AI, Bitcoin and Gresham's Law

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About this Piece

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CHAPTER 1

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Absent government coercive controls, people and markets in general will always prefer to use hard rather than soft money. In situations of freedom, the strong money "drives out" the soft money.

Therefore, when we hear or read the opposite, that "soft money drives out hard money", in fact this is a misinterpretation of Gresham's Law that makes no sense once one considers the true role that capital controls, tax and legal tender laws play for a soft money to exist and be used.

Ultimately, this type of regulations distorts people's preferences. Freedom and prosperity always pull and demand hard money. Absent coercive controls, hard money "drives out" soft money just as a better product "drives out" a worse products from the market because it is simply better for a person to use hard money whenever they can in their life.

Figure 1.1: Gresham

Hard money like the florin in the Middle Ages were always the currency in international markets and new frontiers where there was a greater degree of freedom.

With this in mind, here I want to make some reflections on what would be the currency of the newest market frontier: artificial intelligence.

We can discuss how intelligent artificial intelligences are or will be, but it is difficult not to see that they have already proven to be very useful in our lives, carrying out tasks in seconds that would take a human being hours and often surpassing some of our abilities. We can only speculate what they will do in the future, but it is undeniable that it is a very promising technology.

I use the plural "artificial intelligences" because I believe that there will be various services and utilities and that they will inhabit the most varied niches: computers, planes, houses, cars, brokers, stock exchanges, websites, televisions and factories.

For them to work at all, they need to consume a lot of energy in the form of servers and processing power. They also need to interact easily with the people who want to use their services. All of this in a dematerialized and global environment. Imagine that an AI program needs to use servers in the USA but its services are requested in Japan and India, everything needs to work 24 hours a day in several different jurisdictions. Your business model can demand micro-payments for each output generated, further refining cost and demand. For example, if a Japanese meteorology company wants to use an American server to extract satellite images and generate a new model for predicting sea waves using AI developed by a Canadian company. These images are generated every second and the integration between AI and servers needs to be done automatically considering the costs involved.

How can you make so many payments in so many places with the traditional fiat system, with credit cards, financial institutions that need to operate in multiple jurisdictions and that can simply deny or stop payment or service?

In addition to these obstacles, the payment system for government currencies is extremely inflationary and artificial intelligence will need to maintain its purchasing power in the future to pay for so many inputs.

There is only one currency capable of satisfying this demand and that is Bitcoin, a native currency of the internet that is practically a monetized energy, and until now there is only one payment network open enough to make so many micro-payments easily and cheaply. and decentralized: Lightning Network.

Perhaps we are facing the most anticipated symbiosis on the planet: the best money in the world together with a technology that can process so much information in a frighteningly intelligent way and focused on our demands.

Strictly speaking, this symbiosis does not even need to be decided by human beings. In the AI protocol itself there may be a command for the AI to search for the best currency available to carry out this economic integration. The adoption of Bitcoin is not greater nowadays because of the normality bias of many people who have always used the traditional system (as I tried to explain here). There would not be this problem with an AI that was already born in cyberspace.

For these reasons I was so excited when I read about the launch of the L402 protocol developed precisely to help with payment communication between the Lightning Network and artificial intelligence based on Large Language Models.

The next few years will be very interesting

Source

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