



Course I:

DeFi Infrastructure

1. The History of Decentralized Finance

(iii) A Brief Overview of CeFi Problems

Problems with centralized finance

Five problems

- Centralized control
- Limited access
- Inefficiency
- Lack of interoperability
- Opacity

Problems with centralized finance

Centralized control

- Centralized banking system is highly concentrated
- National central banks control currency
- Non-financial centralization of tech giants, e.g., Amazon-retail, Facebook/Google-digital advertising

Problems with centralized finance

Limited access

- 1.7 billion unbanked
- Billions underbanked
- Many entrepreneurs use credit cards to finance their businesses, since banks won't lend to them because they are small (negative impact on growth)

Problems with centralized finance

Inefficiency

- 3% for a credit card swipe
- 5-7% for a wire transfer
- 2 days settlement time for a stock transaction
- Slow transfers of funds
- Fraud, chargebacks, insecurity
- No micro transactions
- Difficult to get paid

Problems with centralized finance

Lack of Interoperability

- Siloed institutions
- Difficult to move money from one banking institution to another
- Difficult to move money from a bank to a non-bank
- Note: Visa attempted acquisition of fintech company Plaid

Problems with centralized finance

Opacity

- Very little transparency
- Bank customers do not know the health of the bank
- Must rely on costly regulation and the promise of bailouts

Result of these problems

Missed growth opportunities

- Entrepreneur might have a great project, say with a 25% ROI, but the project is never pursued because the cost of credit card borrowing is 24%
- High ROI project fuels high CAPEX, strong real GDP growth, and robust employment growth



Available online at www.sciencedirect.com

SCIENCE @ DIRECT®

Journal of Financial Economics 77 (2005) 3–55

www.elsevier.com/locate/econbase

JOURNAL OF
Financial
ECONOMICS

Does financial liberalization spur growth? ☆

Geert Bekaert^{a,b}, Campbell R. Harvey^{b,c,*}, Christian Lundblad^d

^aColumbia University, New York, NY 10027, USA

^bNational Bureau of Economic Research, Cambridge, MA 02138, USA

^cFuqua School of Business, Duke University, Durham, NC 27708-0120, USA

^dIndiana University, Bloomington, IN 47405, USA

<https://wallethub.com/edu/cc/credit-card-landscape-report/24927#interest-rates>

Result of these problems

Inequality of opportunities

- Projects should be financed based on the quality of the idea and the soundness of the execution plan
- Many have no access to internet commerce (to buy or sell)
- Given the number of unbanked and underbanked, this creates unequal opportunities and perpetuates or even exacerbates inequality.