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The Other Side of the Ledger: Payment Stablecoin Infrastructure and the Distributional Architecture of the GENIUS Act

Abstract

The Guiding and Establishing National Innovation for U.S. Stablecoins Act, signed into law on July 18, 2025, is analyzed in this Institute's parallel series primarily from the perspective of institutional capital: reserve mechanics, monetary policy transmission, seigniorage capture, and sovereign currency displacement. This paper initiates a complementary analysis from the opposite position. The GENIUS Act creates the regulatory infrastructure for a private payment layer that will be deployed first and most aggressively into the segment of the American workforce least equipped to bear its costs: gig economy workers, low-wage consumers, and households already operating outside the perimeter of traditional banking protections. The financial inclusion narrative that accompanied the Act's passage is not false. It is incomplete. The mechanism by which stablecoin infrastructure reaches underbanked populations is simultaneously the mechanism by which it extracts value from them: through seigniorage income captured by issuers rather than holders; through tax compliance architecture that places disproportionate burden on low-frequency, small-denomination earners; and through the

interaction of stablecoin payment rails with independent contractor classification that allows labor costs to be moved outside the regulatory framework built to govern employment. The distributional consequences of this architecture are not incidental to its design. This paper establishes the analytical frame for The Consumption Layer series, which examines each mechanism in turn.

Introduction

Every other working paper published by this Institute analyzes the stablecoin payment layer from the perspective of the institutions that will issue it, invest in it, or have their monetary policy transmission distorted by it. This paper occupies a different vantage point.

The worker receiving wages in USD Coin through a gig platform's payment API does not have a position in the seigniorage debate. She is not a creditor of Circle Internet Financial. She does not receive the interest income generated by the Treasury bills backing her employer's payment instrument. She receives a dollar-denominated token that functions as money in every practical sense except the ones that, under existing American regulatory architecture, would require her employer to treat the payment as a wage subject to withholding, minimum wage protections, and employer-side payroll tax obligations.

This is not an edge case. It is the deployment architecture.

The Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act), which passed the Senate 68-30 on June 17, 2025, passed the House 308-122 on July 17, 2025, and was signed into law on July 18, 2025 (Pub.L. 119-27), creates the regulatory framework for payment stablecoins: instruments redeemable one-for-one with the US dollar, backed by reserves in cash, short-duration Treasury securities, or repurchase agreements, and issued by entities subject to federal or state regulatory oversight (S. 1582, 119th Congress, 2025). The Act does not mandate that these instruments be used to pay workers. It does not need to. The payment infrastructure it legitimizes was already being tested against that application before the Act passed.

The financial inclusion argument embedded in the GENIUS Act's legislative history has factual support. Approximately 4.2 percent of American households were unbanked as of 2023, representing 5.6 million households; a further 14.2 percent were underbanked, holding a bank account but relying on non-bank financial services for core transactions (Federal Deposit Insurance Corporation, 2023). Stablecoin payment infrastructure reaches these populations through mobile phones rather than bank branches. The infrastructure cost is lower. The access barrier is lower.

The argument this paper makes is not that inclusion is false. The argument is that the same architectural features enabling inclusion simultaneously enable extraction; that the two outcomes are not competing tendencies in an otherwise neutral technology, but co-products of a specific design logic that was legible from the legislative text before the Act passed. Understanding the inclusion outcome without understanding the extraction mechanism produces an incomplete analysis. This paper provides the mechanism.

I. The Seigniorage Structure and Who Captures It

A payment stablecoin under the GENIUS Act is a dollar-denominated liability of its issuer. The holder receives a claim redeemable at par. The issuer holds reserves generating interest income. The holder receives none of that income.

This is not a hidden feature of the architecture. It is the stated design. The GENIUS Act explicitly prohibits payment stablecoin issuers from paying yield to holders, a provision inserted to distinguish payment stablecoins from securities and money market instruments that would trigger Securities and Exchange Commission or Investment Company Act jurisdiction (S. 1582, 119th Congress, 2025, Section 4). The no-yield prohibition is a regulatory boundary condition. Its distributional consequence is that the interest income generated by the reserve pool accrues entirely to the issuer.

The scale of that income is not theoretical. Tether Operations Limited, the issuer of USDT, reported net operating profit of approximately \$4.52 billion for the first half of 2023, derived primarily from interest income on its reserve holdings, with total consolidated assets of approximately \$86.5 billion at period end (Tether, 2023). Circle Internet Financial, the issuer of USDC, disclosed in its IPO filing materials that interest income

from USDC reserves constituted the substantial majority of its revenue; the structure is identical across the major issuers, with revenue scaling directly with both reserve balances and the prevailing short-term interest rate (Circle Internet Financial, 2024). The revenue model is structurally identical to a commercial bank collecting net interest margin on non-interest-bearing deposits, with one difference: a bank depositor can withdraw to a competing institution offering yield. A payment stablecoin holder has no contractual claim to yield and no equivalent exit to a yield-bearing version of the same instrument.

The consumer who uses USDC for payment transactions is, in functional economic terms, providing an interest-free loan to Circle for the duration of the holding. For institutional participants cycling large transaction volumes through stablecoin rails for settlement efficiency, the opportunity cost is measured against transaction cost savings and is, for most use cases, acceptable. For a worker holding two weeks of wages in USDC because she has no bank account, the opportunity cost is measured against nothing; she has no alternative. The population the inclusion argument most benefits is the population for which the seigniorage transfer is most persistent.

This is not a distributional accident. It is a distributional outcome embedded in the legal architecture of the instrument. The no-yield rule exists to prevent stablecoins from being regulated as securities. The side effect of that rule is the permanent capture of reserve income by issuers rather than holders. The inclusion benefit and the seigniorage extraction operate simultaneously, on the same population, through the same instrument.

II. The Gig Architecture as the Deployment Vector

The stablecoin payment layer does not reach workers through banks. It reaches them through platforms. Understanding the deployment vector requires understanding what platforms have already built, what the GENIUS Act now legitimizes, and what the interaction between stablecoin payment rails and independent contractor classification produces.

The American gig economy, broadly defined, encompasses workers performing on-demand labor intermediated by digital platforms without standard employment

relationships. The Federal Reserve's 2023 Survey of Household Economics and Decisionmaking found that 13 percent of adults reported earning income from gig platforms in the prior 12 months (Board of Governors of the Federal Reserve System, 2024). The Bureau of Labor Statistics' most recent Contingent Worker Supplement, conducted in 2021, identified 7.1 percent of employed workers as holding contingent work arrangements, though the BLS methodology significantly undercounts platform-intermediated independent contractors not classifying themselves as contingent workers (Bureau of Labor Statistics, 2022). The definitional variance reflects genuine disagreement about what constitutes gig work; the practical consensus is that the population is large, growing, and structurally distinct from the standard employment relationship.

The structural distinction is the key variable. Independent contractors classified under Section 1099 of the Internal Revenue Code are not employees. They do not receive minimum wage protections under the Fair Labor Standards Act. They are not entitled to employer contributions to Social Security and Medicare. They are not covered by the National Labor Relations Act for purposes of collective bargaining. They bear the full self-employment tax burden: 15.3 percent on net self-employment income up to the Social Security wage base, compared to the 7.65 percent employee-side contribution under standard employment. They are responsible for their own withholding, estimated tax payments, and annual compliance.

The independent contractor classification is the legal foundation on which gig platforms have built their labor cost structures since at least 2010. Uber Technologies, which reported 1.9 million active drivers in the United States and Canada in its 2023 annual report, has consistently classified its driver-partners as independent contractors, a classification challenged in California under Assembly Bill 5 (signed September 18, 2019, effective January 1, 2020), partially reversed by Proposition 22 (passed November 2020), and subject to ongoing litigation across multiple jurisdictions (Uber Technologies, 2023; Cal. Lab. Code § 2750.3; Cal. Bus. & Prof. Code § 7451). The Biden administration's Department of Labor published a final rule on January 10, 2024, restoring a multi-factor economic reality test for independent contractor classification under the FLSA, effective March 11, 2024; this rule faces ongoing legal challenge (29 C.F.R. § 795, 2024).

The point is not which classification rule governs at any given moment. The point is that the classification architecture has been built over more than a decade to move labor costs outside the regulatory framework governing employment. Stablecoin payment infrastructure is the next layer of that architecture.

Platforms that pay independent contractors already operate outside the employer withholding system. They issue 1099-K or 1099-NEC forms rather than W-2s. Moving from ACH bank transfer to stablecoin payment within that existing classification structure changes the payment medium without changing the classification outcome; the contractor still receives compensation outside the employment framework. What it changes is the visibility of the payment to the banking system, the tax reporting architecture, and the regulatory perimeter within which the payment occurs.

Several major platforms had already moved in this direction before the GENIUS Act passed. Stripe, which processes payments for a substantial segment of the American gig economy through its Connect product, announced expanded USDC payout functionality in 2023, enabling platforms built on Stripe to pay contractors in USDC to compatible wallets (Stripe, 2023). The stated rationale was cross-border payment efficiency; the domestic application is architecturally identical. Coinbase's Commerce and Coinbase Prime products offer equivalent functionality for US-domestic payroll flows. Oyster, a payroll and contractor management platform, added cryptocurrency payout options including USDC in 2022. The infrastructure existed before the regulatory framework did. The GENIUS Act's passage removed the primary institutional barrier to its expansion at scale.

III. The Tax Compliance Architecture and Its Burden Distribution

Prior to the GENIUS Act's passage, every payment stablecoin transaction was a potentially taxable event under IRS Notice 2014-21, which classified virtual currencies as property for federal tax purposes (Internal Revenue Service, 2014). A worker receiving wages in USDC, then using that USDC to purchase groceries, had executed two potentially taxable events: the receipt of USDC as income, recognized at fair market value at time of receipt, and the disposition of USDC as property, triggering gain or loss recognition on the difference

between basis and fair market value at time of disposal. For a payment stablecoin pegged to the dollar, the gain or loss on the disposal event is typically de minimis; the dollar peg is maintained precisely to prevent the volatility that creates large gains and losses. The reporting obligation existed regardless of the magnitude of the gain. Each transaction required tracking, basis recording, and gain or loss reporting.

The GENIUS Act created a targeted improvement: payment stablecoins meeting the Act's definition are treated as currency rather than property for transactions in which the payment stablecoin functions as a medium of exchange, eliminating the capital gains reporting obligation for routine payment transactions (S. 1582, 119th Congress, 2025, Section 9). This is a genuine improvement in the compliance architecture for payment stablecoin users.

The improvement is incomplete in ways that fall disproportionately on low-income users. The GENIUS Act's currency treatment applies to payment stablecoins used as mediums of exchange. It does not eliminate income recognition at receipt. A worker receiving compensation in USDC must recognize that compensation as ordinary income at the time of receipt, at the dollar value of the USDC received, and must include it in her gross income for federal and applicable state tax purposes. The self-employment tax obligations for independent contractors remain unchanged: 15.3 percent on net self-employment income up to \$168,600 for the 2024 tax year, and 2.9 percent above that threshold. The obligation to make quarterly estimated tax payments, under penalty of underpayment interest and potential penalties under Section 6654 of the Internal Revenue Code, remains in full.

The arithmetic is not complicated. For a worker earning \$45,000 annually as an independent contractor paid in USDC through a gig platform, the self-employment tax obligation alone is approximately \$6,357, before income tax at any applicable rate. Her employer-classified counterpart earning the same gross income has income tax withheld throughout the year from each paycheck, has the employer side of Social Security and Medicare paid by the employer at 7.65 percent, and receives a W-2 summarizing the year's withholding. The compliance burden difference is substantial. The effective income difference, before accounting for the absence of employer-provided benefits including health insurance, retirement contributions, and paid leave, is approximately \$3,178 in Social Security and Medicare contributions that shift from employer to worker under independent contractor classification.

The stablecoin payment medium does not create this burden. The independent contractor classification creates it. The stablecoin payment medium is the delivery mechanism by which the classification's consequences are made less visible to the banking system and potentially to the tax reporting infrastructure, depending on the obligations of the paying platform.

The GENIUS Act requires issuers to comply with Bank Secrecy Act and applicable anti-money laundering requirements (S. 1582, 119th Congress, 2025, Section 5). It does not create a new 1099 reporting framework specific to stablecoin wage payments through gig platforms. The existing 1099-K reporting threshold for third-party settlement organizations under Section 6050W of the Internal Revenue Code applies to payments processed through payment networks; how that threshold applies to stablecoin payments routed through smart contracts or non-custodial wallets remains unsettled. The IRS has issued guidance on cryptocurrency generally but had not addressed the GENIUS Act's payment stablecoin category specifically as of this writing. The gap between the payment's occurrence and the tax authority's visibility into it is widest precisely where the transactions are smallest and most frequent; that is, in the compensation flows of low-income gig workers.

IV. The Financial Inclusion Argument and What It Cannot Sustain

The financial inclusion argument for payment stablecoins rests on three claims. First, that mobile-first payment infrastructure reaches unbanked and underbanked households who lack access to traditional banking services. Second, that lower transaction costs reduce the friction cost of financial participation for low-income consumers. Third, that stablecoin payment rails enable faster settlement, including near-instant access to earned wages rather than the two-to-three business day settlement cycles of the ACH network.

Each of these claims has empirical support. The FDIC's 2023 National Survey of Unbanked and Underbanked Households found that 4.2 percent of US households were unbanked; the Fed's 2023 SHED found that 6 percent of adults were unbanked, with higher rates

among Black households at 10.6 percent, Hispanic households at 9.5 percent, and households with annual incomes below \$30,000 at significantly elevated rates (Federal Deposit Insurance Corporation, 2023; Board of Governors of the Federal Reserve System, 2024). Mobile payment infrastructure demonstrably reaches these populations; the Federal Reserve's 2023 SHED found that 70 percent of unbanked adults owned smartphones. The infrastructure access argument is factually supported.

The transaction cost argument is more conditional. Domestic stablecoin transfers between wallets on the same platform are low-cost or free. Transfers requiring on-chain settlement incur gas fees that vary with network congestion, on the Ethereum network, which hosts USDC, average gas fees for a simple transfer ranged from approximately \$0.50 to \$15.00 during 2023 depending on network conditions (Etherscan, 2023). For a worker receiving a \$50 payment and needing to transfer it to a different wallet, a \$5.00 gas fee represents a 10 percent transaction cost. The traditional banking comparison relevant for unbanked workers is not the cost of a bank transfer but the cost of a check cashing service, where fees typically range from 1 to 3 percent of the check value with a minimum fee structure. For small transactions, on-chain stablecoin transfer can be more expensive than the incumbent alternative it is displacing. Layer 2 networks and off-chain payment channels reduce these costs substantially, but they introduce technical complexity and counterparty risk that unsophisticated users are structurally underequipped to evaluate.

The wage access argument has the strongest empirical foundation. The Federal Reserve's 2023 SHED found that 37 percent of adults would not cover an unexpected \$400 expense exclusively using cash or its equivalent, and 13 percent reported they could not pay it by any means at all (Board of Governors of the Federal Reserve System, 2024). Instant access to earned wages rather than the ACH settlement lag that can delay a Friday paycheck until Monday has documented benefit for workers operating with minimal financial buffers. Earned wage access products including DailyPay, Even, and Branch have grown on precisely this need; stablecoin payment rails are a logical extension of the same functionality.

But the wage access benefit operates within an architecture that simultaneously extracts value from the same workers it benefits. A worker with instant access to USDC wages holds an instrument generating no yield, in a payment system operated by an issuer capturing yield on her balance, classified as an independent contractor outside the minimum wage

and employment protection framework, bearing the full employer and employee side of self-employment tax, and potentially outside the full visibility of the tax reporting infrastructure designed to ensure those obligations are met. The inclusion argument accounts for the first of these conditions. It has not adequately addressed the remaining four.

The financial inclusion literature has a term for the condition in which a population gains access to financial infrastructure while simultaneously bearing costs that wealthier participants in the same infrastructure do not bear: differential incorporation. The stablecoin payment layer, as constructed under the GENIUS Act, incorporates low-income workers and consumers into the dollar payment system on terms structured by and for the issuers, platforms, and institutional capital that designed it. The design does not require malicious intent. The distributional logic is in the architecture. The architecture is in the statute. The framing that presents this outcome as financial democracy is not dishonest. It is selective. The selection is not random. The features highlighted by the inclusion narrative are the features that generate adoption. The features omitted are the features that generate revenue for issuers and reduce compliance and labor costs for platforms.

V. The Analytical Frame for This Series

The Consumption Layer series examines each mechanism identified above in the detail required to make the argument from evidence rather than assertion.

Working Paper No. 2 examines the interaction between stablecoin wage payment and independent contractor classification: the specific provisions of the GENIUS Act that enable or facilitate gig platform adoption of stablecoin payroll, the history of classification litigation and its interaction with the payment medium, and the aggregate distributional consequence in the labor income share of the worker.

Working Paper No. 3 examines the tax compliance architecture: what the GENIUS Act changes, what it leaves unchanged, where the reporting gap is widest, and the aggregate compliance cost shift to low-income independent contractors operating in the stablecoin payment layer.

Working Paper No. 4 examines the surveillance architecture of programmable money as applied to low-income populations: the conditions under which payment programmability enables income monitoring, benefit disqualification triggers, and spending restrictions that existing cash and bank transfer infrastructure does not permit.

Working Paper No. 5 examines the financial inclusion evidence directly: what the data from mobile money adoption in Sub-Saharan Africa, Latin America, and Southeast Asia shows about the long-run distributional outcomes of payment infrastructure deployment into low-income populations, and how those outcomes map onto the American stablecoin deployment architecture.

The unifying argument across these papers is stated plainly here. The stablecoin payment layer, as designed by the GENIUS Act and as it is being deployed by the platforms already operating in the American gig economy, extracts value from the workers and consumers it ostensibly serves. The mechanisms of extraction are specific and architectural: seigniorage capture by issuers, compliance cost shifting to workers, classification arbitrage by platforms, and the potential use of payment programmability against the interests of holders. These mechanisms are not hypothetical. They are operational. The evidence for them is in the legislative text, the platform announcements, the issuer financial disclosures, and the distributional data already collected by federal statistical agencies.

Conclusion

The GENIUS Act was debated and passed primarily as a monetary architecture document: a framework for regulating private dollar-denominated payment instruments at the boundary of the banking system. The debate it generated inside this Institute concerns reserve mechanics, monetary policy transmission, and sovereign currency displacement. These are real and significant questions. They are not the only questions.

The worker receiving stablecoin wages through a gig platform's payment API does not have a position on monetary policy transmission. She has a position on whether the instrument she receives is money in every practical sense while failing to carry the legal protections that money within the banking system carries. She has a position on whether the entity

issuing her payment instrument earns returns on her balance that she does not share. She has a position on whether the classification structure of her engagement with the paying platform, stablecoin payment included, is designed to move the costs of labor outside the regulatory framework built to govern it.

These are not theoretical positions. They are the structural conditions of the gig economy as it exists today, interacting with a payment layer that the GENIUS Act has now legitimized at scale. The Federal Reserve's models for monetary policy transmission under the new architecture have no scenario that accounts for these workers. The Congressional Budget Office scoring of the GENIUS Act has no line item for the aggregate compliance cost shift to 1099 contractors in a stablecoin-denominated gig economy. The financial inclusion literature has not yet reconciled its access argument with the distributional architecture of the instrument providing the access.

This series reconciles them. The starting point is the same data the inclusion advocates use, read from the bottom of the capital pyramid rather than the top. The mechanisms are in the statute. The evidence is already in the federal surveys. The conclusions available from that evidence are the subject of the papers that follow.

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