# *The* New Stablecoin Debate

**BY PETER COY**

*The pro side seems to be winning.*

Stablecoins are the staid, solid citizens of the cryptocurrency world. No memes. No crazy gyrations. They're meant to be used for payments, not investments. As such, they're pegged to official currencies—U.S. dollars in most cases. They're often used to buy other crypto currencies such as Bitcoin. They're also a cheap way to send money across borders.

So if you're a lawmaker or a regulator and you don't want to come across as a monetary Luddite, stablecoins are easy to get behind. And that's exactly what many are doing. Since 2023, governments in Europe, Hong Kong, and the United States have relaxed and clarified rules around cryptocurrencies, especially stablecoins. That has accelerated their adoption in the marketplace. President Donald Trump likes stablecoins so much that he issued one and demanded congressional legislation creating a regulatory framework for them.

But other government officials, as well as some top academic economists, are arguing that it's a mistake to smooth the way for stablecoins because they are not as harmless and normal as they seem. Despite stablecoins' name, they threaten to inject instability into the world financial system, these skeptics say.

Perhaps the most important skeptic is the Bank for International Settlements, which is based in Basel, Switzerland, and is owned by sixty-three central banks whose nations account for 95 percent of the world's gross domestic product. When the Bank speaks, central bankers listen. It's a forum for them to cooperate. It's also a bank for central banks, helping them manage their foreign exchange and gold reserves.

---

*Peter Coy is a journalist specializing in economics and finance. He previously wrote for* BusinessWeek, Bloomberg Businessweek*, and the* New York Times *opinion section.*

THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
www.international-economy.com
editor@international-economy.com

For this article, I interviewed people on both sides of the debate. On one side was Hyun Song Shin, the Bank for International Settlements' economic adviser and head of research. He oversaw the publication in late June of the bank's annual report, which has a chapter on "the next-generation monetary and financial system." Disagreeing him was Dante Alighieri Disparte, the chief strategy officer and head of global policy and operations at Circle, whose USDC is the second most heavily circulated stablecoin. Disparte wrote an article for *TIE* in 2022, "The Case Against Central Bank Digital Currencies."

Speaking from Basel, Shin said stablecoins fall short on three key criteria: singleness, elasticity, and integrity.

Singleness is the property that all money is accepted equally, at face value, with no questions asked. Singleness is what makes money different from financial assets, which aren't used for payments because their value rises and falls unpredictably. "'Approximate' singleness is an oxymoron," Shin said. "You either have it or you don't." Stablecoins, he said, don't have it, because people do sometimes ask questions about their provenance and value. The risk is that people will lose faith in a stablecoin in a crisis and not accept it as payment. That won't happen with dollars.

*Stablecoins threaten to inject instability into the world financial system, skeptics say.*

Elasticity, Shin's second criterion, is a service provided by central banks that stablecoins can't match, he said. If one bank owes a huge amount to another and doesn't have enough reserves to pay it right away, the central bank can give it a short-term loan—a "daylight overdraft" that

## Trump's Personal Crypto Bet

President Trump has used the power of his office to advance the crypto agenda, and people who seek his favor have invested in his ventures. With the help of those two factors, he and his family have accumulated a crypto empire worth hundreds of millions, perhaps billions, of dollars.

Trump and his family own 40 percent of World Liberty Financial. The company issues the stablecoin USD1 as well as a "governance" token called $WLFI that gives holders the right to vote on changes to the World Liberty Financial platform. In addition, two Trump-owned companies own four-fifths of the Trump memecoins, called $TRUMP.

Bloomberg calculated that various crypto ventures added at least $620 million to Trump's fortune in his first few months in office. That was a conservative estimate because it left out World Liberty Financial-branded governance tokens that Bloomberg said were worth another $2 billion. Bloomberg excluded them because they were designed to be non-transferable, but holders are voting on a proposal to make them transferable. Bloomberg also left out 800 million of the $TRUMP memecoins recently worth more $10 apiece and vesting over the next three years.

**Justin Sun,** *founder of the blockchain TRON.*

Trump's crypto plays have enmeshed him with some of the most important figures in the sector.

Justin Sun, the founder of the blockchain TRON, put $75 million into $WLFI and about $19 million into $TRUMP. In February 2025, shortly after his $TRUMP purchase and Trump's inauguration, the Securities and Exchange Commission asked a federal judge to put on hold its multibillion-dollar fraud case against him. Sun is an adviser to World Liberty Financial.

MGX, an Emirati investment fund, recently completed a $2 billion investment in Binance using World Liberty Financial's USD1 stablecoin. Binance wrote the basic code to power USD1, Bloomberg reported. Binance's founder, Changpeng Zhao, has been seeking a presidential pardon after pleading guilty to failing to maintain effective anti-money laundering procedures.

In May, Trump held a gala dinner at his golf club in Virginia for the top 220 holders of $TRUMP. Among the attendees was Justin Sun.

*—P. Coy*

is closed out by the end of the day. Stablecoins, being decentralized, have no institution that can perform that vital overdraft function, Shin said. If A isn't able to pay B until it receives funds from C, the whole system could seize up and stop functioning.

Integrity is the easiest to understand: Stablecoins can be used for money laundering, terrorism financing, and other crimes because it's hard to know who owns them, he said.

The Bank for International Settlements isn't against digital money *per se.* It supports "tokenizing" assets, which means recording them on the blockchain, a programmable digital platform. Many steps that are now done sequentially could be consolidated and executed all at once, automatically, by a program on the blockchain, it says in its new report. But it says, "Where new forms of money are demanded for a tokenized system, central banks have to be the ones providing them."

Shin has some prominent academics on his side, including Gary Gorton, an economist at the Yale School of Management. Gorton likens stablecoins to the paper money issued by unregulated "wildcat" banks that sprang up on the American frontier from the 1830s through the U.S. Civil War, before there was a national currency. The farther you got from a currency-issuing bank's headquarters, the less people trusted the money it issued. Worn and dirty bills were favored because they showed evidence of long and successful circulation.

As an aside, public skepticism about wildcat banks was often justified: At Jackson County Bank of Michigan in 1838, a bank examiner who opened eight boxes that supposedly contained the banks' precious-metal coins backing its currency found that beneath a thin layer of coins was nothing but lead and nails, except for one box that was mostly filled with broken window glass. Some of today's stablecoin issuers have played similar games with reserves. In 2021, for example, the Commodity Futures Trading Commission fined Tether $41 million for claiming that its stablecoins were fully backed by fiat currency when they weren't.

The economist Hyman Minsky used to say that stability generates instability, and that could be true with stablecoins. In a crisis, things that people have come to rely on can fail them. "Should money flow out of stablecoins, operators would be forced to sell Treasuries and whatever other assets they hold claiming they are safe," which is "the kind of thing that generated the 2008–2010 Great Recession," Brad DeLong, an economist at the University of California-Berkeley, wrote in a post on Substack in June.

Disparte says such fears are overblown, and that stablecoins can occupy a safe niche in the financial system. Stablecoin issuers such as Circle aren't trying to take over the functions of central banks, he said. They also aren't trying to take over the lending and deposit-taking functions of commercial banks, he said. They're aiming, rather, at competing with what he called "ossified" payment systems such as Western Union, MoneyGram, ACH (Automated Clearing House), and SWIFT (the Society for Worldwide Interbank Financial Telecommunication).

*Republicans "are all in on crypto," while Democrats "have been engaged in a strategy of aggressive non-engagement on finance and tech," says Dan Awrey of Cornell Law School.*

**Hyun Song Shin,**
*Bank for International Settlements*

## The Big Position

The Bank for International Settlements isn't against digital money *per se,* according to Hyun Song Shin, economic adviser and head of the Monetary and Economic Department. It supports "tokenizing" assets, which means recording them on the blockchain, a programmable digital platform. Many steps that are now done sequentially could be consolidated and executed all at once, automatically, by a program on the blockchain, the BIS says in its new report. But it says, "Where new forms of money are demanded for a tokenized system, central banks have to be the ones providing them."

*—P. Coy*

“I only wish,” Disparte said, that the Bank for International Settlements “would shift from a policy of fear and gradualism to one of competition and dynamism.”

The good news for Disparte is that his side appears to be winning. “Three years ago, stablecoins were *persona non grata,*” Ramy Soliman, the Abu Dhabi-based head of sales and business development for GMO-Z.com Trust Company, told me.

*The risk is that people will lose faith in a stablecoin in a crisis and not accept it as payment. That won’t happen with dollars.*

The year 2022 was a bad one for crypto. The Terra stablecoin crashed that May. The FTX crypto exchange collapsed that November. Various authorities in the United States and Europe “all were saying central bank digital currencies were a better product,” Soliman said. “It’s only recently, in the last six to nine months, that those conversations have receded and stablecoins have found this product market niche,” he said.

The European Union’s Markets in Crypto Asset Regulation, which took effect in 2023, was a step toward acceptance of stablecoins, although more protective of legacy institutions than advocates wanted. In July, President Trump signed the Genius Act, which was intended to provide clarity and stability to the stablecoin market while protecting consumers and ensuring national security.

Now what? Republicans “are all in on crypto,” while Democrats “have been engaged in a strategy of aggressive non-engagement on finance and tech,” Dan Awrey, a professor at Cornell Law School, said in an interview. (A notable exception among Democrats is Senator Elizabeth Warren of Massachusetts, who warned in June that stablecoins threaten “our financial system, our national security, and our democracy.”)

For Democrats, waving stablecoins through “would be a terrible mistake,” Gorton and Jeffery Zhang of the University of Michigan Law School wrote in the *University of Chicago Law Review* in 2023. “If policymakers wait a decade, stablecoins might become a multitrillion-dollar industry—too big to fail—and the government will have to step in with a rescue package whenever there’s a financial panic.”

That’s not a big risk right now, Matt Blumenfeld, the global and U.S. digital assets lead for PricewaterhouseCoopers, told me. He said he’s happy that lawmakers and regulators are moving rapidly to clear the way for stablecoins, even though some knotty problems haven’t been solved.

*Stablecoins are the staid, solid citizens of the cryptocurrency world.*

“If we were to go any faster, with significantly more adoption, it could potentially put us in a situation where these problems come to a head before we have time to think of the solution,” he said. “But we have some of the smartest people around the globe thinking about these problems.” We’ll know who’s right soon enough. ◆

## Stop the BIS Policy of Fear

**Dante Disparte,** *Chief Strategy Officer and Head of Global Policy, Circle*

Stablecoin issuers such as Circle aren’t trying to take over the functions of central banks, says Dante Disparte. They also aren’t trying to take over the lending and deposit-taking functions of commercial banks. They’re aiming, rather, at competing with what he called “ossified” payment systems such as Western Union, MoneyGram, ACH, and SWIFT.

“I only wish,” Disparte says, that the Bank for International Settlements “would shift from a policy of fear and gradualism to one of competition and dynamism.”

—*P. Coy*