Jean-Pierre Landau

Who is afraid of U.S. Stablecoins?

On Thursday, September 4, Jean-Pierre Landau joined Markus' Academy for a conversation on "Who is afraid of U.S. Stablecoins?" Landau is an affiliated Professor of Economics at Sciences Po. A former Deputy Governor of the Banque de France, he has held senior roles at the IMF, World Bank and the EBRD.

A few highlights from the discussion.[1]

- **[3:08] Basics of tokenized money**
  - There was already a project for a global stablecoin 6 years ago: Libra. It was shut down by regulators because it created its own unit of account, threatening monetary sovereignty
  - In the past there was a choice between transacting through currency (peer-to-peer, anonymous, but local) or through bank deposits (intermediated, non-anonymous, and possible at a distance). Tokenized money frees us from this dilemma: it is peer-to-peer, anonymous *and* at a distance
  - There are several forms of tokenized money:
  - (1) Bitcoin and others are pure fiat (no backing) digital currencies
  - (2) Tokenized deposits mirror bank accounts, allowing you to use bank money just like with debit cards or transfers. They retain deposit insurance and access to the central bank, along with KYC/AML checks
  - (3) With e-money a single issuer holds one reserve account and issues tokens people can use to transact (e.g. M-Pesa and WeChat). No bank account is required to access your tokens. Many developing countries are considering sending welfare payments through such wallet systems
  - (4) Stablecoins are backed by non-monetary assets like government bonds or bank deposits. You can transact them without having a bank account, but they lack access to the central bank's balance sheet
  - With a bank account (traditional or tokenized) you hold a liability of the bank, and are a creditor to it. With a wallet a ledger records your tokens, but it is not a balance sheet. Wallets are object-based systems, not claim-based

- **[14:45] Can stablecoins become a generalized payment instrument?**
  - Stablecoins are confined to the crypto ecosystem, and have had no impact outside of it. The two main coins (Tether's and Circle's) account for the vast majority of the current $250bn market cap (BIS, 2025)
  - The GENIUS Act gave stablecoins credibility as a monetary instrument, but did not ensure the viability of the business model
  - It imposes requirements on the composition of reserves, transparency and licensing requirements, along with a designated supervisor

[1] Summary produced by Pablo Balsinde (PhD student, Stockholm School of Economics)

    - Tether used to be backed in part by real estate and commercial paper, but now they will only be able to back their coins with bank deposits and short-term Treasuries
    - The Act did not go as far as the Treasury had proposed in 2021, wanting to regulate stablecoins as banks with capital and liquidity requirements
    - Although the Act mandates strict redemption rules, it provides few detailed requirements. Our experience with money market funds shows how destabilizing such rules can become
    - The rationale for prohibiting stablecoins from paying interest is to ensure they remain only a payment instrument and do not become a store of value
    - Paying interest would make stablecoins securities under SEC oversight, while the ban also helped secure banks' support for the Act
    - Stablecoins have found a way to circumvent this requirement: exchanges hold the coins and pay interest on the accounts of stablecoin buyers, prompting a strong reaction from banks
    - Tokenized money is attractive to businesses, for example by improving the efficiency of payments along a supply chain (Brunnermeier and Payne, 2023). However these benefits can also be obtained through other forms of tokenized money. In general, the more centralized and well-governed the system, the more business-friendly it will be
    - Whether households will use stablecoins for payments will depend on network effects and local alternatives. Stablecoins could drive dollarization in economies with weak currencies

- **[32:55] Stablecoins and the stability of private money**
    - The seigniorage earned by coin issuers will increase with the level of interest rates. It will also depend on their ability to control the amount of issuance. In recent years the sector has realized that it is hard to destroy money; it requires "open market operations" to buy it back
    - Issuers will compete on the efficiency of payment, or perhaps on the laxity of controls
    - Stablecoins are most often compared to money market funds, however coins guarantee a fixed value and aim to have greater liquidity and instantaneity
    - They have also been compared to private banknotes during the free banking era (1837-1883). However at the time banks' assets were much more opaque
    - Narrow banks are perhaps the best comparison, although in theory these could offer nonzero interest rates
    - Unlike stablecoins, currency boards are backed 100% by the pegged currency. They also have instantaneous redemption and are passive in the sense that they cannot control the amount issued
    - In the past stablecoins have seen large deviations from their par values (BIS, 2025). A coin's backing is different from redeemability: the first is about solvency, the second about liquidity. Central banks are there because these two do not coincide, but stablecoins do not have access to it
    - Stablecoins' stability will depend on their redemption rules and on the liquidity of the Treasury market, itself supported episodically by the central bank

    - Stablecoins break the singleness of money because different blockchains cannot interact. Indeed, issuers' incentives are the opposite: to prevent holders from redeeming
    - They change the form but not the quantity of money. Even those who argue that the quantity of money matters for monetary policy do not tend to think the form of money does
    - However, stablecoins could threaten central banks' control over the unit of account, which is required for effective monetary policy (Woodford, 2003). Central banks can fix the interest paid on the unit of account, allowing them to control the real rate if people use the unit of account to price things
    - Governments control the unit of account by controlling the medium of exchange (that is declaring it legal tender). The system rests on the coincidence between the unit of account and the medium of exchange
    - There is a Hayekian argument in favor of stablecoins. By making financial repression and FX control more difficult they might keep inflation in check

- **[54:47] International monetary competition**
    - The GENIUS Act reflects the U.S. administration's view of the international role of the dollar. They do not want the dollar to be a store of value, as it attracts capital inflows and appreciates the currency
    - However they still want dollar dominance to fund government deficits. This new vision of dollar dominance is not based on a reserve status but rather on the dollar's ability to fund deficits through digital network effects (with everyone coordinating on the use of dollar stablecoins)
    - The drawback of this approach is that you expose yourself to competition from other networks
    - The ECB is building a digital euro to prevent private issuances of euro stablecoins, seeing them as unstable
    - The banks have found semi-allies in the American payment and credit card companies to defend the current system. The majority of cross-border retail payments in the EU are made by U.S. companies, with the data from these transactions going to the U.S.
    - European authorities are aware that the majority of domestic credit is provided by banks. The ECB knows how to build a digital euro that does not threaten banks' funding
    - The digital euro should serve as a catalyst of digitization and a European Payments Union (which is arguably more important than the Capital Markets Union). The initial European Payment Initiative for a European credit card was abandoned, while the adoption of the new Wero wallet has been very slow

Timestamps: