

The corruption of defi in 2020



crypto_angel

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I decided to publish this anonymously so that the message would not be dismissed as virtue signaling. Anyone who communicates this message would be rejected by the decentralized finance (“defi”) community.

There is an unspoken agreement between defi insiders and the bad actors that they protect. The insiders do not challenge malfeasance, and for their leniency they are rewarded with privileged information. If an outsider draws attention to the corruption, the insiders dutifully defend the bad actors by saying it only looks bad from the outside. The rationalization goes like this — it’s really hard to understand how legitimate everything is unless you contribute to the space. Non-contributors who feel victimized by insiders should blame themselves. They volunteered for abuse. It is a permissionless system.

This is the twisted song and dance that drove defi profit-making in late 2020. Offer something to the space, and draw closer to the center. See something suspect? Keep quiet to draw further in, or raise a fuss and be phased out.

A community that rewards bad actors and punishes good ones will soon find itself full of people who are openly hostile to discussions of virtue. New recruits will fit a certain mold, and the oldest members will look away and acquiesce to the turpitude.

Stunningly, in an industry full of technical analysts, no one seems concerned about the long-term trajectory of this arrangement.

The history of community banking in the U.S. demonstrates the outcome for idealistic projects with no moral compass. Every cold and greedy bank that the cryptocurrency community is attempting to replace began with a charter as rosy-eyed as the one that Buterin penned. It wasn’t a particular bank manager or board officer that lost the thread

on idealism and allowed the banks to become corrupted. Corruption was a gradual rot to which a great many relented because it benefited them.

Good actors are pushed out of circles of influence. Bad actors like @DegenSpartan become important connections. Up-and-comers plot a pump and dump scheme then slink back into the fold with no lasting repercussions.

Yield Farming to \$FEW

Let's revisit the chronology of defi's corruption. It unfolded so quickly that years from now, the series of events will be forgotten.

Yield farming began as a playful experiment in open organization. YFI and Yam demonstrated what a group of developers can spin up in very little time. Boundless faith from the community translated into explosive price growth.

There was something wrong with these organizations. Capital and informational asymmetries were built into the design.



The temptation for corruption was great. Insiders were able to rush into farms minutes (or hours) before the farm was announced to the public. Proliferation of the pools created demand for every imaginable crop, compounding the incentive to keep these "open orgs" temporarily secret.

Pool 2 amplified the viciousness of the trend. The outrageous APY offered in these pools created a semblance of value to the crops for as long as the whales decided to keep farming. When the whales left, the price collapsed, and fools were left to pay a high gas cost to transport their worthless crops back to their wallets. The players who won were never able to lose. The stacks with which they played were so large and expendable that risks did not exist. For everyone else, the game was unwinnable.

The defi leadership betrayed their ideals during this craze. The focus in the bear market was creating systems of value, not tokens. Let us not go back down the path of hyper-tokenization! Let defi not replicate the cabal of Ethereum developers!



Into the Ether @econoar · Feb 10, 2019

I just used BitTorrent and didn't need a token. AMA.

63

107

1.1K

(Caveat: Eric Conner bowed out of his position as an influencer long before yield farming began)



Ryan Sean Adams - rsa.eth @RyanSAdams · Nov 5, 2018

The obvious competitor to a project with a useless token is a similar project without the friction of a useless token

No token vs useless token:

- Uniswap vs Bancor
- Connex vs Raiden
- Set vs Iconomi

A useless token isn't a hedge, it's a millstone around the neck

11

44

184



But then defi got its turn on the dance floor. 100x and 1000x's were back. Every project was rebranding to defi. Everywhere you looked there was another story of some group of people becoming overnight millionaires with practically no effort thanks to a yield farm or meme coin or airdrop.

The price of \$ETH had stalled out. Ardent defenders of the fat protocol thesis were left with egg on their face. The real money was being made not by studious investors, but by people of influence. The way to win these token games was to make friends with the right people. Powerful defi insiders drummed up their influence with cryptic tweets and public shout-outs to one another. Jealous onlookers attempted to read the tea leaves to see where the alpha could be made next, not understanding they were the suckers of the game.

(Let me be clear: the big winners of the defi craze were Arthur Cheong, Vance Spencer, Michael Anderson, Jason Choi, and others. You can find Arthur in Discord as early as mid-2018 contributing to the communities like Synthetix and other fundamentals-driven success stories in this bull market. My discussion about yield farming is bracketed off from their accomplishments. @DegenSpartan shares their glory, but he merits a separate discussion.)

The \$FEW joke could only have happened in an environment as toxic as the current one. Twitter influencers bragged about daily \$100,000 gains while making a half-hearted plea to their followers not to participate. Of course, their gains were made precisely because their followers were flooding into these pools for a chance at similar wealth.

It was a vicious game in which influencers soothed their conscience by reminding themselves that victims were self-selected. Everyone knew that the winners were the first ones in, first ones out. Players who got burned by the game understood the worst possible outcome. They knew the chance of loss but not the impossibility of success, which is the exact definition of a confidence trick.

Remember, these were games being advertised by the same influencers who preached about mutual value creation and tokenless economies only months before.

\$FEW Laughed

There are two ways to interpret the \$FEW drama. The first is to believe the version of events told by those involved. Sam Ratnakar, the ringleader, claims that the whole thing was a cheeky experiment in organization building.



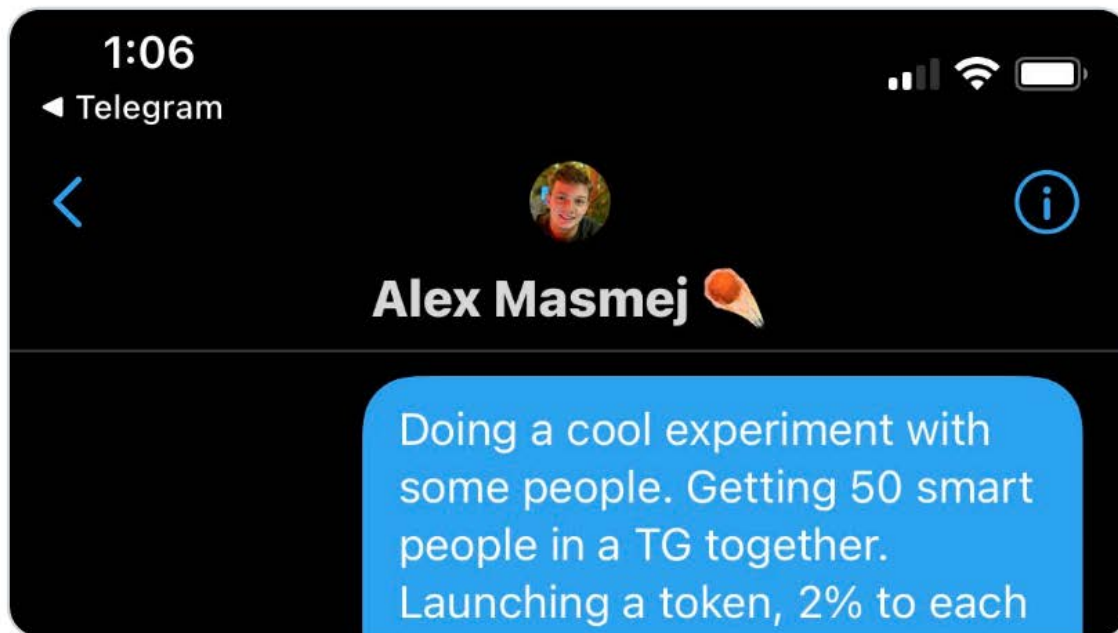
Sam Ratnakar 🧠🍍 @mrdotboson · Sep 22

Replying to @mrdotboson

It started when I invited a few people to join an experiment.

Get some of the industry's smartest people together, equally distribute tokens and see what happens.

The telegram chat was called "The Experiment".



4 replies, 1 retweet, 8 likes, share icon



Sam Ratnakar 🧠🍍 @mrdotboson · Sep 22

Within a few minutes, we had really cool people like @defidude @Melt_Dem @AlexMasmej @jessewldn + @_julkanani and many others.

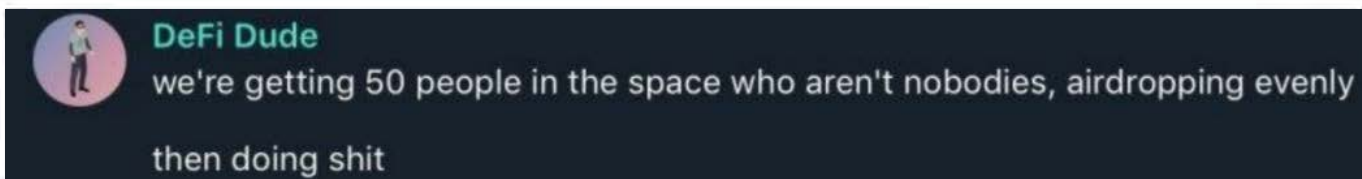
The idea was to jam on building something really cool, get people vested, collect mindshare.

4 replies, 6 retweets, 11 likes, share icon

Ratnakar goes on to say that “within a few hours [we] had the whole industry’s attention.” None of the few knew the purpose of the experiment, except to create value.

Let’s pause here. In no way does this look like a joke, which was the excuse of the other co-founders, nor does it resemble an attempt at open organization. It was an elitist vacuum. The only thing that could have saved them from a SEC investigation is if their shit was somehow so hot it created value. I guess that in the most charitable

interpretation of the story, they really did think they possessed such talent. This speaks volumes about the vanity and hubris of certain influencers.



The goal was not to gather 50 smart people. It was to gather 50 people of *influence*. The other members in the group started to hype the project on Twitter. Cooper Turley posted a since-deleted reference to the experiment. Alex Masmelj also tweeted cryptic hype suggesting money to be made.

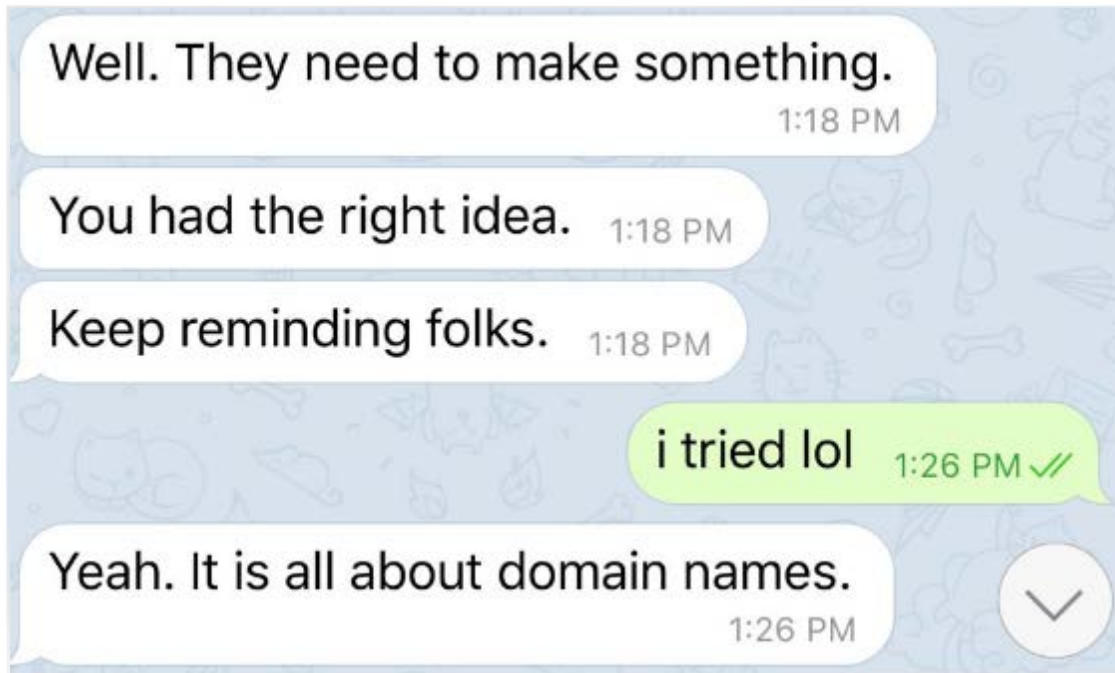


Within minutes of the token launch, hundreds had flooded into the Telegram group requesting an airdrop.

It is unquestionable that people would have paid for \$FEW. Only a fool would think the founders weren't counting on this. Hence the sinister undertone to Ratnakar's observation, "within a few hours [we] had the whole industry's attention."

I am not going to litigate each reason why this was obviously a pump and dump campaign. You can read the chat for yourself to form an opinion. Perhaps the most damning evidence came from the individuals invited to the group who have since condemned it. Anthony Bertolino called it "absolutely disgusting" and nothing more than popular Twitter accounts "trying to design ways to create a project out of thin air and pump the price using their marketing following."

Some of the group participants lamented to each other privately that the creators showed no interest in actually making something of value. The figureheads ignored repeated warnings that they should not go to market with only a generic token and domain name.



Andrew Lee today at 1:26 PM

should really build a product not just buy a domain and mint a token

Andrew Lee today at 1:31 PM

✓✓ 5:39 PM

dude meme is not what anyone aspires to be
i assure you





The Ethereum community's response to this event was pitiful. There were far more apologists than critics. \$FEW demonstrated a chasmic lack of self-awareness on the part of defi insiders. They had been flirting with yield farming scams for months. Now they were outright excusing their colleagues for plotting one of their own. The silence around \$FEW was borne of greed, arrogance, and the fear of retaliation. Maintaining one's place in the circle meant recusing one's self from the conversation or muddying up with the waters with caveats and alternative facts. I think this failure is representative of the much larger one that defi is making.

The Sociopath in the Mirror

@DegenSpartan is a very amusing and brilliant character. There is no denying his rakish charm or that he had an acute sense for where the market was headed. It was a prescient understanding of Synthetix that turned Spartan into a pseudo-celebrity.

Unfortunately, Spartan is a self-admitted sociopath with overt disdain for the losers on the other end of his trades.

Everyone knows what Spartan stands for. At the same time, Spartan doesn't really exist except as a reflection of the community. A community that castigates Spartan as a bad actor retains its moral compass. A community that holds Spartan up as a leader, spinelessly playing along in hopes of acquiring his alpha, has lost its way.

"Crypto" is full of charismatic bad guys and apathetic sycophants. The good actors are few and far between, and even then, they have a powerful disincentive to fussing over unethical behavior. There is quite literally nothing to be gained from virtue.

It should raise a red flag that in the current zeitgeist of defi, virtue signaling does not mean calling out scammers. You score influencer points by chastising whistleblowers for wasting everyone's time.



찌 G 躋 じ ⚡ 🔑 @DegenSpartan · Sep 23

mute stupid words on low value subjects

mute really dumb people

block people that annoy you



Anil Lulla @anildelphi · Sep 22

There's a huge opportunity cost of your time in crypto, where every minute you spend learning compounds exponentially.

My suggestion to everyone here right now: stay focused on what matters.

\$FEW

You can mute one word, phrase, @username, or hashtag at a time. [Learn more](#)

I am painting with a broad brush. There are some who use their position to clean up the space. All of us except Spartan are multi-faceted. He is a wholly bad actor. It is the essence of his character.

The more that we align with Spartan's worldview, the more corrupted we have become. It shouldn't be difficult to aspire to something more than a sociopathic cartoon character.

But Spartan has revealed who we are. We will happily re-post hentai and call each other retarded if it gets us closer to our goal of financial freedom.

We are here for the gains. Our values are debatable.

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