DACFP Blog – Production Capital vs Financial Capital

One of the biggest things I have noticed at conferences lately is that everyone is relating to crypto as if it's a stock. It's not, because coins/tokens have software related to them. The actual assets you're trading belong to a blockchain; the tokens are interactive, providing functions and services. A crypto asset isn't just a ticker symbol.

They aren't commodities either. Commodities (typically) are utilized/consumed. By contrast, crypto does things. They are completely different.

$CRV, for example, is a governance token for stablecoin yield. $RNDR is a commodity token of a marketplace for compute power, to render a metaverse. The Render system glues together millions of smart phones into a decentralized, distributed computer and that compute power can be used by people who want to pay for it, so they can offer a metaverse or a game. Guess what you get for letting the system use your mobile phone's compute power? Guess what you use if you want to use the compute power? RNDR, yes!

The Evolution of Capital

As our society has evolved, so too have our definitions and types of capital. In the Industrial Age, factories became the engines of our economies, churning out goods in volumes unimaginable before the advent of mechanized production. Machines enabled people to produce goods and services beyond the capacity of physical labor. As we moved into the Information Age, intellectual property - inventions, artistic works and designs - emerged as the new form of capital, driving the knowledge-based economy. Today, in the Age of Autonomy™, tokens are emerging as a novel form of capital. Like factories and IP, tokens are created, traded on marketplaces, and, most importantly, stimulate economic activity.

Comparing Production Capital and Financial Capital

At a fundamental level, production capital differs from financial capital, such as stocks and bonds. The former involves assets that generate outputs that are traded in the marketplace. Those who create these assets maintain control over them and determine their value. Financial capital, however, denotes a claim on the income or assets of an enterprise. Production capital doesn't fall under the purview of the SEC; financial capital does.

Tokens: A New Form of Social Production

In the Age of Autonomy, tokens are much more than mere assets; they are representatives of a transformative form of social production. Indeed, the internet has revolutionized the way we disseminate and consume information, enabling unparalleled communication and creative expression. The personal computer spurred an era of ideation, incentivizing individuals to generate and share innovative concepts. Yet, this massive ocean of information often obscures the origins of ideas, making it challenging to credit the rightful creators.

Herein lies the disruptive potential of blockchain technology and its token economy. With its immutable digital ledger, blockchain offers a mechanism to indelibly link an idea to its creator. It not only verifies the ownership of intellectual property but enables compensation through tokens. This creates a unique ecosystem where individuals can be rewarded for their creativity and intellectual contributions.

Just as a factory uses an assembly line to bolster production, blockchain networks leverage tokens to stimulate the generation and verification of ideas, contributing to an intellectual property boom. Thus, tokens represent more than just a form of participation; they serve as a novel medium for value and information exchange, fostering entrepreneurship and pioneering innovative economic activities. This goes beyond what traditional shares or bonds can offer, signifying a new era in our economic narrative.

The Perilous Path of Misguided Regulation

In understanding the revolutionary potential of tokens as a form of social production, it's crucial to comprehend the potential dangers of ill-conceived regulation. History offers instructive lessons, such as the Red Flags Act of 1863 in England. Implemented with safety in mind, this law required each automobile to be preceded by a flag-bearer. That drastically slowed progress, and crippled the English auto industry for decades.

Today, with the stakes being tokens and the digital economy, a similar scenario of misguided regulation could similarly hamstring America's active participation in the fast-emerging economy of the Age of Autonomy.

Dissecting Crypto Asset Classes and Their Regulation

Crypto asset classes include utility tokens, platform coins, protocol tokens, governance tokens, non-fungible tokens (NFTs), crypto commodities and more. These novel forms of capital share little semblance to traditional securities; instead, they herald a new breed of production capital that serves as the bedrock of decentralized systems. However, the SEC appears to misinterpret this, aiming to categorize them as securities. This oversimplification disregards crypto's unique potential and can stifle the essence of what makes these tokens transformative in our current Age of Autonomy.

Conclusion

IP royalties and cash flows from factories aren't regulated by the SEC; tokens shouldn't be either. Regulation should be a bridge, not a barrier, to our shared digital future.