I want to suggest a new system for UNI liquidity mining distributions.

It is essentially an upgrade of the current system

. It allows us both to replicate the incentives as they are now, and to create new liquidity mining incentives in a much smoother way.

But first, let's take a look at the present one.

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The problem.

As you know from the Introducing UNI article, there are currently four pools participating in the program with the same allocations per pool.

This type of distribution creates an economic incentive that equalizes the liquidity

between the pairs.

If four pairs were to be the same, the liquidity for these pairs would be nearly identical. Liquidities being not equal means that more money wants to stay in one pool and less in another despite the incentive

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Another property of the current distribution system is that it effectively creates benchmarks for liquidity

. This makes the introduction of new pairs

to the program problematic

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Spoiler: Liquidity benchmarks concept

To illustrate the benchmark concept, let's imagine that liquidity is the following: WBTC 600 mil, USDT 500, USDC 500, DAI 400. And the UNI APY is 30% for the USDT & USDC pairs: that's what the market finds reasonable.

500 mil is the average liquidity between the four pairs, and this is the benchmark

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Now let's imagine that after the current liquidity mining program ends, the community votes for its continuation + adding UNI pool on the same terms. If the starting point of UNI liquidity is 50 mil, the benchmark is 10x away from it. It results in higher displayed APY

for UNI, which encourages a short-lived speculative rush

until the pool gets closer to the benchmark .

It stimulates people to buy an asset they would otherwise not in hopes of getting the rewards they're not going to get

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Fundamental questions.

1. Is it essential that we have an even amount of liquidity among participating pools

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My answer: it is not.

We can still incentivize the pools effectively without creating benchmarks for liquidity.

People can have whatever amount of money they're willing to have in the pair, and nothing will get broken from it.

UNI distributions can still incentivize less popular pools to the same extent they do other pools. And in addition to that, there is always volume/liquidity based incentive from the liquidity provision itself.

1. What is the purpose of the liquidity mining program?

My immediate answer to that is community building

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Long-term liquidity provision incentives encourage people to commit to protocol development while having skin in the game and while being network functionality providers.

My secondary answer is raising

liquidity for the pairs we choose

, but it is quite a nuanced subject.

1. What should the scale of the effect be of the liquidity mining program?

I think the effect should be:

- Strong enough

that people who already

have their assets in respective tokens would be willing to join the liquidity provision pool

- Weak

enough that it doesn't create a significant incentive for people who don't have the tokens to buy them

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Meeting these conditions, in my opinion, would mean that we are primarily incentivizing liquidity provision and not other things.

I need to remark that I think it is good to incentivize people to buy coins with the store-of-value

property

. It makes portfolios more solid. It does have a social function in a highly speculative environment

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The solution

My suggestion is the following one.

If we want to incentivize the pairs equally

, we create one pool that distributes UNI on a dollar pooled basis

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Meaning that 1 dollar gets the same amount of UNI

no matter what pair it belongs to.

This way, adding a new pair to the pool would not create a speculative rush, and overall the APYs would become more predictable.

Also, the distribution would get equal between the major pairs.

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Now, it is also reasonable to incentivize the pairs non-equally.

And this is the area where we could fine-tune the liquidity provision part.

Let's imagine that we're considering adding a pair that could get an enormous amount of liquidity, which would noticeably reduce UNI distributions for other pairs.

We could give this pair a small multiplier like 0.25x.

This would mean that 1 dollar would get a 0.25x amount of UNI

compared to the major pairs.

It would also be reasonable to give small multipliers to the pairs where we would like to boost the liquidity, but wouldn’t want to endorse people buying into them.

Small multipliers create

an opportunity for

the LP program to be less binary.

It allows us to enlarge liquidity slightly, to fine-tune incentives, and to stay competitive and flexible.

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Overall I think it is a good thing - to make the distribution rates more stable.

And when it comes to equal and unequal distributions of UNI rewards, I think it’s better when they’re set deliberately by the community.

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Thanks for reading. Please feel free to comment and ask questions if something is not clear. If you have different answers to the fundamental questions I’ve asked, I’d be interested in reading those.

Cheers.

Vote: Do you approve of the suggested system?

- I approve
- I disapprove
- I’m neutral
- I’m not sure

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voters