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Salary tokens?

The blockchain will not change our lives. But it will change the way we save, invest, borrow, lend, solve our financial problems, and more.

First there was bitcoin. It was distributed, and indestructible. But it was just a unit of value that you could transfer and later exchange for fiat or other crypto.

Then there was smart contract. This changed the entire ecosystem. It added a wealth of financial instruments and created a huge invincible investment market nobody knew possible. ICOs[1] took the Internet by storm.

The concept of tokenizing investments making them tradable is nothing new. IPOs, stocks, bonds have been around for years. But when you remove the barriers, minimums, borders and heavy regulation, an amazing opportunity is created - now everyone with an idea can have a chance to raise funds and execute. And it doesn't matter if you are an experienced businessman or a 15 year old kid with a crazy idea. Everyone will find their target investor if the idea is good (and sometimes if not).

Ability to possess an electronic asset that you can exchange in realtime for another asset at some rate that change with time detaches the substance of the asset from its value and creates an opportunity.

Hundreds of thousands of ideas are evolving everyday and fighting for crowd attention and a reason to live. And new functions of tokens are gaining potential.

[1] Initial Coin Offering

One interesting use of tokens was recently introduced by a crypto exchange that lost half of holdings of its clients' funds in a police raid. The idea is simple like everything genius.

For every missing bitcoin on their balances they issued a token, and they promised to refund the bitcoins when/if they return the losses or cover with profits in a 1 to 1 ratio. Simultaneously they made these tokens added to clients balances for trading in replacement of the missing bitcoins.

After trading commenced, the exchange has provided liquidity and raised the value of the missing funds well above 0. The very act of listing raises the value of debt above 0. Because of thousands of clients there were many who believed that the debt would be returned and they were ready to buy the tokens at a price above 0.

In the this case the market value of the debt token represents an average expected chance of conversion of the token into bitcoin.

Another interesting effect is that if the exchange were to finally recover all the bitcoin tokens from the police and buy out all the tokens off the market for a 1 to 1 exchange back to bitcoins, there would be number of clients not willing to sell these tokens back at a 1:1 price. This would have double positive economic and marketing effect to the exchange. One - all the debt is returned to clients, there is still balances left in the exchange, and two - the remaining holders of the tokens would have made profit on the value of their debt.

Replacement of an asset with a value added token and making such token tradable on an exchange can be applied to many different types of assets and can have many practical applications.

The one situation where I do not see this applied yet on a large scale, but inevitably will be in the future, is the payment in tokens for contributing to a project. Let's call it a salary token.

Let's say you have a business idea, and you need to hire 100 people to complete your project in 1 year. Average salary of the employee is $40,000.

The project cost is going to be $4,000,000.

Now we can just spend the $4,000,000 and pay the salaries in cash. But knowing the new added value of tokenizing assets, we could issue 4,000,000 tokens. List them on exchange and place a buy order for a price of $1 per token for all of the 4,000,000. Now instead of dollars you can pay your employee in tokens. And they (in worst case scenario) are going to

exchange the tokens on 1:1 par value on the exchange, and convert them to USD. In that case you as a businessman haven't lost anything.

But 1:1 is the worst case scenario.

In order to create a better added value, you could add functionality to the tokens. For example every token holder will receive a $3 discount on every token up to a certain % of the price of future product. Or you can promise an option to buy shares of the company to the pool of holders of the tokens.

Now this creates an added value, and raises the value of every token you pay to your employees. And this will inevitably result in:

- You saving money on employee salaries by passing the risk to risk takers who buy the tokens out from the market by placing a bid higher than your 1:$1 order. Motivation - options to buy the shares in company.
- Your employees make more money in the end, hence you create a more competitive compensation package.

Another interesting effect of such token is that if the public truly believes in your business idea you may end up spending almost nothing on the salaries, and other expenses. For example you could be paying for marketing in tokens too.

It is not improbable that the Salary Tokens in the nearest future will become a preferred instrument of compensation for work. Especially on startup projects. And everyone seeking for job will rather be paid in added value tokens than in fiat or crypto currencies.

If you are guaranteed to get paid $1/token and you can only make more if there is demand from speculators, then it also makes sense for you to keep the tokens.

Posting a buy order of 1:1 on exchange, (or in fact better yet in a smart contract) addresses another concern. If an issuer of pay tokens has no limits on issuing tokens, such a buy order ensures that the issuer who is in fact an employer is financially motivated not to issue tokens endlessly.

Reckless issuance of such tokens will eventually over satisfy the demand from traders and inevitable mass dumping of tokens will burn all the budget from the buy order for the issuer. Hence a good setup of the buy order will increase confidence for very probable «risk takers» on the coin.

So from one side of the scales there is the ability for the startup to issue tokens without limits, on the other side is the buy order that could burn sooner than needed if the issuer acts irrationally. Keeping the balance of interests.

The recent ICOs provide a very easy way for investor to raise capital with minimal effort on the side of the founders. However after the raise investors are not guaranteed that the raised funds will be spent wisely. One of the ideas to guarantee a rational and effective spending of funds is escrow that releases the funds in milestones.

The escrow tackles the biggest concern for investors - rational spending of funds. However it is doing this in a big steps, the evaluation of work done is in bulk chunks of work. Easier to manage, less efficient.

In our approach, the funds are released on a per-developer or per-task basis, and theoretically can be completed for low price at expense of traders rather than investors. It is important because investors usually come at a price of some kind of obligations, whereas traders take risk for the benefit of earning on a price change.

Before writing this article, I have though of this as anti-ICO approach to fund raising, now after refining it, it is forming to be a new alternative to bootstrapping a blockchain project. And we are going to test this idea with a real blockchain project in the nearest future. I will document our progress, although hopefully it will be very public.