Make Me Smart October 19, 2021 transcript

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Kai Ryssdal: Hey everybody, I'm Kai Ryssdal. Welcome back to Make Me Smart, where none of us on a Tuesday is as smart as all of us.

Molly Wood: That's right, we're calling in some help. I'm Molly Wood. Thanks for joining us, it is Tuesday, meaning it is time for a deep dive into a single topic with an expert, someone far smarter than the two of us. Today, I'm actually delighted about this because I need a break from all things, I don't know, news. Today, we're just gonna geek out about decentralized finance, defi, love it, which is actually in the news and a huge deal in the news today, in fact, because the SEC just put out like a big report about what happened with GameStop and meme trading. And I'm going to get to that in the news fix. But it's a great peg for this conversation today about, broadly speaking, open access financial services, in all of its forms. In traditional finance, of course, you have all these intermediaries like banks, exchanges, brokers, you make transactions, they charge fees. In defi, a lot of that moves to decentralized sources, up to and including the blockchain. So in practice, getting a loan, for example, wouldn't require you to go through a bank loan officer or you don't have to wait, you know, those weird three days for your bank to process your paycheck. Instead, a lot of that would just happen instantaneously.

Kai Ryssdal: Fans, of course, say it's gonna make what we're doing right now finance wise more efficient, accessible, it's going to get more people involved and able to participate in the financial world. There’s a shocking number of people on this planet who do not have access to the financial system. And look, it's already out there as well, right? Defi is a thing. But it's not all sunshine and light. It's not terribly well regulated, it's really new. There's a lot going on here, which is why we've got somebody smarter than us on this. Linda Jeng is a visiting scholar of financial technology and an adjunct professor at Georgetown, and she's part of the FinTech startup Transparent. Linda, thanks for coming on.

Linda: Thank you for inviting me.

Kai Ryssdal: Could you give us the lay person's definition? Like I mean, really layperson’s definition of defi, please.

Linda: Really layperson definition, defi is essentially about getting rid of the middleman in finance.

Kai Ryssdal: So is that like, getting rid of banks?

Linda: It's about getting rid of the banks. It's about getting rid of broker dealers, exchanges. And it's not about getting rid of them completely. But it's about getting rid of them as the central intermediary in transactions.

Molly Wood: And to sort of pile on to that, what is the, help us, you know, explain the benefit of getting rid of those intermediaries, that it's about money, right? Making transactions cheaper.

Linda: The goal of defi is to make financial services more democratic. That means more open access, anyone should be able to use it, it's about empowering the customer so users get to decide the rules of the game. It's about removing human intervention. So it's faster and more efficient. And it's about removing central intermediaries like those expensive banks, and broker dealers to make them cheaper. You know, let's start with potential real world examples. I took an Uber earlier today. And I was thinking to myself, like, you know, my Uber driver's going to have to wait until the end of the week, or maybe even end of the month, to get paid, you know, with defi on a blockchain, which is a type of technology that is essentially a giant distributed ledger shared by everyone in the system, this Uber driver could get paid as soon as I pay for the ride. And that is huge for those who, you know, live literally paycheck to paycheck. And also, for those who have problems, you know, accessing bank accounts because they either don't have the right kind of, you know, identity that banks would accept, or perhaps they're, they're underbanked because they don't meet certain conditions for banks to service them, you know, defi has a huge amount of potential.

Molly Wood: So like a, so an example in the, in the case of your Uber driver, for example, you pay using an app or maybe a cryptocurrency. The, the blockchain records the fact that you have made that payment and therefore, you know, if then like code, that just instantly triggers the Uber driver, driver to get paid.

Linda: Correct.

Molly Wood: Gotcha.

Linda: And this happens nearly instantaneously.

Molly Wood: Totally. You don't have to like check it with the bank or--

Linda: That's right. And whereas currently Uber drivers are paid over the traditional payment rails, which are very slow, they take many days to settle. So in the US, it can take up to five business days just to settle a cash transaction.

Molly Wood: Why do you think it's getting, you know, to this kind of question of the benefits or the benefits that people see, why do you think this is, is on the rise now? I mean, it seems like there are a lot of attempts in parallel to disrupt finance.
Linda: Yes, it's very exciting to see because defi literally exploded from, what, $1 billion last year to over $93 billion this week. I mean, that's a huge amount of growth, it's meteoric, and

people are, you know, probably wondering why, why now. And I think firstly, money is changing and it's getting ready to make a huge leap in evolution. And we saw that, you know, getting with cryptocurrencies, like Bitcoin eight years ago. And then the internet is probably the biggest driver of all, it's essentially decentralizing not only finance, but our entire economy. And then finally, you know, we all have smartphones and computers and customers are now very comfortable managing their finance via their devices.

Kai Ryssdal: So what, what would it take to make it safer, right? Because for, for it to have widespread adoption, everybody's got to be bought in. And there is a rigorous regulatory infrastructure set up with traditional finance. How should we go about, or should we go about regulating defi?

Linda: So the US historical approach to regulating the financial industry has been, you know, if you want to be a bank, you need to go to the Fed, or FDIC, OCC or your state banks regulator and apply for a banking charter. With defi that's quite hard because no one's technically in charge. It is a community that has gotten together and decided that they would like to do business with each other. But, you know, there are perhaps touchpoints in defi, where perhaps, you know, it's entities based approach to regulation wouldn't work, but perhaps there are on ramps and off ramps that are involved when, you know, banks and other financial institutions, maybe they're not central intermediaries anymore, but they're still there offering custody of assets. And a cryptocurrency isn't money, these touch points could be very useful in keeping an eye on monitoring what's happening in these defi systems.

Kai Ryssdal: So do you think or I suppose the question actually is when do you think decentralized finance just becomes finance?

Linda: I actually do think, especially when I look at my, my daughter who’s only four, that by the time she's my age, a significant chunk of her financial services will be available to her via defi. And I don't have a crystal ball to be able to say all the finance will be replaced by defi, I think it's going to be more about a hybrid about ways for financial institutions to identify opportunities within defi.

Kai Ryssdal: Well, Linda, thanks a lot. That's Linda Jeng. She's a visiting scholar of financial technology, also adjunct at Georgetown Law and at the FinTech startup Transparent. Linda, appreciate your time.

Linda: Thank you so much.

Kai Ryssdal: Thanks a lot.

Molly Wood: Thanks.

Kai Ryssdal: Well, there we go. Defi. Yeah.

Molly Wood: I mean, we all have a lot to learn about this. But it is, it is sort of instructive to think of, to start thinking of banks more like middlemen, right? And think like, okay, well, all these different services that they do, whether it's lending or payments, or, you know, so and so paying each other, or transferring money could get sort of sent out into this like, financial diaspora of apps and technology, and the other folks in the middle make a lot less money.

Kai Ryssdal: Exactly. Hence my Jamie diamond impersonation. But the other thing that she said in there at some point, which also is a much more metaphysical part of this conversation, what is money anyway?

Molly Wood: Right, yeah. And who gets, who is in charge of it, right. And it's really, I mean, there was a really interesting Twitter thread the other day from this guy pinboard, who's sort of like an anonymous tweeter about tech. That took the view that it's just remarkable who we listened to on Twitter. But pinboard is really good at breaking down complicated topics. But you know, essentially pointed out that like, if web 2.0 was about disintermediating all these services, then there's this idea that web 3.0 is like, let's just mess with, um, I don't know, money. What, you know, like, we'll just disrupt that. It's sort of like annoying and people make a lot of money out of it. And it is true that even at this exact moment, regulators are like, hmm, maybe Coinbase, for example, a centralized business built on trading decentralized currencies, should have some kind of a version of FDIC so that if it gets hacked, you don't lose all your money, which is what happens now. So it's, if it seems hard to explain, it's because it's still real early and messy. But definitely just take away this one thing. All the money is in play. And that's why it's a big deal.

Kai Ryssdal: Yeah. Tell us what you think though, would you? Do you think defi is the future of Finance? Do you think it's gonna replace the current financial system? Are you at all interested in being part of defi? Or will they drag you kicking and screaming into it? We want to hear from you. Send us your comments. Makemesmart@marketplace.org.

Molly Wood: You could call us and imitate the sound of you being dragged, kicking and screaming. Leave us a voice message at 508-827-6278, 508-82-SMART. And, you know, if you thought this conversation was super interesting, I have a new podcast that's not about any of this called how we survive. The new episode is out tomorrow, so I got to start upping it now. We'll be right back.

Kai Ryssdal: All right, news, news, news, news. There's actually a lot of it on this Tuesday. My two items, though, are from yesterday, technically. But I want to make sure we didn't miss this. Item number one, oh, my goodness, this is very not good. According to the EIA, which is the Energy Information Administration of the US government, the Department of Energy, it says coal fired power generation is expected to surge 22% in this year, right, coal fired power generation, which is to say the dirtiest possible way to make electricity is up. Why is it up? Because coal is cheap when compared with natural gas. We talked about natural gas prices here and in Europe on Marketplace. That's what happens. You can regulate the bejesus out of something but you cannot beat the market. That’s all I’m saying, you can't beat the market. So I point that out to get to my item number two, which is this, that a piece in the Journal also yesterday, sadly, but we had other things to do yesterday, that not only is there a squeeze on fossil fuels because we have a post COVID surge in demand, or late stage COVID surge in demand, but investment in getting fossil fuels out of the ground is down, which means those fossil fuels are getting more expensive. So look for that. That’s all I'm saying,

Molly Wood: Hey, you know, you know what would help speed up this transition and make it less bumpy and get us to need less coal, is something like maybe like $150 billion to incentivize utilities to build out the technology that they need for.

Kai Ryssdal: You're the queen of the turn, you go, keep going.

Molly Wood: That was, that was right in there. That was in there. So I noticed that there was a piece in the Philadelphia Inquirer today picking up on a thing that I have been talking about a lot on this show, which is the kind of astonishing conflict of interest at the heart of Senator Joe Manchin’s opposition to the big climate centerpieces of this three and a half trillion dollars. Also, by the way, I have a new rule, which is that every time I say three and a half trillion dollar infrastructure bill, I'm going to say 10 year, three and a half trillion dollar infrastructure, because we just keep throwing this number in the headlines and it sounds really bad. And over 10 years, and again, half of the defense budget.

Kai Ryssdal: The annual defense, but also it's not going to be three and a half trillion dollars. So we should actually just stop saying three and a half trillion dollars.

Molly Wood: We should just stop saying that completely because it's not expenditure, because there are taxes built into--

Kai Ryssdal: Yeah, there are the offsets. But there's also the Joe Manchin Kyrsten Sinema thing, which is they're not gonna let it get to three and a half trillion dollars. So that's like, fantasy land no matter what progressives and the White House say. It ain't gonna be three and a half trillion dollars.

Molly Wood: I mean, it's like so many framing choices, like just add up every teeny one. And they all, yeah.

Kai Ryssdal: There are more framing choices now than there were during the Trump administration, which is kind of wild, because I just, it's just a lot.

Molly Wood: Yeah, it's a lot. Anyway, I commend to you this Philadelphia Inquirer piece about Joe Manchin and how the blind trust that he supposedly is a part of, because again, he was like the co founder or something of this company called Enersystems and makes at least a half a million dollars a year from, and dividends, from that company. And every time he's asked about it, he shouts like, shouts people down, a Bloomberg reporter, yeah. Right, he's like, please don't ask me about the thing where I make at least a half a million dollars a year, triple my senate salary on checks that I get from a coal company. And so the Enquirer piece is, it's an opinion piece, but it's just like, this is absurd. And it is a profound and almost textbook definition of a conflict of interest. And they ask a bunch of ethics people about it, and they're like, yep, that's, that's, yep. I mean, again, apparently no one can find even one republican senator who would be willing to step in and take Joe Manchin's place on this vote. Which is something to behold. But the, like, the money story is the story that journalism is supposed to be selling, telling. Selling--that was Freduian. And some of it is starting to get told, which is good. On the topic of decentralized finance, two pieces, one, the SEC as I mentioned in the lead, released a report saying, okay, like, we totally did investigate this whole, the meme stock thing and the GameStop because you remember that when that was so hot and people were doing all of this, like, crazy trading on Robin Hood based on stuff they were reading on Reddit, and I'm not saying that these were, I mean, you know, look, they effectively did a lot in the market, and that had people freaked out about this sort of like, decentralized power. So it was a really interesting, so you can see why the SEC was like, okay, we lucked into it, turns out Robin Hood didn't do anything wrong. Turns out all of these investors who are not under the thumb of, you know, Schwab, didn't actually break the market. It just gave CNBC a whole lot to talk about. Item one, you should go and read the SEC report. It was very interesting. And then item two is just literally a headline, which tells you why Reddit traders flocked to things like Robin Hood, because right now, the wealthiest 10% of all Americans own 89% of all US stocks. And if you look at what the stock market has done over the past few years, it has been a massive driver of wealth even during the pandemic, a massive driver of wealth. And the fact is that the vast majority of Americans are shut out of it, which is yet another reason why we're having these conversations about things like Robin Hood or defi or whether crypto is a more democratic way to trade and invest than stuff that is basically reserved for, you know, wealthy people and accredited investors.

Kai Ryssdal: Yes to all of that. Yep, totally.

Molly Wood: It's a real weird time, weird time we live in.

Kai Ryssdal: Alright, let's go.

Molly Wood: Mailbag. Let's rock. I feel like it's been ages since I heard that sting but I guess it was just last week. First up is a voicemail we got like--I've lived every day twice since last week. First up, we have a voicemail that we got in response to a what do you want to know Wednesday question about retirement plans in other countries.

Vinay: Hi Kai and Molly. This is from Chandler, Arizona. I'm originally from India. And it reminded me of a post office saving scheme that we used to have and some of them that still exist and you can open an account for as little $1.30 and you can contribute as little as 15 cents a month, which really helps the low income communities to save. As Kai said, it compounds over time and it adds up. Love the show. Thank you.

Kai Ryssdal: Yeah, for sure. I mean, like time is the best, you can put a zillion dollars in starting at like 62. But if you put in 100 bucks a month, starting when you're 23, do that. Trust me.

Molly Wood: Or, or $1 starting when you're zero. Yeah, also tell us more, we want to know more, more, and more and more from all over the world. I know you're out there, call us.

Kai Ryssdal: Alright, so we had a little sidebar last week at some point about the difference between sailing and yachting. We did a lot of googling, and a lot of ducking on that one. Here's, here's one answer.

Philip: Hi, this is Philip from Oklahoma City. And for me, the difference between sailing and yachting is the people on yachts don't operate their own equipment. Um, so yeah. Thanks, guys.

Molly Wood: I thought we might get more on this. But the fact that we didn't tells me that we have a very, like we've got a populist audience out here, not a lot of yachters, which I kind of appreciate. Totally. And now we're gonna leave you with this week's answers to make me smart question, which is what is something you thought you knew and you later found out you were wrong about. I am delighted about this. Today's answer comes from New MacArthur Fellow Sophia Noble, a professor of gender studies at UCLA and frequent Marketplace tech guest.

Sophia: You know, I think I thought I knew that the world was maybe fair. And I've learned now through middle age that like the meritocracy is a lie. And that actually, the best ideas kind of break through because it takes a ton, ton, ton of hard work. And just because you're smart doesn't mean that your ideas will get recognized. Usually, if you're in certain kinds of bodies, you come from certain kinds of communities. You know, power is a major factor in whether you're going to be heard or not. And I think I know that much more acutely now than I ever knew before.

Molly Wood: Yep. Sophia Noble is the author of Algorithms of Oppression: How Search Engines Reinforce Racism. She's one of the people who really raised this idea that algorithms just have this built in oppression that's reinforcing exactly the kind of thing she said over and over. She's super interesting, super smart. And she recently spoke with Marielle Sigara o the tech show about it, we have a link to that interview in our show notes.

Kai Ryssdal: In the meanwhile, don't forget to send us your answer to the make me smart question, which you can call us, you can leave a voice message at our new number, 508-82-SMART, and we really appreciate hearing from y'all that's kind of why we do this show. That's what I think. That's what I think.

Molly Wood: That's what I think.

Kai Ryssdal: Make Me Smart is produced and directed by Marissa Cabrera, Tony Wagner--I was looking at the next paragraph and I'm like, that's a really long paragraph. Anyway, Marissa Cabrera is in charge day to day. Tony Wagner writes our newsletters. Our intern is Grace Rubin. Oh, my goodness.

Molly Wood: Yeah, bro. So you better hurry up. Today's program is engineered by Lianna Squillace with mixing by Jake Cherry. Ben Tolliday and Danny Ramirez composed our theme music. The senior producer is Bridget Bodnar. Donna Tam is the interim director of on demand and Marketplace’s Vice President and General Manager is Neil Scarborough

Kai Ryssdal: Oh, my goodness.