bitcoin.

[laughter]

[applause]

But right now, the system can only process seven transactions a second. That is nothing compared to the amount you actually need to make it a viable medium of exchange. It's slow. It's clunky. It's expensive. There ain't that many places you can actually use it. I mean, some of you may have seen the great New York Time piece recently, about trying to use Bitcoin in New York. And guess what? It's tough.

00:31:01

Not a great medium of exchange. The other problem, of course, is its value has fluctuated dramatically. So, you might say, "Well, what about store of value?" Well, if you think it's a great store of value, you have to say, "What is underpinning that store of value?" And as Patrick says, trust underpins money. The roots of the word credit come from "credere," meaning Latin "to believe." So, what underpins Bitcoin? It ain't trust in government. It's trust in, one, computers. Those wonderful, reliable, 100,000 computers that never break down, never get hacked, never have any kind of viruses. Are you guys ready to trust in computers forever? You trust in the wisdom of crowds. You trust in this idea there's always going to be roaring demand for Bitcoin. Well, maybe. As you just heard before, from Professor Posner, bubbles, manias come and go.

00:32:03

Last, but not least, you trust in the fact that the supply is limited. Well, yes. Right now, those wonderful magicians of cryptography have created a system which has a limited supply of Bitcoins. But what about Ephyrium [spelled phonetically]? What about Bitcoin cash? What about all those other Bitcoins that are coming out too? Who actually believes that the first [unintelligible] of Bitcoin is going to be the only Bitcoin? I mean, remember a time we all thought that Sony Walkmans were the coolest thing out? I mean, you're probably too young for that.

[laughter]

But think about it. Who actually thinks that Bitcoin is going to be the only idea like that? Why couldn't there be 20,000 more Bitcoins? In which case, what is that going to do to the value? Then you might say, "Well, you know what? Yeah, we see all those problems with Bitcoin. But actually, fiat currency, that's even worse.

00:33:02

Those governments, they cannot be trusted." To which I say this: okay. Maybe you don't like fiat currency. Maybe you think there are problems with government; you don't like institutions. Yes, I hear you. But what about this? There is actually something else out there which has been around for thousands of years, that doesn't require actually betting on a computer. Doesn't require betting that, somehow, the first mover, the first innovation on Bitcoin is going to last. There is something out there which is completely portable -- something out there which doesn't require enormous amounts of electricity. And let's not forget the fact that to create one Bitcoin requires the energy usage of the typical American household over two years. Last year, Bitcoin mining took up all the electricity consumption equivalent to Denmark.

00:34:02

Next year it will be Argentina. But there's something else out there that doesn't need that. And it's terribly simple. It's called gold. So, if you don't like Bitcoin -- I'm sorry; if you don't like fiat currency, okay, fine. I happen to think it's not so bad -- not ideal, not so bad -- but if you don't like fiat currency, go buy gold -- because Bitcoin -- AKA digital gold -- is a pretty lousy alternative. And the great thing about gold is that if it all goes horribly wrong, you can always wear it. You can put it in your teeth.

[laughter]

So, vote against the motion.

[applause]

John Donovan:

Thank you, Gillian Tett. And that concludes Round 1 of this Intelligence Squared U.S. debate, where our motion is, Bitcoin is More than a Bubble and Here to Stay. Now, we move on to Round 2. And in Round 2, the debaters address one another directly, and they also take questions from me and from you, our audience here at the Adam Smith Society -- 2018 annual meeting.

00:35:07

We have two teams debating this motion. The team arguing for the motion, Tim Draper and Patrick Byrne, they have made the case that Bitcoin represents a revolution, and it's a good kind of revolution -- that it represents a major opportunity for anybody with vision to get into it. Now, they say that Bitcoin is an antidote to human error in banking. It's an antidote to a banking system that they describe as parasitic. It transcends borders. It is unleashed from government. If it's a bubble, then the Internet itself was a bubble. They're against suggesting that it takes that kind of -- that kind of vision. They say currency requires a solution to the problem of trust and that a system, based on secure solving of algorithms is the perfect kind of trust. And also, that it's a currency that perfectly communicates its value between two parties to a transaction, without the corrupting influence of humans in the middle of it.

00:36:02

The team arguing against the motion -- Eric Posner and Gillian Tett -- they say, of course it's a bubble, but that Bitcoin's vulnerabilities are actually built into its design. That's where its demise is. They're saying that, for one thing, Bitcoin tends to attract unsavory characters, but that it is not really, truly anonymous, defeating one of its main purposes, because most people need to go through a middleman. It's -- their opponent is arguing that its fixed supply is a virtue. They say it's actually to its detriment -- that a fixed currency will lead to deflating, and hoarding, and a currency that is not used is not successful as a currency. The government would be helpless if it has to work with a fixed currency. They also point out -- challenge this question of trust, asking, "Do you really want to trust a system that depends on computers and upon decision-makers whom you don't know?" Because, in the end, they say, Bitcoin is something that can be influenced by humans. You just don't know who they're going to be. So, there's a lot to unpack, there. A lot.

00:37:00

I want to go, first, to this question of trust, which is one of the things where, very quickly, a disagreement has surfaced between the two of you. So, Patrick Byrne, you talked about the mathematics actually being the source of its security. We have an audience here that's larger, actually, than here. We have an audience that may not understand what that means. And so, rather than debate the point, for the next 30 seconds, can you just explain what you mean when you say -- when you talk about the mathematics of Bitcoin and why that's central?

Patrick Byrne:

There's a mathematics that underlies cryptography. Technically, it's called non-polynomial one-way trapdoor functions. This area -- cryptography harnesses this area of mathematics to make things unbreakable, so they can be encoded one way but not decoded. And that mathematics and that cryptography underlies all the cryptography of the modern era, from HTTPS, to you logging onto your bank account, to the -- what's under Bitcoin. It's the same general field of math, of cryptography.

00:38:00

John Donovan:

So -- and so, the bottom line is, given Bitcoin represents this particular solution to a particular mathematical challenge, that it cannot be altered. It cannot be changed -- and that the security is in the specificity in that number.

Patrick Byrne:

If somebody ever breaks this -- and there's talk about quantum computers and stuff -- they should be quantum resistant. But it's the most hacked-on thing in history -- Bitcoin is. It's every day, and more people hack on [unintelligible]. If anyone can break this, they can break any government and bank encryption system in the world.

John Donovan:

Okay. Thank you for performing that service. So, your opponent, Gillian Tett, has said -- who -- are you crazy, wanting to trust something that depends on the technology of computers? Because who is to say that -- you know, our computers break all the time, basically, is what she was saying. Take on that challenge.

Gillian Tett:

And they get hacked all the time as well.

John Donovan:

And they get hacked all the time. So, take on that [inaudible] --

Gillian Tett:

And there have been hacks, already, with Bitcoin.

Patrick Byrne:

Well, this has been hacked at more than anything in history and has never been defeated. Now, there are companies that spring up in the Bitcoin community that get hacked. These different exchanges, they get hacked. But the last I checked, you know, banks get hacked too.

00:39:00

And yeah, Bitcoin is used by unsavory characters. The last I checked, they used U.S. dollars too.

Gillian Tett:

Yeah. But when banks get hacked, eventually you have a big enough pool of money that's separate from the thing that they've just hacked to be able to repay the customers.

Patrick Byrne:

Well --

Tim Draper:

Now, Gillian, you said that -- you said, "Oh, do you really want to trust computers?" Computers are running all your banks. It's just, those are weaker security systems than Bitcoin.

Gillian Tett:

Yeah.

Tim Draper:

I am so much secure in my Bitcoin than I am in the money that's sitting there in Wells Fargo.

Male Speaker:

But --

Gillian Tett:

But Tim, you're -- I'm not saying, do you want to trust computers? I'm saying, do you only want to trust --

Tim Draper:

No. You said --

Gillian Tett:

No. Do you want to only -- do you only want to?

Tim Draper:

Do you want to trust computers?

Gillian Tett:

Yeah. But Tim, Tim, Tim, do you only want to trust computers? The point is this. If you're going to a bank, you're not only trusting your computer for the value of your money. You're trusting the computer, but you have a backup. And the backup is called a central bank. With Bitcoin, you are only trusting computers.

Tim Draper:

Okay. You mentioned the central bank.

John Donovan:

Well, hang on just one second.

[applause]

I --

Tim Draper:
You mentioned the --

00:40:01

John Donovan:
Just one second.

Tim Draper:
[inaudible] --

John Donovan:
No. No. I'm going to let you answer. I want to say something to the audience. I'm getting these little smatterings of, you know, I'm -- you're going to applaud but then you stop. Go for it. Just go for it, okay?

[laughter]

It's fine.

Gillian Tett:
[inaudible] --

John Donovan:
We'll pause. We'll pause. Go ahead, Tim.

Tim Draper:
So, you mentioned the central bank. Central bank always gets it wrong. So, when you're in recession, they shove you further into a recession. When you're in a boom, they push you higher in a boom --

[applause]

-- because they move so slowly.

Gillian Tett:
But Tim --

Tim Draper:

And they move -- and they never react. And then they react too late and too strongly, and the government regulations -- the same thing happens with the government regulations. They add more regulations when you're already -- you've already got both hands tied behind your back and you're trying to feed your family.

Gillian Tett:

Okay, Tim.

[applause]

There's a reason -- guess what. I agree with you. But there's a reason why the U.S. constitution is based on checks and balances. There's reason why investors do not put all their eggs in one basket.

00:41:00

Essentially, money is not just your eggs in one basket. Putting your money into a bank is not your eggs in one basket. Having some faith in a central bank is not all your eggs in one basket. The problem with Bitcoin is you're betting entirely on the sanctity and the durability of those computers.

Tim Draper:

Okay.

Gillian Tett:

There is nothing else backing it up.

Tim Draper:

You said earlier --

Gillian Tett:

There's no check and balance.

Tim Draper:

Neither of you have Bitcoin wallets. I heard that earlier, right?

Gillian Tett:

[affirmative]

Tim Draper:

You probably shouldn't keep all your eggs in one basket. There is another basket now.

Gillian Tett:

And guess what? I have several currencies.

John Donovan:

All right.

Tim Draper:

Yeah. But they're all fiat.

Patrick Byrne:

They're all fiat.

Gillian Tett:

Yeah. Different governments. Different governments.

Male Speaker:

It's not too late to --

Male Speaker:

[inaudible] --

Gillian Tett:

They're from different governments. They're from different governments.

Male Speaker:

It's not too late to --

Gillian Tett:

And I also have gold, and I also have other types of --

Tim Draper:

It's -- how do you know the --

Gillian Tett:

It's called hedging your bets.

John Donovan:

Hang on. One other thing -- one other service that can be performed for people who may not be up with this -- with the terminology. Fiat currency -- Eric, we haven't heard from you yet. So, tell us what fiat currency is.

[laughter]

John Donovan:

It comes from the Latin word fiat.

Gillian Tett:

This is the Adam Smith [unintelligible].

Eric Posner:

Fiat.

John Donovan:

Fiat. Let it be done.

Eric Posner:

Let it be. Let it be.

John Donovan:

It's a decree. It's currency by decree.

Eric Posner:

It's just currency that the government creates -- the central bank creates.

00:42:05

And then it guarantees that it will retain its value. And just in response to Tim, every advanced successful economy has had a central bank for the last several centuries. They've done quite well. The economies have done quite well. The central banks have generally been pretty good at dealing with the [inaudible] financial crisis?

Tim Draper:

Are satisfied with "pretty good?"

Eric Posner:

Okay --

John Donovan:

Patrick Byrne, are you okay --

[laughter]

Male Speaker:

[inaudible] --

Eric Posner:

Okay. All right. Now, the -- my other Adam Smith quote, "The government of an exclusive company of merchants is perhaps the worst of all governments." And I'm quoting him because despite what Gillian said -- she was speaking loosely -- Bitcoin is not entirely controlled by

computers. It's controlled by the programmers and the miners, right? So, the code that was created back in 2009 -- the guy who created it, this mythical person -- Satoshi Nakamoto [spelled phonetically] -- he knew -- he knew that he could not create a system that will work forever and that will never have any problems.

00:43:08

And so, the code provides for its own amendment by human beings. So, those human beings are the company of merchants. They're the Bitcoin holders. They're the miners. And also, they're the programmers -- the people who are trusted by the miners and other people in the Bitcoin community to revise the program as necessary, as they have done several times.

John Donovan:

Let me --

Eric Posner:

These are the people that --

John Donovan:

-- let me stop you. You said quite a bit.

Eric Posner:

-- people that you trust -- right, yes.

John Donovan:

I want to let Patrick Byrne respond to some of that. So, what you're basically hearing is that the -- again, your opponents are arguing that the trust, the security, the anonymity, et cetera -- a lot of the virtues that you cited actually aren't built in to Bitcoin.

Patrick Byrne:

Oh, well, I think that's false. I think that --

Male Speaker:

That's false [laughs].

Patrick Byrne:

-- it's an open source project. And sometimes people don't get open source. But it is a collaboration among a lot of people creating this code.

00:44:00

But that collaboration is all transparent, and the records are all transparent, and some of us find it a more trustworthy process than the current sausage making we see in the political machine around us. And open source project -- you know, if there's any monkey business in the

code, everybody can see it. It's a much more transparent process than the current political process.

Eric Posner:

Transparent, but under the patrol of a small number of individuals.

John Donovan:

Do you have to -- do you need to concede --

Male Speaker:

No.

John Donovan:

-- that point? Is that actually accurate? Is that true?

Tim Draper:

No. Well, it's -- what you mean -- what I assume you mean by that is --

Eric Posner:

51 percent --

Tim Draper:

-- 51 percent.

Eric Posner:

-- of the hashing power is necessary to change the code. And a small number of people possess that power. As of 2014, those people collectively were on the stage at a conference, I think, in New York -- just a small number of people who can act in concert if they want to. Those are the -- that's the central bank of Bitcoin. That's the Fed of Bitcoin.

Tim Draper:

You know, you -- [inaudible] --

[applause]

Gillian Tett:

And --

Tim Draper:

You can -- I'm glad Eric brought that up, because --

Gillian Tett:

And the holdings are very concentrated as a result.

00:45:03

Tim Draper:

No. I'm glad Eric brought that up, because he's spreading fear, which is sort of what you get from the news and whatever.

[laughter]

Gillian Tett:

Even the media.

Tim Draper:

But when you want to set up -- any of us can set up a Bitcoin mining system. And there are hundreds of them being -- they're all trying to get pitched. They're all pitching me and saying, "Hey, put money into my Bitcoin mining system."

Eric Posner:

Right. Anyone who can get money from you --

Tim Draper:

There is no way --

Eric Posner:

Yes.

Tim Draper:

-- that anyone is going to have more than 50 percent control of this. It's spread out all over the place. And then you talked about criminal activity. Okay. They're catching everybody who's using Bitcoin because there's a perfect ledger. There's the block chain. And people are looking at that block chain. And I -- the U.S. Marshals Office started by saying, "You've got to make this illegal," and then they said, "No, not so fast," because they are catching every single Bitcoin criminal. And they're doing it by going ahead.

00:46:00

You -- they're allowed to get that Bitcoin. But as soon as they start spending it --

John Donovan:

Okay. Tim --

Tim Draper:

-- on the block, and they know --

John Donovan:

Tim, hang in there, because --

Tim Draper:
[inaudible] --

John Donovan:
No, no, no, no --

Tim Draper:
Wait, wait -- one more -- whoa --

John Donovan:
No, no, no. No.

Tim Draper:
You said I could keep pushing --

Male Speaker:
No. Moderator.

John Donovan:
No, no, no.

Tim Draper:
And I am.

John Donovan:
Not this time.

Tim Draper:
And I am.

John Donovan:
I'm going to come back to you. You -- I just -- you made a very specific argument.

Tim Draper:
No. If you want to be --

John Donovan:
I -- Time --

Tim Draper:
-- a criminal, if you want to be a criminal, use fiat.

John Donovan:

Okay.

Tim Draper:

It's so much easier.

[applause]

John Donovan:

So, I want to -- thank you for pushing back. I actually want to take that specific point. So, your argument about the criminal use has just been refuted by your opponents in a very coherent and logical way. I'd like to hear your response to that.

Eric Posner:

25 percent of people who use Bitcoin are criminals, according to a study that just came out a couple days ago. The money laundering -- \$100 billion or more a year. Most of it is Bitcoin. The reason why -- so, Bitcoin is, as I said, pseudonymous -- this public ledger just has codes. It doesn't have your actual name. So, a very sophisticated criminal can use those codes in a way as to maintain their anonymity.

00:47:02

Now, it's true. What Tim says is that ordinary people who are not very smart, and don't know what they're doing can make mistakes, which makes it very easy for the government to track them down, as happened with the Silk Road exchange. But the really smart people --

Tim Draper:

Wait. You're saying that [unintelligible] --

Eric Posner:

-- the foreign governments --

Tim Draper:

-- is not a smart guy?

Eric Posner:

-- the foreign governments --

Tim Draper:

The guy who ran Silk Road? Have you read the book?

Eric Posner:

No. I have not.

Tim Draper:
It's unbelievable how smart that dude is.

Eric Posner:
Well, not smart enough.

[applause]

But not as smart as the -- not as --

Tim Draper:
There aren't any smarter. And --

Eric Posner:
Yeah, I think there are.

Tim Draper:
-- it's going to be -- and he got busted. So, don't even try it.

Gillian Tett:
But let's go back to the first principle.

John Donovan:
Gillian Tett.

Gillian Tett:
The reason why people are buying Bitcoin, investing in it is not because they think it's going to be this incredible useful thing for criminality per se. The reason why most people buy it is because they think it's either going to keep going up, and up, and up, or because it's going to become a mainstream currency that will be useful. And the question I still have is why on earth do we think that Bitcoin is going to become this incredibly, widely-used useful currency compared to all the other alternatives?

00:48:01

Tim Draper:
Or they --

Gillian Tett:
Why do we think the first --

[applause]

-- is there any technology in the world -- any bit technological advance we've had where the first mover advantage ensured that that stayed dominant all the way through?

John Donovan:
Let's take --

Gillian Tett:
There are always copycats.

John Donovan:
Patrick Byrne, please, to respond to that.

Patrick Byrne:
Well, there's a reason they could be switching to Bitcoin. They're on the streets of Venezuela and starving, and they want a form of money where they can still function. Or they're in --

Eric Posner:
Created by the --

Gillian Tett:
What's wrong with gold?

Eric Posner:
-- Venezuelan government, though.

Tim Draper:
Wait, wait --

Patrick Byrne:
Well, they were like --

Tim Draper:
I thought you were the government lover.

Eric Posner:
Yes. Yes. Yes.

[laughter]

But he's the government hater, right? And so, this cryptocurrency is going to be created by the Venezuelan government. It's not --

Patrick Byrne:

Based on an oil -- they're created an oil-backed currency. But the great adoption of Bitcoin -- you look where it gets its spikes -- it's in places like Crete, and Greece, and Venezuela, as everything collapses. Zimbabwe -- people want some place they can go and get rid of this fiat. Everybody [unintelligible] fiat, you know, well -- anyway. They get rid of their fiat, into Bitcoin.

00:49:00

That's where the big spikes of Bitcoin --

Gillian Tett:

Patrick, have you ever been in a war zone?

Patrick Byrne:

I was [inaudible] --

Gillian Tett:

I can tell you that I have been in war zones. I started off as a war reporter. If you are in a war zone, if you are in that kind of stress situation, you don't want to start fiddling around with a computer.

[laughter]

You want to get a bag of gold, or emeralds, and sew them into your clothes, and run, okay? So, my key point is this. I hear what you're saying about the shortcomings of fiat government-backed currency. Guess what? It ain't perfect, but it's probably the least bad system there is today. And actually, if you don't like fiat currency, don't start messing around with computers --

Tim Draper:

Go to gold. but can he beam gold? In South Park they describe bitcoin as space cash and they say it's advantages --

Gillian Tett:

And that's supposed to be a good thing?

[laughter]

Patrick Byrne:

You can beam it across the universe. Can you beam gold?

Gillian Tett:

Right.

Patrick Byrne:

Bitcoin is just --

Gillian Tett:

Let me tell you, if the government's collapsing I don't want to be boomed across the universe.

Patrick Byrne:

By the way, I saw a recent calculation that if I -- so, it has all the advantages of gold, which I'm happy to hear that you admire, has all the advantages of gold plus one.

00:50:00

You can beam it across the universe.

Gillian Tett:

And it has all the disadvantage -- if the computers collapse and suddenly you're left high and dry.

Eric Posner:

So, you're -- Patrick, your argument is this kind of razor's edge argument that civilization will collapse enough that the central banks will cease to function but not so much that the internet and the computer system will also stop functioning?

[applause]

Gillian Tett:

Yay. High five.

[laughter]

[applause]

[PD]

What I'm looking --

Tim Draper:

No, but if you're --

John Donovan:

Tim Draper.

Tim Draper:

If you --

Gillian Tett:

And somehow the electricity keeps going and somehow we all get enough electricity to keep mining.

John Donovan:

Let's let Patrick respond.

Patrick Byrne:

I'm imagining something like Greece or Crete comes when the U.S. dollar goes the way of lots of other fiat currencies that have come our way. When our technicians, when our Dilbert [spelled phonetically] managers have been exposed as really not knowing how to fine-tune that carburetor and when it all melts down you will be happy to have a robust alternative system that does not rely on any of these institutions our grandfathers came up with.

Gillian Tett:

Have you ever heard of --

Tim Draper:

Now wait. Gillian, --

Gillian Tett:

--- Switzerland? Have you ever looked at, you know, because the U.S. dollar is not the only alternative out there.

00:51:02

If you don't like what the fed's doing, if you don't like Donald Trump, if you don't like the way that America's going, the great thing about the global economic system is you can hedge your bets. Ever heard of New Zealand?

Tim Draper:

You can also leave, which is what's happening. A lot of people are leaving this country because they are not feeling like they're being heard. All -- we're losing a lot of great millennials because they're feeling like well we're not being heard. Look, we have a new currency. This thing is awesome, and your government is getting a little heavy-handed. And in China it's even worse. They are fleeing China. They're going to Japan where Japan said, "Yes. We are a -- we take bitcoin and it is a national currency here." And they're going to other places where they feel like they're at least able to pursue their great visions. But wait.

Gillian Tett:

And [unintelligible] --

Tim Draper:

Hold on. Hold on.

Gillian Tett:

[unintelligible] exchange has just been hacked.

Tim Draper:

Hold on. You said there are a whole bunch of problems with bitcoin. There are and there aren't -- and you said there are fewer with dollars.

00:52:02

There are. But all the best engineers in the world are working on bitcoin, not on dollars.

John Donovan:

Okay. I want to --

Tim Draper:

And they're working and they're going to make it better and better. In five years you are going to try to go buy coffee with fiat currency and they are going to laugh at you because you're not using crypto.

[applause]

John Donovan:

So, we're going to have you back in five years and somebody's going to be laughing at somebody.

[laughter]

[applause]

John Donovan:

No, no. I think we should test that in five years.

Tim Draper:

[unintelligible] schedule, but I'm game.

John Donovan:

All right. I want to move the topic to another layer that -- and actually the other thing I want to say is normally I have to intervene a lot more to get the debaters to engage with each other. You guys are off to the races. I mean, I'm -- although Tim, you are the first debater in 150 who's ever touched me.

[laughter]

And it was electrifying.

00:53:01

Tim Draper:
I have that effect.

John Donovan:
So there is -- there was an argument also made and I don't want this to become a deep diversion to the issue of government control and regulation, but there is this issue that bitcoin represents a kind of decentralization and a liberation from government manipulation that the for side welcomes and that the against side said would leave government helpless, government control of the money supply is essential and Eric, that was your argument. Just take one more minute on that because I'd like you to -- I'd like your opponents to respond to more of the specifics of your thinking on that.

Eric Posner:
Sure. There -- you know, since the advent of modern capitalism there have been periodic financial crises. They are devastating events where the money disappears. People hoard their money. Economic activity stops. Banks fail. Over hundreds of years governments have figured out ways to address financial crises. We're all familiar with, for example, FDIC insurance and that the fed acts as the lender of last resort.

00:54:01

So, when that happens the government actually makes money, pumps it into the economy, gets the economy going again, and then the money is returned to the government at the end. The bank of England has been doing this for hundreds of years. The United States did this at the beginning of its history until Andrew Jackson shut down the national bank after a devastating financial crisis in 1907 where Wall Street had to step in because the U.S. government had no power to do it. The fed was created in 1913 and given this authority again. It failed in the Great Depression. It didn't use the authority that was given it, but since then it's been quite effective and successful at maintaining financial --

John Donovan:
Okay, and bitcoin would take -- if bitcoin replaced the dollar that would go away. Those would go away.

Eric Posner:
The government wouldn't do anything and people can hoard bitcoins just the way they hoard U.S. dollars.

John Donovan:
Okay. I see Patrick's been taking furious notes while you're speaking so he's ready to respond.

Patrick Byrne:

Okay. Well, that history is extremely selective. That history is extremely selective. We did have deflation in the 19th Century. We had growth in the 19th Century.

00:55:01

We had banking crises. It was legalized. Wherever you have fraction reserve banking you eventually have crises and things topple over and you need a central bank. The fraction reserve aspect was legal -- in England and Robert Peele [spelled phonetically] in 1946 I think and then we adopted this in 1907 what bothered the progressives was that we got out of 1907 with just private action, which J.P. Morgan went down, organized group of bankers, went down and got the system unkinked. That offended those who wanted more government. They said we can't have private actors with this kind of power. We need the government to have this ability and this was born via federal reserve --

Eric Posner:

Patrick, it was the banking system which created the federal reserve. It wasn't the progressives. It was the bankers.

Patrick Byrne:

The bankers. The progressives called for it.

Eric Posner:

Because the bankers didn't --

Patrick Byrne:

And what happened -- wait a second. And what happened --

Eric Posner:

--- like the financial crisis any more than anybody else did so they created the federal reserve.

Tim Draper:

Hey, wait. Who cares?

00:56:01

It's a system that's long --

Eric Posner:

Here's -- in 1933--

Tim Draper:

--- in the tooth and ready to get out of here.

Eric Posner:

This is the perfect -- this is --

[talking simultaneously]

Tim Draper:

We're ready for a new -- that system is not working.

Eric Posner:

In 1933 they had their big test. They didn't just fail to present it -- prevent it, they caused it. They restricted the money supply a third and brought about the Great Depression. They're the Dilbert Gods in the corner saying oh, what could possibly go wrong, and they go from collapse to collapse to collapse. They just -- it's just -- it's old wine in new bottles. They just keep reflatting and then we have a bigger crash and you have the Greenspan put and then you have 2008 and they just re -- it's old wine in new bottles. And eventually as me said, you know, all expansions that come about from expanding the money supply and then it crashed. This is going to go on and on until we have a Greek-style crisis.

Tim Draper:

So, I want to address one issue you said, Gillian. This has been fun. You talked about --

Gillian Tett:

It totally has been.

Tim Draper:

--- value fluctuation.

00:57:02

Gillian Tett:

We have a bet in five years' time. You're buying the coffee.

Tim Draper:

And the reason -- and you said value fluctuation. Well, there is always going to be value fluctuation, but bitcoin is not volatile at all. One bitcoin equals one bitcoin. One bitcoin --

Gillian Tett:

Well, try telling that to anyone that's bought a bitcoin and [unintelligible].

Tim Draper:

But as these fiat currencies -- fiat currencies are very volatile against bitcoin because they are floating and disappearing --

Male Speaker:

It's not too late to get out of that fiat bubble and into something solid like crypto.

Tim Draper:
[laughs]

Gillian Tett:
Okay.

[laughter]

Tim Draper:
But they drift away over time.

Gillian Tett:
Tim, I can tell you there's only one thing basically that has looked as volatile as bitcoin, and that is something called Vicks ETS [spelled phonetically]. And those went up and down and imploded. Anything that swings, you know, 50, 100 percent or whatever in a few months if volatile.

John Donovan:
Does this all suggest that regular folks do --

Tim Draper:
Well, it depends on your perspective, though, because bitcoin is very stable.

00:58:04

John Donovan:
Tim --

Tim Draper:
And all these fiat currencies are falling away.

John Donovan:
Tim, you're repeating yourself. Let me bring you --

Gillian Tett:
[unintelligible]

Tim Draper:
I just want to make sure she --

Male Speaker:
I mean a dollar, Tim, a dollar has always been worth a dollar as well.

[applause]

Gillian Tett:
Exactly.

Male Speaker:
[unintelligible] stable currency.

[applause]

John Donovan:
Are we at a point in bitcoins presence development that regular people are -- it's dangerous for them to get involved with it and, you know, you guys are very savvy investors. You're sophisticated, but would regular folks get burned and would their getting burned undermine the kind of acceptance you're looking for?

Gillian Tett:
Yes, yes, yes, and yes.

Tim Draper:
I'm regular folk. I don't know what these guys are talking about. We're regular folk and I -- I'm always a little embittered whenever I hear people say oh, I know better than you do what you should do with your money. I'm looking, I'm saying well, you know what to do with your money, but we're giving you an alternative like hey, you may want to move some of your money into this thing because it -- like if a government collapses you can get -- go into another country and just pull it down.

00:59:07

Gillian Tett:
So why couldn't you do that with gold?

Tim Draper:
Well, you can't because it's -- you're stuck in just the countries that the U.S. is friendly with. And they're fewer and fewer, by the way.

Eric Posner:
I'm lost. I think that people should be aware this is very risky. And anyone who is giving you advice that go invest, I mean, you should maybe holding 5 percent of your assets in the cryptocurrency may be prudent, I don't know, but you shouldn't be -- I hear of people all the time who are sinking a whole bunch of their money into it and it's way too risky to do that.

[applause]

John Donovan:

Okay, I want to go to audience questions. I just want to point out that Tim Draper, believe it or not, from the Tim Draper we've seen here, has actually been quite modest about one thing, and that is you -- a few years ago, you -- when I think Bitcoin was at \$300, you predicted it would reach \$10,000, and the world scoffed. And you hit it within three weeks or so of the -- you said within three years, and within three years it kind of ticked right up to \$10,000.

01:00:05

Tim Draper:

Yeah, I was three weeks early.

John Donovan:

That must have been --

Tim Draper:

I probably should have --

John Donovan:

That must have been very satisfying for you [unintelligible].

Tim Draper:

Actually, no. It was just sort of like, "Oh, yeah, okay. Well, now what?"

John Donovan:

Okay, \$250,000 is --

Tim Draper:

And now it's \$250,000 by 2022. But I -- there's some -- I -- part of it is I sort of have seen these amazing transformations of the world from just the very beginning, just from -- like, there was just two guys and a dog that started Hotmail, and all the sudden we are all communicating through web-based email for free. And there was just one -- two guys and probably a cat that started Skype, and all the sudden we're all seeing each other when we communicate with each other for free. And that all started just with this little thing, and it spreads very quickly around the world.

01:01:00

And once it spreads, we all kind of go, "Oh, yeah, that's obvious, of course. We can Skype each other. Oh, yeah, no problem."

John Donovan:

So, to your opponents -- your -- to the side arguing against, it sounds like your opponents are saying you lack the vision thing.

Eric Posner:

Yeah.

John Donovan:

And you're good with that.

[laughter]

Eric Posner:

Absolutely.

John Donovan:

You sign up for that. Okay.

Gillian Tett:

No, actually, I'll say -- okay, I'll say it differently. You said earlier, Tim, that basically you had the Internet boom and bust, but the internet's still here. Okay?

Tim Draper:

It --

Gillian Tett:

But guess what? Guess what?

Tim Draper:

It got much bigger.

Gillian Tett:

Yeah. Pets.com --

Tim Draper:

And they call that a bubble.

Gillian Tett:

Yeah. Tim, Pets.com is not still here.

Tim Draper:

Oh, yeah. Oh, you can pick out --

Gillian Tett:
Bitcoin is like Pets.com.

Tim Draper:
-- one out of, like --

Gillian Tett:
Because guess what?

Tim Draper:
-- 500 companies. However, Bitcoin --

Gillian Tett:
There were a lot of [unintelligible] -- a lot of internet darlings in 2000 that boomed, that went as high as, say, Bitcoin has, okay?

Tim Draper:
Sure.

Gillian Tett:
People looked like a genius for a moment, and then they collapsed. And, yes, the internet survived. Yes, blockchain will survive. But will Bitcoin survive? Bitcoin is the Pets.com of the cryptocurrency world.

[applause]

Tim Draper:
Okay, well, I would argue --

01:02:02

Male Speaker:
Bitcoin --

Tim Draper:
I would argue that --

Male Speaker:
Ouch! Ouch!

Tim Draper:
-- it is very likely -- Pets.com, my God -- that --

[laughter]

Gillian Tett:

Remember it? There's a reason why you don't.

Tim Draper:

It's very likely that Bitcoin does end up winning this long-term crypto battle. And it is sort of an internal battle, but, boy, we're all out there for the right thing.

John Donovan:

Okay, audience, [unintelligible] --

Tim Draper:

Wait, wait, wait.

Gillian Tett:

Sorry, [unintelligible] --

John Donovan:

No, no, no, I'm not waiting.

Gillian Tett:

No, [unintelligible] --

John Donovan:

Audiences, questions now.

Tim Draper:

I didn't make my point!

Gillian Tett:

Did Tim say that [unintelligible] it is going to win or not going to win?

John Donovan:

Tim, did you truly not make your point?

Tim Draper:

No.

John Donovan:

Because --

Tim Draper:
No, I did not.

John Donovan:
-- [unintelligible] go for it. All right, go for it.

Tim Draper:
I did not. But Bitcoin -- the value of Bitcoin is tied to the network and how big that network is. And according to Metcalfe's law, the power of a network is the number of nodes in that network -- number of people -- squared. And so, Bitcoin already has, like, two thirds of the -- they have a huge lead. They have an enormous lead --

Patrick Byrne:
And it can evolve.

Tim Draper:
Because their network --

Gillian Tett:
Why [unintelligible] exist?

Tim Draper:
It can [unintelligible] --

Male Speaker:
[unintelligible] --

Gillian Tett:
Why does [unintelligible] exist?

01:03:02

Tim Draper:
And new technologies will come up, but just as Microsoft added those technologies as they benefited from them, Bitcoin is doing that, too.

Eric Posner:
So -- but --

Tim Draper:
[unintelligible] --

Eric Posner:
Bitcoin [unintelligible] --

Tim Draper:
-- [unintelligible] lightning network sped it up pretty fast, and that had to do with another technology that came from another cryptocurrency, and they brought it in --

Eric Posner:
You're just saying that Bitcoin is the --

Gillian Tett:
[unintelligible].

Eric Posner:
-- Myspace of the cryptocurrency.

Gillian Tett:
Yeah.

Patrick Byrne:
No, but Bitcoin can evolve --

John Donovan:
I do want to stop this, because we need to get to questions.

Gillian Tett:
Exactly.

John Donovan:
Sir?

Male Speaker:
So, my name's Nick Lilovitch [spelled phonetically] of the University of Chicago Booth School of Business, and my question is on sophistication. So, in the blockchain world, a customer can be entirely responsible for the security of their transaction on purpose. You know, people use Visa for a reason, I assume. Is it better for individuals to be entirely responsible for the security of their transactions?

Patrick Byrne:
May I?

John Donovan:
Patrick.

Patrick Byrne:

I actually -- I'm a small, as Milton Friedman would say, small-L libertarian, but you have to admit some degrees of paternalism, and in that case, no, you have to have -- I think there have to be companies with the wallets that perform the KYCAML and the customer service.

01:04:14

So, when Grandma forgets her password, it cannot just be a pure "you're on your own system". So, there have to be a ring of companies that build up -- that attach to the system and provide that extra layer of service and trust.

Male Speaker:

[unintelligible] --

Gillian Tett:

[unintelligible] --

John Donovan:

Eric Posner.

Eric Posner:

These companies are going to be -- if Bitcoin ends up dominating currency, when you walk down a street in a small town, and you look at the biggest buildings in the street, they're going to be owned by these big companies. They're the banks of the future which will act as intermediaries, and they'll skim off the profit.

Gillian Tett:

[unintelligible] with the bank.

Patrick Byrne:

They'll be little storefronts that let you come in and use --

[laughter]

Male Speaker:

Right.

Patrick Byrne:

That's all they need to charge for.

Gillian Tett:

Why not have a bank?

Patrick Byrne:

Well, no, we can -- I happen to have just been with regulators in Washington the other day and talking about what we're doing with Wall Street. You could -- you can eliminate the role of exchanges.

01:05:00

You could have decentralized exchanges. That's not a healthy first step. I think that we ought to take an incrementalist approach. I remind the young bucks like Tim I run into in this field, "Remember Frankenstein?" The lesson of Frankenstein was that the scientists has to be thinking about the effects that he's maybe not thinking about. Anyway, no, we want to replace the system incrementally.

John Donovan:

Go ahead, sir.

Male Speaker:

Thank you. Daniel Schuckman [spelled phonetically], MSD Partners. To Patrick and your side, isn't it a colossal, almost debate-ending concession on your part when you said before that of course, you know, Bitcoin is only suitable for, you know, 3, 5 percent of your assets? I mean, you know, this is a speculative thing. My God, you wouldn't want to, you know, risk so much beyond that in this currency.

Tim Draper:

I'm happy to back him up there. I do understand that with your own money you want to make sure that you're set, and that this is a risk -- we all know it's a risk -- but over time I think your Bitcoin ownership should continue to increase, and I believe that there will be a point at which you will no longer really want any of the fiat currency.

01:06:16

Patrick Byrne:

And to my -- my answer is I'm not completely sure I'm right. I'm not completely sure I'm right, and I don't want to tell Grandma to go put her savings into this. Let's see how it evolves.

John Donovan:

Eric or Gillian, you can jump in on that [unintelligible].

Eric Posner:

Yeah, I agree, it's a debate-ending concession, and the reason is --

[laughter]

Eric Posner:
-- is that Patrick --

[applause]

Eric Posner:
What Patrick is saying is that Bitcoin is a speculative investment the way the South Sea stock was. Maybe if you have a lot of money, you want to put a little money -- a little bit of money in it. But a currency has to be used by everybody. That's the idea. It's got to be 100 percent used.

Patrick Byrne:
I consider that an asterisk. I'm speaking --

Male Speaker:
Wait --

Patrick Byrne:
-- to the investors -- settle down, Bruce [spelled phonetically].

[laughter]

Male Speaker:
Thank you.

Patrick Byrne:
[unintelligible] to the specific question of, do people go in and invest?

01:07:00

I try to stay somewhat agnostic about that. But on the question of, is this here to stay, is this going to re-architect the institutions of civilization? Yeah, I think so. I just -- that doesn't mean I want to tell Grandma to go and put her savings in it, because I [unintelligible].

John Donovan:
Question from this [unintelligible].

Female Speaker:
Hi.

John Donovan:
[unintelligible] tell us your name also, please.

Female Speaker:

Kate -- okay, Kate Rooney [spelled phonetically] -- is this on? From CNBC. So, I'm glad you guys were serious about cutting the line here. My question is for both sides about regulators. We talked about this moving really quickly. Do you think regulators are keeping up? How do you think U.S. regulators compare to the rest of the world? And is there a risk that some of these assets or this innovation goes abroad if the U.S. isn't moving fast enough?

Patrick Byrne:

I'm going to toss it to Eric after I make my point, just so he -- and then I'm sure he'll toss it to him. The regulators have the point of view, from what I can tell, that Clinton's -- the Clinton administration did regarding the internet. "If we regulate this, it may go abroad. We don't want the center of gravity to be in Beijing." And so, they have had a relatively hands-off attitude, and I think that that's smart, and this absolutely will -- there is enormous [unintelligible] -- Beijing, China, has named a new five-year plan -- has named four technologies they want to dominate the world in at the end of this five-year plan.

01:08:12

They're four -- they're one year into it. One of the first of those four is blockchain. So, this -- we absolutely have to be afraid that some other country gets the jump on us in this research.

John Donvan:

To the opponents, either of you.

Eric Posner:

Well, regulators are extremely skeptical about Bitcoin, and they're cracking down on it. But they're also worried, as Patrick says, about losing a competitive edge and destroying a nascent technology that might be helpful in some way. But if Bitcoin ever became a currency, if it took over, then regulators of all developed countries, and all countries, would destroy it, because it's -- you need to have a national currency that's controlled by the central bank. Bitcoin currency would not be tolerated unless it's a kind of a --

Tim Draper:

Are you --

Eric Posner:

-- modest [spelled phonetically] [unintelligible].

Tim Draper:

-- saying if Bitcoin succeeds, it will fail --

Eric Posner:

If it succeeds, yes.

Tim Draper:

-- because it will attract --

Patrick Byrne:

By then it'll be too late for them to stop it.

01:09:02

[talking simultaneously]

Patrick Byrne:

[unintelligible] just before it gets too late for them to stop it.

Gillian Tett:

And you actually --

Male Speaker:

[unintelligible] stamp out rock --

Gillian Tett:

-- see that already in China, where the Chinese authority feels threatened by this, and so they're clamping down.

Eric Posner:

And in India, Japan --

Gillian Tett:

And in India and Japan. So, guess what? The value of Bitcoin goes down. Ironically, something which was created as a howl of protect against government is still very affected in its price by the actions of government. But the other thing is that in terms of -- if you look at Bitcoin, you know, we mustn't confuse blockchain and Bitcoin, because they're not the same.

[applause]

Gillian Tett:

Many central banks and governments are saying, "You know what? Blockchain -- yeah, it's a useful technology. There are many different applications." But Bitcoin -- this was the first thing that sprung up out of blockchain, and for all the reasons we said, it looks like the MySpace of the cryptocurrency world. And just because government feels skeptical about that doesn't mean they're saying no to blockchain.

Patrick Byrne:

If this [unintelligible] --

John Donovan:
Let's hear from Tim.

Tim Draper:
This is sort of a hot one for me, because I had -- the prime minister of Estonia came to Draper University and said just by instituting digital signatures, they saved 2 percent of the GDP, and all the young people started to vote when they did digital voting.

01:10:14

And then they did digital identity, and the crime rate went down; the business climate went up. And then they gave -- he gave me this virtual residency card, and he said, "And governance can now compete across border virtually." And it got me thinking that, ultimately, we're going to have the terrestrial part of governance, and then we're going to have the virtual part of governance. And the virtual part will have to, in effect --

Patrick Byrne:
Compete.

Tim Draper:
-- compete for us.

Gillian Tett:
And Tim -- Tim, they can --

Tim Draper:
And they'll be accountable to their constituents.

Male Speaker:
[unintelligible].

Tim Draper:
And I think that's a whole new way of thinking. I think it's going to change all of our thinking. And so, regulators are going to say, "Well, wait. Okay, we have all of these rules" --

Patrick Byrne:
Don't point at me on regulators. Point at that guy.

01:11:00

Tim Draper:
No. Yeah.

Gillian Tett:

Okay.

Tim Draper:

We're going to have all these rules, and we're stuck with them. And all of a sudden, there's this new thing, and it's virtual. And so, we've got to figure out how we separate our virtual piece and have that piece really compete. Our terrestrial --

John Donovan:

Okay, Tim, let's [unintelligible] --

Tim Draper:

-- piece still can be a monopoly --

John Donovan:

You've made that -- let's have --

Tim Draper:

The rest --

John Donovan:

-- Gillian -- Gillian --

Gillian Tett:

Tim, I have to pour cold water on your vision of Estonia as being this happy place of virtual nirvana --

Tim Draper:

No, no. Hey, wait, wait, wait --

Gillian Tett:

-- but --

Tim Draper:

-- there are many others --

Gillian Tett:

-- have you heard --

Tim Draper:

Singapore's --

Gillian Tett:
Tim! Tim!

Tim Draper:
-- doing [unintelligible]--

Gillian Tett:
Tim, Tim, wait. Have you heard --

John Donovan:
Tim, hang on.

Gillian Tett:
-- of what came after that?

Tim Draper:
What?

Gillian Tett:
It's called Russian hacking. Have you seen what happened in Estonia when the Russians hacked into Estonian computers? Is that what you want for the future?

Tim Draper:
Have you seen what happened here in our election when they hacked --

Gillian Tett:
Yes. It's called belts and braces. It's called having checks and balances, not putting all your eggs --

Tim Draper:
But they --

Gillian Tett:
-- in just one [unintelligible] market.

John Donovan:
Okay, another question from up here.

Female Speaker:
My name's Noni [spelled phonetically]. I'm from MIT Sloan. This is mainly a question for Mr. Byrnes and Mr. Draper. So, let's say we played a long-term game.

01:12:01

Bitcoin has significant uptake. What does a financial crisis look like at that point in time? And when you're balancing this difference between virtual and sort of terrestrial government, what are the fail-safes we have in place for regulating the environment at that point?

Patrick Byrne:

I think --

John Donovan:

Patrick -- yeah, please.

Patrick Byrne:

On the first one, in the Austrian answer is you don't get the financial crises. You use -- interest rates no longer get set by pointy-haired Dilbert guy in the corner in the Federal Reserve who thinks he can finetune the U.S. business cycle. Interests become a way that the crowd -- we can coordinate our preferences about time and interest and what's the real value of money and such with each other, and you have stable, steady growth. And the reason we have booms and busts is because we have that guy with his hand on the rear stat [spelled phonetically], subject to political pressure, who when things get a little rocky takes political pressure and floods the economy QE1, QE2, QE3, whatever, and that's why we have these booms and busts.

01:13:02

And if we switched to an economy that was gold-based or based on some form of money through which we can communicate that no Mandarin [spelled phonetically] can distort, we get rid of the financial crises.

Eric Posner:

That's simply not true. So, there are booms and busts long before there was government intervention. There were booms and busts under the gold standard in the 19th century.

Male Speaker:

[unintelligible] --

Eric Posner:

Financial crises aren't caused by currency. They're caused by excessive lending against weak assets, bad assets, assets that people overvalued. They'll continue to exist in the economy --

[applause]

Eric Posner:

-- dominated by Bitcoin.

Gillian Tett:

And can I just add to that? There were booms and busts back in Mesopotamia. The reason

why you have the phrase “wiping the slates clean” was because in the old days, many thousand years ago, there’d be too much lending in Mesopotamia. They’d record on the slates; they’d wipe the clay tablets clean every seven, 20, 50 years. And guess what? You go back to zero. So, booms and busts have been everywhere.

John Donovan:
Tim?

Tim Draper:
Sure. I don't know.

01:14:00

The booms and busts could go -- could -- they could continue or maybe not, but one thing's for sure. Governments that are forced to compete with each other for you are going to do a lot better than the ones that are -- that think that they have a monopoly and they can do whatever they want. Right now, we have a government in the U.S. that's -- 51 percent of the GDP is government spending, and we're stuck with it. And they're deciding -- fit more [spelled phonetically] -- for every person that's out there pulling a sled, there's one standing on the sled saying -- telling him, you know, that he's got to keep one hand behind his back.

[talking simultaneously]

Gillian Tett:
You can buy Swiss currency.

John Donovan:
[unintelligible] -- governments competing for you in an intriguing idea. Can you put it into 30 seconds what you mean by that?

Tim Draper:
Sure. This glass --the company that created this glass had to compete with all the other companies that create these glasses, and they make [unintelligible] --

John Donovan:
To those who can't see this, he's holding up his drinking glass.

Tim Draper:
And they make them better and better and better so -- and cheaper and cheaper and cheaper -- so that they provide a really good product or a really good service.

01:15:05

So, any company out there that is alive today is doing what they can to compete for you, to try to get you to be a customer of theirs. Governments don't feel that way. Historically, they've thought, "We control everything that we see, and we'll just tell you what the rules are. And we know better than you do what to do with your money, what to do -- how to live your life, whatever." Now, governments are going to do that but then at their own peril, because other governments are going to step up and say, "Hey, we can provide a better health care program here. Hey, we can provide a better pension system than these -- than your government does."

John Donovan:

And how does Bitcoin [unintelligible] --

Tim Draper:

Those things can be completely separate. Well, Bitcoin is a natural for this free market in the world, because Bitcoin is cross-border and --

John Donovan:

Okay --

Tim Draper:

-- global and decentralized.

John Donovan:

It's an interesting vision. I just want to see if your opponents want to respond to it.

01:16:00

Eric Posner:

Bitcoin has nothing to do with the size of the government. The government will still be able to tax people. It'll still be able to borrow. In fact, it'll be able to borrow more effectively because people won't be worried about inflation. They can spend as much as they want. Bitcoin is not going to do anything about that.

John Donovan:

Gillian?

Gillian Tett:

Yeah. And basically, if you're worried about the value of the U.S. dollar and what the Fed is doing, there is a much simpler alternative. Just go and buy a wide basket of currencies, buy a little bit of real estate, buy some forests, buy a bit of gold, hedge your bets. It's 101 investment principles.

John Donovan:

Okay. Another question? Sir?

Male Speaker:

Hi. Thank you for this. Ahmed Shaikh [spelled phonetically] from NYU. So, my question is for Tim and Patrick. So, currently, the value of Bitcoin is intrinsically tied to fiat currency. On Overstock.com, I'm sure you measure the value of merchandise in U.S. dollars, and that's how you decide how much Bitcoin to accept. Do you envision a future where your website will perhaps measure your merchandise in Bitcoins, irrespective of whatever happens to fiat currency?

Patrick Byrne:

Well, we do allow you to pay in Bitcoin now -- or we allow you to trigger something, and then, as you shop, you see everything in Bitcoin.

01:17:04

So, you see everything in Bitcoin prices. I guess -- you know, what happens -- the history of money is that it starts off as commodities and it's the commodity in a society that is the one that is most useful and interchangeable -- it's used in barter. And then the one that's most used sort of becomes the one that everybody adopts and becomes the currency. And can I see that happening with Bitcoin? I can see that happening in places as they collapse. And if there's ever a currency crisis in the United States, I could see it happening here.

John Donovan:

Patrick --

Tim Draper:

You know --

John Donovan:

When Bitcoin -- the revenue that Bitcoin takes -- that Overstock takes in Bitcoin, does it keep it in Bitcoin?

Patrick Byrne:

We convert 50 percent into fiat, dollars, and take -- and leave 50 percent in Bitcoin. And then, every once in a while, we built up the Bitcoin, and we sell it, and make a few million bucks.

John Donovan:

Okay.

Tim Draper:

So --

John Donovan:

Tim, you wanted to jump in on this.

Tim Draper:
So, I --

Eric Posner:
It depends on your timing.

Tim Draper:
This is a great question, because I've just gotten two emails that were very interesting -- e-commerce emails. And one was there is a bucket of Kentucky Fried Chicken that is only available in Bitcoin.

01:18:08

And it's in Canada. And they've got a Bitcoin bucket.

Eric Posner:
We should concede at this point.

Tim Draper:
And it's only available. And then the --

[laughter]

Male Speaker:
And they're --

[applause]

Tim Draper:
You guys should concede period.

[laughter]

And the other -- the other one is --

Gillian Tett:
If it happens in Canada, it must be true.

Tim Draper:
The other one is, I got this other email, and it said, "Here's this beautiful mansion, and it's just -- it's a thousand bitcoin." And I pushed, sort of thinking, "Well, what does that mean in dollars?" And then I realized, "No, that's the only way that guy is going to sell that house." It's really interesting. It's a new way of thinking, and it's coming.

Female Speaker:

This is Crystal from Yahoo! Finance. This is a question for Patrick and Tim -- because this debate is about Bitcoin. And we know Bitcoin used to account for 80 percent of the cryptocurrency market, and now it's only one-third. And even Patrick, your website started to accept other [unintelligible] coins, like Elythyrium [spelled phonetically], I-Coin, and Dash last August.

01:19:05

So, I wonder, why do you guys believe Bitcoin could maintain its first mover advantage in the cryptocurrency space?

John Donovan:

Yeah. I think that's on --

Gillian Tett:

It's a fabulous question.

John Donovan:

-- point for us. That's on point for us. So, let's take that. Thank you.

Patrick Byrne:

So, that's a great question. Well, Bitcoin does have a unique place, because everybody is confident of its fairness and how it came about, and everything. In terms of Satoshi [spelled phonetically] and the dates he chose, and so forth -- that -- no one is disputing there was any pre-mining or any of these other things that [unintelligible] with coins. What a lot of companies -- Bitcoin -- the Bitcoin block chain, to Gillian's point, is too slow. Seven transactions per second is too slow to support the modern world. Visa handles 30,000 per second. What people do is they create what are called side chains -- other distributive ledgers that they do the work to. But then everyone sort of agrees -- they anchor that work back to the Bitcoin block chain. So, Bitcoin may not end up being the mechanism that underlies a bunch of other systems that evolve on block chain.

01:20:01

Maybe other block chain companies are going to win there. But what ultimately happens is they stamp -- they periodically stamp the truth [spelled phonetically] back to Bitcoin block chain. That's what makes it immutable, and they can approve that all their systems have integrity. So, Bitcoin will always -- to me, will always have this foundational role in the crypto-economy, even if it's not what emerges as what -- you know, the transfer -- you know, as what the currency is. It will -- it just has this foundational sort of -- it is the protocol layer of this new world.

Eric Posner:

The fatal flaw --

John Donovan:
Gillian --

Eric Posner:
Go ahead.

John Donovan:
Oh, you go ahead.

Gillian Tett:
I was going to say, that requires a lot of leaps of faith. And I'm saying, there's nothing wrong with leaps of faith, but you've still got leaps of faith in Bitcoin world, which, I would say, even bigger than a leap of faith in central banks.

Patrick Byrne:
No, no, no. No leap of faith at all. It's all transparent and immutable. With central banks, you're wondering what these mandarins are doing, looking into their crystal balls. This is -- when somebody comes up with a system, other side chains -- in fact, one has come out of the Bitcoin world called multi-chains -- that we like -- but there's other things, like, that evolve, like EOS [spelled phonetically] and such, who knows.

01:21:07

Anyway, they're these other platforms you're hearing. They all have ways where they can stamp back to Bitcoin that -- so there is never a leap of faith. The whole point is to try to create institutions where there's never a leap of faith you have to make on anybody. And there are corporate models that come out that ignore that, and the community shuns them. We --

Eric Posner:
The fatal flaw of Bitcoin -- even if you accept the crypto-currency as the currency of the future - - is the energy use, which Gillian mentioned before. So, currently, in a year, Bitcoin users use as much energy as the country of Colombia, which is a population of 50 million. If Bitcoin became as successful as you guys anticipate, the amount of energy use would be vastly more. Now, there are other crypto-currencies -- there are other crypto-currencies that have been designed to use less energy. So, even if you believe that crypto-currencies will be successful, it's not going to be Bitcoin.

01:22:03

John Donovan:
Patrick, I want to try to get to one more question -- if you can be really brief.

Patrick Byrne:

On that? Just --

John Donovan:

Yeah.

Patrick Byrne:

-- that the Lord has delivered mine enemy into mine arms. There's a new coin called RavenCoin that is a fourth of Bitcoin. It is a fourth of Bitcoin -- so, what -- but no. It's a thousand times more energy-efficient, and it's a counterexample to what you're saying, Gillian, because with Bitcoin -- unlike Pets.com -- the system can evolve in this open, organic, open source method, and it has evolved the solutions. It's --

Eric Posner:

But it's a different coin.

John Donovan:

Okay. One more question.

Patrick Byrne:

Well, no, it's an evolution. It's a fork of Bitcoin.

Male Speaker:

Daesh Rikar [spelled phonetically], Georgetown MBA. This question is for both the panels. Do you see the coexistence of Bitcoin and fiat currencies? Or do you see the complete replacements of one of the currencies?

John Donovan:

In other words, will the dollar disappear? Will the pound disappear --

Male Speaker:

Yes.

John Donovan:

-- and Bitcoin becomes supreme? Tim, do you want to take that?

Tim Draper:

Yeah. It's never really one or the other. Usually, the fiat currencies will try to adapt and they'll try to create a currency that -- well, first, they're trying to create currencies that are just tied to their government.

01:23:08

And they've missed the entire purpose. But they'll start thinking, "Hey, I want to create a global currency too." And those governments will probably survive. But I -- in general, it's a better

currency. It's just better. It's -- as the engineers work on it, make it so it's easier to transact business, to do -- to buy coffee, whatever -- this currency is going to be -- it's decentralized; it is flexible. It's cross-border. It's global. It's sort of everything you guys want as millennials. You want a world that's open --

John Donovan:
Gillian --

Tim Draper:
-- and it's open.

John Donovan:
Gillian.

Gillian Tett:
Bitcoin will be like traveler's checks. It will be like digital gold. It will be something, you know, of interest, part of the financial universe. But a side show. And it's certainly not going to turn into something that justifies the current bubble prices.

01:24:03

John Donovan:
And that concludes Round 2 of this Intelligence Squared U.S. debate, were our motion is Bitcoin is More than a Bubble and Here to Stay.

[applause]

And now we move on to Round 3. Round 3 will be brief closing statements by each debater in turn. They will be two minutes each. They will once again be standing to make their closing statements. And here making his closing statement in support of the motion, Tim Draper, venture capitalist and founder of Draper Associates & DFJ.

Tim Draper:
So, I have here statements that I think you guys should hear. A rocket will never be able to leave the earth's atmosphere. New York Times, 1936. When the Paris Exhibition of 1878 closes, electric light will close with it and no more will be heard of it. Oxford Professor Erasmus Wilson. It'll be gone by June. This is Variety magazine talking about rock and roll in 1955.

01:25:01

[laughter]

Tim Draper:
“The world potential for copying machines is 5,000 at most.” That's IBM avoiding buying Xerox.

“The wireless music box has no imaginable commercial value. Who would pay for a message sent to no one in particular?” That's the associates of David Sarnoff responding to the latter's call for investment in the radio in 1921. “There's no reason for any individual to have a computer in his home.” Ken Olson [spelled phonetically], president of Digital Equipment Corporation, which is now gone. “Television won't last, because people will soon get tired of staring at a plywood box every night.” Twentieth Century Fox Darryl Zanuck in 1946. “The horse is here to stay, but the automobile is only a novelty, a fad.” Didn't I hear that? President of Michigan Savings Bank advising Henry Ford's lawyer.

01:26:00

“X-rays will prove to be a hoax.” That was 1883. “I think there is a world market for maybe five computers.” “This telephone has too many shortcomings to be seriously considered as a means of communication.” And then this is the real killer. The head of the Patent Office in 1899, Charles Duell, said, “Anything that can be invented has been invented.” So, you know, you're taking a tough position, you two. Please vote for Bitcoin. You don't want to be one of those guys.

[applause]

John Donvan:

Thank you, Tim Draper. The motion again: Bitcoin is More Than a Bubble and Here to Stay. And here to make his closing statement again the motion, Eric Posner, law professor at the University of Chicago.

Eric Posner:

So, I hope you all saw how Tim changed the terms of the debate. He was talking about technologies rather than particular companies or particular instantiations of technology.

[applause]

Eric Posner:

So, we're talking here about Bitcoin. We're not talking here about cryptocurrencies generally, or the blockchain technology.

01:27:06

Now, how about Bitcoin? What should we think of it? And it's helpful now to look at some data here. The technical term here, by the way, is not *laissez*, as Gillian said before. The technical financial term is *scrappy* [spelled phonetically], I believe.

[laughter]

Eric Posner:

Okay, so, the actual Bitcoin transaction; how long does it take? About 10 minutes. When there was high volume back last fall, it would take days. A credit card takes five seconds. How many merchants accept Bitcoin? Well, Patrick accepts Bitcoin. According to Morgan Stanley. "Bitcoin acceptance is virtually zero and shrinking," as if that were possible. Top 500 online merchants last year, five; this year, three. Okay? By contrast, virtually all merchants accept credit cards and cash and all other forms of currency. Why don't merchants accept Bitcoin? Because it fluctuates so much, right? So, if you're selling a valuable asset like a car that's worth \$20,000 to you, and you get a bunch of bitcoins which lose half their value, unless you can get it off your hands as quickly as possible, you lose a ton of money.

01:28:07

What are bitcoins good for? They're good for illegal transactions. As I mentioned before, a recent study says that 25 percent of Bitcoin users are associated with illegal activity. How much does a Bitcoin transaction cost? It's not free. It costs; varies across time. Right now, I think it's around a dollar per transaction. If you make -- if you buy something that's very, very big, Bitcoin is cheaper than a credit card, but you can still pay with credit -- with a check, a cashier's check, cash, which is free. The -- and then the upshot here is that Bitcoin is really not that good. What it's good for is illegal activity. Governments are obviously going to crack down on it. They've begun; China, India, the E.U., South Korea, the United States have all gone after Bitcoin. Therefore, Bitcoin is a bubble. Vote no on the motion.

[applause]

John Donvan:

Thank you, Eric Posner. And the motion again is Bitcoin is More Than a Bubble and is Here to Stay.

01:29:01

And here making his closing statement in support of the motion, Patrick Byrne, CEO of Overstock.com.

Eric Posner:

The great central banker of our time Paul Volcker said in the 2008 financial crisis, "The last financial innovation that actually added any value to society was the ATM machine." What he meant was all of these insanely complicated instruments that people go to school and go to Wall Street -- you know, they're insanely complicated bets that no one can figure out by now. They've added nothing to society. They've added no value. Bitcoin does. Bitcoin does. The nineteenth century was a century of deflation and growth. Yes, there were financial crises. I believe the financial crises were brought about because of the legalization of fractional reserve banking and this way of letting our elites and -- overstimulate the economy and then crash and get bailed out by the government. The twentieth century was a period of inflation

and crises. Inflation; so, a dollar's worth about two cents of what it was 100 years ago, and we've had crises just as profound as the nineteenth century and one worse, the crash of '33, which was brought about by the central bankers.

01:30:12

The real thing that -- the real value that Bitcoin brings to society -- reminded of John Maynard Keynes spoke of the bezel -- the bezel -- that in society there's a bezel, and that is if you could freeze time and ask everyone what they thought they owned, and then you could see what's there, there's a difference. And the difference is the amount that has been embezzled from society. It happens in different ways; there are different cheats built into the system. The institutions can't be trusted; that periodically bubbles to light. With a Bitcoin-based economy and a Bitcoin-based financial system where everything ties to that and records are immutable, it's going to be -- I think there's going to be less illegality. And by the way, the last time I checked, the U.S. dollar is used by gunrunners and dope runners and all that kind of stuff, too.

01:31:00

[unintelligible] nobody saying we've got outlaw that. But Bitcoin will reduce the bezel in our society, and it's here -- you're going to find, if nothing else, it has value, because things will anchor to it. And it's here to stay, and we should be grateful for that. Vote yes.

John Donvan:

Thank you, Patrick Byrne.

[applause]

John Donvan:

And our final speaker will be speaking against the motion, Gillian Tett, bestselling author and U.S. managing editor of the Financial Times.

Gillian Tett:

When Paul Volcker said that the ATM was an amazing innovation, he said it was an amazing innovation because you could go to that hole in the wall and pull out dollars. Simple; fungible. You can take them anywhere; you can spend them. And on the dollar, there is a face or a series of faces and a promise by the government. And you might say, "You know what? That promise has been severely compromised and undermined by what the government's done." Well, yes, maybe.

01:32:01

But the question is really about relative faith. And the question is this: At least you can pick up a dollar, and you can see a face, and you know what stands behind it, which is the U.S. government. If you take a Bitcoin, you're betting on computers. You're betting on the idea that

somehow, in this period of technological change, the first mover is going to always be there, unlike every single other period of technological change we've seen. Think of Myspace; think of those Walkman. But you're also betting on something else. If you ask who created Bitcoin: Satoshi Nakamoto. Well, who is he or she or they? Could you put them onto a dollar bill? Could you actually even create something as simple and easy as an ATM that Volcker loved so much? No.

01:33:00

So, the question is this: Would you rather bet on Volcker? Would you rather bet on something you can hold? Would you rather bet on the U.S. government, with all its flaws? Would you all rather bet on the competition of governments? If you don't like the U.S. government, go buy Swiss currency instead. Or would you rather find this Satoshi and bet on them? To me, it's about relative trust, and to me it's very clear. You should reject this motion.

[applause]

John Donovan:

Thank you, Gillian Tett. And that concludes round three of our Intelligence Squared debate. I want to just say a couple of things. First of all, I mentioned at the beginning what a pleasure it is to be here at this conference, and also just what a pleasure it was to work with the people at Adam Smith, who made this so easy for us and so inviting and actually, I also feel, put us in front of a really strong, thoughtful, reflective, challenging audience. So, to Adam Smith, thank you so much for having us here.

01:34:03

[applause]

John Donovan:

And the last thing I want to say is that this was a really, really fiercely argued debate, and I thought that the way in which you all handled each other and conducted it was really respectful while robust, and that's really what we try to get going at Intelligence Squared. We really want to hear the ideas interact with each other, and you did it. You brought it to that level. So, I want to thank all four of you for the way that you did this. Thanks so much.

[applause]

John Donovan:

We want to thank Quantum for supporting this debate. Quantum adviser and longtime friend of Intelligence Squared U.S. Jeffrey Wernick could not actually be here with us tonight, but we wanted to recognize him and his partner Zuri Zhang [spelled phonetically] for their support and their guidance along the way. I just had a question for our debaters. Again, given -- you know,

knowing how fiercely you both fought -- both sides fought this -- I'm just curious, and I'm not -- I'm really not trying to create a kumbaya moment at all.

01:35:05

I'm just curious -- we're just curious about whether, you know, the experience of hearing your opponent's ideas kind of stated rationally and coherently and respectfully gets through to you in any way in your thinking. Did you hear anything from the other side that you said, "You know, maybe they have a point. Maybe I need to think about that?" Patrick, I almost felt that I heard you even sort of sharing that experience in the debate. What about that?

Patrick Byrne:

Well, I -- definitely, I'm open to the regulatory point of view, which basically -- I mean, when in doubt, err on the side of status quo. And that's okay, because I actually think this is so disruptive, I'm afraid -- I want to be for it, but I'm afraid of the transition. So, I'm -- the conservatives over there who want to move slowly or who doubt this world -- we can live with a little bit of conservatism.

John Donovan:

Anybody on the other side? Anybody?

Eric Posner:

Absolutely, I mean, as a -- you know, I'm an academic, and the one thing you learn from studying history, intellectual history, is how frequently people are wrong.

01:36:04

So, one has to approach these topics with humility. And it's been quite valuable to hear these ideas from the from the other side.

John Donovan:

Something I need to say to you, Eric Posner, is of all the debaters we've ever had, you have said the most with the fewest words [unintelligible] several times throughout [unintelligible].

[applause]

Eric Posner:

It used to be the other way around.

John Donovan:

You really found ways to pivot in interesting ways and say one or two words, and they were paragraphs. How about you, Tim?

Tim Draper:

Well, I think I'm probably the least good debater on the [unintelligible] --

[laughter]

John Donovan:

No, you were good.

Tim Draper:

But I think the vision is the right vision. It's the optimistic vision. It's the vision of a future that is better than what we've got. And I think that's where -- and I did -- yeah, it was fun. I learned a lot about how to debate.

[laughter]

Tim Draper:

This is my first debate ever. It was fun.

John Donovan:

Gillian, what about you?

01:37:00

Gillian Tett:

Well, I'd agree that I think Professor Posner is probably the smartest -- not necessarily the briefest speaker, but the smartest speaker by. I would say that it's always great to be reminded afresh of the enthusiasm and passion that drives innovation.

John Donovan:

Yeah.

Gillian Tett:

I may not that's really greed that the innovation is quite all it's presented as. I actually think, if anything, Bitcoin will have a leapfrog effect, which is why I think it's a bubble, but actually hearing the passion and innovation -- sorry, the passion and belief in innovation is always very refreshing in every sense.

John Donovan:

Yeah. Well, thank you. I had a great time with all of you and as moderator. Even debating with you about who was the moderator was --

[laughter]

John Donovan:
-- was a pleasure.

Male Speaker:
[unintelligible].

[applause]

John Donovan:
I -- so we have the results. I'd like to share the results. And again, I want to remind you there is an online vote that continues. This is the vote of those of you who were in the room here today in New York. So, the final results go like this, and again it's the difference between the first and the second votes that determines our winner.

01:38:01

The motion: Bitcoin is More Than a Bubble and Here to Stay. Before the debate, in polling the live audience, 39 percent agreed with the motion, 38 percent were against, and 23 percent were undecided. Those are the first results. Again, the difference. The team are going for the motion; let's look at -- their first vote was 39 percent; their second vote was 25 percent. They lost 14 percentage points. The team against the motion; their first vote was 38 percent; their second vote was 68 percent. They pulled up 30 percentage points.

[applause]

John Donovan:
That means the team arguing against the motion Bitcoin is More Than a Bubble and Here to Stay. declared our winner by audience here today. But remember, the debate is not over yet. Our audiences tuning in online, on public radio, and on our podcast still have time to vote. You can see those results going online at IQ2US.org. For me, John Donovan, and Intelligence Squared U.S., thank you to the Adam Smith Society. Thank you to all of you, and we'll see you next time.

[end of transcript]

This is a rough transcript. Please excuse any errors.