Hi Uniswap Community,

There has been a lot of discussion around the liquidity mining program recently, and I think a lot of nuance is getting lost in the weeds. I want to begin a discussion around what our “North Star” is, and argue that we are not solving for the right metric by arbitrarily distributing UNI via liquidity mining.

What is the real goal of liquidity mining?

It may be tempting to say that “liquidity” is the ultimate goal of these programs, and that they’ve been very successful in that context. But liquidity is a means to an end. We try to source liquidity so that we can provide the best price discovery, which will then lead to more traders using Uniswap over other venues, and ultimately to more volume

flowing through the platform. Targeting liquidity in order to achieve greater volume has been a decent strategy and, at least so far, has been successful. But, I believe this strategy has reached the point where we are now solving for the metric and not the problem. It’s kind of like when colleges decided to use SATs as a metric to find intelligent students. At a certain point you just start getting students who are great and standardized tests and not much else – SATs are a good approximation, but they need to be taken in the context of the other dimensions of a “good student.”

What brings traders to Uniswap?

The decision-making process of traders is multi-dimensional. Liquidity mining solves for only one of those dimensions. The three primary factors that bring traders to Uniswap (in my opinion) are:

1. Cost of execution (liquidity/fees)
2. Ease of use (distribution within aggregators and front-ends)
3. Availability of assets (listings are not controlled by a centralized entity)

Item 3 is fortunately implicit to Uniswap being a decentralized protocol. Item 1 has been aided by liquidity mining. But item 2 has been Uniswap’s true competitive advantage - without better distribution, volumes may have went permanently to Sushiswap in the “vampire attack” and we’d likely be in a much worse competitive position today.

The LPs that remained on Uniswap were rewarded with high organic fees, even after the majority of liquidity left the protocol. This is the kind of sticky competitive advantage we need to encourage.

What brings liquidity providers to Uniswap?

The other side of this coin is of course the LPs themselves. They also have a multidimensional decision making process. I believe they look for:

1. Volume (fees they can generate, governance tokens/liquidity mining schemes)
2. Security (battle-tested code)
3. Inventory management (x*y = k)

In my opinon, item 3 stands to be improved, as different assets should have different inventory management strategies (e.g. Curve has done a nice job of this for stablecoins). Item 2 is unique to Uniswap, but also to its forks. Item 1 is the sole factor that we, as a community, can help to control.

So how do we deploy resources to grow trading volumes and not just liquidity?

If you don’t already see where this is going…we need to focus on distribution in order to grow trading volumes.

None of this is to say that we should stop liquidity mining altogether. It is to say that we should be benchmarking these efforts based on how much volume the protocol is doing at different levels of liquidity, and that we should cease devoting resources (UNI) to a strategy with decreasing marginal returns. Instead, we should focus on deploying UNI intelligently towards furthering our distribution – more aggregators, more front-ends, more third party platforms that route through the protocol.

Thanks for reading and I’m looking forward to having a discussion.