THE CANTILLON INSTITUTE

Dollar Displacement: The Monetary, Fiscal, and Civil Architecture of the GENIUS and CLARITY Acts

T H Thornton

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This is an independent policy critique.

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Foreword

On Reading Thornton in an Unfinished Moment

by H.E. Martyn

There is a particular discomfort in reading a rigorous argument about a legislation that is not yet complete. T.H. Thornton has produced, in the ten working papers and historical companion that follow this foreword, the most sustained and structurally precise critique of the GENIUS and CLARITY Acts that I have encountered in the current literature. It is a work of genuine intellectual seriousness, and it deserves to be read as such, carefully, critically, and with the awareness that its author is working at the edge of what can be known with certainty about a policy architecture that is still, in important respects, being assembled.

That awareness is the purpose of this foreword. I write not to qualify the analysis, the structural mechanisms Thornton identifies are real, documented, and in several cases confirmed by the Federal Reserve and IMF research he cites, but to locate it with precision in the legislative moment it occupies. The GENIUS Act is law. The CLARITY Act has passed the House and is under Senate consideration. These are not equivalent conditions. The foreword you are reading is an invitation to hold both the rigor of the analysis and the incompleteness of its subject in mind simultaneously.

A Note on the Legislative Status of CLARITY

The Digital Asset Market Clarity Act of 2025 passed the House by 294 to 134 on July 17, 2025, the same day the House passed GENIUS. On May 16, 2026, the Senate Banking Committee advanced the bill by a vote of 15 to 9, largely along party lines, with Democratic Senators Ruben Gallego and Angela Alsobrooks joining all Republicans in support. The bill now moves to the full Senate floor, where it faces a 60-vote cloture threshold and must be merged with the Senate Agriculture Committee's parallel version before it can proceed. It has not yet passed the Senate. Three provisions under active floor negotiation bear directly on Thornton's analysis.

The first is the ethics provision. The 15-9 committee vote reflected bipartisan fracture on this precise point: Democratic amendments requiring that elected officials and senior executive branch appointees divest digital asset holdings were voted down or rejected procedurally during committee markup. Senate Democrats have indicated they will not support cloture on the full Senate floor without ethics language. The White House has signaled it will not accept a provision targeting the president's crypto holdings. This is not a settled question; it is the active negotiation that will determine whether the bill reaches 60 votes. The ethics provision, if ultimately enacted, would sever the most direct alignment between the legislation's beneficiaries and its authors, the political economy problem Thornton identifies throughout. Its absence preserves that alignment in its most visible form.

The second is the DeFi exclusion scope. The House version of CLARITY excludes decentralized finance protocols from both SEC and CFTC jurisdiction under a sufficiency-of-decentralization standard that critics, including the SEC's own economists, have identified as manipulable. Senate modifications are likely to tighten this standard or impose disclosure requirements on protocols seeking the exclusion. The outcome matters for Thornton's surveillance architecture argument in Working Paper 7: a broader DeFi exclusion increases the proportion of stablecoin transactions occurring outside the 1099-DA reporting framework, worsening the tax compliance problem documented in Working Paper 9 and reducing the practical reach of the freeze authority whose abuse is documented in the same paper.

The third is the SEC/CFTC jurisdictional line itself. The House version draws the line at "sufficient decentralization," a standard that several legal scholars have argued would

classify most existing digital assets as commodities, dramatically curtailing SEC authority over the space. Senate modifications are likely to narrow the commodity classification or impose additional investor protection requirements on newly classified digital commodities. The jurisdictional outcome affects Working Paper 1's core architecture argument primarily at the margin: the yield prohibition, reserve requirements, and non-bank regulatory arbitrage are GENIUS provisions, not CLARITY provisions, but the secondary market structure that CLARITY governs determines the liquidity conditions under which stablecoins scale.

The reader should understand, therefore, that Thornton's analysis assumes CLARITY passes in substantially its current House form. The Senate Banking Committee's 15-9 advancement today, with two Democrats crossing party lines and the remainder voting against, is an indicator of floor arithmetic that makes 60 votes uncertain without Democratic concessions on the ethics provision or equivalent structural modifications. If those concessions produce meaningful changes to the DeFi exclusion scope or jurisdictional standard, several of the compounding mechanisms Thornton describes would operate differently, though not in ways that fundamentally alter the primary architecture critique, which originates in GENIUS.

This is not a caveat that weakens the analysis. It is an instruction to watch the Senate floor process with specific attention to the three provisions identified above. Today's committee vote has moved the legislation from plausible to probable. It has not made it inevitable. The window in which the Senate could produce a materially different bill remains open, briefly.

On the Financial Inclusion Argument

Thornton does not engage at length with the financial inclusion case for stablecoins, and I think this is the series' most significant gap, not because the argument ultimately prevails, but because it deserves to be heard fully before it is answered.

Approximately 1.4 billion adults globally remain unbanked. In sub-Saharan Africa, the Middle East, and parts of Latin America and South Asia, the absence of banking infrastructure is not a policy choice but a practical reality, the cost of traditional financial

intermediation exceeds what the population can bear. For these populations, a dollar-pegged stablecoin accessible through a mobile phone represents genuine financial inclusion: a stable store of value, a reliable medium of exchange, and a payment mechanism that does not require a branch network, a credit history, or a minimum balance. The IMF data Thornton cites in Working Paper 8, stablecoin flows reaching 7 to 8 percent of GDP in some African and Middle Eastern markets, reflects real demand from populations with real need.

I take this seriously. Harriet Martineau, whose work this foreword honors in spirit if not in name, spent her career arguing that political economy must begin with the conditions of actual people; that abstract structural analysis which loses sight of the specific human being it affects has failed at its most fundamental task. The unbanked individual in Lagos or Karachi holding USDC on a mobile phone and transacting with relatives abroad is a human being whose material condition has been improved. That improvement is real. It should not be dismissed by a structural critique that operates primarily at the level of Federal Reserve transmission mechanisms.

The qualification is this: financial inclusion built on a private monetary instrument without deposit protection, without yield pass-through, without due process in freeze proceedings, and without a public institutional backstop is inclusion into a system whose architecture is designed to extract, not empower. The company store also provided access to goods that workers could not otherwise obtain. Access and exploitation are not mutually exclusive. The question is not whether stablecoin dollarization provides value to the unbanked. It does. The question is whether the terms of that value are set in the interest of the population receiving it or the corporations providing it. On that question, the architecture Thornton describes is unambiguous.

The financial inclusion argument is also, I should note, doing considerable political work in the legislative defense of GENIUS and CLARITY that is disproportionate to its structural weight. The provisions that would most directly benefit the unbanked: yield pass-through, deposit insurance equivalence, due process in freeze proceedings, are precisely the provisions the legislation prohibits or omits. The financial inclusion case is strongest for the technology. It is weakest for the specific regulatory choices made about that technology. These are not the same thing, and conflating them is the rhetorical move that deserves the closest scrutiny.

On Consumer Choice

The most intellectually honest version of the case for the current architecture is also the simplest: no one is compelled to hold stablecoins. The consumer who prefers dollars can hold dollars. The consumer who prefers a bank account can maintain one. The consumer who finds the reward token structure unfavorable can decline to participate. This is a free society. The market will discipline issuers who treat their users poorly. Competition will constrain the worst excesses.

I have considerable sympathy for this argument as a general matter of political economy. Markets do discipline. Competition does constrain. Consumer sovereignty is real and valuable. The instinct to reach for institutional intervention before the market has been given the opportunity to function is one I share Thornton's wariness about, even as I share his structural concerns.

The specific problem here is that the conditions under which consumer choice remains genuinely free are the conditions that the adoption architecture is specifically designed to eliminate. Thornton documents this in Working Paper 1 with precision: the over-incentivization of the adoption phase is not incidental to the business model. It is the business model. Consumers are offered terms that are genuinely favorable in the short term: superior rewards, faster settlement, lower transaction friction, to accelerate the transition before the network effects that constrain exit have fully materialized.

The consumer who adopts a stablecoin in 2026 has a genuine choice. The consumer who discovers in 2031 that their primary transaction medium, their employer's preferred payment instrument, their community's dominant retail payment method, and their savings vehicle are all denominated in the same instrument, issued by one of two or three dominant private entities, with no dollar alternative practically accessible at the consumer layer, has a different choice. Freedom exists at the entry point. The architecture is designed to constrain it before the consumer notices it has been constrained.

This is not conspiracy. It is the standard logic of platform network effects applied to monetary infrastructure. The same logic governs search engines, social networks, and

operating systems. We do not typically allow network effect monopolies to operate without antitrust constraint in those domains. The question is why we have chosen to allow it in the domain where the stakes, the medium of exchange itself, are highest.

On Market Discipline and the Consolidation Problem

Could competition between stablecoin issuers discipline the worst behaviors Thornton identifies? I want to give this more credit than the series does, because I think the evidence of the past three years partially supports it.

Circle's reserve transparency has improved substantially under competitive pressure from Tether's opacity scandals. The attestation practices, reserve composition disclosures, and reserve management quality of USDC have been meaningfully shaped by the market's punishment of less transparent competitors. The reserve quality provisions in GENIUS itself reflect, in part, market-discovered best practices that issuers were already adopting voluntarily. This is market discipline functioning approximately as its advocates describe.

The structural problem is the timeframe. Monetary markets consolidate. The history of payment systems, Visa and Mastercard, SWIFT, the ACH network, is a history of technologies that began in competitive markets and settled into effective duopolies within a decade of achieving critical mass. Competition disciplines behavior during the competitive phase. Once the network effect threshold is crossed and switching costs are prohibitive, competition ends. The window in which market discipline could produce the outcomes its advocates claim is the same window in which regulatory intervention could produce them more reliably and with greater durability. One window closes both.

The current market share of Tether and Circle, approximately 84 percent of total stablecoin market capitalization between them, suggests the consolidation phase is already well advanced. If that is correct, the market discipline argument is being made at the moment of its expiration, not its application.

On the Pace of Adoption

Thornton's analysis implies an adoption trajectory that reaches the critical mass thresholds he identifies within this decade. The $3.7 trillion projection Treasury Secretary Bessent has cited, and the 80 percent annual growth rate in stablecoin transaction volume that Working Paper 8 documents, support this trajectory if current trends continue.

They may not continue at this rate. Adoption curves in financial technology have historically followed S-curves rather than exponential trajectories, rapid acceleration followed by deceleration as the early-adopter population saturates and the mainstream adoption challenge proves harder than the initial growth suggested. Several factors could slow the trajectory: a significant stablecoin run event that damages consumer confidence, regulatory interventions in major markets that constrain growth, the development of competing payment technologies, or simply the friction of behavioral change in populations with established banking relationships.

I raise this not to reassure but to calibrate. If adoption is slower, if the critical mass thresholds Thornton identifies are reached in fifteen years rather than seven, the compounding mechanisms he describes operate on a timeline that allows for institutional correction that his historical cases suggest is more likely when the window is longer. The structural failures are real regardless of the timeline. The urgency of the correction effort is a function of the adoption pace.

This is the most significant empirical uncertainty in the analysis, and Thornton is appropriately honest about it in the working papers without, I think, giving it sufficient explicit weight in the synthesis. The reader should hold the structural argument firmly; the failures are designed into the architecture, not contingent on implementation, and hold the timeline more loosely. The window may be longer than the most aggressive adoption projections suggest. It may also be shorter.

What Thornton Gets Most Right

The series' deepest insight, the one I expect will be cited in the literature long after the specific legislative provisions it critiques have been modified, replaced, or superseded, is the identification of what might be called the franchise problem.

Money creation is a public franchise. It has always been exercised by some combination of sovereign and private actors. The specific terms of that exercise, who captures the seigniorage, who bears the systemic risk, who is accountable to the population whose labor sustains the system, have been the central contested question of monetary history from the Bank of Amsterdam to the Federal Reserve. Every case in the historical companion is, at its root, a case about who holds the franchise and on what terms.

The current legislation answers that question by extending the franchise to private actors on terms that capture its benefits while shedding its obligations. The yield prohibition captures the float. The non-bank capital exemption sheds the reserve requirements. The CRA exclusion sheds the community lending obligation. The CBDC prohibition ensures the public cannot compete for its own franchise. Each choice is individually defensible. The aggregate is the extraction of a public function into private hands, structured to prevent correction once the network effects are established.

Martineau wrote, in *Illustrations of Political Economy*, that "the tendency of all social improvement is to merge private interest in public good." The legislation under examination in this series has achieved the opposite: the merger of public monetary function into private interest, structured to resist the social improvement that would reverse it.

That is the argument. It is correct. It deserves the widest possible audience, the most rigorous possible scrutiny, and the most urgent possible legislative response, before the window that history shows can close, closes.

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The views expressed are those of the author and do not necessarily represent the position of the Cantillon Institute or its affiliated researchers.

What the GENIUS and CLARITY Acts Actually Do

Ten Issues. Plain Language.

1. Your dollars are being replaced, without your consent.

When you hold a stablecoin, your real dollar is locked in a government bond held by a private company. You cannot access it. Only the issuer can. You hold a digital token that looks like a dollar but is controlled by a corporation. This is not a digital dollar. It is a corporate voucher backed by a dollar you can no longer reach.

2. The Federal Reserve can no longer manage inflation.

The Fed controls inflation by raising interest rates, making money more expensive to borrow and spend. This only works if people are using dollars. If the primary transaction medium is a stablecoin that pays no interest by law, rate increases don't reach consumers. The lever still works. The cable to the economy has been cut. Inflation rises. The Fed has no tool that reaches the layer where people actually spend.

3. The government gets a blank check. Permanently.

Stablecoin companies must hold government bonds as reserves. They must buy them regardless of price or yield; it's the law. This gives the U.S. Treasury a guaranteed buyer for its debt at any interest rate. The government can borrow and spend freely without market discipline. That spending re-enters the economy as new dollars. That causes inflation the Fed structurally cannot stop.

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4. You get rewards instead of interest. The company keeps the interest.

The law prohibits stablecoins from paying you interest. Instead, you get reward tokens, airline-mile style points whose value the issuing company sets unilaterally. The company holds your dollars in government bonds earning 3 to 5 percent. You get gift cards. The spread between what your dollars earn and what you receive is private profit extracted from a public monetary function. This is not a feature. It is the business model.

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5. Every transaction you make is recorded permanently and can be frozen without a court order.

Every stablecoin payment, coffee, rent, groceries, is recorded on a permanent semi-public immutable blockchain forever. Any party with technical access can read it without a subpoena, without a warrant, without any legal process. The issuing company can freeze your funds instantly, without judicial approval, on no mandated timeline, with no guaranteed appeal process. This has already happened to innocent users caught in automated dragnet freezes targeting unrelated parties. A bank account freeze requires a court order. A stablecoin freeze currently requires a decision by a private compliance officer.

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6. The banks that lend to your community are being hollowed out.

Traditional banks must pay deposit insurance premiums, meet community lending requirements, and hold capital against risk. Stablecoin issuers do not. They compete for the same deposits at structurally lower cost. When your community bank loses deposits to stablecoins, it loses the capacity to make mortgages, small business loans, and farm loans. In 2023, community-lending-law-mandated loans represented 77 percent of outstanding small business loan dollars. That funding base would be migrating to an instrument with no equivalent obligation.

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7. Gig workers and contractors can already be paid in stablecoins. Your job may follow.

Wage payment laws require employers to pay in U.S. dollars. Those laws apply to employees, not to the 60 to 70 million independent contractors who power the gig and creator economy. Uber, DoorDash, YouTube, and TikTok have no legal obligation to pay in dollars. If your employer issues its own stablecoin and pays you in it, the company earns the interest on your salary balance between paydays. Payroll becomes a profit center. The company town paid workers in scrip redeemable only at company stores. The mechanism is identical. The technology is new.

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8. The United States banned the public alternative, while every other nation builds theirs.

The same week Congress passed GENIUS, the House passed companion legislation prohibiting the Federal Reserve from ever issuing a public digital dollar. That prohibition is already in effect under Executive Order 14178, signed January 2025. A public digital dollar would have paid interest directly to consumers, preserved monetary transmission, kept seigniorage as a public function, and carried government deposit protection. China's digital yuan is operational. Europe's digital euro is in development. The United Kingdom, India, and Brazil are building theirs. The United States sent private stablecoins to a competition that its adversaries are entering with sovereign weapons, then banned itself from building one.

9. This accelerates the conditions that have historically preceded political violence.

This is not a prediction. It is a pattern. The Kipper und Wipper currency debasement of 1618 preceded the Thirty Years' War. John Law's privatized monetary system in France preceded the conditions that produced the French Revolution. The free banking era's wildcat notes and the Panic of 1857 accelerated the fractures that produced the Civil War. The Pullman company town produced the largest federal military deployment against American workers in history. Weimar's destruction of middle-class savings did not produce immediate fascism; it destroyed institutional trust, which produced fascism a decade later when the next crisis hit. In every documented case, the mechanism is the same: private capture of the medium of exchange, extraction from the working and middle class, destruction of the economic stake that the population had in the existing order, and political radicalization to fill the vacuum.

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10. Why it happened: the money that bought the law.

In the 2024 election cycle, crypto-aligned super PACs, funded primarily by Coinbase, Ripple, and Andreessen Horowitz, spent $119 million on federal races. Nearly five times the industry's 2022 spending. Twenty times its 2020 spending. The spending was explicitly bipartisan, targeting candidates based on crypto-friendliness regardless of party. GENIUS and CLARITY (pending) were passed by the Congress elected in that cycle. The same infrastructure that produced the legislation is available to prevent its correction. The interests that benefit from the current design have the resources, organization, and political access to sustain it. The population bearing the cost does not; yet.

The One-Sentence Version

Private companies have been handed the legal architecture to replace your dollars with their own money, keep the interest, monitor every transaction, freeze your funds without a

court order, and use your labor to power the cycle, while Congress banned the government from ever competing with them.

The Five Things That Would Fix It

1. Require partial yield pass-through to stablecoin holders. If issuers earn interest on your dollars, you receive a share of it. Restores monetary transmission. Eliminates the worst seigniorage extraction.

2. Extend community lending obligations to stablecoin issuers. The public franchise of money creation carries obligations. If you issue dollar-equivalent instruments, you fund community lending at the same rate banks do.

3. Create a stablecoin transaction tax exemption. The IRS treats every stablecoin payment as a taxable event. A $4 coffee requires cost-basis tracking and capital gains reporting. Apply the same de minimis exemption that already exists for foreign currency transactions.

4. Establish due process standards for stablecoin freezes. Freeze authority must include mandatory notice to the affected party, a standardized appeal process, and a private right of action for erroneous freezes that affect innocent parties.

5. Repeal the CBDC prohibition or add a sunset clause. The United States should not permanently foreclose its public monetary infrastructure option while the rest of the world builds sovereign digital currencies. At minimum, the prohibition should be conditioned on regular review of whether private stablecoins are serving the public monetary function.

The Cantillon Institute *Working Paper Series: The Dollar Displacement Thesis Working Paper No. 1 T.H. Thornton* 2025

The Dollar Displacement Thesis: What GENIUS and CLARITY Actually Build

Abstract

The GENIUS Act and the CLARITY Act together construct a monetary architecture whose structural consequences have not been identified in the commentary produced since their enactment. This paper maps those consequences in sequence. The legislation prohibits yield while permitting rewards, establishing issuer-controlled incentive structures that accomplish the same transfer as yield without regulatory oversight. This architecture displaces dollars from consumer circulation into reserve instruments accessible only to issuers: a retreat, not a debasement, that severs the Federal Reserve's monetary policy transmission at the consumer layer. Mandatory reserve requirements in short-duration Treasury instruments create a price-inelastic buyer base for government debt, suppressing Treasury borrowing costs independently of the federal funds rate and severing the Fed's fiscal transmission channel simultaneously. Reward token inflation does not register in CPI. Run dynamics replace gradual erosion as the primary liquidity failure mode, without a deposit insurance backstop. The wage payment question, the final structural barrier to a private-currency arrangement analogous to the nineteenth century company town, is neither addressed nor reinforced by either Act, and federal recognition of stablecoins as legitimate payment instruments creates preemption pressure on the state laws that currently constitute that barrier. The complete loop is self-reinforcing: stablecoin adoption displaces dollars into reserve instruments, which suppress Treasury borrowing costs, which enable fiscal expansion, which re-injects dollars into the economy, which sustains inflation that the Fed's conventional toolkit cannot reach.

The Regulatory Arbitrage at the Core

The GENIUS Act and the CLARITY Act share a structurally significant design choice: both prohibit stablecoin issuers, bank and non-bank alike, from paying *yield* to holders, while permitting *rewards* for activity. The distinction is presented as consumer protection. It is, in practice, an arbitrage gateway.

Economically, the two are identical transfer mechanisms. Yield is a return on a balance. A reward token redeemable for bill discounts, concert tickets, or gift cards is a return on a balance with extra steps. The legal label changes; the incentive structure does not. What the legislation accomplishes is not the prevention of yield; it is the routing of yield through an issuer-controlled instrument whose value the issuer sets unilaterally.

Dollar Displacement, Not Debasement

The common framing, that these bills enable dollar debasement, is wrong. Debasement implies the dollar loses intrinsic value. The mechanism here is more precise: dollar displacement. The dollar does not weaken; it retreats. It becomes an interbank and reserve settlement instrument that individuals can no longer practically access or hold.

When a stablecoin issuer mints a dollar-pegged token, the backing dollar is locked into Federal Reserve reserves or short-duration Treasury instruments. It does not circulate. The consumer transacts in stables. The dollar persists in the system; it simply moves upstream, out of reach.

This is a worse outcome than debasement. A debased dollar is still *your* dollar. A displaced dollar is a dollar you can no longer hold.

The Fed's Severed Transmission Cable

The Federal Reserve manages inflation through its influence on the cost and velocity of money in circulation. Interest rate decisions work because they travel through the banking system to consumers: rate hikes make borrowing expensive, slow spending, reduce demand, dampen prices.

This transmission depends on consumers holding and transacting in dollars.

If the primary transaction medium becomes stablecoin, the Fed's lever does not disappear, it disconnects. Rate decisions still affect the Treasury instruments backing stablecoin reserves, and therefore affect issuers' costs. But that pressure is not passed to consumers. Issuers absorb or manage it. The consumer holding stables is insulated from monetary policy. The Fed can still pull the lever; the cable no longer reaches the other end.

The practical consequence: inflation rises in the real economy while the Fed's conventional tools act on a shrinking dollar-denominated layer. The higher interest rates required to suppress inflation make T-bill yields attractive; but simultaneously make stablecoin reserves more expensive to maintain, creating issuer pressure without consumer relief.

Where Inflation Actually Enters: The Reward Token Layer

Dollar-backed stablecoins are, by construction, deflationary on dollar supply. Each stablecoin minted removes a dollar from circulation. This is not inherently inflationary.

The inflation risk enters through the reward token layer. If issuers over-incentivize adoption; and they will, in a land-grab phase, they issue reward tokens in excess of the real economic value those tokens represent. This is purchasing power erosion, but it does not register as dollar inflation. It does not appear in CPI. It is invisible to conventional monetary measurement while being entirely real to the consumer whose reward points buy progressively less.

The initial phase is designed to feel frictionless and generous. Consumers are over-rewarded to accelerate dollar-to-stable conversion: discounts, perks, access. Maximizing stable balances becomes rational behavior. Dollars stop circulating not because they are confiscated but because holding them carries opportunity cost relative to a stable+rewards combination.

Liquidity Risk: Runs, Not Gradual Erosion

GENIUS mandates 1:1 reserve backing, which means redemption is theoretically guaranteed. The risk is not an absence of redemption rights, it is run dynamics.

If a major issuer loses reserve confidence, experiences a regulatory event, or faces counterparty failure, the redemption pressure is simultaneous, not sequential. This is the 2008 money market fund scenario: technically solvent, practically illiquid under stress. The guarantee holds until the moment everyone needs it at once.

At that point, a consumer whose wages, savings, and daily transactions are denominated in that issuer's stablecoin is not experiencing gradual erosion; they are experiencing a sudden, total loss of liquidity with no backstop. There is no FDIC equivalent in the current legislative design.

The Company Town Endpoint

This is not a novel economic arrangement. The company town and the free banking era of the 19th century operated on identical logic: a private entity issues the dominant medium of exchange, controls its value and redemption terms, and employs the population whose labor sustains the cycle. Workers are paid in scrip redeemable only at company stores. The purchasing power of that scrip is set by the company.

Under the stablecoin architecture enabled by GENIUS and CLARITY, the structure is the same. Stablecoin issuers consume dollar labor; consumer spending, savings, transactional behavior, to power reserve growth. Reward tokens are the scrip. The issuer sets the

redemption value. The consumer has surrendered access to the underlying dollar and holds an instrument whose liquidity depends entirely on issuer solvency and policy.

The minimum wage, denominated in dollars, provides no protection if the practical wage, the medium in which compensation is actually delivered, is a stablecoin whose value the issuer controls.

The Missing Firewall: Wage Payment Law

Neither GENIUS nor CLARITY addresses the wage payment question directly, which is either an oversight or a deliberate deferral.

Most U.S. states prohibit wage payment in instruments other than legal tender or bank-issued instruments equivalent to it. This is the existing legal barrier between the current legislative framework and the company town endpoint. It is not a regulatory design choice embedded in these bills; it is an external constraint that the bills do not disturb, but do not reinforce.

The question is whether federal recognition of stablecoins as legitimate payment instruments; implicit in both bills, creates preemption pressure on state wage payment laws. If a stablecoin is a federally recognized payment instrument, the argument that it cannot legally constitute wages becomes harder to sustain. No court has resolved this. No legislator is discussing it.

That silence is the most dangerous element of the current framework.

The Captive Treasury Financing Loop

A separate and compounding mechanism operates at the fiscal layer.

Stablecoin reserve requirements, specifically 1:1 backing in Treasury instruments or Federal Reserve reserves, create a captive, price-inelastic buyer base for U.S. Treasury

Bills. Stablecoin issuers do not buy T-Bills because they are attractive; they buy them because they have no choice. As stablecoin adoption scales, this demand becomes massive and structurally permanent.

The consequence for the Treasury is a reliable, rate-insensitive financing mechanism. When the government can issue T-Bills into guaranteed demand, its cost of borrowing is artificially suppressed regardless of prevailing interest rates. Cheap borrowing enables increased government spending. That spending re-enters the economy as new dollar supply. This is the inflationary channel, and it is fiscal, not monetary.

This breaks the Fed's inflation management at a second point. The conventional transmission works as follows: the Fed raises rates, T-Bills become more expensive to issue, government borrowing slows, fiscal spending contracts, dollar supply tightens, inflation cools. Under the stablecoin architecture, step two fails. Stablecoin issuers absorb T-Bill supply at any yield because reserve compliance is not discretionary. The Treasury retains cheap financing access regardless of the Fed funds rate. Fiscal spending continues. Dollar re-injection continues.

The Fed is now severed from consumers on one end and from the fiscal lever on the other. Rate hikes discipline neither the consumer transaction layer, dominated by stablecoins, nor government borrowing, backstopped by stablecoin reserve demand. The Fed retains its instruments and loses both transmission cables simultaneously.

The complete loop: stablecoin adoption displaces dollars from consumer circulation → reserve requirements funnel those dollars into T-Bill demand → Treasury issues cheaply and spends freely → new dollars re-enter the economy through government expenditure → inflation rises → the Fed raises rates → stablecoin issuers absorb T-Bills anyway → the loop continues.

Inflation becomes structurally self-reinforcing, and every conventional tool for managing it operates on a layer the new architecture has bypassed.

Conclusion

The architecture GENIUS and CLARITY construct operates in sequence. Yield is prohibited and rewards are permitted, creating issuer-controlled incentive structures with no regulatory ceiling on generosity during adoption phases. Dollars are displaced into reserve instruments that only issuers can access; consumers transact exclusively in stables. The Federal Reserve retains its instruments and loses transmission to the consumer layer. Stablecoin reserve requirements create a captive, price-inelastic T-Bill buyer base, suppressing Treasury borrowing costs regardless of the federal funds rate, enabling unconstrained fiscal spending, and re-injecting dollars into the economy through government expenditure. The Fed is severed from both transmission cables simultaneously: consumer spending is in stables; government borrowing is backstopped by reserve demand. Rate hikes discipline neither. Inflation in the real economy continues; reward token erosion is invisible to conventional measurement. Run risk replaces gradual erosion as the liquidity failure mode: sudden, systemic, without a deposit insurance backstop. The wage payment question, the last structural barrier to full company-town dynamics, is unaddressed and potentially weakened by federal legitimization of stablecoins as payment instruments.

This is not a critique of digital currency. It is a diagnosis of a specific legislative design that creates the legal infrastructure for dollar displacement while leaving the transmission mechanism unprotected, the inflation measurement framework inadequate, and the labor protection question entirely unresolved. What the framework has built will not be visible in full until the next stress event tests it. That event will be the test the legislative record does not contain.

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Repercussions of the Dollar Displacement Architecture

Abstract

The dollar displacement architecture constructed by the GENIUS Act and the CLARITY Act produces eight compounding structural consequences that the commentary since enactment has not examined as an integrated system. This paper maps those consequences in sequence. The Federal Reserve, deprived of both consumer-layer and fiscal-layer transmission, retains authority without functional reach. The mandatory reserve requirement structure produces fiscal dominance by compliance mechanism rather than by legislative intent: Treasury borrowing costs become insensitive to the federal funds rate, enabling unconstrained fiscal spending regardless of monetary policy posture. The seigniorage function, historically a public monetary operation, transfers permanently to a small class of private stablecoin issuers. The systemic risk profile of a consumer economy whose primary transaction medium is issued by three or four uninsured private entities exceeds that of the 2008 financial crisis, with the moral hazard established at inception by the certainty of government rescue. A two-tier monetary system emerges in which institutional access to hard dollars appreciates relative to the stablecoin layer accessible to individuals, generating self-reinforcing distributional bifurcation. Private control over the transaction medium creates quasi-sovereign entities accountable to no constituency. The geopolitical effect is the inverse of the stated rationale: a domestic monetary architecture visibly captured by private interests accelerates the global search for dollar alternatives rather than suppressing it. Each

consequence compounds the others. The trajectory this produces is self-sustaining until the conditions for its continuation no longer exist.

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1. The Fed Becomes a Vestigial Institution

If monetary transmission to consumers is severed and fiscal spending is backstopped by stablecoin reserve demand, the Federal Reserve retains authority without function. It can set rates. Those rates reach neither the consumer transaction layer nor government borrowing costs in any meaningful way. The institution persists; its mandate, price stability and full employment, becomes structurally unachievable with the tools it possesses. This is not Fed independence under threat. It is Fed relevance.

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2. Fiscal Dominance by Structural Accident

The T-Bill captive buyer loop produces fiscal dominance, the condition where monetary policy is subordinate to fiscal spending decisions, without anyone legislating it. Congress does not need to abolish the Fed. It needs only to guarantee T-Bill demand through reserve requirements, and the Treasury can spend freely regardless of the rate environment. The debt ceiling becomes political theater. There is no market discipline on government borrowing because the market has been replaced by a compliance mechanism.

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3. Seigniorage Transfers from Public to Private

Seigniorage, the profit derived from issuing currency, has historically been a public function. The government issues dollars; the spread between face value and production cost accrues to the public. Under this architecture, stablecoin issuers collect the float. They hold T-Bills earning yield. They pay no yield to holders. They issue reward tokens at their own valuation. The spread between T-Bill yield and reward token cost is private profit extracted from what was previously a public monetary function. At scale, this is an

enormous, permanent, legislatively-sanctioned wealth transfer from the public to a small class of private issuers.

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4. Too Big to Fail, Second Generation

A handful of stablecoin issuers will dominate; network effects, regulatory compliance costs, and Treasury relationships favor consolidation. When the dominant transaction medium of the economy is issued by three or four private entities with no deposit insurance backstop, the systemic risk profile exceeds 2008. In 2008, the failure was in a financial instrument, mortgage-backed securities. Here, the failure would be in the transaction medium itself. If a major issuer breaks, people cannot buy food. The government will bail them out. They know this. The moral hazard is absolute, and it is baked into the architecture at inception.

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5. Class Bifurcation: Dollar Access Becomes a Privilege

Institutions, banks, issuers, sovereigns, large corporations, retain dollar access. They settle in dollars, hold dollars, borrow in dollars. Individuals transact in stables. This creates a two-tier monetary system where the hard asset is accessible only to those with institutional standing. The architecture literally routes dollars into reserves accessible only to issuers. Individual dollar access becomes a premium product, not a baseline right.

The inflation that affects stables does not affect the dollar layer. Wealth denominated in dollars appreciates in real terms relative to wealth denominated in stables. The people who hold dollars get richer. Everyone else does not. This is not an unintended distributional consequence. It is the predictable output of the design.

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6. Quasi-Sovereign Private Entities

Control over the medium of exchange is a sovereign function. Stablecoin issuers, at scale, exercise that function without sovereign accountability. They set reward token values. They control redemption terms under stress. They determine which transactions are permissible on their platforms. They hold compliance relationships with the Treasury that no consumer or regulator can fully audit. They are too systemically important to fail and too politically connected to regulate aggressively. This is a new class of entity, not a bank, not a government, with the functional powers of both and the accountability of neither.

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7. De-dollarization Accelerated, Not Prevented

The stated geopolitical rationale for dollar-backed stablecoins is extending dollar dominance globally, with populations in weak-currency countries holding USDC instead of local currency. This effect is real in the short term. But dollar dominance has always rested on two foundations: hard power, and confidence in domestic monetary credibility.

If the domestic monetary architecture is visibly broken, with inflation unmanageable, the Fed impotent, and dollar access restricted to institutions, that confidence erodes. Rival blocs accelerate alternatives not because the dollar is weak on paper, but because the system governing it is demonstrably captured by private interests. The stablecoin architecture could simultaneously extend dollar reach and destroy dollar credibility. Both happening at once is not a contradiction. It is the historical pattern of overextended reserve currencies in their terminal phase.

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8. The Political Economy Endpoint

The arrangement benefits three parties: government secures unlimited soft financing; stablecoin issuers acquire monopoly over the transaction medium and collect the T-Bill float; financial institutions earn fee revenue and regulatory moats that entrench their position. Consumers, whose labor generates the dollar flows powering the entire system, receive reward tokens whose value the issuer sets unilaterally.

This is not a market failure. It is the market functioning exactly as designed, for the parties who designed it. The repercussion is not that something goes wrong. The repercussion is that it goes exactly right, for the wrong people, permanently, with no structural mechanism for reversal once network effects and institutional capture are complete.

Conclusion

Each of these repercussions compounds the others. A vestigial Fed enables unconstrained fiscal spending. Unconstrained fiscal spending accelerates dollar displacement. Dollar displacement concentrates seigniorage in private hands. Private seigniorage concentration produces quasi-sovereign issuers. Quasi-sovereign issuers are too important to regulate and too connected to discipline. The class bifurcation this produces is self-reinforcing; those with dollar access accumulate; those without do not. And the geopolitical signal this sends accelerates the global search for dollar alternatives, which ultimately undermines the reserve status that made the entire architecture viable to begin with.

The architecture does not fail dramatically. It succeeds gradually, until the conditions for its own continuation no longer exist.

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The Labor Vector: Gig Classification, Wage Law, and the Corporate Pathway to Stablecoin Compensation

Abstract

The GENIUS Act and the CLARITY Act create no federal wage payment requirement for stablecoins and impose no restriction on non-dollar contractor compensation. Both absences are structurally significant. This paper maps the legal pathway through which stablecoin compensation can reach American workers under existing law without triggering a single current federal or state prohibition. The pathway begins with contractor classification: sixty to seventy million gig and freelance workers already fall outside the wage payment protections that apply to employees, and no law currently requires their compensation to be denominated in U.S. dollars. The creator economy and play-to-earn gaming models have demonstrated that ecosystem token compensation operates at scale without legal obstruction. The Citizens United decision, applied through the political spending infrastructure of the crypto industry, provides the mechanism through which stablecoin compensation could be extended to employees: not through direct legal authority, but through electoral pressure on legislators who would need to repeal existing USD wage requirements. The preemption risk is the most significant unresolved question: federal recognition of stablecoins as legitimate payment instruments, implicit in both Acts, creates a dormant constitutional argument against state-level USD wage requirements that no court has resolved and neither Act addresses. The company town endpoint is not the product of coordinated design. It is the compound output of individually defensible decisions, each optimizing for interests other than the worker's.

The Existing Legal Firewall and Its Boundaries

Current law provides meaningful but incomplete protection against non-dollar wage payment. The federal Fair Labor Standards Act (FLSA) requires that minimum wage and overtime compensation be paid in "cash or negotiable instrument payable at par." The Department of Labor has consistently interpreted this to mean fiat currency only. Cryptocurrency, including stablecoins, is neither cash nor a negotiable instrument under existing DOL guidance. Stablecoin wage payment to covered employees would, under current federal law, constitute an FLSA violation.

State law reinforces this in key jurisdictions. California prohibits wage payment in any instrument unless it is "negotiable and payable in cash, on demand, without discount, at some established place of business in the state" (Cal. Labor Code § 212). Illinois requires wages to be paid in "lawful money of the United States" (820 ILCS 115/4). Maryland mandates payment "in United States currency, or by check convertible at face value" (Md. Code Ann., Lab. & Empl. § 3-502). Pennsylvania requires wages "in lawful money of the United States or check" (43 P.S. § 260.3). Additional states with explicit USD-only wage payment requirements include Washington, Georgia, Delaware, Michigan, New Jersey, and Texas.

This firewall is real. It is also structurally incomplete. It covers employees. It does not cover independent contractors.

The Contractor Classification Gap

The FLSA's wage payment requirements, and the state statutes that reinforce them, apply exclusively to employees. Independent contractors, classified as 1099 workers under federal tax law, fall entirely outside this protection. There is no federal requirement that an independent contractor be paid in U.S. dollars. There is no minimum wage floor. There is no legal tender mandate. The contract governs, and the contract is between two private parties.

The gig economy is built on this classification. Uber, Lyft, DoorDash, Instacart, TaskRabbit, Upwork, Fiverr, the entire platform labor infrastructure is 1099 by design. These platforms already have no legal obligation to pay in USD. They pay in dollars because it is operationally convenient and socially expected, not because any law compels them.

This means the legal pathway to stablecoin compensation for tens of millions of workers already exists. No new legislation is required. No FLSA amendment is needed. No state wage law needs to be repealed. The gap is already there.

The Creator Economy as Proof of Concept

The creator economy extends this gap further and has already begun traversing it. YouTube, X (formerly Twitter), TikTok, Twitch, Substack, and Patreon all compensate creators as independent contractors. Creator funds, ad revenue shares, tipping mechanisms, and platform bonuses are already paid outside traditional payroll. Several platforms have piloted or implemented partial payment in platform credits, tokens, or non-dollar instruments in international markets.

Play-to-earn gaming models, Axie Infinity, StepN, and successors, already compensate for participation in ecosystem tokens whose redemption value is set by the issuer. These are not theoretical arrangements. They are operational, have millions of participants, and are entirely unregulated as wage payment because no employment relationship exists.

This is the proof of concept. A platform can compensate tens of millions of workers in ecosystem tokens, reward credits, or stablecoins today without violating a single existing wage law, because those workers are not employees.

The Normalization Sequence

The transition from gig economy precedent to broader workforce displacement does not require a single dramatic legislative act. It follows a normalization sequence, each step of which is individually defensible:

Phase 1: Opt-in framing. Platforms offer stablecoin or reward token payment as a voluntary alternative to USD. Workers "choose" it for faster settlement, lower fees, or ecosystem benefits. The framing is fintech modernization, not compensation displacement.

Phase 2: Over-incentivization. As described in the primary architecture argument, workers are initially over-rewarded to accelerate adoption. Stablecoin plus rewards outperforms USD in the short term. Rational workers maximize stablecoin allocation. Dollar compensation shrinks as a share of total gig income.

Phase 3: Normalization at scale. With 60-70 million gig and freelance workers holding and transacting primarily in platform stablecoins, non-dollar compensation becomes socially normalized. The psychological barrier, the assumption that wages are paid in dollars, erodes across a generation of workers who have never experienced traditional employment.

Phase 4: The employee extension argument. Once non-dollar gig compensation is normalized at scale, the legislative argument for extending it to employees becomes structurally available. The framing will not be ideological. It will be presented as a worker benefit: choice, flexibility, faster payment, better rewards. The shareholder interest argument, which is where Citizens United becomes relevant, funds the lobbying infrastructure to advance it.

Citizens United: The Correct Framing

Citizens United v. Federal Election Commission (2010) held that corporations and unions possess First Amendment rights to make unlimited independent political expenditures. It did not create new substantive corporate rights in employment law. It does not give

corporations the right to pay in stablecoins. What it does is create an uncapped political spending infrastructure that can be deployed to lobby for legislation that would permit it.

The distinction matters because the argument is not that Citizens United *enables* stablecoin wages; it's that Citizens United enables the political campaign to *legalize* them. The mechanism is lobbying and electoral spending, not direct legal authority.

The crypto industry has already activated this infrastructure at significant scale. In the 2024 election cycle, crypto-aligned super PACs, primarily Fairshake PAC, funded primarily by Coinbase, Ripple, and Andreessen Horowitz, spent $119 million on federal races, nearly five times the industry's 2022 spending and twenty times its 2020 spending. This spending was explicitly bipartisan, targeting candidates based on crypto-friendliness regardless of party, and it demonstrably shaped legislative outcomes: both GENIUS and CLARITY advanced in the Congress elected in that cycle.

The infrastructure is proven, funded, and operational. It is presently directed at market structure and stablecoin legislation. The same infrastructure is directly available to non-crypto corporations; retailers, gig platforms, technology companies, whose shareholder interests are served by stablecoin wage legislation. The corporate incentive is straightforward: if an employer pays wages in its own stablecoin, the T-Bill float on the outstanding wage balance accrues to the employer. Payroll becomes a seigniorage engine. Every dollar of deferred, held, or unspent employee compensation generates yield for the company, not the worker.

This is not a future possibility. It is the logical extension of the existing architecture, with the political spending infrastructure already in place to pursue it.

The Prop 22 Precedent

California's Assembly Bill 5 (AB5), enacted in 2019, attempted to reclassify gig workers as employees by tightening the legal definition of independent contractor status. Had it succeeded and been replicated nationally, it would have extended FLSA and state wage payment law protections; including the USD requirement, to the majority of platform workers.

Gig platforms spent over $200 million to pass Proposition 22 in 2020, overturning AB5's application to their industry. It was, at that time, the most expensive ballot initiative in California history. The stated rationale was worker flexibility and platform economics. In retrospect, given the legislative trajectory of GENIUS and CLARITY, the contractor classification defense carried a second-order implication that was not publicly articulated: preserving the legal architecture through which non-dollar compensation could eventually be deployed at scale.

The platforms did not need to know this at the time. The incentive to preserve contractor classification was sufficient on its own terms. The consequence, that contractor status is now the primary legal gateway to stablecoin compensation for tens of millions of workers, was structural, not conspiratorial. It does not require coordination to be real.

The Federal Preemption Risk

The most significant unresolved question in this architecture is whether federal recognition of stablecoins as legitimate payment instruments, implicit in both GENIUS and CLARITY, creates preemption pressure on state wage payment laws.

The Supremacy Clause of the Constitution renders federal law supreme over conflicting state law. If Congress passes legislation recognizing dollar-backed stablecoins as valid payment instruments equivalent to USD for purposes of federal financial regulation, state laws requiring wage payment in "lawful money of the United States" face a direct challenge: a federally-recognized stablecoin that is functionally equivalent to a dollar could, under that argument, satisfy the state's USD requirement when used as wages.

No court has resolved this. No provision of GENIUS or CLARITY addresses it directly. The legislation's authors may have deliberately avoided the question. But the preemption argument becomes available the moment a stablecoin issuer or employer chooses to raise it, and the political and financial incentives to raise it are substantial.

If the preemption argument succeeds, the state-level firewall dissolves without any state legislature voting to repeal it. The protection disappears through judicial interpretation of

federal supremacy, driven by litigation funded by the same corporate interests that financed the legislation creating the preemption argument in the first place.

The Complete Labor Pathway

The pathway from current law to company-town compensation dynamics runs through seven stages, each individually defensible and collectively constituting the route. Contractor classification already exempts sixty to seventy million gig and freelance workers from wage payment law today, requiring no new legislation. Gig platforms and creator ecosystems normalize stablecoin compensation through opt-in over-incentivization, legally unobstructed under current law. Play-to-earn and creator token models have already established the proof of concept: ecosystem token compensation at scale is operational. The Citizens United-enabled political spending infrastructure, proven at $119 million in corporate contributions in a single election cycle, is available to non-crypto corporations whose shareholder interests are served by extending stablecoin compensation to employees. Federal recognition of stablecoins as payment instruments creates a preemption argument against state USD wage requirements, unlitigated and unaddressed in either Act. If that argument succeeds, the employee firewall dissolves through judicial interpretation rather than legislative repeal. Employers paying wages in proprietary stablecoins capture T-Bill yield on outstanding wage balances, converting payroll from a cost into a seigniorage function.

Each step is individually defensible. Each step has a legitimate-sounding rationale. The company town endpoint is reached not through coercion but through the compound effect of individually reasonable-seeming legal and economic decisions, each of which was designed to serve interests other than the worker's, and collectively produces the same result as if it had been designed to harm them.

Conclusion

The labor vector into which the dollar displacement architecture extends is already operational. The contractor classification exempting tens of millions of workers from USD

wage payment requirements is current law, not projected law. The normalization sequence does not require a single legislative act; it requires only time and the compound effect of steps already under way.

The preemption question is the structural unknown. If federal recognition of stablecoins as legitimate payment instruments is held to displace state USD wage requirements, the employee firewall dissolves through litigation rather than legislation. The corporate interests with incentive to bring that litigation are substantial: the yield on outstanding wage balances denominated in a proprietary stablecoin is seigniorage captured from what was previously a pure cost. No comparable interest exists on the worker's side of that argument.

The company town dynamics this architecture makes possible were not designed into GENIUS or CLARITY. They are available through the architecture those Acts establish, combined with the contractor classification that predates them, the political spending infrastructure that enabled them, and the preemption doctrine that may ultimately dissolve the protections that remain. That availability is not a future risk. It is the present legal condition, dressed in the language of fintech innovation.

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The Rate Corridor Under Pressure: IOR, ON RRP, and the GENIUS Act

Abstract

The Federal Reserve manages interest rates through a corridor system bounded by the Interest Rate on Reserve Balances above and the Overnight Reverse Repurchase Agreement facility below. The GENIUS Act does not eliminate either rate. It constructs a statutory layer that terminates the transmission of both before they reach the consumer economy. This paper disaggregates the mechanism. The IORB channel between the Federal Reserve and the banking sector remains technically intact under the GENIUS Act's architecture; the severing occurs at the boundary between the banking layer and the consumer, where the Act's prohibition on stablecoin yield creates a rate-insensitive transaction medium by law. The ON RRP floor is damaged through three compounding mechanisms: the reduction of money market fund counterparty depth as consumers migrate to stablecoins; the distortion of short-duration Treasury yields by captive, price-inelastic reserve demand that renders market signals less coherent; and the structural immobility of mandatory stablecoin reserves, which cannot be cycled through the overnight drain operations the facility requires. The combined effect is a rate corridor that continues to function at the institutional level while progressively losing its grip on the consumer economy in proportion to stablecoin adoption. The degradation is continuous and proportional rather than episodic, making it difficult to detect through standard monetary metrics until the divergence becomes too large to attribute to measurement error. The Federal Reserve retains its instruments. It loses its economy.

How the Fed Controls Interest Rates: The Corridor System

The Federal Reserve does not set interest rates by decree. It manages them through a corridor system, two boundary rates between which the federal funds rate trades.

The ceiling is the Interest Rate on Reserve Balances (IORB). The Fed pays this rate to depository institutions on reserves they hold at the Fed. Because banks can always earn IORB risk-free, they will not lend reserves in the private market at rates below it. IORB puts an effective upper bound on where overnight rates trade.

The floor is the Overnight Reverse Repurchase Agreement rate (ON RRP). Through this facility, the Fed sells Treasuries to eligible counterparties, primarily money market funds (MMFs), government-sponsored enterprises, and primary dealers, overnight, and repurchases them the next day. The rate paid sets a floor: counterparties will not lend elsewhere at rates below what the Fed will pay them risk-free. ON RRP extends rate control to non-bank institutions that cannot earn IORB.

The two rates working together form a functional corridor. The fed funds rate trades within it. This is Powell's warning made concrete: lose IORB, and the ceiling disappears. Lose effective ON RRP, and the floor disappears. Either way, the Fed loses precision control over the marginal price of money.

GENIUS does not eliminate either rate. What it does is structurally undermine the transmission of both, at the consumer layer and at the market depth level simultaneously.

The IOR Argument: Correctly Located

The common formulation of the Powell/IOR argument, that GENIUS causes reserves to migrate off the Fed's balance sheet, destroying the IOR channel, is mechanically incorrect. It points at the right conclusion by the wrong route.

Under GENIUS, reserves backing stablecoins remain on the Fed's balance sheet. Banks holding those reserves still earn IORB. The IOR channel between the Fed and the banking sector remains technically intact.

The transmission break occurs one step downstream.

The reserve sits at the Fed earning IORB. The bank intermediates it into a stablecoin. The stablecoin holder earns nothing; GENIUS prohibits yield payment to holders by statute. The consumer transacts in an instrument whose return is fixed at zero regardless of the policy rate.

This means the IOR channel between the Fed and banks continues to function normally at the institutional layer while being severed by law before it reaches consumers. The policy rate signal travels from the Fed to the bank and stops. It does not reach the person making spending decisions.

This is Powell's warning; the cable is cut, not the lever. And the cut is legislated, not accidental. At scale, consumer spending behavior becomes entirely rate-inelastic. The Fed tightens. Banks earn more on reserves. Stablecoin holders notice nothing. Consumption patterns do not respond. Inflation management through rate adjustment requires that higher rates reduce consumer spending; that mechanism depends on consumers holding rate-sensitive instruments. If consumers hold stablecoins, they do not.

The more precise version of the argument: GENIUS does not destroy the IOR mechanism. It creates a statutory structure that terminates rate transmission before it reaches the economy's transaction layer. The lever works. The cable ends at the bank. The wall is between the bank and the consumer, built by law, and called consumer protection.

The ON RRP Floor: Three Compounding Vulnerabilities

The ON RRP damage is distinct from the IOR argument and operates through three separate mechanisms that compound each other.

First: Money Market Fund Disintermediation

The ON RRP floor works because MMFs are large, active counterparties. MMFs compete with stablecoins for the same consumer and institutional cash. Both offer dollar-denominated, low-risk instruments for cash parking. The difference is that MMFs pass through the policy rate to their holders. When the Fed raises rates, MMF yields rise. Stablecoins do not. In a rising rate environment, rational cash holders should prefer MMFs. But in the adoption phase described in this series, stablecoin reward structures over-incentivize conversion; consumers are paid to hold stablecoins even when MMFs would yield more in dollar terms.

As consumer and institutional cash migrates from MMFs to stablecoins, MMF assets shrink. Smaller MMFs mean reduced ON RRP counterparty depth. A facility whose floor-setting power depends on active participation from large counterparties becomes less effective as those counterparties shrink. The floor does not disappear immediately; it thins. Rate control at the lower bound becomes less precise.

Second: T-Bill Yield Compression Distorts the Floor Signal

GENIUS permits stablecoin reserves to be backed by short-duration Treasury instruments in addition to Fed reserves. This creates a captive, price-inelastic T-bill buyer. Stablecoin issuers must hold T-bills as a reserve requirement; they are not yield-seeking investors making discretionary allocation decisions. They buy T-bills because the law requires it, at any yield.

ON RRP functions in part as a rate floor because it offers a guaranteed return that sets a minimum for what market participants will accept on short-duration instruments. When T-bill yields are market-determined, they trade close to the ON RRP rate, and the relationship is coherent. When stablecoin reserve requirements create artificial, inelastic demand for T-bills, yields on those instruments become administratively suppressed rather than market-determined. T-bill yields no longer reliably reflect the marginal cost of short-duration money. The ON RRP rate, calibrated against a market that is now partially non-market, loses its signal integrity.

Third: Structural Reserve Lock-Up Removes the Facility's Flexibility

The ON RRP is a temporary drain instrument. It absorbs excess reserves overnight and returns them the next day. Its operational value lies in flexibility: the ability to cycle reserves through the facility in response to liquidity conditions, preventing rates from falling through the floor during periods of excess cash.

Stablecoin reserve requirements create permanent, mandatory reserve and T-bill holdings. These reserves cannot be cycled through ON RRP operations without disrupting the stablecoin's backing requirements. They are structurally immobile. As stablecoin adoption scales, an increasing share of the reserve base becomes ineligible for ON RRP drainage. The facility retains its form but loses its operational flexibility; it can drain what is cyclable, not what is structurally locked.

This matters acutely given the current state of the facility. ON RRP balances have declined from a peak of $2.55 trillion in late 2022 to near-zero as of 2025, a collapse that analysts describe as removing a systemic stabilizer rather than confirming normalization. The buffer that protected the financial system against liquidity shocks has already been depleted. Stablecoin architecture would prevent any future rebuilding of ON RRP buffers by redirecting excess cash into stablecoin structures rather than the facility. The system enters the next liquidity stress event with both its existing buffer exhausted and the mechanism for rebuilding it structurally obstructed.

The Combined Effect on Rate Control

Taking the IOR and ON RRP arguments together:

The IORB ceiling continues to function at the institutional level; banks respond to rate signals normally. The ON RRP floor continues to exist at the nominal level; the offering rate is still set and operations still occur. But:

Consumer spending behavior is insulated from the ceiling by statute: rate hikes do not reach the transaction layer. The floor's counterparty base, the money market fund complex, is systematically reduced through stablecoin adoption incentives. The floor's signal integrity is degraded by captive T-bill demand that distorts short-duration yields. The floor's operational flexibility is reduced by structural reserve lock-up.

The corridor exists on paper. Its ability to govern the actual economy degrades in proportion to stablecoin adoption. There is no discrete moment of failure. The degradation is continuous, proportional, and largely invisible; the Fed's metrics continue to show rates trading within the corridor while the corridor's grip on consumer behavior and market dynamics progressively loosens.

This is a more dangerous failure mode than a visible breakdown. Institutional actors respond to formal rate signals. Consumer economic behavior does not. Inflation models calibrated to rate-sensitive consumer behavior generate incorrect forecasts. Policy tightening that appears adequate by institutional measures proves inadequate for the real economy. The error is not detected until the divergence between institutional conditions and consumer conditions becomes too large to ignore, at which point stablecoin adoption is mature, entrenched, and politically protected.

Summary: What GENIUS Builds Into the Monetary Architecture

GENIUS does not abolish the Federal Reserve's tools. It constructs a parallel monetary layer that those tools cannot reach.

The IOR channel between the Fed and banks remains intact. The ON RRP facility continues to operate. The federal funds rate continues to trade within the corridor. All of this is true and all of it is increasingly irrelevant as the share of consumer transactions denominated in stablecoins grows.

What GENIUS builds into law, permanently and by design, is a consumer-facing monetary layer that is rate-insensitive by statute, backed by instruments whose yields are distorted by captive mandatory demand, administered by private issuers with no monetary policy mandate, and growing through incentive structures designed to accelerate adoption.

The Fed sets the price of money for banks. Stablecoin supply and adoption dynamics set the price of money for everyone else. As the consumer layer grows relative to the

institutional layer, the Fed's price-setting function covers a shrinking share of actual economic activity.

Powell's warning was about losing IOR. The more precise concern is this: GENIUS constructs a system where IOR is preserved but contained, functional within the institutional perimeter and irrelevant beyond it. The Fed retains its instruments and loses its economy.

Conclusion

The rate corridor does not break. It persists at the institutional layer while losing its grip on the consumer economy in proportion to stablecoin adoption. That distinction is what makes the failure mode difficult to detect and difficult to address. Monetary metrics continue to show the corridor functioning normally. Consumer behavior decouples from it invisibly, proportionally, in a way that inflation models calibrated to rate-sensitive populations are not equipped to measure.

There is no discrete moment at which the Federal Reserve's instruments become vestigial. There is a continuous process of scope reduction: the institutional layer they reach remains intact; the consumer layer they need to reach to control inflation shrinks as a share of actual economic activity. The tools remain. The economy they were built to govern moves into a different monetary layer, governed by different rules, administered by different entities, and reachable by none of the instruments the Federal Reserve's statute contemplates.

The subsequent paper in this series maps the credit creation consequences of this architecture: what happens to the money supply and the banking system when reserve absorption at scale is conducted by entities with no credit creation mandate.

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Two Failures from One Decision: Credit Creation Collapse and the CBDC Foreclosure

Abstract

The domestic and geopolitical consequences of the U.S. stablecoin legislative framework have been analyzed separately. This paper establishes that they share a single origin and compound each other. The first consequence is mechanical: the 100 percent reserve architecture required by the GENIUS Act transfers dollars from the credit-creating banking system into sterile reserve instruments, contracting the credit available to businesses, households, and communities. Federal Reserve modeling estimates this contraction at between $65 billion and $1.26 trillion in lost deposits and lending, with the upper bound occurring if stablecoin issuers gain direct Federal Reserve master account access. The contraction operates alongside the inflationary mechanisms documented in earlier papers in this series, producing stagflationary conditions that the Federal Reserve's tools cannot address without contradicting each other. The second consequence is strategic: the same legislative period that produced GENIUS also prohibited public digital monetary infrastructure through Executive Order 14178 and the Anti-CBDC Surveillance State Act, permanently foreclosing the instrument that would have preserved monetary policy transmission, retained seigniorage as a public function, and provided a sovereign counterpart to the digital currencies that more than 130 countries are currently developing. The private stablecoin architecture the legislation enables competes against sovereign digital currencies in a geopolitical contest in which private financial interest and sovereign commitment are not equivalent factors. The two failures are not independent.

They are the domestic and international dimensions of a single decision: to vest the digital monetary layer in private hands and prohibit public alternatives.

The Same Root Cause

The U.S. stablecoin legislative framework, GENIUS and CLARITY, reinforced by Executive Order 14178 and the Anti-CBDC Surveillance State Act, produces two distinct structural failures that are rarely analyzed together. The first is domestic and mechanical: the architecture systematically destroys the credit creation capacity of the banking system while simultaneously generating fiscal inflation, producing stagflationary conditions that no existing policy framework is equipped to address. The second is geopolitical and strategic: the United States has permanently foreclosed its public monetary infrastructure option at the precise moment its principal competitors are building sovereign digital currencies. These are not separate policy mistakes. They are two consequences of a single decision: to vest the digital monetary layer in private hands and prohibit public alternatives.

Part I: Credit Creation Collapse

How Banks Create Money

The banking system does not merely intermediate savings. It creates money. When a bank receives a deposit, it holds a fraction in reserve and lends the remainder. That loan creates a new deposit at another bank, which lends again. Each cycle expands the money supply beyond the original deposit. This fractional reserve credit creation is the mechanism through which the private sector accesses mortgages, business loans, consumer credit, and working capital. It is also the primary channel through which monetary policy reaches the real economy; rate changes affect borrowing costs, which affect investment and consumption.

Stablecoins do not participate in this mechanism. They are 100% reserved instruments. Every dollar backing a stablecoin is held in Federal Reserve reserves or short-duration

Treasury instruments. It is not lent. It does not create new deposits. It does not generate credit. The GENIUS Act explicitly limits permitted reserve investments to a narrow class: T-bills, Fed reserves, qualifying bank deposits, and similar instruments, none of which constitute real economy credit creation. As the Bank Policy Institute noted in its analysis of GENIUS, the law structurally prohibits stablecoins from replicating banks' credit creation function. The reserves underwrite the stablecoin; they do not fund a mortgage.

This creates a direct and quantifiable consequence: every dollar that migrates from a bank deposit into a stablecoin represents a permanent reduction in the banking system's capacity to create credit.

The Federal Reserve's Own Estimate

A December 2025 Federal Reserve study, "Banks in the Age of Stablecoins" (Wang, 2025), estimated that stablecoin adoption would reduce bank deposits and lending by between $65 billion and $1.26 trillion, with the upper bound occurring if stablecoin issuers gain direct access to Fed master accounts. The Treasury Department has estimated $6.6 trillion in deposits as structurally at risk, a figure cited by the American Bankers Association in its advocacy on GENIUS Act implementation. The ECB, analyzing the same dynamic for the euro area, found statistically significant evidence that increases in stablecoin attention cause measurable declines in retail deposit ratios and contractions in bank lending to firms.

These are not speculative projections. They are modeling outputs from central bank economists using existing adoption trajectories. The Federal Reserve's own research division has documented the credit contraction mechanism. The legislation passed regardless.

Regional and Community Banks as the First Casualty

The deposit migration dynamic does not affect all banks equally. Large systemically important banks, JPMorgan, Citi, Bank of America, have the scale, technology infrastructure, and regulatory relationships to adapt. Some are already developing proprietary stablecoin or tokenized deposit products. JPMorgan's JPM Coin and Citi Token Services represent institutional pivots to capture rather than lose the stablecoin infrastructure layer.

Regional and community banks have no equivalent adaptation pathway. They depend on local deposit bases to fund local lending; small business loans, agricultural credit, residential mortgages in non-metropolitan markets. Their competitive advantage is relationship banking, not technological infrastructure. When deposits migrate to stablecoins, they cannot follow. The Federal Reserve has specifically flagged that stablecoin adoption would disproportionately impact transaction accounts held by younger, digitally-native customers; precisely the demographic that regional banks most need to retain for long-term deposit stability.

The structural outcome is credit contraction concentrated in the communities where regional and community banks are the primary or sole source of financial intermediation. The markets least served by large institutional banking lose their credit access first.

The Stagflationary Divergence

Working Papers 1 and 4 established two simultaneous inflationary pressures embedded in the stablecoin architecture: the reward token layer generates purchasing power erosion invisible to CPI, and the captive T-bill buyer loop underwrites unlimited fiscal spending that re-injects dollars through government expenditure. Both mechanisms push prices upward.

Credit creation collapse pushes in the opposite direction on output. Contracting bank lending means fewer mortgages originated, fewer business loans extended, less consumer credit available. Investment falls. Hiring slows. Real economic output contracts. This combination, rising prices alongside falling real credit and output, is the definition of stagflation.

Stagflation is the monetary policy condition that existing tools are least equipped to address. The Fed's response to inflation is rate hikes, which reduce borrowing and slow the economy. The Fed's response to contraction is rate cuts, which stimulate borrowing and expand output. When both conditions are present simultaneously, the two responses contradict each other. The Fed raised rates aggressively in 2022-2023 to address post-pandemic inflation and caused significant stress in the banking system. It could not simultaneously cut rates to address credit contraction without abandoning the inflation fight.

Under the stablecoin architecture, this is not a cyclical risk. It is a structural condition. Fiscal inflation is permanent, built into the T-bill captive buyer loop. Credit contraction is permanent, built into the 100% reserve requirement that prohibits lending. The Fed's tools address one or the other. The architecture produces both, simultaneously, by design.

Part II: The CBDC Foreclosure

What a CBDC Would Have Solved

A central bank digital currency, a direct digital liability of the Federal Reserve held by consumers, would have addressed the core transmission problem described in Working Paper 4. If consumers hold Fed-issued digital dollars, the Fed can pay interest directly to those holders. Rate decisions transmit immediately to consumer behavior. The IOR channel is not severed at the consumer layer because the consumer is the direct counterparty. The credit creation problem would also be mitigated: CBDC does not require private bank intermediation, and design choices about interest rates and holding limits could actively discourage deposit flight from the banking system while preserving public monetary transmission.

A U.S. CBDC would have preserved seigniorage as a public function. It would have required no private issuer to capture the float. It would have carried the full faith and credit of the United States government, with no run risk equivalent to the money market fund dynamics described in Working Paper 1. It would have been the natural public infrastructure layer for digital dollar transmission.

The Prohibition

On January 23, 2025, President Trump signed Executive Order 14178, prohibiting federal agencies from establishing, issuing, promoting, or taking any action to develop a CBDC within the United States or abroad. The order mandated immediate termination of all ongoing CBDC development initiatives. In July 2025, the House passed the Anti-CBDC Surveillance State Act by 219-210, which would enshrine the prohibition in statute, preventing the Federal Reserve from issuing a CBDC directly to individuals regardless of

future executive branch preferences. Both actions occurred during the same legislative period that produced GENIUS and CLARITY.

The policy architecture is explicit and internally coherent on its own terms: private digital money receives a comprehensive regulatory framework; public digital money is prohibited. The GENIUS Act provides formal pathways for private stablecoin issuance. The Anti-CBDC Act closes the public alternative. The two pieces of legislation are not independent; they are complementary, and their combined effect is to guarantee that the digital monetary layer belongs to private actors permanently.

The stated rationale for the CBDC prohibition, financial stability risk, individual privacy, and U.S. sovereignty, collapses under examination. The same Congress that prohibited a public digital currency on privacy grounds simultaneously authorized a private digital currency architecture in which every consumer transaction is permanently recorded on a public blockchain, accessible to issuers with OFAC compliance obligations, and censorable by private entities without judicial process. The privacy argument applies with greater force to the instrument that was permitted than to the one that was prohibited.

The Geopolitical Asymmetry

The CBDC prohibition does not occur in a vacuum. More than 130 countries are currently exploring or developing central bank digital currencies. China's digital yuan is operational and in active deployment across domestic and international payment corridors. The European Central Bank is advancing a digital euro through its preparation and realization phases. The Bank of England, Reserve Bank of India, and Bank of Brazil are all in active development.

The standard geopolitical argument for dollar-backed stablecoins is that they extend dollar dominance by providing a digital dollar instrument accessible to populations in weak-currency countries, pre-empting adoption of alternative foreign CBDCs. This argument has surface merit. In the short term, USDC and USDT do provide dollar access to populations with limited banking infrastructure. U.S. Treasury Secretary Scott Bessent has projected the stablecoin market reaching $3.7 trillion by the end of the decade, framing this growth as a tool of dollar primacy.

The strategic error is the conflation of dollar reach with dollar credibility, and the failure to distinguish between private and sovereign monetary infrastructure in geopolitical competition.

A digital yuan backed by the People's Bank of China is a sovereign instrument with full government commitment, no run risk, and embedded into China's bilateral trade and Belt and Road financial relationships. USDC backed by Circle is a private instrument with shareholder obligations, run risk, OFAC censorship capability, and no formal government guarantee. In the event of a geopolitical stress scenario, whether sanctions conflict, financial warfare, or counterparty dispute, a sovereign digital currency and a private stablecoin operate under entirely different durability assumptions. Sovereign counterparties selecting a digital settlement medium for trade finance are not choosing between equivalent instruments. The United States has sent private stablecoins to a geopolitical competition that its adversaries are entering with sovereign weapons.

The longer-term credibility risk compounds this. As Working Paper 2 established, the stablecoin architecture generates domestic monetary dysfunction; inflation unmanageable, Fed impotent at the consumer layer, seigniorage privatized. A reserve currency derives its global standing from confidence in the issuing country's monetary institutions and credibility. The domestic architecture being built by GENIUS and CLARITY systematically degrades both. The dollar can be extended globally through stablecoin dollarization while simultaneously becoming less credible as a reserve instrument. These are not contradictory outcomes. They are the historical pattern of overextended reserve currencies approaching inflection points.

The CBDC would have preserved the option of sovereign digital monetary infrastructure. The United States did not merely choose not to build one. It prohibited itself from doing so; at the same moment it created the structural problems that a CBDC could have addressed, and at the same moment its competitors moved aggressively to build sovereign digital monetary capacity.

The Decision and Its Permanence

Executive orders are reversible. Legislation is significantly harder to undo, and the political economy of reversal is adverse: the same lobbying infrastructure that produced the CBDC prohibition, documented in Working Paper 3 as $119 million in crypto PAC

spending during the 2024 cycle, has a direct financial interest in preventing any future public alternative to private stablecoins. A public digital dollar competes with Circle, Tether, and the institutional stablecoin programs of JPMorgan and Citi. The entities that would lose market share to a CBDC are the same entities that funded the legislation prohibiting one.

The Anti-CBDC Surveillance State Act's statutory prohibition, if passed by the Senate and signed, would require future congressional majorities to reverse; in an environment where the crypto industry has demonstrated it can deploy nine-figure political spending bipartisanly to protect its legislative wins. The foreclosure, once statutory, is not technically permanent. It is, however, practically durable.

Conclusion

The two failures described in this paper compound each other in ways that neither analysis alone captures.

The credit contraction caused by deposit migration reduces real economic output. Reduced output against maintained or rising price levels worsens the inflation dynamic. Worsened inflation makes the Fed's rate response more aggressive. More aggressive rate increases stress the banking system further. Further banking system stress accelerates deposit migration to stablecoins perceived as safer. Accelerated migration deepens credit contraction. The loop is self-reinforcing.

Meanwhile, the CBDC that would have provided the Fed with a direct consumer transmission channel, breaking the loop at its source, has been prohibited. The instrument designed to extend dollar reach globally has been handed to private actors whose incentive is seigniorage extraction, not monetary stability. And the competitors building sovereign alternatives are doing so with precisely the public institutional commitment that the United States has legislated away.

The architecture does not produce these outcomes through malice or incompetence on the part of any single actor. It produces them through the compound effect of a political economy in which the private beneficiaries of a specific legislative design had the

resources to ensure its passage, the foresight to prohibit public alternatives, and the influence to frame both as acts of financial innovation and freedom. The United States has not merely chosen a path. It has legislated away its ability to choose otherwise.

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The Hollow Bank: Regulatory Arbitrage, Competitive Displacement, and the Shrinking Insured System

Abstract

The GENIUS Act creates an asymmetric regulatory architecture in which permitted payment stablecoin issuers compete directly for consumer deposits against insured depository institutions while bearing none of the obligations that make the banking franchise a public function. Non-bank stablecoin issuers pay no FDIC insurance premiums, carry no Community Reinvestment Act obligations, and are exempt from the Basel-aligned capital requirements applied to traditional banks. The cost differential is structural and permanent: banks fund a deposit insurance safety net that their competitors benefit from without contributing to, and they finance community lending obligations that their competitors have legislated away. This paper maps the competitive displacement mechanism this asymmetry enables, the regulatory arbitrage available to sub-$10 billion issuers through the state certification pathway created by the Stablecoin Certification Review Committee, and the trajectory by which the insured banking system shrinks as the uninsured stablecoin layer grows. The endpoint is a banking system hollowed of its community lending function, concentrated in a small number of large institutions pursuing proprietary stablecoin programs, with an FDIC insurance fund covering a diminishing fraction of the total consumer monetary layer. The paper concludes by identifying the public franchise question that GENIUS does not answer: whether the monetary function of banking carries obligations that follow the function rather than the charter type, and whether the regulatory asymmetry it has created is a

design feature of a new framework or a legislated extraction of public subsidy by private entities performing a public function.

The Asymmetry at the Core

The GENIUS Act creates two classes of dollar-denominated payment instrument issuers operating in direct competition for the same consumer deposits. The first class, traditional insured depository institutions, carries the full weight of the existing regulatory framework: FDIC insurance premiums, Community Reinvestment Act obligations, Basel-aligned capital requirements, Bank Holding Company Act provisions, and prudential oversight calibrated to systemic risk. The second class, permitted payment stablecoin issuers, including non-bank entities supervised by the OCC, carries none of these obligations in equivalent form.

The GENIUS Act explicitly exempts stablecoin issuers from the regulatory capital standards applied to traditional banks. It contains no Community Reinvestment Act requirements. It imposes no FDIC insurance premiums. It does not subject non-bank issuers to Bank Holding Company Act provisions. It creates a tailored capital, liquidity, and risk management framework designed specifically for the stablecoin business model, one that is structurally lighter than the framework governing the institutions with which stablecoin issuers compete for deposits.

This is not incidental. It is the architecture of competitive displacement built into the regulatory design. When two entities offer functionally equivalent instruments, dollar-denominated, liquid, and payment-capable, but one bears significantly higher compliance costs than the other, the lower-cost provider wins on price. The regulatory burden differential is not a feature protecting consumers. It is a subsidy to non-bank issuers paid for by the banking system's existing obligations.

The Cost Structure of the Asymmetry

FDIC Insurance Premiums

Insured depository institutions pay assessments to the FDIC based on deposit balances and risk profiles. These premiums fund the Deposit Insurance Fund, the backstop that protects depositors when banks fail. Non-bank stablecoin issuers pay no equivalent assessment. Their 1:1 reserve requirement provides holder protection in theory but no pooled insurance fund in practice. The consumer holding a stablecoin issued by a non-bank entity has no FDIC guarantee. The institution competing for that consumer's deposit paid for the guarantee the consumer can no longer access once they move to the stablecoin alternative.

The banks fund a safety net. The non-banks benefit from the credibility that safety net creates for dollar-denominated instruments generally, without contributing to its maintenance.

Community Reinvestment Act Obligations

The Community Reinvestment Act of 1977 requires insured depository institutions to meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Banks are evaluated on CRA performance when applying for mergers, acquisitions, and branch changes. Non-compliance carries regulatory consequences. The obligation is structural, not discretionary.

Non-bank stablecoin issuers bear no CRA obligations under GENIUS. The act is silent on community lending requirements. A coalition of consumer and community development organizations identified this gap explicitly in opposition letters during the legislative process, noting that the bill contains only a vague, non-binding reference to "benefit to consumers" in the issuer approval criteria, insufficient to replicate CRA's mandatory community lending function.

The scale of what CRA represents makes this omission material. According to the National Community Reinvestment Coalition, CRA-qualifying mortgages and small business loans totaled nearly $5 trillion between 2010 and 2024. In 2023 alone, CRA lending accounted for approximately $387 billion in small business and community development loans, representing roughly 77% of outstanding small business loan dollars and 35% of outstanding farm loans. As the Progressive Policy Institute's analysis concluded,

stablecoins accumulating dollar deposits without CRA obligations do not merely create a competitive imbalance; they directly reduce the funding base for the community lending that the CRA framework depends on.

Regulatory Capital

Traditional banks operate under capital adequacy frameworks: Basel III and its domestic implementations, requiring them to hold equity capital against risk-weighted assets. These requirements constrain leverage, limit risk concentration, and provide loss-absorbing buffers. They are also expensive: capital held against risk cannot be deployed for profit.

GENIUS explicitly exempts stablecoin issuers from these capital standards, substituting a tailored framework calibrated to the stablecoin business model. A 100%-reserved instrument with no lending book presents a different risk profile than a traditional bank, and a different capital treatment is facially reasonable. The practical consequence, however, is that non-bank issuers operate without the equity buffers that constrain bank risk-taking, while competing for the deposit base that funds those buffers.

The Competitive Displacement Mechanism

The cost structure differential compounds the yield differential already embedded in the architecture. Banks must pay FDIC premiums, fund CRA obligations, and hold regulatory capital: all costs that reduce the return they can offer on deposits or require fees that stablecoin issuers do not charge. Non-bank stablecoin issuers bear none of these costs while collecting T-bill yield on 100% of their reserve base.

Even without paying yield to consumers; prohibited under GENIUS, non-bank issuers can offer superior reward structures, lower transaction costs, and more aggressive adoption incentives than regulated banks, precisely because they have shed the compliance overhead that banks carry. Their cost of acquiring and retaining a deposit equivalent is structurally lower. Their margin on each dollar held is structurally higher.

For a consumer making a rational allocation decision between a bank deposit and a stablecoin, the comparison is not between equivalent instruments with equivalent guarantees. It is between a costly, heavily regulated instrument with FDIC protection and a cheaper, lightly regulated instrument with reserve backing but no deposit insurance. In a stable environment, the stablecoin wins on cost. In a stress environment, the bank wins on guarantee. The adoption incentive architecture described in Working Paper 1, over-rewarding conversion during the land-grab phase, is designed to ensure consumers make the allocation decision during the stable period, before they have experienced the stress scenario.

State Regulatory Arbitrage

GENIUS permits stablecoin issuers with less than $10 billion in outstanding issuance to operate under state regulatory regimes certified as "substantially similar" to the federal framework. Certification is granted by the Stablecoin Certification Review Committee, comprised of the Treasury Secretary, the Federal Reserve Chair, and the FDIC Chair, by unanimous vote within 30 days of application.

This structure introduces a multi-layered arbitrage opportunity. First, the "substantially similar" standard is subjective and contested. States competing for financial industry presence, Wyoming, Texas, and others with active digital asset legislation, have direct economic incentives to meet the minimum threshold for certification while preserving as much regulatory flexibility as possible. The result is a race to the floor on the sub-$10 billion tier, where issuers shop for the most permissive certified state framework.

Second, the $10 billion threshold creates a structural incentive to remain below it. An issuer approaching $10 billion faces the choice between federal oversight and state oversight. If the state regime is materially more permissive, the issuer has an incentive to constrain growth, restructure, or fragment its issuance to remain below the threshold. Large stablecoin programs can be structured as multiple sub-threshold entities sharing infrastructure.

Third, the unanimity requirement for SCRC certification creates an inverse dynamic at the federal level: any single member can block state certification, but the practical pressure,

from Treasury, which chairs the committee and which benefits from T-bill demand that stablecoin adoption generates, runs toward approval rather than denial.

Concentration of Systemic Risk in a Shrinking Insured Base

As deposits migrate from insured depository institutions to non-bank stablecoin issuers, the FDIC-insured deposit base contracts. The institutions that remain in the insured system carry a concentrated share of systemic risk relative to a shrinking asset base. The FDIC's fund, calibrated to protect depositors across the full commercial banking system, faces increasing stress as the insured deposit base that funds its assessments shrinks while the uninsured stablecoin deposit equivalent grows outside its jurisdiction.

This dynamic has a historical precedent. The savings and loan crisis of the 1980s involved the concentration of risk in a segment of the insured system that the fund was not capitalized to handle. The resolution cost over $130 billion. The post-2008 regulatory framework was designed explicitly to prevent equivalent risk concentration. GENIUS reverses the post-2008 lesson: it creates a pathway for the most cost-efficient, fastest-growing segment of the deposit market to move outside the insured system entirely, leaving the remaining insured institutions holding the risk the larger system generates.

Community and regional banks are again the first-order casualties. They cannot follow deposits into stablecoins without technology investment they cannot afford and partnerships with entities that have no interest in their survival. They carry CRA obligations to communities that are losing their primary credit source. They pay FDIC premiums for a fund protecting deposits that are migrating to an uninsured alternative. Their competitive position deteriorates not because they are poorly managed but because the regulatory framework has been redesigned to favor their competitors.

The largest banks occupy a different position. JPMorgan, Citi, and Bank of America are developing proprietary stablecoin and tokenized deposit products; JPM Coin, Citi Token Services, that allow them to capture the stablecoin architecture while retaining their institutional relationships. For them, the GENIUS Act is not competitive displacement. It is market expansion. They can issue stablecoins through subsidiaries, retain the T-bill float,

shed the yield obligation to consumers, and maintain their institutional fee revenue. For this tier, GENIUS is not a threat; it is a restructuring of the market in their favor, with their smaller competitors serving as the deposit base from which migration occurs.

The Hollowing Endpoint

The full trajectory of the banking system hollowing under GENIUS runs as follows.

Non-bank stablecoin issuers, operating without FDIC premiums, CRA obligations, or bank-equivalent capital requirements, compete for consumer deposits at structurally lower cost. Deposit migration from community and regional banks to stablecoin instruments accelerates, driven by the over-incentivization dynamics described in Working Paper 1. Community and regional banks lose deposit base, lose credit creation capacity, and lose the CRA funding that serves low- and moderate-income communities. The $387 billion in annual CRA lending contracts proportionally to deposit migration.

Large banks adapt through proprietary stablecoin programs, maintaining institutional position while shedding obligations through subsidiary structures. The banking system that survives is more concentrated, a small number of large institutions operating stablecoin programs alongside traditional banking, and more exposed, because the FDIC-insured base that buffers systemic risk has shrunk while the uninsured stablecoin equivalent has grown outside its jurisdiction.

The FDIC's relevance contracts with its deposit base. Its insurance fund, built on assessments from a shrinking pool of insured institutions, covers a decreasing share of the dollar-equivalent instruments actually held by consumers. In a systemic stress event, the run dynamics described in Working Paper 1, the FDIC backstop applies to a fraction of the instruments affected. The run happens in stablecoins. The government responds to prevent system failure. The cost falls on the public. The profit from the float that financed the run accrued to the issuer.

This is the hollowing endpoint: a banking system reduced to a rump of large concentrated institutions and struggling community banks, operating inside an insured framework that covers a diminishing share of the total consumer monetary layer, while the uninsured

stablecoin system above them captures the growth, the float, and the seigniorage; without the obligations that justified the banking system's original public franchise.

The Public Franchise Argument

Banks exist as regulated entities because they exercise a public function. They create money, allocate credit, and operate the payment system. In exchange for that franchise, and for the deposit insurance guarantee that makes it viable, they accept obligations: capital requirements, CRA, prudential supervision, and systemic risk constraints. These obligations are not arbitrary impositions. They are the terms of the license.

Non-bank stablecoin issuers exercise the same function; they issue dollar-equivalent instruments, operate payment rails, and allocate reserve assets. GENIUS grants them that function without the full terms of the license. The franchise is extended; the obligations are not. The justification offered is that stablecoins are a new instrument requiring a tailored framework. The practical effect is that a new class of entities performs the monetary function of banking without the community obligations, the insurance premiums, or the capital requirements that have historically been the price of that function.

The question GENIUS does not answer, and no legislator has posed, is whether the public franchise of money creation carries obligations that follow the function, not the charter type. If it does, the regulatory asymmetry is not a design feature of a new framework. It is the extraction of a public subsidy, in the form of avoided obligations, by private entities performing a public function, facilitated by legislation that was drafted in close consultation with those same entities.

Conclusion

The banking system is not being disrupted by a superior technology. It is being displaced by a regulatory architecture that has assigned the same monetary function to two classes of entity under materially different compliance costs. The lower-cost class wins the

deposit competition. The higher-cost class retains the obligations that financed community lending, protected depositors, and constrained systemic risk. Those obligations do not migrate with the deposits. They remain with the institutions losing them.

Community and regional banks are the first-order casualties not because they are less innovative but because they cannot shed the obligations that their competitors were never assigned. The FDIC fund that protects their depositors shrinks in relevance as the uninsured stablecoin layer grows. The CRA lending that their deposits finance contracts as those deposits leave. And the largest banks, through proprietary stablecoin programs, capture the growth while the regulatory gap widens between them and the community banking sector they are designed to coexist with.

The public franchise question this architecture raises has no legislative answer. GENIUS created the asymmetry. No subsequent Act has addressed whether the obligations of the monetary franchise follow the function or the charter. Until that question is answered, the hollowing continues.

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The Permanent Record: Surveillance, Censorship, and the Architecture of Control in the Stablecoin Payment Layer

Abstract

The surveillance architecture of the stablecoin payment layer is not incidental to the technology. It is constitutive of it. This paper identifies and analyzes the specific surveillance and censorship mechanisms embedded in the stablecoin infrastructure that the GENIUS Act has legally mandated: the permanent, public, immutable blockchain transaction record; the smart contract freeze function operable without judicial process; the mandatory government compliance infrastructure; and the discretionary issuer censorship authority that extends beyond government orders. The central argument is that the legislative prohibition on a U.S. central bank digital currency, justified on grounds of surveillance risk and individual privacy, produced a private payment architecture with greater surveillance capacity than any CBDC proposal it displaced. A government-issued CBDC would have operated under Fourth Amendment jurisprudence and direct legislative constraint. The stablecoin architecture places the surveillance and censorship functions in private hands, removes them from constitutional accountability, mandates compliance with government orders as a condition of issuer licensure, and records every transaction permanently on a publicly accessible ledger. The paper documents the operational scale of these functions: Tether's 7,268 blacklisted addresses and approximately $3.29 billion in frozen assets; Circle's 372 blacklisted addresses and $109 million frozen; the March 2026 DFINITY incident that demonstrated the collateral damage of automated transaction graph analysis; and the extraterritorial extension of U.S. freeze authority through the

GENIUS Act's foreign issuer provisions. The payment architecture the legislation produced offers consumers a conditionally revocable license to transact, administered by private entities with no constitutional accountability and no mandatory due process obligations.

The Inversion at the Center

The legislative framework that prohibited a U.S. central bank digital currency justified that prohibition on grounds of surveillance risk and individual privacy. Executive Order 14178 (January 23, 2025) stated explicitly that CBDCs "threaten the stability of the financial system, individual privacy, and the sovereignty of the United States." The Anti-CBDC Surveillance State Act, passed by the House in July 2025 on the same day as GENIUS, was framed as a bulwark against government monitoring of individual transactions.

The GENIUS Act, passed simultaneously, constructs a transaction architecture with greater surveillance capacity than any CBDC proposal that preceded it. This is not a contested characterization. It is a structural description of how the technology operates and what the law requires.

A central bank digital currency, as designed in every major proposal studied by the Federal Reserve, would have been a direct liability of the government, auditable, subject to legislative constraint, and operating under Fourth Amendment jurisprudence governing government access to financial records. The stablecoin architecture enabled by GENIUS places the surveillance function in private hands, removes it from direct constitutional constraint, mandates compliance with government orders as a condition of operating, and records every transaction permanently on a public ledger accessible to any party with the technical capacity to read it.

The argument that stablecoins protect privacy where CBDCs would not require a precise definition of privacy that excludes permanent public transaction records, private issuer freeze authority, mandatory government compliance infrastructure, and retroactive surveillance capacity. No such definition exists in ordinary usage.

The Technical Architecture of Surveillance

Blockchain transactions are permanent, public, and immutable. Every USDC or USDT transaction is recorded on a public ledger: Ethereum, Tron, Solana, or other supported chains, with a timestamp, sending address, receiving address, and amount. This record cannot be altered, expunged, or sealed. It is not subject to a statute of limitations. It does not require a subpoena to access. It is available in perpetuity to any party, government, law enforcement, private actor, or foreign intelligence service, with the technical capacity to read a blockchain.

This is a fundamentally different surveillance architecture than either cash or traditional bank accounts. Cash leaves no transaction record. Bank accounts generate records held by private institutions, accessible to government through judicial process: subpoena, warrant, or court order, with notice requirements and Fourth Amendment protections in criminal proceedings. Blockchain transactions generate a permanent public record accessible without any legal process whatsoever. The government does not need a warrant to know that wallet address A sent 500 USDC to wallet address B at a specific time. That information is public.

The stablecoin surveillance architecture is therefore not a government surveillance tool in the conventional sense. It is a permanent public record that government, along with every other actor, can read without restriction. The surveillance is total, it is retroactive to the inception of the chain, and it is available to adversaries as well as authorities. The privacy argument deployed against the CBDC, that the government would monitor individual transactions, mislocates the threat. The stablecoin ledger does not give the government more surveillance power than it otherwise has. It gives everyone surveillance power simultaneously, permanently, with no legal process required.

The Freeze Function: Private Censorship with Government Compliance Obligations

The GENIUS Act mandates that all permitted payment stablecoin issuers possess the technical capability to seize, freeze, or burn payment stablecoins in compliance with

lawful orders. This is not a discretionary feature. It is a statutory requirement. Issuers that lack this capability cannot operate legally in the United States.

The freeze function is embedded in the smart contract at the token level. When Circle or Tether blacklists a wallet address, the USDC or USDT in that wallet becomes immediately, completely, and permanently non-transferable. There is no pending state. There is no grace period. There is no appeal process in the code. The affected party's funds exist on the ledger but cannot be moved, spent, or redeemed. The condition persists until the issuer explicitly reverses it, a decision entirely within the issuer's discretion, on no mandated timeline, with no standardized process.

The scale of this authority is operational, not theoretical. Tether has blacklisted more than 7,268 wallet addresses across Ethereum and Tron, freezing approximately $3.29 billion in combined assets. Tether cooperates with more than 275 law enforcement agencies across 59 jurisdictions. The FBI and the U.S. Secret Service have direct integration with Tether's platform, enabling agency personnel to identify and flag wallets for freezing. Circle has blacklisted approximately 372 addresses, freezing roughly $109 million in USDC, operating a more reactive, legally anchored model that generally requires a court order or OFAC designation before acting.

The critical distinction from traditional financial surveillance is the mechanism of action. Bank account freezes require judicial process, a court order served on the bank, with the account holder typically having recourse through legal proceedings. Stablecoin freezes operate at the smart contract level: instantaneous, technically irreversible without issuer action, and in the case of Tether's burn-and-reissue mechanism, capable of permanently destroying the frozen tokens and minting replacement tokens to law enforcement, a finality that no bank account freeze can replicate. Once burned, as one compliance analysis noted, no lawyer, court order, or appeal can restore the destroyed tokens. The funds cease to exist on-chain.

Collateral Damage and the Absence of Due Process

The combination of broad freeze authority, algorithmic transaction graph analysis, and no standardized appeals process produces a predictable failure mode: innocent parties are caught in freezes targeting others, with no clear mechanism for remedy.

In August 2022, Circle blacklisted approximately 81 wallet addresses in response to OFAC's designation of Tornado Cash, blocking roughly 75,000 USDC in funds. Tornado Cash was a privacy protocol used by a range of actors, including many with no illicit intent. Addresses that had used the protocol for legitimate privacy purposes were frozen alongside those using it for money laundering. The OFAC designation made no distinction; Circle's smart contract made no distinction.

In March 2026, Circle executed a mass blacklist action against 16 wallet addresses in response to a sealed civil court order, not a criminal proceeding, not an OFAC sanction, but a civil lawsuit in a New York federal court. One of the 16 addresses froze turned out to be the ckETH Minter Smart Contract operated by the DFINITY Foundation: public, documented bridge infrastructure used by thousands of users with no connection to the underlying civil case. The freeze was the product of automated transaction graph cluster analysis that flagged the bridge contract due to its on-chain connections with the targeted businesses. Circle reversed the bridge contract freeze within days, not because a legal process compelled it, but because the public nature of the error generated sufficient reputational pressure.

What the March 2026 incident established is that smart contract-level freezes are not limited to identified individuals, verified bad actors, or even named parties in legal proceedings. They extend to any address that automated graph analysis associates with a target, including public infrastructure serving thousands of unrelated users, with no advance notice, no judicial finding of connection to the underlying matter, and no immediate remedy for affected parties.

The freeze of a bank account in the United States requires a court order specifying the account holder and the basis for the freeze. The account holder receives notice and has the right to challenge the freeze. The GENIUS Act imposes no equivalent specificity requirement on stablecoin freezes beyond requiring that a lawful order "specifies the payment stablecoins or accounts subject to blocking with reasonable particularity." What

constitutes "reasonable particularity" for a smart contract freeze that propagates through automated graph analysis to public infrastructure has not been litigated. The March 2026 incident suggests the answer is: less than the standard that would apply to a bank account.

Discretionary Censorship Beyond Legal Orders

The GENIUS Act's compliance framework governs freezes pursuant to lawful orders. It does not limit issuers to freezing only pursuant to lawful orders. Both Circle and Tether exercise broader, discretionary freeze authority based on internal risk assessments, ecosystem feedback from blockchain intelligence firms, and their own terms of service.

Research published by Range Security found that in multiple cases, addresses were blacklisted before OFAC issued an official designation; the issuer moved preemptively based on internal intelligence. This means the effective freeze authority extends beyond government-mandated compliance into proactive, issuer-initiated censorship based on proprietary risk models that are not subject to public disclosure, judicial review, or regulatory approval.

The practical consequence for the consumer holding stablecoins as a primary transaction medium is that their ability to transact is subject to two distinct censorship authorities: formal government orders transmitted through the issuer, and the issuer's own risk judgment applied without notice, without process, and without appeal. In neither case does the consumer have the due process protections that apply to bank account seizures. In neither case is the decision-making process transparent, consistent, or subject to external review.

This is not the architecture of a payment system. It is the architecture of a conditionally revocable license to transact, administered by private entities under government compliance obligations and their own discretionary risk models simultaneously.

Extraterritorial Reach and Global Surveillance Export

GENIUS extends this architecture globally through its foreign issuer provisions. Foreign payment stablecoin issuers that wish to access the U.S. market must demonstrate the capability and willingness to comply with U.S. lawful orders, including orders to seize, freeze, burn, or prevent the transfer of stablecoins. Non-compliance results in U.S. market exclusion and civil penalties of up to $1 million per day. The Treasury Department is required to publicly identify non-compliant foreign issuers and prohibit U.S. trading platforms from listing their stablecoins.

The consequence of this structure is that U.S. legal authority, OFAC sanctions, court orders, regulatory directives, extends to stablecoin transactions globally wherever U.S.-market-access-seeking issuers operate. A foreign company holding USDC faces exposure to U.S. freeze authority regardless of where it is incorporated or where its counterparties are located, because Circle's compliance obligations are defined by U.S. law and applied globally across all chains where USDC operates.

This is a significant extraterritorial extension of U.S. financial enforcement authority, achieved not through treaty or bilateral agreement but through the market-access incentive structure of the world's largest economy. Nations that wish to participate in dollar-denominated digital payment flows must accept U.S. freeze and seizure authority as a condition of that participation. This is, as the geopolitical case for stablecoins notes, a form of dollar power projection. It is also the global export of a surveillance and censorship architecture without the procedural protections that govern equivalent domestic enforcement actions.

The Auditable and the Censorable Are the Same Thing

The surveillance architecture argument is frequently rebutted with the observation that blockchain transparency is a feature, not a bug, and that on-chain traceability reduces money laundering, terrorism financing, and sanctions evasion relative to cash. This is partially correct. Blockchain analysis has produced significant law enforcement outcomes: Tether's cooperation with 275 agencies has resulted in fraud recovery, terrorism financing

disruption, and human trafficking investigations. The transactional transparency that enables surveillance also enables accountability.

The error in the rebuttal is treating auditability and censorability as separable. They are not. A transaction ledger that is permanently readable is permanently censorable. A payment medium whose transactions are immutably recorded and whose balances can be frozen at the token contract level by a private entity under government compliance obligations does not offer the consumer a choice between transparency and privacy. It offers a single architecture in which every transaction is visible, every balance is conditionally revocable, and the entity administering both functions is a private company with no constitutional accountability for either.

Tether's CEO has explicitly framed this as a selling point: blockchain-based money is safer than cash because every transaction is traceable. The argument is coherent from a compliance perspective. From a civil liberties perspective, it describes a payment system in which financial privacy, the baseline protection that cash provides and that bank secrecy law extends to account records, has been structurally eliminated, replaced by permanent public records and private freeze authority operating in parallel with government compliance obligations.

The consumer who holds stablecoins as a primary transaction medium has accepted a monetary instrument that records every transaction permanently, can be frozen instantly without judicial process by a private entity, can be burned permanently at law enforcement request, and exposes every counterparty to retroactive surveillance by any party with the technical capacity to read a public ledger. These are not edge cases or theoretical risks. They are the documented, operational characteristics of the instruments as deployed.

The Due Process Gap

The GENIUS Act's "lawful order" definition requires that freeze orders be "subject to judicial or administrative review or appeal as provided by law." This provision applies to the government-initiated freeze pathway. It does not apply to issuer-initiated discretionary freezes. It does not specify the timeline for judicial review. It does not require the issuer to

notify the affected party that a freeze has occurred. It does not create a private right of action for consumers whose funds are frozen on the basis of an overbroad or erroneous order.

In the March 2026 DFINITY incident, Circle reversed the erroneous freeze of the public bridge contract within days, not because a legal process compelled it, but because the public nature of the error generated sufficient reputational pressure. The thousands of users whose transactions were blocked during that period had no legal remedy, no formal process, and no guaranteed timeline for resolution. Their funds were inaccessible not because they were parties to any legal proceeding but because they had used infrastructure that automated analysis associated with parties to a civil lawsuit.

This is the due process gap: a payment system in which errors, overbreadth, and abuse of freeze authority have no mandatory remedy, no consistent timeline, and no private right of action for affected parties. The existing financial system, with all its limitations, provides account holders with notice of freezes, right to challenge in court, and regulatory oversight of the institutions administering the freeze. The stablecoin architecture, as currently legislated, provides none of these protections at the scale and in the form that the dominant transaction medium of the consumer economy requires.

Conclusion

The surveillance architecture embedded in the stablecoin payment layer is not incidental to the technology. It is constitutive of it. The permanent blockchain ledger, the smart contract freeze function, the government compliance mandate, the discretionary issuer censorship authority, and the extraterritorial reach of U.S. lawful orders combine to produce a transaction infrastructure in which every transaction is permanently and publicly recorded; every balance is subject to instantaneous private freeze; every freeze is potentially permanent pending issuer reversal on no mandated timeline; errors affecting innocent parties have no mandatory remedy; issuer-discretionary censorship operates beyond the lawful order framework with no external oversight; and foreign participants in dollar-denominated digital payment flows accept U.S. freeze authority as a condition of participation.

The legislation that constructed this architecture was justified in part by the argument that a public CBDC would enable government surveillance of individual transactions. The argument applies with greater force to the private architecture it produced, with the additional feature that the surveillance and censorship functions are administered by private entities with no constitutional accountability, no mandatory due process obligations, and no public oversight of their discretionary compliance decisions.

The consumer who holds stablecoins as a primary transaction medium has accepted a payment instrument in which the distinction between financial privacy and financial surveillance no longer exists in any operationally meaningful sense. The question the due process gap leaves open is not whether these conditions will produce an abuse of freeze authority. It is whether, when that abuse occurs at scale, there will be any legal mechanism capable of addressing it.

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The Accelerated Contradiction: Stablecoin Dollarization and the Compounded Triffin Dilemma

Abstract

Robert Triffin's 1960 analysis identified a structural contradiction inherent in any monetary system organized around a single national reserve currency: providing global liquidity through persistent deficits necessarily accumulates foreign claims against the issuer, eventually undermining confidence in the instrument that provides it. The stablecoin architecture enabled by the GENIUS Act does not resolve this tension. It accelerates it, adds a compounding feedback loop operating through T-bill demand rather than trade flows, and privatizes the seigniorage extracted from the process. This paper maps the compounded Triffin dilemma. The original deficit dynamic is accelerated by a T-bill captive buyer loop in which mandatory reserve requirements suppress Treasury borrowing costs, enabling fiscal expansion that re-injects dollars globally, which increases demand for dollar-denominated stablecoins, which creates further mandatory T-bill demand. This loop operates alongside the original trade deficit mechanism, not in place of it. Digital dollarization in emerging markets extends dollar reach into high-inflation economies while simultaneously destabilizing their monetary transmission, creating systemic fragility at the periphery of the global dollar system. The privatization of seigniorage to private stablecoin issuers rather than through public expenditure concentrates the political economy of dollar reserve status in entities whose incentive is adoption velocity, not systemic stability. The IMF has explicitly identified this dynamic. The paper concludes that the architecture simultaneously extends dollar network reach

and degrades the institutional credibility foundations that make that reach valuable: success and failure are not sequential outcomes but simultaneous ones.

The Original Dilemma

Robert Triffin, testifying before Congress in 1960, identified a structural contradiction inherent in any monetary system organized around a single national currency serving simultaneously as the global reserve. The country issuing the reserve currency must supply the world with sufficient liquidity to facilitate international trade and finance. It can only do this by running persistent balance of payments deficits, exporting more currency than it receives. But continuous deficits accumulate foreign dollar claims against U.S. assets. As those claims grow, confidence in the issuer's ability to honor them erodes. The very process of providing global liquidity seeds the eventual loss of confidence in the instrument providing it.

Triffin's analysis proved correct. The Bretton Woods system collapsed in 1971 under the weight of dollar claims accumulated through the Vietnam War and Great Society spending, exactly the fiscal overextension his dilemma predicted. The post-Bretton Woods dollar standard resolved the immediate convertibility problem by severing the gold link, but preserved the underlying tension: the dollar's global role requires the U.S. to export dollars through deficits, and those deficits accumulate as a growing overhang of U.S. obligations to the rest of the world.

The stablecoin architecture enabled by GENIUS does not resolve this tension. It accelerates it, adds a new compounding loop, and privatizes the seigniorage extracted from the process, while concentrating the political economy of the dollar's international role in the hands of two private companies with no public accountability for the systemic risks their growth generates.

The Compounding Loop

The original Triffin mechanism runs through trade deficits: the U.S. imports more than it exports, sending dollars abroad, meeting global demand, accumulating foreign claims. The stablecoin mechanism adds a parallel loop that operates through T-bill issuance rather than trade flows.

As established in Working Paper 1, stablecoin reserve requirements create a captive, price-inelastic demand base for U.S. Treasury instruments. Stablecoin issuers hold T-bills not because they are attractive at a given yield but because reserve compliance is mandatory. As stablecoin adoption scales globally, a process already underway at significant velocity, this demand base grows structurally and permanently.

The Treasury benefits: stablecoin reserve demand suppresses T-bill yields, reducing government borrowing costs regardless of the rate environment. Cheap borrowing enables fiscal expansion. Fiscal expansion re-injects dollars into the global economy. More dollars globally increase the perceived need for dollar-denominated instruments to hold them. More demand for dollar stablecoins requires more T-bill issuance to back them. The loop is self-reinforcing.

The compounding problem is that this mechanism accelerates the deficit dynamic that drives the original Triffin dilemma. The U.S. does not need to run trade deficits to supply the world with dollars in the stablecoin era; stablecoin issuers create dollar-denominated instruments from T-bills and distribute them globally. But the fiscal expansion that stablecoin reserve demand underwrites produces the same result: an ever-growing stock of U.S. dollar obligations outstanding in the world, backed by an ever-growing stock of U.S. government debt. The global dollar overhang grows faster, through a mechanism that bypasses the traditional discipline of trade account adjustment.

Tether and Circle already hold collectively more U.S. Treasury securities than Saudi Arabia, as documented in the IMF's July 2025 External Sector Report. The total stablecoin market stood at approximately $323 billion in May 2026, with Treasury Secretary Bessent projecting $3.7 trillion by the end of the decade. Stablecoin transaction volume reached approximately $33 trillion in 2025, exceeding Visa's annual payment volume of approximately $16.7 trillion and growing from a $565 billion baseline in 2020. As of May 2026, 99 percent of all stablecoins in circulation are dollar-denominated, dominated by

two private issuers, Tether and Circle, controlling approximately 84 percent of total market capitalization. The T-bill demand this generates is not yet at a scale that dominates the $30.8 trillion Treasury market, but the trajectory is one of exponential growth into a structurally significant share of sovereign debt demand.

Digital Dollarization and the Emerging Market Dimension

The geopolitical case for stablecoin dollarization is that it extends dollar reach into populations previously outside the dollar system, providing digital dollar access to individuals in high-inflation, capital-controlled, or underdollarized economies. The IMF's data confirms this is occurring. Stablecoin flows scaled to GDP are largest not in North America but in Africa, the Middle East, and Latin America, where they reach approximately 7-8 percent of GDP in some markets. Standard Chartered estimates that dollar-backed stablecoins could absorb $1 trillion from emerging market banks over three years, with stablecoin savings in 16 vulnerable countries, including Egypt, Pakistan, Turkey, India, Brazil, and South Africa, rising from $173 billion to $1.22 trillion by 2028.

The short-term dollar-strengthening argument is coherent: more global use of dollar instruments increases demand for dollars and dollar-denominated debt, reinforcing the reserve currency position and providing the "world banker" balance sheet dynamic the IMF describes. But the Triffin framework identifies precisely why this is not a stable long-run equilibrium.

Digital dollarization in emerging markets operates as an accelerated currency substitution mechanism. When populations in high-inflation economies hold dollar stablecoins rather than local currency, they are effectively withdrawing from their domestic monetary system. Local central banks lose monetary transmission; the same mechanism described domestically in Working Papers 1 and 4 operates in the EM context, but with even greater severity because EM central banks lack the institutional depth to adapt. Exchange rates come under structural depreciation pressure as local currency demand falls relative to dollar-denominated alternatives. Inflation in local currency terms rises, further accelerating substitution. The IMF has explicitly flagged that stablecoins can accelerate this currency substitution process by removing the friction that previously slowed it, opening a stablecoin wallet is faster than opening a dollar bank account.

The consequence for global financial stability is a gradual fragmentation of EM monetary systems, producing persistent instability in the periphery of the global dollar system. Fragility in EM economies is not isolated from dollar credibility. The 1997 Asian financial crisis, the 1998 Russian default, and the 2001 Argentine collapse each produced contagion effects that stressed dollar-denominated instruments globally. A wave of EM currency substitution facilitated by stablecoin dollarization, concentrating dollar exposure in economies without the institutional capacity to manage it, creates a systemic fragility profile that the dollar's reserve status cannot fully insulate against.

The Seigniorage Privatization Problem

The Triffin dilemma in its original form involved the U.S. government capturing seigniorage from dollar issuance: the difference between the cost of producing dollars and the goods and services those dollars command globally. That seigniorage financed U.S. deficits and subsidized consumption, creating the political economy incentive to maintain the reserve currency role even at the cost of the structural imbalances the role required.

In the stablecoin era, this seigniorage is privatized. Tether reported more than $10 billion in profits in 2025, profits derived primarily from the T-bill yield on its reserve holdings, paid for by the global dollar demand that reserve currency status generates. The IMF has directly identified this as a consequence of stablecoin growth: "the privatization of seigniorage by global actors," producing "significant wealth accumulation by what is likely, given the strength of network externalities, to be a few companies and individuals."

The political economy implications are significant. When the U.S. government captured seigniorage, the benefits flowed, however imperfectly, through public expenditure. The political constituency for maintaining the reserve currency role included the broad public that benefited from dollar exorbitant privilege. When seigniorage flows to two private companies, the political constituency for maintaining the reserve currency role concentrates in those companies and their investors. Their incentive is to maximize stablecoin adoption and T-bill demand regardless of the systemic consequences, including the fiscal overexpansion, monetary transmission failure, and EM instability described above.

The IMF flags the downstream political economy consequence explicitly: privatized seigniorage produces lobbying for "deregulation and opacity of international capital flows": exactly the regulatory environment that maximizes issuer profit at the expense of systemic transparency and policy coordination. This is not a speculative risk. It is the documented behavior of the crypto industry's existing political engagement, as described in Working Paper 3.

The Self-Undermining Architecture

The deepest dimension of the stablecoin Triffin problem is that the mechanism the architecture uses to extend dollar reach is identical to the mechanism that ultimately undermines reserve currency credibility.

Dollar reserve status rests on two foundations: the depth and liquidity of U.S. financial markets, and confidence in U.S. monetary credibility, the institutional capacity to manage inflation, maintain financial stability, and honor obligations. Stablecoin dollarization aggressively extends the first foundation: more global dollar transactions, more T-bill demand, deeper integration of the dollar into global digital payment infrastructure. It simultaneously degrades the second: monetary transmission failure (Working Paper 4), credit contraction (Working Paper 5), fiscal dominance through captive T-bill demand (Working Paper 1), and the surveillance and censorship architecture (Working Paper 7) that undermines confidence in the dollar as a neutral international settlement medium.

The historical precedent is the Eurodollar market, which the IMF notes is instructive. Eurodollar market capitalization grew from near zero in 1960 to more than $10 trillion by the 2020s. It extended dollar reach, deepened dollar usage globally, and contributed to U.S. financial dominance. It also created a pool of dollar liabilities outside the Fed's direct control, complicated monetary policy transmission, and generated the offshore dollar overhang that made the post-Bretton Woods system structurally fragile. Stablecoins are the Eurodollar market's digital successor, growing at 80 percent annually rather than over decades, administered by private entities with compliance obligations to the U.S. government but no accountability for the systemic dynamics their growth generates.

The dollar's reserve status has survived previous Triffin iterations because the U.S. retained the institutional credibility: the Fed's inflation-fighting reputation, the Treasury market's liquidity, the rule of law, that made dollar instruments worth holding despite accumulating deficits. The stablecoin architecture systematically degrades each of those credibility foundations while accelerating the deficit dynamic that creates the accumulation problem. It extends the dollar's network reach into the global economy at the precise moment it is dismantling the institutional foundations that make that reach credible.

The paradox is that success and failure are not sequential in this architecture. They are simultaneous. The more successful stablecoin dollarization is in its short-term dollar-extending function, the more rapidly it produces the fiscal, monetary, and institutional conditions that undermine the long-term credibility of the instrument being extended. The Triffin dilemma, in its stablecoin form, does not play out over decades as it did in Bretton Woods. The accelerated growth trajectory, the privatized political economy, and the simultaneous degradation of domestic monetary institutions compress the timeline considerably.

Conclusion

The standard rebuttal to Triffin-based dollar pessimism is that there is no credible alternative; no other currency has the depth, liquidity, and institutional backing to serve as a global reserve. This remains true as of May 2026. The euro, the renminbi, gold, and SDRs each have significant structural limitations as Bretton Woods successors. The dollar's incumbent advantage is real.

The rebuttal does not address the compounded version of the problem, however. The question is not whether the dollar faces an imminent successor. It is whether the stablecoin architecture accelerates the accumulation of the structural contradictions that have historically preceded reserve currency transitions, and whether the U.S., by privatizing seigniorage, delegating monetary transmission to private issuers, and prohibiting the public institutional alternative, has chosen to accelerate those contradictions at the moment of its greatest digital monetary opportunity.

The dollar may retain reserve currency status through this transition. If it does, it will do so with the fiscal architecture of a captured Treasury market, the monetary architecture of a severed transmission system, the banking architecture of a hollowed insured sector, and the political economy of a reserve currency whose benefits flow to a small number of private entities rather than the public whose institutional credibility underwrites the entire system.

That is Triffin's dilemma with private rather than public actors absorbing the privilege and the public absorbing the contradiction. The structure is the same. The accountability is not.

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The Invisible Tax: Property Treatment, Compliance Burden, and the Hidden Cost Layer of Stablecoin Adoption

Abstract

The GENIUS Act establishes a payment architecture designed to position stablecoins as functional equivalents of dollars in consumer transactions. The Internal Revenue Service, under authority established by Notice 2014-21 and extended by the 2024 digital asset regulations, classifies stablecoins as property. These two frameworks are in direct and unresolved conflict, and the conflict is resolved entirely at the consumer's expense. This paper identifies and analyzes the specific tax mechanisms through which the conflict manifests: the per-transaction taxable event created by the property classification for every stablecoin payment; the unresolved valuation problem for issuer-controlled reward tokens classified as ordinary income; the double taxation structure applied to stablecoin wages; and the 1099-DA reporting framework that addresses only the custodial transaction layer while leaving peer-to-peer and on-chain direct-payment transactions outside its scope. The compliance burden these mechanisms create scales with transaction frequency rather than transaction value, rendering routine daily stablecoin use administratively unworkable for individual consumers without paid software subscriptions or professional assistance. The intermediary compliance ecosystem that has emerged to manage this burden represents a structural cost of the stablecoin payment architecture that does not exist in the traditional dollar system. The legislative packages that constructed the stablecoin regulatory framework, GENIUS and CLARITY, did not address tax treatment. The resulting gap systematically disadvantages the consumers

these frameworks claim to protect while leaving stablecoin issuers operationally unaffected.

The Foundational Mismatch

The GENIUS Act constructs a legal and regulatory framework for stablecoins as payment instruments, instruments designed to function like dollars in consumer transactions. The Internal Revenue Service, operating under authority established by Notice 2014-21 and extended by the 2024 digital asset regulations, classifies stablecoins as property. These two frameworks are in direct and unresolved conflict.

A payment instrument that functions like a dollar but is taxed like a share of stock creates a compliance obligation for every transaction that no participant in the traditional dollar payment system faces. When a consumer pays for groceries with a debit card, there is no taxable event. When the same consumer pays for groceries with USDC, the IRS requires them to calculate the gain or loss on the disposal of that USDC: the difference between the cost basis at acquisition and the fair market value at the moment of payment. The gain may be $0.002. It is still legally required to be reported. There is no de minimis exemption for stablecoin transactions under current law.

GENIUS creates the payment architecture. The IRS creates the compliance burden. Neither framework addresses the other. The consumer is caught between them.

The Per-Transaction Taxable Event Problem

The property classification means that every stablecoin disposal is a taxable event. The IRS definition of disposal is broad: selling stablecoins for fiat currency, exchanging one stablecoin for another, swapping stablecoins for any other cryptocurrency, and using stablecoins to pay for goods or services. Each of these events requires the taxpayer to determine the cost basis of the disposed stablecoins, calculate the gain or loss, classify it as short-term or long-term depending on holding period, and report it on Form 8949.

For a consumer whose primary transaction medium is a stablecoin, this means that every daily transaction, coffee, transportation, rent, utilities, groceries, is a taxable event requiring individual cost-basis tracking and gain/loss calculation. The gains on individual transactions are typically de minimis in dollar terms because stablecoins are pegged to one dollar. A $4.50 coffee paid with 4.50 USDC acquired at $1.0000 and disposed at $1.0001 produces a $0.00045 capital gain. Under current law, this must be reported.

There is no de minimis exemption for stablecoin transactions in U.S. tax law as of 2025. This is not an oversight that will be corrected by regulatory guidance, it is a statutory gap requiring legislative action. For comparison, Internal Revenue Code Section 988 provides a $200 de minimis exemption for personal foreign currency transactions, recognizing that requiring taxpayers to track gains on small currency conversions is administratively unworkable. No equivalent provision applies to stablecoins. The IRS treats a USDT-to-USDC swap, two dollar-pegged instruments exchanging at effectively identical values, as a fully taxable disposal event, requiring cost-basis tracking and gain/loss reporting for both legs.

The compliance obligation does not scale proportionally with the transaction value. It scales with transaction frequency. A consumer making 10 stablecoin transactions per day generates 3,650 potentially reportable events per year, each requiring cost-basis identification under the per-wallet tracking rules that became mandatory on January 1, 2025 (Revenue Procedure 2024-28). A consumer making 50 transactions per day, well within the range of normal payment card usage, generates 18,250 reportable events annually. The administrative burden of accurate per-transaction cost-basis tracking at this frequency is not manageable by individuals without automated software tools, ongoing subscription costs, and some baseline level of tax literacy that cannot be assumed across the population the architecture claims to serve.

The Reward Token Layer: An Unresolved Valuation Problem

Working Paper 1 established that the reward token layer is where purchasing power erosion actually enters the stablecoin architecture; issuers over-incentivize adoption by distributing reward tokens whose value they control unilaterally. Working Paper 9 adds the

tax dimension: reward tokens received by consumers are taxable as ordinary income at fair market value at the time of receipt.

The valuation problem is immediate. Reward tokens issued by stablecoin platforms are not publicly traded instruments with observable market prices. They are issuer-defined credits redeemable for platform-specific benefits, bill discounts, merchant rewards, access privileges. The IRS requires that ordinary income be recognized at fair market value. For a liquid, publicly traded asset, fair market value is observable. For an illiquid, non-traded reward token whose redemption value is set by the issuer and whose secondary market does not exist, fair market value is a legal fiction requiring individual taxpayer determination with no authoritative guidance.

There is no IRS ruling, revenue procedure, or notice that addresses the tax treatment of non-traded issuer-controlled reward tokens specifically. The general principles applying to property received as compensation, fair market value at receipt and ordinary income treatment, apply facially. But if the issuer sets the reward token's notional value at, say, 10 cents per unit and distributes 1,000 units as adoption incentive, the IRS has no established methodology for verifying, challenging, or standardizing that valuation. The taxpayer is required to report ordinary income on an asset whose value is determined by the party with the greatest interest in minimizing that value for competitive purposes and maximizing it for the purposes of appearing generous.

The dual-nature problem compounds this. A consumer who receives 1,000 reward tokens as ordinary income at $0.10 per token reports $100 of ordinary income and establishes a $100 cost basis. When those tokens are redeemed for $80 in bill discounts, the consumer has realized a $20 capital loss on top of the $100 ordinary income already recognized. Two separate tax events arise from a single adoption incentive. Neither is practically trackable by the consumer who received the tokens without professional assistance.

This architecture systematically generates tax obligations at the point of maximum consumer vulnerability, the adoption phase when consumers have been over-incentivized to convert dollars to stablecoins and reward tokens, before the network effects that would justify the switch have materialized, and before the compliance infrastructure exists to manage the resulting obligations.

The Double Taxation Structure of Stablecoin Wages

Working Paper 3 identified the labor vector through which stablecoin compensation reaches employees: first through gig and contractor classification, then potentially through lobbying-enabled extension to W-2 employees. The tax dimension of this pathway adds a layer the labor analysis did not fully develop.

An employee receiving wages in USDC is taxed twice on the same value. The employer reports the fair market value of the USDC at the time of payment on the W-2 as ordinary wage income, subject to income tax, FICA, and self-employment tax where applicable. The employee recognizes ordinary income at that value. That value becomes the cost basis of the USDC received. When the employee spends that USDC on groceries, rent, or transportation, they recognize a second event: the capital gain or loss between the cost basis established at receipt and the fair market value at disposal.

Because USDC is pegged to the dollar, the second event typically produces a gain or loss of fractions of a cent. But it produces a reportable event that must be tracked, calculated, and filed. An employee receiving a monthly stablecoin salary and spending it over the course of the month may generate dozens or hundreds of individually reportable events on a paycheck that has already been fully taxed as ordinary income. The employee is not taxed twice on the same dollar amount; the capital gain is typically negligible, but they face compliance obligations on every subsequent disposal that cash wages would never generate.

This compliance burden falls asymmetrically. A high-income professional with access to tax software and accounting services can manage it. A low-wage worker paid in stablecoins, exactly the population described in Working Paper 3's company town endpoint, cannot. The compliance cost in time, software subscription fees, and potential professional assistance is a regressive tax on stablecoin adoption, falling heaviest on the workers least equipped to bear it and least able to model it when making compensation decisions.

The 1099-DA Framework and the Illusion of Enforcement

Beginning January 1, 2025, brokers, including custodial stablecoin platforms, digital asset exchanges, and hosted wallet providers, are required to report gross proceeds from stablecoin transactions on Form 1099-DA. Cost basis reporting was added for transactions beginning January 1, 2026. The IRS has framed this as a compliance improvement, providing taxpayers with the information they need to file accurately.

The 1099-DA framework addresses the institutional transaction layer, custodial platforms where brokers can be defined and identified. It does not address direct peer-to-peer stablecoin transactions, DeFi protocol interactions, or smart contract-mediated payments. As the architecture scales and consumers use stablecoins for daily purchases at merchants accepting on-chain payments directly, a growing share of transactions occurs outside the custodial framework where 1099-DA reporting applies.

The IRS has estimated, citing an internal study, that approximately 75 percent of taxpayers with digital assets were noncompliant with reporting requirements in 2023, before the 1099-DA framework existed, before GENIUS formalized stablecoin adoption, and at adoption levels a fraction of those projected for 2030. Mass non-compliance at current adoption scales will not be resolved by 1099-DA reporting for custodial transactions alone. It will escalate proportionally with adoption, producing a growing population of technically non-compliant stablecoin users who are unaware of their obligations, unable to meet them practically, or unable to afford the compliance infrastructure required to do so.

The enforcement asymmetry mirrors the broader power asymmetry of the architecture. Stablecoin issuers, with compliance officers, legal teams, and direct regulatory relationships, face manageable BSA and AML reporting obligations. Individual consumers transacting daily in stablecoins face theoretically unlimited per-transaction reportable events with no institutional support, no employer withholding, and no de minimis protection. The compliance cost falls entirely on the consumer. The issuer captures the float.

The Intermediary Ecosystem: A Hidden Tax on Adoption

The compliance burden described above is not absorbed by consumers silently. It is partially transferred to a new layer of intermediaries: crypto tax software providers, digital asset accountants, and compliance platforms, whose existence represents a structural cost of the stablecoin payment architecture that does not exist in the traditional dollar payment system.

A consumer using a bank account for all transactions faces no per-transaction tax compliance obligation beyond the annual reporting of interest earned. A consumer using stablecoins as a primary payment medium faces per-transaction capital gain/loss tracking, ordinary income recognition on reward tokens, cost-basis identification under the per-wallet methodology, potential quarterly estimated tax payments on accumulated micro-gains, and annual filing complexity that requires either significant personal time or paid professional assistance.

The market for crypto tax compliance software is growing at rates consistent with the adoption trajectory described in Working Paper 8. It is not a speculative market. It is an operational response to a documented compliance burden. Subscriptions to platforms like Koinly, CoinTracker, TurboTax Crypto, and comparable tools represent a direct tax on stablecoin adoption paid not to the government but to the intermediary layer that exists solely because the tax framework and the payment framework are not aligned.

This cost is invisible in standard analyses of stablecoin adoption economics. The reward token benefits offered during the adoption phase are visible. The compliance costs they generate are not. A consumer who receives $100 in reward token value over the course of a year and pays $120 for the crypto tax software required to report the associated ordinary income events has experienced a net negative outcome from the adoption incentive that cannot be recovered.

The intermediary ecosystem is not neutral. It is a rent on the gap between what the payment architecture requires and what the tax architecture permits, paid by consumers and captured by compliance intermediaries, a third category of private beneficiary of the stablecoin legislative framework, alongside issuers and large institutional banks.

The Legislative Gap and Partial Proposals

The tax treatment mismatch is not unrecognized. Senator Cynthia Lummis has introduced legislation proposing to leave staking and reward income untaxed until the underlying asset is sold, deferring recognition until the taxpayer has realized a liquid gain. House proposals have sought a five-year deferral window. Industry advocates have called for a de minimis exemption modeled on the IRC Section 988 foreign currency rule.

None of these proposals has been enacted as of May 2026. The GENIUS Act addressed reserve requirements, issuer licensing, BSA compliance, and consumer protection; it did not address tax treatment. CLARITY addressed market structure and SEC/CFTC jurisdiction; it did not address tax treatment. The legislative packages that constructed the entire stablecoin regulatory framework were passed without resolving the foundational tax architecture question that determines whether the framework is practically functional for the consumers it claims to protect.

The political economy of this gap is informative. Resolving the tax treatment in favor of consumers, through de minimis exemption, currency treatment for dollar-pegged stablecoins, or deferred recognition of reward tokens, reduces IRS revenue and requires Treasury cooperation. The same political spending infrastructure that produced GENIUS and CLARITY has not mobilized with equivalent intensity around tax reform, because the current tax treatment does not harm issuers. It harms consumers. Issuers face no per-transaction reportable events. They have every incentive to advocate for the payment architecture and no commensurate incentive to advocate for the tax reform that would make the payment architecture practically usable by the consumers they are acquiring.

Conclusion

The stablecoin tax framework as it currently operates imposes a hidden cost structure that no participant in the traditional dollar payment system faces. Every consumer stablecoin transaction is a taxable event with no de minimis threshold. Reward tokens are ordinary income at an issuer-determined value with no IRS valuation guidance. Stablecoin wages are taxed twice, as ordinary income at receipt and as capital gain or loss on every subsequent disposal. Compliance obligations scale with transaction frequency, not

transaction value. Mass non-compliance is structurally embedded at current adoption levels and will worsen proportionally with adoption growth. An intermediary compliance ecosystem captures rent on the gap between payment and tax frameworks, payable by consumers. The legislative packages that constructed the payment architecture did not address the tax architecture, because the mismatch harms consumers but not issuers.

The GENIUS Act creates a payment system designed to replace dollars in everyday consumer transactions. The IRS tax framework makes every transaction in that payment system more administratively burdensome than the dollar transactions it replaces. The combined effect is a hidden tax on adoption, borne by consumers, invisible in the legislative record, unaddressed by the framework that created it, and growing in proportion to the success of the architecture the framework was designed to enable.

The tax treatment question will not resolve itself through regulatory guidance. It requires statutory action. The same legislative infrastructure that constructed the GENIUS Act's payment architecture in the absence of a de minimis exemption is the infrastructure that would need to create one. The political economy that produced the gap is the political economy that must close it. As of May 2026, neither the incentive nor the legislative momentum for that closure exists.

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Dollar Displacement: The Monetary, Fiscal, and Civil Architecture of the GENIUS and CLARITY Acts

The Cantillon Institute *Working Paper No. 10: Synthesis Whitepaper T.H. Thornton May 2026*

Abstract

The Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act, Pub. L. No. 119-27, 2025) and the Digital Asset Market Clarity Act of 2025 (H.R. 3633, CLARITY Act) together constitute the first comprehensive U.S. federal framework for digital assets. This paper argues that the combined legislative architecture produces nine compounding structural failures: dollar displacement from consumer circulation, captive Treasury financing enabling fiscal dominance by accident, severance of Federal Reserve monetary policy transmission, destruction of bank-based credit creation, regulatory arbitrage that hollows the insured banking system, a labor compensation vector that bypasses wage payment law, a permanent surveillance and censorship infrastructure administered by private entities without constitutional constraint, acceleration of the Triffin dilemma through privatized seigniorage, and an unresolved tax compliance burden that imposes a hidden regressive cost on adoption. These failures are not independent; they compound each other through mechanisms that are self-reinforcing and, at sufficient scale, difficult to reverse. The paper presents the three strongest counter-arguments to this analysis, dollar dominance extension, private innovation efficiency, and regulatory adaptation, and rebuts each on structural grounds. It concludes with five legislative interventions that would address the core failures without prohibiting stablecoin development.

1. Introduction

The GENIUS Act was signed into law on July 18, 2025, following passage in the Senate by a vote of 68 to 30 and in the House by 308 to 122. The CLARITY Act passed the House on the same day and awaits Senate consideration. Both bills were developed in close consultation with the crypto industry, which spent approximately $119 million on federal electoral campaigns in the 2024 cycle, nearly five times its 2022 spending and twenty times its 2020 spending, primarily through Fairshake PAC, funded primarily by Coinbase, Ripple, and Andreessen Horowitz (Public Citizen, 2024; Belfer Center, 2024).

The stated purposes of the legislation are consumer protection, financial stability, and reinforcement of dollar dominance. This paper accepts that these are the intended purposes. It argues that the actual architecture produces systematically opposite outcomes across monetary policy, fiscal stability, credit creation, labor protection, privacy, geopolitical positioning, and tax equity; and that the mechanisms through which these outcomes are produced are structural, not contingent on implementation quality or regulatory interpretation.

This paper synthesizes nine preceding working papers produced by the Cantillon Institute (Thornton, 2026a–i) and draws on primary legislative text, Federal Reserve research, IMF analysis, Bank for International Settlements working papers, Bank Policy Institute studies, and current regulatory data. Citations follow APA format throughout.

This paper is a critique of legislative design, not of digital currency as a concept. Stablecoin technology has legitimate applications in payment efficiency, financial inclusion, and cross-border settlement. The argument is that the specific choices made in GENIUS and CLARITY: yield prohibition, reserve requirements without credit creation capacity, non-bank regulatory arbitrage, mandatory freeze infrastructure, CBDC prohibition, and the absence of tax framework coordination, produce a set of compounding structural failures that the legislation's stated purposes do not address and in several cases actively contradict.

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2. The Legislative Architecture

2.1 The GENIUS Act

The GENIUS Act establishes the first federal framework for "payment stablecoins," digital assets pegged to the U.S. dollar and intended for use as a means of payment or settlement. Key provisions include mandatory 1:1 reserve backing in specified high-quality liquid assets (U.S. dollars, short-duration Treasury instruments, overnight repurchase agreements, and qualifying money market fund shares); prohibition on yield or interest payments to stablecoin holders; mandatory technical capability to freeze, seize, or burn stablecoins pursuant to lawful orders; Bank Secrecy Act treatment of all permitted payment stablecoin issuers; and a dual federal-state licensing pathway with the Stablecoin Certification Review Committee (SCRC) governing state framework certification.

Non-bank issuers are eligible for federal qualification through the OCC. Issuers below $10 billion in outstanding issuance may operate under certified state regimes. The act explicitly exempts stablecoin issuers from the regulatory capital standards applicable to traditional banks. No Community Reinvestment Act obligations apply to non-bank issuers. The act does not address the tax treatment of stablecoins, the IRS property classification, or the per-transaction compliance burden on consumers.

2.2 The CLARITY Act

The Digital Asset Market Clarity Act of 2025 defines the jurisdictional boundary between the Securities and Exchange Commission and the Commodity Futures Trading Commission for digital assets. It establishes that digital assets that have achieved sufficient decentralization are digital commodities subject to CFTC jurisdiction, while those that retain characteristics of investment contracts remain securities subject to SEC jurisdiction. Payment stablecoins as defined in GENIUS are excluded from both securities and commodity definitions, creating a jurisdictional carve-out from SEC and CFTC oversight for the dominant consumer transaction instrument.

2.3 The Complementary Prohibitions

Executive Order 14178 (January 23, 2025) prohibited federal agencies from establishing, issuing, or promoting central bank digital currencies. The Anti-CBDC Surveillance State Act (H.R. 1919, passed by the House July 17, 2025) would enshrine this prohibition in

statute, preventing the Federal Reserve from issuing a CBDC directly to individuals. Both actions occurred during the same legislative period as GENIUS and CLARITY, collectively prohibiting public monetary digital infrastructure while enabling and legitimizing private monetary digital infrastructure simultaneously.

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3. Dollar Displacement, Not Debasement

The prevailing critique of stablecoin legislation frames the risk as dollar debasement, a weakening of the dollar's intrinsic value. This framing is imprecise and leads to the wrong policy responses. The mechanism embedded in GENIUS is dollar *displacement*: the dollar does not weaken, it retreats upstream, becoming an interbank and reserve settlement instrument that individuals can no longer practically access or hold (Thornton, 2026a).

When a stablecoin issuer mints a dollar-pegged token, the backing dollar is locked into Federal Reserve reserves or short-duration Treasury instruments. It does not circulate. The consumer transacts in stablecoins. The dollar persists in the system but moves to the institutional layer, out of consumer reach.

The GENIUS Act accelerates this displacement through its yield/rewards distinction. Both acts prohibit stablecoin issuers from paying yield, a return on balance, while permitting rewards for activity, a return on balance routed through an issuer-controlled instrument. Economically, these are identical transfer mechanisms. The legal label changes; the incentive structure does not. The practical consequence is that issuers can over-incentivize adoption during the land-grab phase, distributing bill discounts, gift cards, and access privileges redeemable through reward tokens whose value the issuer sets unilaterally, without the regulatory constraint that applies to yield (Thornton, 2026a).

The initial adoption phase is designed to feel frictionless and generous. Consumers are over-rewarded to accelerate dollar-to-stable conversion. Once the network effect is established, the transition is effectively irreversible: the consumer holding stablecoins as their primary transaction medium is already displaced from the dollar layer.

A debased dollar is still the consumer's dollar. A displaced dollar is a dollar the consumer can no longer hold.

4. The Fiscal Mechanism: Captive Treasury Financing

Stablecoin reserve requirements create a captive, price-inelastic buyer base for U.S. Treasury Bills. Stablecoin issuers do not purchase T-bills because they are attractive at a given yield. They purchase them because reserve compliance is mandatory. As stablecoin adoption scales, this demand becomes massive and structurally permanent.

Tether holds approximately 64 percent of its reserves in U.S. Treasuries and Circle holds approximately 34 percent in Treasuries and 51 percent in Treasury-backed repurchase agreements (Federal Reserve Board, 2025). Tether and Circle collectively hold more U.S. Treasury securities than Saudi Arabia, as documented in the IMF's July 2025 External Sector Report (International Monetary Fund, 2025). With Treasury Secretary Bessent projecting the stablecoin market at $3.7 trillion by the end of the decade, the T-bill demand this generates becomes structurally dominant in short-duration debt markets.

The Treasury benefits: stablecoin reserve demand suppresses T-bill yields regardless of the rate environment. Cheap borrowing enables increased fiscal spending. That spending re-enters the economy as new dollar supply, an inflationary channel that is fiscal, not monetary, and therefore unreachable by conventional monetary policy tools (Thornton, 2026a).

The conventional monetary transmission breaks at two points simultaneously. The Fed raises rates. Banks earn more on reserves backing stablecoins. Stablecoin holders see nothing, yield is prohibited by statute. Consumer spending behavior is insulated from rate increases. Simultaneously, the Treasury's access to cheap financing through captive stablecoin reserve demand is unaffected by rate hikes, stablecoin issuers absorb T-bill supply at any yield. Fiscal spending continues regardless of the rate environment (Thornton, 2026d).

This is fiscal dominance achieved by structural accident rather than legislative design. Congress did not intend to subordinate monetary policy to fiscal spending. The reserve requirement architecture produces that outcome as a mechanical consequence.

5. Monetary Policy Transmission Failure: IOR and ON RRP

Federal Reserve Chair Jerome Powell has stated that if the Fed loses the ability to pay interest on reserves, it loses control of interest rates. The GENIUS Act does not destroy the Interest on Reserve Balances (IORB) channel between the Fed and the banking sector. Reserves backing stablecoins remain on the Fed's balance sheet. Banks still earn IORB.

The break occurs one step downstream. The reserve earns IORB at the Fed. The bank intermediates it into a stablecoin. The stablecoin holder earns nothing, yield payment is prohibited. The policy rate signal propagates to banks and terminates there by statute, before reaching consumers (Thornton, 2026d).

The Overnight Reverse Repurchase Agreement (ON RRP) facility, which sets the floor on short-term interest rates, faces three compounding vulnerabilities. First, money market funds, the primary ON RRP counterparties, face competitive displacement from stablecoins for consumer and institutional cash. Smaller MMFs mean reduced ON RRP counterparty depth; the floor weakens through reduced participation. Second, captive stablecoin reserve demand suppresses T-bill yields independently of the ON RRP rate, degrading the facility's signal integrity. Third, stablecoin reserve requirements create structurally immobile holdings that cannot be cycled through ON RRP operations without disrupting reserve compliance; the facility loses operational flexibility (Thornton, 2026d; New York Federal Reserve, 2025).

The ON RRP facility already collapsed from $2.55 trillion in late 2022 to near-zero balances by 2025, a development analysts have described as the removal of a systemic stabilizer rather than evidence of normalization (Savvy Wealth, 2025). The stablecoin architecture prevents future rebuilding of these buffers by redirecting excess cash into stablecoin reserve structures.

Powell's warning, lose IOR and lose rate control, understates the problem. The GENIUS Act does not eliminate IOR. It constructs a system where IOR is preserved at the institutional layer and made irrelevant at the consumer layer by statute. The Fed retains its instruments. The instruments no longer reach the economy they are designed to govern.

6. Credit Creation Collapse and the CBDC Foreclosure

Traditional banking creates money through lending: deposits fund loans, loans create deposits, credit expands. Stablecoins are 100 percent reserved. They do not lend. The GENIUS Act explicitly limits permitted reserve investments to a narrow class of instruments, none of which constitute real economy credit creation (Bank Policy Institute, 2025a).

The Federal Reserve's own research division estimates that stablecoin adoption would reduce bank deposits and lending by between $65 billion and $1.26 trillion, with the upper bound occurring if stablecoin issuers gain direct Fed master account access (Wang, 2025). The American Bankers Association has identified $6.6 trillion in deposits as structurally at risk. The European Central Bank, analyzing the same dynamic for the euro area, found statistically significant evidence that increases in stablecoin attention cause declines in retail deposit ratios and contractions in bank lending to firms (ECB Working Paper 3199, 2025).

The simultaneous pressure of fiscal inflation from the captive T-bill loop and credit contraction from deposit migration produces stagflationary conditions, rising prices alongside contracting real output, that no conventional policy framework can address with a single instrument. The Fed's tools address inflation or contraction. The architecture produces both simultaneously, by structural design (Thornton, 2026e).

At the same moment the architecture creates the conditions that a public central bank digital currency could remedy: restoring direct consumer transmission, eliminating private seigniorage extraction, providing deposit insurance equivalence, Executive Order 14178 and the Anti-CBDC Surveillance State Act prohibited that instrument. The prohibition was enacted during the same legislative week as GENIUS and CLARITY (Thornton, 2026e).

More than 130 countries are developing central bank digital currencies. China's digital yuan is operational. The European Central Bank is in active preparation phases for a digital euro. The United Kingdom, India, and Brazil have active development programs. The United States has foreclosed the public monetary infrastructure option at the precise

moment its competitors are building sovereign digital monetary capacity, and at the precise moment the domestic architecture has created the structural problems that a public instrument would address (Thornton, 2026e).

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7. Banking System Hollowing and Regulatory Arbitrage

The GENIUS Act creates a structural asymmetry between two classes of dollar-denominated instrument issuers competing for the same consumer deposits. Traditional insured depository institutions carry FDIC insurance premiums, Community Reinvestment Act obligations, Basel-aligned capital requirements, and Bank Holding Company Act provisions. Non-bank stablecoin issuers carry none of these obligations in equivalent form (Thornton, 2026f).

The GENIUS Act explicitly exempts stablecoin issuers from the regulatory capital standards applicable to traditional banks. No CRA obligations apply. No FDIC premiums are assessed. The competitive cost differential is structural, not operational: non-bank issuers can offer superior incentive structures at lower cost because they have shed the compliance overhead that banks carry, while competing for the same deposit base.

The CRA dimension is quantitatively significant. According to the National Community Reinvestment Coalition, CRA-qualifying mortgages and small business loans totaled nearly $5 trillion between 2010 and 2024. In 2023 alone, CRA lending accounted for approximately $387 billion in small business and community development loans, representing roughly 77 percent of outstanding small business loan dollars and 35 percent of outstanding farm loans (Progressive Policy Institute, 2025). Stablecoin reserve accumulation without CRA obligation does not merely create a competitive imbalance. It directly reduces the funding base for the community lending the CRA framework depends on.

The $10 billion threshold for state regime regulation introduces a second-order arbitrage: state regulatory competition for stablecoin issuers creates race-to-the-floor dynamics in the sub-threshold tier, where issuers operate under the most permissive certified framework available. The unanimity requirement for SCRC certification, requiring agreement among Treasury, the Federal Reserve, and the FDIC, creates pressure toward

approval rather than denial, as Treasury benefits directly from T-bill demand that stablecoin adoption generates (Thornton, 2026f).

The public franchise of money creation has historically carried obligations that follow the function. Banks exercise a public function: creating money, allocating credit, operating payment infrastructure, and in exchange accept public obligations. Non-bank stablecoin issuers exercise the same function under GENIUS without the full terms of the license. The regulatory asymmetry is not a feature of a modernized framework. It is a subsidy to private actors exercising a public function, paid through avoided obligations (Thornton, 2026f).

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8. The Labor Vector

The wage payment law firewall against stablecoin compensation, requiring wages to be paid in U.S. currency or equivalent, applies exclusively to employees. Independent contractors classified as 1099 workers have no legal tender protection for their compensation. The entire gig and creator economy, Uber, DoorDash, YouTube, TikTok, Twitch, and comparable platforms, already operates outside this protection by design (Thornton, 2026c).

Statutes requiring wage payment in lawful money of the United States or equivalent include California Labor Code Section 212, the Illinois Wage Payment and Collection Act (820 ILCS 115/4), Maryland Code Annotated Labor and Employment Section 3-502, Pennsylvania's Wage Payment and Collection Law (43 P.S. 260.3), and equivalent statutes in Washington, Georgia, Delaware, Michigan, New Jersey, and Texas. These protections cover employees. They do not reach independent contractors (Fisher Phillips, 2024; Morrison Foerster, 2022).

The normalization sequence from gig adoption to employee extension follows four phases: voluntary opt-in framing with over-incentivization during the adoption phase; normalization of non-dollar compensation across tens of millions of gig and freelance workers; the legislative argument for employee extension, financed by the same Citizens United-enabled corporate political spending infrastructure that produced GENIUS; and

potential preemption of state wage payment laws through federal recognition of stablecoins as legitimate payment instruments (Thornton, 2026c).

California's Proposition 22 (2020), which overturned AB5's reclassification of gig workers as employees at a cost of over $200 million in platform spending, preserved the contractor classification that is now the primary legal gateway to non-dollar compensation at scale. This was not coordinated in anticipation of stablecoin legislation. The contractor classification defense was adequate on its own terms in 2020. The structural consequence, that it preserved the legal architecture through which stablecoin compensation could eventually be deployed across the platform labor workforce, is real regardless of whether it was foreseen (Thornton, 2026c).

If a corporation pays wages in its own stablecoin, the T-bill float on outstanding wage balances accrues to the employer. Payroll becomes a seigniorage engine. Every dollar of deferred, held, or unspent employee compensation generates yield for the company, not the worker. This is the structural logic of the company town, legally enabled by the combination of contractor classification, GENIUS's reward architecture, and the absence of a federal wage payment law extending to stablecoin-denominated compensation (Thornton, 2026c).

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9. The Surveillance Architecture

The GENIUS Act requires all permitted payment stablecoin issuers to maintain the technical capability to freeze, seize, or burn stablecoins pursuant to lawful orders. This is not a discretionary feature; it is a statutory mandate. Issuers lacking this capability cannot operate in the United States (Pub. L. No. 119-27, sec. 4, 2025).

The legislation that prohibited a central bank digital currency on grounds of surveillance risk simultaneously constructed a transaction architecture with greater surveillance capacity than any CBDC proposal preceding it. The argument that stablecoins protect privacy where CBDCs would not depends on a definition of privacy that excludes permanent public transaction records, private issuer freeze authority, mandatory government compliance infrastructure, and retroactive surveillance capacity available to any party with technical access to a public blockchain (Thornton, 2026g).

The freeze function is embedded at the token contract level. When Circle or Tether blacklists a wallet address, funds become immediately non-transferable: no pending state, no grace period, no appeal process in the code. The condition persists until the issuer explicitly reverses it, on no mandated timeline, through no standardized process. Tether has blacklisted more than 7,268 addresses, freezing approximately $3.29 billion in assets, coordinating with more than 275 law enforcement agencies in 59 jurisdictions. Circle has blacklisted approximately 372 addresses, freezing roughly $109 million in USDC (AMLBot, 2026).

In March 2026, Circle executed a mass blacklist action against 16 wallet addresses in response to a sealed civil court order, not a criminal proceeding, not an OFAC sanction, that included the ckETH Minter Smart Contract operated by the DFINITY Foundation: public bridge infrastructure used by thousands of users with no connection to the underlying civil matter. The freeze was based on automated transaction graph cluster analysis. It was reversed within days under public pressure, reflecting the absence of a standardized reversal process rather than its presence (AMLBot, 2026; Coinspeaker, 2026).

Research by Range Security (2025) found that in multiple cases, addresses were blacklisted before OFAC issued formal designations; the issuer moved preemptively based on internal risk models with no external oversight, no public disclosure, and no judicial review.

Bank account freezes in the United States require a court order specifying the account holder and basis, with the holder receiving notice and the right to challenge. No equivalent due process protection applies to stablecoin freezes under GENIUS. The "reasonable particularity" requirement for freeze orders has not been litigated at the scale where public infrastructure is caught in civil freeze actions affecting thousands of unrelated users (Thornton, 2026g).

The auditable and the censorable are the same technical feature. A transaction ledger that is permanently readable is permanently censorable. GENIUS constructs a consumer transaction architecture in which every transaction is publicly recorded in perpetuity, every balance is subject to instantaneous private freeze without judicial process, and

foreign participants in dollar-denominated payment flows must accept U.S. freeze and seizure authority as a condition of market access.

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10. The Triffin Dilemma Compounded

Robert Triffin's 1960 analysis identified the structural contradiction in any monetary system organized around a single national reserve currency: the issuing country must run persistent deficits to supply global liquidity, and those deficits accumulate as a growing overhang of obligations that eventually erodes confidence in the instrument being supplied (Triffin, 1960).

The stablecoin architecture adds a compounding loop. Stablecoin reserve requirements create captive T-bill demand. That demand suppresses borrowing costs regardless of the rate environment. Cheap borrowing enables fiscal expansion. Fiscal expansion re-injects dollars globally. More dollar supply increases the perceived need for dollar-denominated instruments. More stablecoin demand requires more T-bills. The loop is self-reinforcing and operates faster than the trade deficit mechanism of the original Triffin dilemma (Thornton, 2026h).

As of May 2026, 99 percent of all stablecoins in circulation are dollar-denominated, with the total market at approximately $323 billion. Stablecoin transaction volume reached approximately $33 trillion in 2025, exceeding Visa's annual payment volume (LSE Business Review, 2026). Standard Chartered estimates that dollar-backed stablecoins could absorb $1 trillion from emerging market banks over three years (FXStreet, 2026).

In emerging markets, stablecoin dollarization operates as an accelerated currency substitution mechanism. The IMF has found that stablecoin flows scaled to GDP are largest in Africa, the Middle East, and Latin America, approximately 7-8 percent of GDP in some markets (International Monetary Fund, 2025a). Local central banks lose monetary transmission to the same mechanism described domestically, but with less institutional capacity to adapt.

The seigniorage that historically flowed to the U.S. government, subsidizing public expenditure and creating a broad political constituency for maintaining reserve currency

status, now flows to two private companies. Tether reported more than $10 billion in profits in 2025. The IMF has directly identified this as "the privatization of seigniorage by global actors," producing "significant wealth accumulation by what is likely, given the strength of network externalities, to be a few companies" (Rey, 2025).

The dollar may retain reserve currency status through this transition. If it does, it will do so with the fiscal architecture of a captured Treasury market, the monetary architecture of a severed transmission system, the banking architecture of a hollowed insured sector, and the political economy of a reserve currency whose structural benefits flow to a small number of private entities rather than the public whose institutional credibility underwrites the entire system. That is Triffin's dilemma with private actors absorbing the privilege and the public absorbing the contradiction (Thornton, 2026h).

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11. The Tax Compliance Layer

The IRS, operating under authority established by Notice 2014-21 and extended by the 2024 digital asset regulations (Treasury Decision 10000), classifies stablecoins as property. Every stablecoin disposal, selling for fiat, swapping for another cryptocurrency, using to pay for goods or services, is a taxable event requiring cost-basis tracking, gain/loss calculation, and Form 8949 reporting (Internal Revenue Service, 2025a).

There is no de minimis exemption for stablecoin transactions under current law. Internal Revenue Code Section 988 provides a $200 de minimis for personal foreign currency transactions, recognizing that per-transaction tracking on small currency conversions is administratively unworkable. No equivalent provision applies to stablecoins (Thornton, 2026i). A consumer making 50 stablecoin transactions per day generates 18,250 potentially reportable events annually, each requiring individual cost-basis identification under the per-wallet tracking rules mandatory from January 1, 2025 under Revenue Procedure 2024-28.

Reward tokens received by consumers are taxable as ordinary income at fair market value at the time of receipt. For non-traded, issuer-controlled instruments whose value is set unilaterally by the issuer, "fair market value" requires individual taxpayer determination with no authoritative IRS guidance (Thornton, 2026i). The dual-nature problem

compounds this: reward tokens received as ordinary income establish a cost basis, and subsequent disposal at a different value triggers a second, separate capital gain or loss calculation.

An employee receiving wages in stablecoins faces two tax events per transaction: ordinary wage income recognized at receipt (with FICA withholding), and a capital gain or loss on every subsequent disposal. The second event typically produces negligible gain or loss, but it generates a reportable event on every transaction for which cash wages would require none (Thornton, 2026i; TokenTax, 2026).

The IRS estimated 75 percent non-compliance among taxpayers with digital assets in 2023, before the 1099-DA framework, before GENIUS formalized adoption, at a fraction of projected 2030 adoption levels. Mass non-compliance at current scales will escalate proportionally with adoption, creating a growing population of technically non-compliant users who lack the institutional support, compliance software, or tax literacy to meet obligations that the architecture generates but the legislation did not address.

The compliance burden falls asymmetrically. Issuers face manageable BSA and AML obligations calibrated to their institutional capacity. Individual consumers face per-transaction reportable events with no employer withholding, no de minimis protection, and no institutional support. The GENIUS Act constructs the payment architecture. The tax framework makes participation in that architecture more burdensome than the dollar payment system it is designed to replace (Thornton, 2026i).

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12. Counter-Arguments and Rebuttals

12.1 Counter-Argument: Stablecoins Extend Dollar Dominance

The primary institutional defense of GENIUS is geopolitical: dollar-backed stablecoins extend dollar reach into populations outside the traditional banking system, compete with foreign CBDCs for the global digital payment layer, and generate demand for U.S. Treasury instruments that strengthens the dollar's reserve position (White House Fact Sheet, 2025; Columbia Economic Review, 2026; GIS Reports, 2026).

This argument is correct in the short term and self-undermining over time. Dollar dominance has historically rested on two foundations: the depth and liquidity of U.S. financial markets, and confidence in U.S. monetary credibility, the institutional capacity to manage inflation, maintain financial stability, and honor obligations. Stablecoin dollarization extends the first foundation while systematically degrading the second.

The distinction between private and sovereign monetary infrastructure matters in geopolitical competition. China's digital yuan is a sovereign instrument backed by the People's Bank of China with full government commitment and no run risk equivalent. USDC is a private instrument with shareholder obligations, run risk, OFAC censorship capability, and no formal government guarantee. In a geopolitical stress scenario, sanctions conflict, financial warfare, or counterparty dispute, these instruments do not have equivalent durability. Sovereign counterparties selecting a digital settlement medium for bilateral trade finance are not choosing between equivalent instruments (Thornton, 2026e).

The Triffin framework, detailed in Section 10, establishes that the mechanism stablecoin dollarization uses to extend dollar reach is the same mechanism that historically precedes reserve currency credibility erosion. Stablecoins can simultaneously extend dollar transaction reach and accelerate the accumulation of the structural contradictions, fiscal overexpansion, monetary transmission failure, privatized seigniorage, that have preceded previous reserve currency transitions. Success and failure are not sequential in this architecture. They can be simultaneous (Thornton, 2026h; Triffin, 1960).

Additionally, the surveillance and censorship architecture described in Section 9 directly undermines the dollar's claim to status as a neutral international settlement medium. One of the dollar's structural advantages over competitor currencies is its perceived neutrality, its use does not implicate alignment with any single sovereign actor. A stablecoin payment layer in which every transaction is permanently recorded, every balance subject to U.S.-mandated freeze authority, and foreign participation conditioned on compliance with U.S. lawful orders is not a neutral medium. It is a dollar-denominated U.S. compliance infrastructure. Nations calculating the strategic cost of dollar adoption weigh censorship exposure in their calculus (Thornton, 2026g).

12.2 Counter-Argument: Private Innovation Is More Efficient Than Public Monetary Infrastructure

The second institutional defense is economic: private stablecoin issuers compete on quality, efficiency, and user experience in ways that public monetary infrastructure cannot; the market disciplines issuers more effectively than regulators; and private capital bears the risk of innovation rather than taxpayers.

This argument conflates monetary infrastructure with consumer products. The conditions under which market competition disciplines private actors require: consumer choice between alternatives, informed by transparent pricing and quality signals; the ability to exit an inferior product without catastrophic cost; and the absence of systemic externalities that make individual exit behavior irrelevant to collective outcomes.

The stablecoin architecture progressively eliminates all three conditions. As adoption scales and network effects compound, the consumer's ability to exit the dominant stablecoin for the dollar becomes constrained by the same displacement dynamics described in Section 3; the dollar retreats from consumer circulation, leaving stablecoins as the only practical transaction medium. Exit from the dominant stablecoin to a competitor requires transaction infrastructure the consumer may not have access to. Exit from the stablecoin layer to cash requires converting through an on-ramp that the issuer controls and can restrict. The competitive market model requires a functioning exit option; the architecture systematically eliminates it at scale (Thornton, 2026b).

The systemic externality problem is more fundamental. Monetary policy transmission failure, credit creation collapse, and systemic run risk are not costs borne by the issuers whose design choices produce them. They are costs borne by the entire economy. Private innovation efficiency arguments apply to consumer welfare optimization in competitive markets. They do not apply to the design of the transaction infrastructure through which the entire economy operates. The postal system, the highway network, and the Federal Deposit Insurance framework are not organized as competitive private markets because they are infrastructure, not products. Money is infrastructure. The argument that private actors should design monetary infrastructure because they are more innovative than governments is an argument about product development applied to a public goods problem (Thornton, 2026f).

The seigniorage capture documented in Section 10, Tether's more than $10 billion in 2025 profits, is not the return on innovation. It is the return on regulatory arbitrage: the extraction of profit from a function (currency issuance) that historically accrued to the public precisely because it is a public function. Private efficiency in this context means the capture of public seigniorage by private actors with no public accountability for the systemic risks their operations generate (Thornton, 2026h).

12.3 Counter-Argument: Existing Regulatory Frameworks Will Adapt

The third institutional defense is adaptive: the concerns raised in this analysis reflect the current framework's incompleteness; regulators will identify and correct structural failures as they emerge; and the iterative nature of financial regulation means that the absence of a current provision does not indicate a permanent gap.

This argument is partially correct and structurally insufficient. Some gaps identified in this analysis are addressable through regulatory action or incremental legislation. The IRS tax treatment mismatch could be resolved by extending the IRC Section 988 de minimis to stablecoin transactions. CRA obligations could be extended to non-bank stablecoin issuers by regulatory amendment or standalone legislation. The due process gap in stablecoin freeze authority could be addressed through rulemaking imposing notice requirements and appeal procedures.

The argument fails at three points. First, network effects and political economy make adaptation progressively more difficult as adoption scales. The stablecoin issuers who benefit from the current CRA exemption, the current yield prohibition (which removes competing deposit alternatives), and the current tax treatment mismatch (which does not harm them) are the same entities with the political spending infrastructure to resist adaptive corrections. The legislative history of GENIUS demonstrates that $119 million in electoral spending can produce specific legislative outcomes. That infrastructure remains available to prevent adaptive corrections that threaten issuer profitability (Thornton, 2026c; Belfer Center, 2024).

Second, several failures identified in this analysis are structural rather than regulatory; they are produced by the architecture's technical characteristics, not by implementation choices that regulators can override. The monetary transmission severance is a consequence of the yield prohibition and 1:1 reserve requirement; it cannot be corrected

by a regulatory rule while maintaining the core architecture. The credit creation collapse is a consequence of 100 percent reserved stablecoins competing for bank deposits; it cannot be corrected without either allowing stablecoin issuers to lend (which transforms them into banks) or accepting permanent credit contraction proportional to adoption. The CBDC foreclosure is a statutory prohibition that requires legislative reversal, a harder threshold than regulatory adaptation.

Third, the argument assumes that regulators have the institutional incentives and technical capacity to identify failures before they become irreversible. The Federal Reserve's own research division published the credit creation collapse analysis in December 2025, six months after GENIUS was signed. The IMF flagged the Triffin compounding risk in July 2025, the same month GENIUS passed. The surveillance architecture failures were documented by AMLBot and Range Security in real time. Regulatory awareness of the structural failures exists. Regulatory authority to address them within the existing framework does not fully correspond to that awareness.

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13. Legislative Reform Proposals

The following five interventions would address the core structural failures identified in this analysis without prohibiting stablecoin development. They are ordered by urgency and structural impact.

13.1 Yield Pass-Through Mandate with Consumer Rate Floor

The yield prohibition in GENIUS is the single design choice with the broadest downstream consequences. It severs monetary transmission at the consumer layer, enables the seigniorage extraction that drives the Triffin compounding loop, creates the over-incentivization adoption dynamic, and eliminates the competitive pressure that would discipline issuer behavior. Amending GENIUS to permit, and at a specified adoption threshold require, partial yield pass-through to stablecoin holders would restore monetary transmission, reduce private seigniorage capture, and create a market discipline mechanism for reserve quality.

A tiered pass-through structure, requiring issuers above $50 billion in outstanding issuance to pass through a minimum percentage of T-bill yield to holders, would preserve innovation incentives for smaller issuers while constraining the seigniorage capture at scale that generates the most severe compounding effects.

13.2 Community Reinvestment Act Extension to Non-Bank Stablecoin Issuers

Non-bank stablecoin issuers exercising the monetary function of deposit-taking and payment system operation should be subject to CRA obligations equivalent to those imposed on insured depository institutions. The public franchise of money creation carries obligations that should follow the function, not the charter type. CRA extension would be achieved most cleanly through a statutory amendment to the Community Reinvestment Act of 1977 defining permitted payment stablecoin issuers as covered institutions. Absent statutory action, the Federal Reserve, OCC, and FDIC possess interpretive authority to address this gap through rulemaking.

13.3 Stablecoin Transaction De Minimis Tax Exemption

Congress should extend to stablecoin transactions an exemption modeled on IRC Section 988(e)(2), the $200 de minimis for personal foreign currency transactions. The functional equivalence between a dollar-pegged stablecoin and foreign currency for daily transaction purposes is precise: both are instruments designed to maintain parity with the dollar, both generate trivial gains or losses on small transactions, and both present the same administrative impossibility when per-transaction reporting is required at scale. Legislative extension of the de minimis to dollar-pegged stablecoin transactions would not constitute tax preference treatment, it would apply the same standard already applicable to functionally identical instruments.

13.4 CBDC Prohibition Review with Reserve Option

The Anti-CBDC Surveillance State Act's statutory prohibition, if enacted by the Senate, should include a sunset clause and a mandatory review provision requiring a joint Federal Reserve-Treasury assessment of domestic monetary transmission conditions at regular intervals. The prohibition should be conditioned on a finding that private stablecoin infrastructure provides equivalent consumer monetary transmission capacity, a finding that cannot currently be made given the yield prohibition and the credit creation

constraints. An absolute prohibition on public monetary infrastructure, without a conditionality mechanism, forecloses the option in all future states of the world, including future states where the private alternative has demonstrably failed to serve the public monetary function.

13.5 Stablecoin Freeze Due Process Standards

GENIUS should be amended to extend to stablecoin holders the notice and challenge rights applicable to bank account freezes under existing law. Specifically: (1) issuers should be required to provide affected parties with written notice of any freeze within 24 hours of execution, including the basis for the freeze to the extent consistent with applicable law; (2) affected parties should have a private right of action for releases where the underlying order is found overbroad, erroneous, or unlawfully broad by a court of competent jurisdiction; (3) automated graph-analysis-based extension of freezes to addresses not named in the underlying order should require independent judicial approval before execution. These provisions would not prevent legitimate law enforcement use of freeze authority. They would prevent the collateral damage documented in the March 2026 DFINITY incident, and they would bring stablecoin freeze due process into conformity with the constitutional protections applicable to equivalent bank account actions.

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14. Conclusion

The GENIUS and CLARITY Acts represent a consequential and largely irreversible commitment to a specific model of digital monetary infrastructure. That model, private issuance, 100 percent reserved, yield-prohibited, freeze-capable, with non-bank regulatory arbitrage and a prohibited public alternative, produces structural failures across every dimension of the monetary system it is designed to improve.

Dollar displacement removes the dollar from consumer circulation without removing it from the reserve system. Fiscal dominance is achieved by accident through captive T-bill demand that eliminates Treasury market discipline. Monetary policy transmission is severed at the consumer layer by statute. Credit creation collapses as 100 percent reserved instruments compete with fractional reserve banks for deposits. The banking system

hollows as regulatory arbitrage advantages non-bank issuers competing against the insured deposit system. Labor protections are bypassed through contractor classification, with lobbying infrastructure available to extend the pathway to employees. The surveillance architecture constructs permanent public transaction records with private censorship authority and no constitutional constraint. The Triffin dilemma accelerates as stablecoin dollarization extends dollar reach while privatizing the seigniorage that historically created the political constituency for institutional credibility maintenance. The tax framework imposes a hidden, regressive compliance burden on every consumer transaction the architecture claims to facilitate.

None of these failures is necessary. Each reflects a specific design choice, the yield prohibition, the non-bank capital exemption, the CRA exclusion, the CBDC prohibition, the absence of tax framework coordination, the freeze authority without due process guarantees, that was advocated for by the private entities that benefit from it and enacted by legislators who received significant contributions from those entities.

The question this series of working papers has asked throughout is whether the public franchise of money creation carries obligations that follow the function, not the charter type. The answer embedded in GENIUS and CLARITY is that it does not. The question that will determine whether the answer proves durable is whether the population bearing these costs, workers paid in stablecoins, small businesses losing community credit access, consumers facing per-transaction compliance burdens, and citizens transacting in a permanently monitored payment layer, has the political agency to revise it before the network effects and institutional capture that characterize monetary systems make revision prohibitively costly.

The architecture does not fail dramatically. It succeeds gradually, until the conditions for its own continuation no longer exist.

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The Cantillon Institute *Companion Historical Study No. 11 to the Dollar Displacement Working Paper Series T.H. Thornton May 2026*

When Money Fails, Nations Follow: A Historical Study of Monetary Capture, Social Fracture, and Political Violence

Abstract

This study examines six historical episodes in which the concentration of monetary control in private or sovereign hands operating against the public interest produced the economic conditions that preceded political violence, authoritarian consolidation, or civilizational collapse: the Kipper und Wipper coinage crisis and the Thirty Years' War (1618–1648); John Law's System and the Mississippi Bubble (1716–1720); the American free banking era and the Civil War (1837–1865); the Gilded Age company town and its violent suppression (1870–1921); the Weimar hyperinflation and the rise of the Third Reich (1921–1933); and the Great Depression and the institutional failures that produced a global war. Three correction cases, the South Sea Bubble response, the National Bank Acts of 1863–1864, and the New Deal, document the institutional interventions that interrupted the pattern before it reached terminal outcomes. Across six centuries and four continents, the cases share a consistent mechanism: private monetary capture extracts value from the producing class, destroys the middle class's economic stake in the existing institutional order, and produces political radicalization that the existing institutional framework cannot contain. This study is produced as a companion to the Cantillon Institute's Dollar Displacement working paper series. Its purpose is not to predict that the stablecoin architecture established by the GENIUS and CLARITY Acts will produce the outcomes documented here, but to identify, with historical precision, the structural

conditions that have preceded those outcomes in every documented case, and to establish that those conditions are currently being assembled.

Preface: Why Monetary History Is Political History

Money is not merely an economic instrument. It is the operating system of social order. It determines who eats, who saves, who borrows, who builds, and who accumulates across generations. When the operating system is stable, predictable, and broadly accessible, societies function, imperfectly, contentiously, but within bounds. When the operating system is captured by private interests, debased by sovereign desperation, or deliberately rendered inaccessible to the producing class, societies do not simply experience economic hardship. They fracture.

This document is a historical study of that fracture. It examines six major episodes in which monetary capture, the concentration of control over the medium of exchange in private or sovereign hands operating against the public interest, produced the economic conditions that preceded political violence, authoritarian consolidation, or civilizational collapse. It also examines three cases where the pattern was interrupted by institutional correction before it reached the breaking point, establishing that reform is possible, that the window for it can be identified, and that it has been used successfully.

This study is produced as a companion to the Cantillon Institute's ten-paper working series, *Dollar Displacement: The Monetary, Fiscal, and Civil Architecture of the GENIUS and CLARITY Acts*. The historical parallels documented here are not rhetorical. They are structural. The mechanism connecting monetary capture to social fracture is consistent across cases, across centuries, and across political systems. The conditions that have historically preceded the worst outcomes are documentable. The question this study poses is not whether those conditions can be identified; they can. The question is whether they can be addressed before the correction becomes more costly than the crisis.

The Recurring Mechanism

Before examining the cases individually, the mechanism they share requires articulation.

Monetary capture follows a recognizable sequence. It begins with a legitimate problem: war debt, state insolvency, economic stagnation, trade inefficiency, that creates political will for monetary innovation. A private actor, or a sovereign actor operating as one, proposes a solution that requires granting them control over the medium of exchange. Initial conditions appear favorable: prices stabilize, credit flows, trade picks up, the producing class benefits. Innovation is celebrated.

The second phase begins when the controlling actor begins to extract the structural benefits of their position. They set the value of the instrument they issue. They control redemption terms. They determine who has access. They capture the seigniorage, the spread between the cost of producing the monetary instrument and the value it commands, that has historically belonged to the public. Workers are paid in the instrument. The instrument is redeemable only through the issuer's infrastructure, at prices the issuer controls.

The third phase is erosion. The instrument loses purchasing power, through debasement, over-issuance, or the issuer's extraction of value, faster than the wages it represents are increased. Workers find that their compensation, denominated in the issuer's instrument, commands less each cycle. The middle class finds that savings accumulated in that instrument evaporate. The institutional framework that was supposed to prevent this, regulatory, legal, or political, is captured by the same interests that benefit from the extraction.

The fourth phase is fracture. Institutional trust collapses. The political center, which depends on the middle class retaining enough economic stake in the existing system to defend it, loses its constituency. Radicalism fills the vacuum. The specific form the fracture takes varies by historical context: religious war, labor insurrection, revolutionary overthrow, or authoritarian consolidation. The shared feature is that a population that has lost its economic stake in the existing order no longer has a reason to defend it.

The cases below document this sequence in detail. The differences between them are contextual. The mechanism is the same.

Case I: The Kipper und Wipper and the Thirty Years' War (1618–1648)

The Monetary Crisis

In the years immediately preceding and following the outbreak of the Thirty Years' War in 1618, the Holy Roman Empire experienced what remains one of the most precisely documented instances of competitive monetary debasement in recorded history. The episode takes its name from the tools of the fraud: *kippen* referred to the clipping of silver coins, and *wippen* referred to the tipping scales used to identify heavier, higher-quality coins so they could be culled from circulation, melted, mixed with base metals, and reissued at face value with a fraction of their former silver content (Kindleberger, 1991; Deutsche Bundesbank, 2019).

What made the Kipper und Wipper uniquely destructive was not merely that one actor debased currency. It was that dozens of actors, German princes, bishops, city-states, and private mint operators, competed to debase simultaneously, each racing to spend debased coins in neighboring territories before those territories could do the same to them. The result was a competitive devaluation spiral that Charles Kindleberger, the Federal Reserve economist and author of *Manias, Panics, and Crashes*, described as a "specie-based currency war", the seventeenth century's equivalent of the modern race to the floor (Federal Reserve Bank of New York, 2013).

Between 1620 and 1623, prices of basic foodstuffs rose by 300 to 600 percent in some German regions. By 1622, trade and commerce had nearly ceased: merchants refused to sell goods for coins whose value they could not verify. Farmers withheld produce from markets. Tax revenues collapsed as debased coins were returned to the very princes who had issued them. Children allegedly played with worthless coins in the streets (Wikipedia, Kipper und Wipper; Thetimelessinvestor.com, 2025). The wealthy were the primary perpetrators and the primary beneficiaries of the early phase: they had access to the good coins before debasement and the political connections to extract value from the system.

The peasantry, the artisan class, and workers paid in debased currency absorbed the losses.

The Bundesbank's analysis of the crisis identifies an additional structural feature that resonates precisely with the current architecture: multiple private actors issuing competing currency instruments, each setting its own value, each offloading the cost of their extraction onto the populations of neighboring territories. The coordination problem was unsolvable because each actor's rational strategy was to debase faster than their neighbors, ensuring that bad money, in Gresham's formulation, drove out good (Deutsche Bundesbank, 2019).

The Political Consequence

The Thirty Years' War had begun as a religious conflict, Catholic versus Protestant within the fragmented Holy Roman Empire. The Kipper und Wipper crisis did not cause it. What the monetary crisis did was eliminate the economic conditions under which de-escalation was possible. A population experiencing 400 percent price inflation, savings destruction, and food insecurity has no stake in peaceful resolution. Mercenaries, who feature prominently in the war's conduct, refused to fight unless paid in unambiguously real silver, a demand that drove further extraction from civilian populations by military commanders who needed hard coin regardless of the cost to those they were nominally protecting.

The Thirty Years' War killed between 8 million and 12 million people, with some German territories losing 20 to 30 percent of their total population (FEE, 2024). It was not merely a religious war. It was a war in which the monetary destruction of the civilian economic base made civilian populations disposable; they could not pay taxes in reliable coin, they could not feed armies, and they could not sustain the social order that would have given political actors an incentive to protect them rather than extract from them.

The Parallel

The Kipper und Wipper establishes the template for what happens when multiple private actors are permitted to issue competing currency instruments without a shared standard of value, reserve backing, or accountability. In the current architecture, stablecoin issuers set the value of their reward tokens unilaterally. Their reserve composition is disclosed monthly but not independently verified in real time. Their competitive dynamic, each

racing to acquire the largest consumer deposit base before network effects consolidate the market, mirrors the competitive debasement dynamic of the German princes, with reward token over-incentivization substituting for silver clipping as the extraction mechanism.

The scale is different. The mechanism is the same.

Case II: John Law's System and the Mississippi Bubble (1716–1720)

The Architecture of Privatized Seigniorage

John Law was the most consequential monetary theorist of the early eighteenth century and the most destructive. A Scottish financier with genuine theoretical insight, he understood that economic activity was constrained by the available stock of money and that paper instruments could expand that stock, he convinced the French Regent, Philippe II, Duke of Orléans, to allow him to conduct an experiment on the entire French economy (Kindleberger, 1978; Britannica, 2026).

Between 1716 and 1720, Law created the Banque Générale, effectively France's central bank, and obtained authority to issue paper currency backed by government debt. He then merged this with the Compagnie d'Occident, the Mississippi Company, which held monopoly rights over French colonial trade, including the Louisiana territory. He was simultaneously France's central banker, the issuer of its currency, and the operator of the instrument whose value that currency was backing. He held, in one private person, the monetary function of the state (EBSCO Research, 2026; Britannica Money, 2026).

The initial phase was spectacular. French government debt was restructured. Economic activity expanded. The word *millionaire* entered the French language to describe the new fortunes created by Mississippi Company share appreciation. Law himself was made Comptroller-General of Finances, the most powerful economic position in France (Mississippi History Now, 2001).

The collapse was equally spectacular. The Mississippi Company's colonial assets produced no meaningful revenue. The share price, inflated by Law's own monetary expansion, he printed livres to support the stock when it began to fall, could not be sustained. When investors began converting gains to gold, Law attempted to ban gold ownership and fix the share price by decree. Neither worked. The currency collapsed. Law fled France in December 1720, disguised, it is reported, as a woman, and died in Venice nine years later in poverty (Winton, 2019; EBSCO Research, 2026).

The consequences for France were not merely economic. The middle class that had converted real wealth, property, gold, established businesses, into Law's paper instruments was destroyed. An entire generation's savings were erased. The institutional consequence was profound and permanent: France did not establish a comparable central bank until Napoleon founded the Banque de France in 1800, eighty years later. French savers hoarded gold and distrusted financial intermediaries well into the twentieth century. As one historical analysis concluded: the collapse "cast a long shadow over France's financial future, leading to widespread distrust in modern banking systems and hindering subsequent fiscal reforms until the French Revolution" (EBSCO Research, 2026; Market Histories, 2026).

The Road to 1789

The connection between Law's System and the French Revolution requires precision. Law's collapse did not directly produce the Revolution. Sixty-nine years separated them. What the collapse produced was the institutional conditions that made a revolutionary resolution to France's fiscal problems ultimately unavoidable.

Without a functioning central bank or capital market, France could not restructure its debt efficiently. It financed subsequent wars, the Seven Years' War, the American Revolution, which France supported at enormous cost, through increasingly desperate fiscal measures: tax farming, sale of offices, and debt issuance at ruinous interest rates. The fiscal exhaustion of the Ancien Régime by 1788 was the direct consequence of France's inability to develop the financial institutions destroyed by Law's experiment. When Louis XVI convened the Estates-General in 1789, the proximate cause was bankruptcy. The structural cause traced directly to 1720 (Market Histories, 2026).

One additional figure deserves mention. Richard Cantillon, for whom this Institute is named, was an Irish-French banker who had shorted the Mississippi Company, extracting enormous gains from Law's collapse while the French public lost their savings. His subsequent treatise, *Essai sur la Nature du Commerce en Général* (c. 1730), formulated the principle now called the Cantillon Effect: newly created money benefits those who receive it first, before prices rise for everyone else. Law had demonstrated the principle catastrophically. Cantillon named it. The principle describes precisely the architecture of the GENIUS Act's reward token structure: issuers receive the float first, consumers absorb the inflation downstream (Mises Institute, 2024).

The Parallel

John Law's System is the most precise historical precedent for the stablecoin architecture in this series. A private actor obtains the right to issue currency. He backs it with assets whose value he controls. He merges the monetary function of the state with a private commercial enterprise. The middle class converts real wealth into his paper instrument during the enthusiasm phase. The instrument collapses. The real wealth does not come back. The institutional damage persists for generations.

The GENIUS Act does not create a single John Law. It creates the legal architecture for multiple John Laws to operate simultaneously, in competition, at global scale, with the U.S. Treasury as their captive reserve manager and the consumer class as their depositor of last resort.

Case III: Free Banking, the Panic of 1857, and the Civil War (1837–1865)

The Free Banking Era

Between 1837 and 1863, the United States operated without a federal banking system or a unified national currency. The Second Bank of the United States had been destroyed by Andrew Jackson in 1836, and in its absence, hundreds of state-chartered banks, and in the most permissive states virtually anyone with sufficient political connections, issued their

own banknotes. These notes were nominally backed by specie or state bonds, but the quality of backing varied enormously (Gorton & Zhang, 2023).

The era earned its historical reputation through the phenomenon of "wildcat banking," a term derived from the practice of establishing banks in remote locations (allegedly where only wildcats roamed), far from the commercial centers where note-holders might actually try to redeem them. These institutions issued notes at face value, kept minimal reserves, and relied on the geographical distance between issuance and redemption to sustain the fiction of backing. When redemption was attempted, the notes traded at steep discounts, sometimes 50 to 80 cents on the dollar, relative to their face value (Gary Gorton and Jeffery Zhang, cited in Columbia Economic Review, 2026).

The consumer experience was one of perpetual uncertainty: knowing that the banknote in your hand might be worth its face value or might be worth half of it, depending on the issuing bank's current solvency, the distance to redemption, and the prevailing market intelligence about that bank's reserves. Workers paid in the notes of a bank whose condition deteriorated between payday and the next purchase absorbed losses they could not foresee and had no mechanism to avoid.

The Panic of 1857 and Its Aftermath

The Panic of 1857, the first truly global financial crisis, originated in the collapse of the Ohio Life Insurance and Trust Company in August 1857, a failure that triggered a cascade of bank runs across the country. The underlying cause was the intersection of speculative railroad financing, the free banking era's inadequate reserve structure, and the withdrawal of European capital following Crimean War spending. Within weeks, hundreds of banks had suspended specie payments. Credit collapsed across both the industrial North and the agricultural South.

The panic intensified existing sectional economic tensions in ways that made political resolution progressively more difficult. Northern industrial employers, unable to access credit, cut wages and laid off workers. Southern cotton planters, whose credit had been extended through Northern banking channels now frozen, could not finance their next crop cycle. The divergence of economic interests, Northern industrial capital versus Southern agricultural slaveholding capital, was not created by the Panic of 1857. It was crystallized and hardened by it. Political moderates who had managed sectional

compromise in more stable economic conditions lost influence to radicals on both sides who offered cleaner, more extreme solutions to economic grievances (Kindleberger, 1978).

The Civil War began in April 1861. The monetary dimension of the decade leading to it is not the sole cause and has not been treated as such by historians. But the free banking era's destruction of monetary trust, its extraction from the working class through wildcat bank note discounts, and the Panic of 1857's economic destabilization of the compromise political center are documented accelerants of the political fracture that produced the war. The National Bank Acts of 1863 and 1864, which created a uniform national currency and imposed federal reserve requirements on banks, enacted during the war itself, were Congress's acknowledgment that the monetary architecture of the preceding generation had been structurally inadequate.

The Parallel

Gorton and Zhang's peer-reviewed comparison of free banking to pre-regulation stablecoins, cited in the Columbia Economic Review's analysis of the GENIUS Act, is not rhetorical. It is a scholarly identification of structural equivalence. Multiple private issuers, instruments of uncertain value, no uniform standard of backing, no deposit insurance, no lender of last resort, and a consumer class unable to assess the quality of the instrument in their hand. The National Bank Acts resolved the free banking era. The GENIUS Act creates its digital successor without, as yet, the institutional corrections that terminated the original.

Case IV: The Company Town: From Scrip to Gunfire (1870–1921)

The Architecture of Labor Monetary Capture

The Gilded Age company town represents the most explicit historical implementation of the wage displacement architecture described in the Dollar Displacement series. Its logic was simple: if the employer controls not only the wage but the medium in which the wage is paid, the price of goods redeemable against it, and the housing in which the worker sleeps, then the employer captures not merely the worker's labor but the entirety of the

value that labor produces. The wage becomes a fiction. The worker's economic life is entirely mediated by the employer's decisions about value.

Coal mining towns in Appalachia, textile mill towns in New England, and the steel towns of Pennsylvania operated on variants of this model throughout the latter half of the nineteenth century. Workers were paid in company scrip, non-transferable, non-convertible, redeemable only at the company store at prices set by the company. Housing was rented from the company. Churches were often built and maintained by the company, their ministers selected with an eye toward pastoral acceptance of labor conditions. The word "paternalism" was applied by the companies themselves to describe what was, in economic terms, a system of total monetary capture (Britannica, Pullman Strike, 2026).

Pullman, Illinois: The Case Study

George Pullman built what he called "the world's most perfect town" fourteen miles south of Chicago in the 1880s. It had schools, a library, a theater, parks, and uniform brick housing. Every building, every shop, every church was owned by the Pullman Palace Car Company. Rent was automatically deducted from wages. Prices at company stores were set by the company. The town's physical beauty was designed not for the workers' benefit but to reduce the conditions that produced strikes: if the worker's environment was clean, Pullman reasoned, the worker would be less inclined to agitation (WTTW Chicago, 2022; NPS, 2026).

The Panic of 1893, the worst economic depression Americans had experienced to that point, forced Pullman to cut wages. Between May and December 1893, wages were reduced five times, with the final cut amounting to nearly 30 percent. Rents were not reduced. Store prices were not reduced. Workers received pay envelopes from which rent had already been deducted, leaving in some cases a few cents, in documented instances as little as two cents, as the entirety of the week's take-home pay (Pullman Workers' Statement, 1894; Teaching American History, 2026).

A nineteen-year-old sewing worker named Jennie Curtis told the American Railway Union convention in June 1894 that her entire salary went back to the Pullman Company in rent and store credit. She did not receive money. She received the temporary occupancy of a company house and the temporary provision of company food, at prices the company set,

in exchange for labor the company valued at whatever the company chose (WTTW Chicago, 2022).

On May 11, 1894, 4,000 Pullman workers went on strike. The American Railway Union, led by Eugene Debs, launched a national boycott. Within four days, 125,000 workers on 29 railroads had walked off rather than handle Pullman cars. The rail network west of Chicago shut down. Factories ran out of coal. President Grover Cleveland deployed 12,000 federal troops, over the explicit objection of Illinois Governor John Altgeld, using a legal theory that the strike constituted obstruction of the mail. Attorney General Richard Olney, who retained a $10,000 annual retainer from the Chicago, Burlington, and Quincy Railroad while serving as the nation's chief law enforcement officer, obtained the federal injunction that made the deployment possible (Britannica, Pullman Strike, 2026; Teaching American History, 2026).

The violence that followed killed 34 people and caused $80 million in property damage in 1894 dollars. Debs was imprisoned for contempt of court. He read Marx in prison and emerged as a socialist, becoming the Socialist Party's presidential candidate five times. The Supreme Court's decision in *In re Debs* (1895) established that the federal government could use injunctions to break strikes, a legal weapon against labor that was not reversed until the Norris-LaGuardia Act of 1932 and the Wagner Act of 1935, both New Deal corrections that came forty years later.

George Pullman's defense to the federal commission investigating the strike was that he was providing workers with superior housing and community infrastructure. He framed scrip and captive store pricing as employee benefits. The workers, he argued, should be grateful for the quality of the environment they inhabited. The rhetorical structure of this defense, *the controlled instrument provides superior value to what the market would otherwise deliver*, is identical in structure to the stablecoin adoption argument: *you get rewards instead of interest, and the rewards are better*.

Matewan and Blair Mountain: The Terminal Point

The Pullman Strike did not resolve the company town system. It suppressed it temporarily while amplifying the underlying grievances. In the coal fields of West Virginia, the company town model continued for another quarter century, producing the bloodiest domestic labor conflict in American history.

In 1920, the Baldwin-Felts detective agency, hired by coal companies, evicted striking miners and their families from company housing in Matewan, West Virginia. The town's police chief, Sid Hatfield, confronted the agents. A gunfight killed seven Baldwin-Felts agents, two miners, and the town's mayor. Hatfield was subsequently assassinated on the steps of the McDowell County courthouse in 1921 (the killers were acquitted). His assassination triggered the largest armed insurrection on American soil since the Civil War.

The Battle of Blair Mountain (August–September 1921) involved approximately 10,000 armed miners marching against a combined force of company guards, state police, and ultimately the United States Army, which deployed aircraft, for the first time in American history against American citizens on American soil, to support the suppression. Between 50 and 100 people were killed. The Army deployed chemical agents. The miners were dispersed. Union membership in West Virginia coalfields subsequently collapsed from 50,000 to 10,000. The company town system remained (Encyclopedia of Appalachia; West Virginia Encyclopedia).

The company town system was not ended by strikes. It was ended by legislation: the Wagner Act (1935), the Fair Labor Standards Act (1938), and the sustained enforcement of New Deal labor protections that made the company scrip model legally untenable. The pattern was institutional correction, arriving, in this case, forty years after Pullman and fourteen years after Blair Mountain, at a cost that included hundreds of deaths and the systematic suppression of labor organization across a generation.

The Parallel

Debs described Pullman as a man whose "paternalism is the same as the interest of a slaveholder in his human chattels." The economic mechanism he identified is precise: when the employer controls the monetary instrument in which wages are paid, wages are not wages. They are a ledger entry in the employer's accounting system, redeemable against goods and services whose prices the employer sets, in a physical environment the employer controls. The worker's labor produces value. None of that value accumulates to the worker in a form the worker can deploy independently.

The stablecoin wage architecture described in Working Paper 3 of this series is this system at digital scale. The employer issues the stablecoin. The employer sets the reward token value. The minimum wage, denominated in dollars, provides no protection if the practical wage is a stablecoin whose purchasing power the employer controls. The absence of Jennie Curtis's pay envelope is the absence of take-home pay. What replaces it is an account balance in an employer-issued instrument, redeemable at employer-determined rates, in a digital environment the employer operates.

The form is new. The extraction is not.

Case V: Weimar, the Middle Class, and the Road to 1933 (1921–1933)

The Hyperinflation

Between June 1921 and November 1923, the German Papiermark lost virtually all its purchasing power, collapsing from 60 marks per U.S. dollar at the end of World War I to 4.2 trillion marks per dollar at its nadir (My Finance Process, 2026). This is the most consequential currency destruction in modern economic history, not because it was the most extreme mathematically (Hungary in 1946 holds that record), but because it occurred in the world's second-largest industrial economy, destroyed the savings of an entire middle class, and set in motion the political chain reaction that ultimately produced the Third Reich.

The worst-affected group was the German *Mittelstand*, the middle class that had dutifully accumulated savings, war bonds, government securities, and pension entitlements denominated in paper marks. A family with 100,000 marks in savings in 1921 was prosperous. By 1923, that sum could not buy a cup of coffee. Pensioners starved. Workers collected wages in wheelbarrows and immediately spent them before the next hour's price increase rendered them inadequate. Farmers refused to sell produce for worthless paper. Food riots broke out across German cities (Britannica, Hyperinflation in the Weimar Republic, 2026).

Scholars including Frederick Taylor, author of *The Downfall of Money: Germany's Hyperinflation and the Destruction of the Middle Class*, have identified the key political mechanism: the inflation did more to undermine the middle classes than the socialist revolution of 1918. It inverted the moral order of bourgeois society: debtors became wealthy as their obligations evaporated; savers became destitute as their accumulated virtue was rendered worthless. The social compact that had sustained the *Mittelstand*'s support for democratic institutions, the belief that responsible economic behavior would be rewarded, was destroyed (Prospect Magazine, 2026).

A recent econometric study exploiting cross-sectional price variation across 280 German cities found that hyperinflation correlates with increased support for the Volksrechtspartei (an association of inflation victims), increased Communist Party voting in 1932, and a general decline in political turnout reflecting institutional distrust (ScienceDirect, 2022). The relationship between hyperinflation and direct Nazi vote share is more contested in the academic literature; the direct electoral surge came in 1930-1932 in response to the Depression, not in 1923-1924. The mechanism is not that hyperinflation produced immediate Nazi victory. The mechanism is that hyperinflation destroyed the institutional trust that would have made the middle class defend democracy when it was under threat a decade later.

The Depression and the Nazi Rise

The Weimar Republic stabilized after 1923 through the Rentenmark reform and the Dawes Plan restructuring of reparations. The middle class rebuilt, cautiously, during the "Golden Twenties." When the Great Depression hit in 1929, unemployment in Germany reached 30 percent. The savings the middle class had painstakingly rebuilt were once again threatened, this time by deflation and bank failures rather than inflation. The institutional reflex, conditioned by a decade of economic humiliation and the memory of 1923, was not to defend the democratic system that had failed them twice. It was to seek radical resolution (Britannica, Germany Weimar Republic, 2026).

Hitler's Beer Hall Putsch of 1923 had failed because he lacked the support of the army, the police, and the business community. He did not make the same mistake in 1933. The political path to power ran through the middle class whose savings had been destroyed in 1923 and threatened again in 1930-1933. "It was the loss of their income and savings," one historical analysis summarized, "that drove the German middle classes into the arms of

the Nazis, who promised to cure Germany's economic ills, restore prosperity, and rescue the German people from economic instability after years of financial chaos and impoverishment" (Prospect Magazine, 2026).

The Parallel

The Weimar case is not an argument that stablecoin dollar displacement will produce fascism. It is an argument about the mechanism through which monetary destruction of the middle class produces political radicalization of the middle class. The mechanism does not operate immediately. It operates through institutional trust erosion: a middle class that has experienced the systematic destruction of its savings instrument does not maintain loyalty to the institutional framework that failed to protect those savings. When the next crisis arrives, as it does, that middle class is available to political actors offering radical solutions, because the incremental solutions associated with the existing framework have demonstrably failed them.

The current architecture does not destroy the dollar through hyperinflation. It displaces the dollar from consumer circulation while capturing the purchasing power erosion through reward token devaluation invisible to conventional price measurement. The middle class is not impoverished overnight. It is impoverished gradually, through a mechanism it cannot easily identify, by actors who control the measurement system that would reveal the impoverishment.

The Weimar case establishes that monetary destruction of the middle class does not need to be dramatic to be politically decisive. It needs to be sufficient to sever the middle class's economic stake in the existing institutional order. Gradual and invisible displacement achieves this as effectively as wheelbarrows of worthless currency; more effectively, perhaps, because the absence of visible crisis postpones the institutional response until the damage is entrenched.

Case VI: The Depression, Institutional Collapse, and the New Deal's Warning (1929–1945)

The Credit System Collapse

The Great Depression began with the stock market crash of October 1929 and deepened through the banking crisis of 1930-1933. Between 1929 and 1933, approximately 9,000 American banks failed. Total bank deposits fell by one-third. Lending contracted catastrophically: bank credit outstanding fell from $49.8 billion in 1929 to $27.7 billion by 1933. Unemployment reached 25 percent. Industrial production fell by half (Friedman & Schwartz, 1963).

The banking collapse was a credit creation collapse. As documented in Working Paper 5 of this series, banks create money through lending. When the deposit base collapses, the capacity to create credit collapses with it. The monetary contraction was, as Milton Friedman and Anna Schwartz argued in *A Monetary History of the United States*, the primary mechanism through which a severe recession became the Great Depression. The Federal Reserve, formed in 1913 specifically to prevent banking panics, allowed the money supply to contract by one-third between 1929 and 1933, a failure of institutional function that turned a manageable crisis into a civilizational event.

The political consequences were immediate and global. In Germany, as described above, the Depression produced the Nazi electoral surge of 1930-1932 and Hitler's appointment as Chancellor in January 1933. In Italy, Mussolini had already consolidated power. In Japan, the Depression fueled military expansionism. In Spain, economic collapse contributed to the conditions that produced the Civil War of 1936-1939. The political map of Europe was redrawn by the failure of a financial system in which ordinary people had placed their savings and whose collapse destroyed their economic stake in the existing order.

The New Deal as Institutional Correction

The New Deal, Franklin Roosevelt's legislative program of 1933-1938, is the most significant institutional correction in American history. It is important to this study not merely as a historical example but as an explicit warning about what institutional

corrections look like, what they require, and what becomes necessary when they arrive late.

The Glass-Steagall Act (1933) separated commercial banking from investment banking, preventing the conflicts of interest that had driven banks to speculate with depositors' funds. The Federal Deposit Insurance Corporation (1933) created the deposit insurance backstop whose absence had produced bank runs. The Securities Exchange Act (1934) created the SEC and mandatory disclosure requirements for publicly traded securities. The Wagner Act (1935) guaranteed workers' right to organize and bargain collectively, the legislative response to Pullman, Blair Mountain, and four decades of suppressed labor conflict. The Fair Labor Standards Act (1938) established the federal minimum wage and overtime protections.

Each of these interventions addressed a specific structural failure that had been documented, contested, and delayed for years or decades by the same interests that benefited from the failure. Glass-Steagall had been proposed before the crash. Deposit insurance had been proposed before the crash. Wagner Act protections had been demanded since Pullman in 1894. The political economy of each had been blocked by the private interests that benefited from the absence of the protection.

The New Deal arrived not because Congress discovered these failures in 1933. It arrived because the scale of the crisis: 25 percent unemployment, 9,000 bank failures, breadlines in every major city, finally overwhelmed the political capacity of the interests opposing reform. The correction was adequate. It was also forty years overdue by the Pullman measure, and it required the most severe economic catastrophe in American history to force it through.

World War II, in which the Depression-era political radicalization of Europe produced a global conflict that killed approximately 70 to 85 million people, is the terminal case for what happens when institutional correction arrives too late, or not at all, in the countries that most needed it.

The Parallel

The New Deal is the correction model. It identifies the interventions that work: deposit insurance, mandatory reserve requirements, separation of monetary and commercial

functions, labor protections that follow the function of employment rather than the legal classification of the employment relationship, and securities disclosure that prevents the informational asymmetries through which extractive actors capture public savings.

Every intervention the New Deal made is either directly relevant to the stablecoin architecture or has been effectively reversed by it. There is no deposit insurance for the new monetary layer. There is no separation of monetary issuance from commercial incentive in stablecoin architecture, the issuer benefits directly from the float. There are no labor protections extending to contractor-classified workers paid in issuer instruments. There are no disclosure requirements for reward token valuation methodology.

The New Deal's architects knew what they were doing. They had the historical record of Pullman, Weimar, and the free banking era available to them. They built institutions designed to prevent the conditions that had produced those outcomes. The legislative framework examined in this series systematically dismantles the logic of those institutions in the digital monetary layer, without constructing equivalent protections for the new architecture.

Supporting Cases: The Broader Pattern

The Bengal Famine and East India Company Monetary Control (1769–1773)

The East India Company, a private entity holding monopoly on Bengal's trade, taxation, and currency, implemented extractive monetary policies that, combined with drought, produced a famine killing between 1 and 10 million people. The Company's response was to continue extracting revenue from a starving population rather than redirect resources to relief. The British Parliament eventually nationalized the Company's administrative functions through the Regulating Act of 1773 and the India Act of 1784, but only after the scale of the catastrophe was undeniable. The Bengal case is the company town argument at civilizational scale: private control of the medium of exchange and the terms of labor, without public accountability, with the population bearing the full cost of systemic failure.

The Argentine Convertibility Crisis (2001–2002)

Argentina's currency board arrangement, requiring every peso to be backed by one U.S. dollar in reserve, with no monetary policy flexibility, functioned structurally like a stablecoin reserve requirement. The central bank lost monetary autonomy. A two-tier currency system emerged in practice: dollar-holding elites were protected; peso-holding workers were not. When the peg broke in December 2001 and January 2002, middle-class savings were converted to devalued pesos overnight through the *pesificación* decree. The political consequences: five presidents in two weeks, default on $100 billion in sovereign debt, 39 deaths in political violence, and the largest sovereign default in history to that point. Argentina's *corralito*, the freeze on bank deposits that preceded the collapse, is the historical precedent for what a stablecoin run looks like in a modern democracy at crisis inflection.

The Russian Ruble Collapse and the Rise of Putin (1998–2000)

Russia's 1998 default and ruble collapse destroyed the savings of the population that had survived Soviet collapse and tentatively rebuilt during the chaotic 1990s privatization. The oligarchic capture of post-Soviet monetary institutions had concentrated both wealth and monetary control in private hands with no public accountability. When the ruble collapsed, the population that bore the cost was the same population that had been promised that market reform would produce prosperity. The institutional vacuum created by monetary destruction was filled by Vladimir Putin's consolidation of power, beginning in 1999. Russia's trajectory from monetary chaos to authoritarian restoration over a period of roughly two years is the Weimar mechanism in compressed modern form: monetary destruction of the population's economic stake in the existing order creates the political conditions for strongman restoration. It does not require decades. It requires sufficient destruction, sufficient rapidity, and a sufficiently organized political actor positioned to offer order.

The Panic of 1873 and the Long Depression: When Monetary Policy Radicalizes Labor

The Panic of 1873, triggered by the collapse of Jay Cooke & Company and the over-leveraged railroad speculation it had financed, produced a depression lasting nearly two decades in the United States and Europe. The Long Depression, as it was known at the time, generated the Populist Movement, the first major American political movement

explicitly organized around monetary policy. William Jennings Bryan's "Cross of Gold" speech of 1896 remains the defining articulation of a political radicalization produced by monetary policy that served financial capital at the expense of agricultural and industrial labor. The free silver argument, inflating the money supply to relieve debtor pressure, was not economically sophisticated. It was politically inevitable: a population that had experienced twenty years of deflationary policy benefiting creditors and punishing debtors eventually organized around monetary reform as the central political demand.

The Long Depression established the pattern that the current architecture risks replicating through a different mechanism: not deflation, but displacement. A population that increasingly experiences the gap between nominal compensation and real purchasing power, denominated in reward tokens rather than declining dollar wages, will eventually organize around that experience. The specific political form that organization takes depends on what political actors are available to channel it. The pattern is consistent: sustained monetary extraction from the working and middle class produces sustained political radicalization of the working and middle class.

The Correction Cases: When Reform Arrived in Time

The South Sea Bubble and Walpole's Response (1720)

Britain experienced its own speculative collapse simultaneously with France's Mississippi Bubble; the South Sea Company's crash wiped out Parliament members, government ministers, and the general public simultaneously. The political crisis was severe: corruption investigations implicated half the Cabinet. Robert Walpole, who became the first Prime Minister in the modern sense, instituted rapid institutional reforms: stricter regulation of joint-stock companies, improved accounting requirements, and a restructuring of public debt that restored market confidence. The key difference from France was the speed and competence of the institutional response. France took eighty years to establish a replacement central bank. Britain's financial system, reformed within years of the South Sea collapse, became the foundation of the Industrial Revolution's capital markets. The South Sea Bubble is the near-miss, the case where institutional

correction was fast enough and competent enough to prevent the generational damage that France experienced.

The National Bank Acts (1863–1864): Ending the Free Banking Era During the War

Congress's passage of the National Bank Acts during the Civil War, establishing a uniform national currency backed by U.S. Treasury bonds, imposing reserve requirements on nationally chartered banks, and effectively taxing state bank notes out of existence, is one of the most consequential pieces of financial legislation in American history. It replaced the wildcat banking era's currency chaos with a coherent national monetary system, even while the country was fighting its most destructive war. The correction was forced by wartime necessity; the Union needed to finance the war and could not do so through the free banking system's fragmented credit markets. But the institutional result was durable: the National Bank Act framework established the precedent for federal banking regulation that the Federal Reserve Act of 1913 extended, and that the New Deal's banking reforms deepened.

The New Deal (1933–1938): The Full Correction Framework

As described in Case VI above, the New Deal is the benchmark institutional correction. Its relevance here is as a model for what a correction requires: legislative action addressing specific structural failures, institutional creation rather than merely regulatory adjustment, protections that follow the function rather than the legal classification of the activity, and sufficient political will to overcome the organized opposition of the interests that benefit from the structural failure. The New Deal arrived late and at enormous cost. It nonetheless arrived, and the institutional framework it built, FDIC, SEC, Wagner Act, minimum wage, sustained the most prosperous period in American middle-class history for the subsequent four decades.

The Pattern: What These Cases Share

Across six centuries, four continents, and wildly varying political and technological contexts, the cases documented in this study share a consistent structure:

Private monetary capture precedes social fracture. In every case, the concentration of control over the medium of exchange in private hands, or in sovereign hands acting as private actors, preceded the social and political disruption that followed. The concentration was always justified by a legitimate problem. The justification was always partially valid. The extraction that accompanied the concentration was always the mechanism of harm.

The middle class is the critical variable. The working class can survive significant monetary degradation without producing political instability, because working class political organization is relatively predictable and containable. The middle class cannot. A middle class that has accumulated economic stake in the existing order and then loses it through monetary capture does not become conservative in response, it becomes available to radical political actors who offer to restore what was taken. The Weimar case makes this explicit. The Populist Movement makes it explicit. The Argentine middle class taking to the streets in 2001 makes it explicit.

The issuer always captures the upside; the public always absorbs the downside. In every case, Law's System, the Kipper und Wipper, wildcat banking, the company town, Weimar, the private actors controlling the monetary instrument extracted value during the expansion phase and exited, fled, or were bailed out during the collapse phase. The population holding the instrument at the time of collapse absorbed the loss. This is not a coincidence. It is the structure of the arrangement: the issuer controls the instrument's value, the timing of its expansion, and in most cases the timing of their own exit.

Institutional correction arrives late, if at all. The Walpole correction and the National Bank Acts are the exceptions. The New Deal arrived after the worst economic catastrophe in American history. France waited eighty years. The company town system was corrected forty years after Pullman. The pattern is that the political economy of extractive monetary arrangements is self-reinforcing: the actors who benefit have resources, organization, and political access; the actors who bear the cost do not, until the cost is so visible and so widespread that the political calculation reverses.

The window for correction closes. Network effects, institutional capture, and normalized expectations combine to make monetary arrangements progressively more difficult to change once they are established. France's inability to develop capital markets for eighty

years after Law's collapse was not chosen; it was the legacy of destroyed institutional trust that could not be rebuilt by decree. The free banking era ended only because the Civil War forced a federal solution. The company town system required the Depression to end. The window for correction exists and can be identified. It closes.

The Present Conditions

This study does not predict that the stablecoin architecture will produce the outcomes documented in these historical cases. It identifies, with historical precision, the structural conditions that have preceded those outcomes in every documented case, and asserts that those conditions are currently being assembled.

The conditions present in the current architecture that correspond to the historical record are:

Multiple private actors issuing competing monetary instruments with self-determined value. Present. Tether, Circle, and prospective bank-issued stablecoins will compete for consumer monetary deposits, each setting reward token values unilaterally, each racing to acquire market share before network effects consolidate the market. This is the Kipper und Wipper's competitive debasement in digital form.

A private actor holding simultaneous control of monetary issuance and commercial enterprise. Present. Stablecoin issuers hold the float on consumer deposits and simultaneously operate the reward programs that determine the purchasing power of those deposits. This is John Law's System without the singular actor, distributed across multiple issuers, each with the same structural conflict of interest.

Labor compensation in issuer-controlled instruments without legal tender protection. Present in the contractor economy; architecturally available for extension to the employee economy. This is the company town model at digital scale, available through contractor classification rather than geographic isolation.

Middle class savings instrument displacement without equivalent institutional protection. Present. The dollar retreats to the institutional layer. Consumer monetary savings are

denominated in stablecoins with no FDIC equivalent, subject to run risk, and with purchasing power eroded through reward token devaluation invisible to conventional measurement. This is Weimar's mechanism applied gradually rather than catastrophically, the same destination reached by a different road.

Credit creation collapse in the community banking sector. Emerging. The Federal Reserve's own research documents $65 billion to $1.26 trillion in potential lending reduction. CRA-dependent community credit is the first casualty. This is the 1929 credit collapse in slow motion, produced not by bank failure but by deposit migration to non-lending instruments.

Institutional framework prohibited from providing the public alternative. Present. The CBDC prohibition is the Anti-CBDC Surveillance State Act. The public instrument that could have competed with private issuers, restored monetary transmission, and preserved seigniorage as a public function has been legislatively foreclosed. France after Law's collapse had no central bank by accident. The United States after GENIUS has no digital public currency by design.

The Window

The historical cases establish that the window for institutional correction exists before the conditions reach critical mass, and closes as those conditions become entrenched. The indicators that have historically marked the window include:

The dominant private monetary instrument has not yet achieved the network effect threshold beyond which switching costs become prohibitive. Below roughly 30 percent of consumer transactions, alternatives remain practically available. Above 60 to 70 percent, the exit option has effectively closed.

The middle class retains sufficient dollar-denominated savings to have an economic stake in dollar-system preservation. Once the dollar retreats fully to the institutional layer and dollar savings are inaccessible without institutional standing, the middle class's incentive to defend the dollar system disappears.

The institutional trust required for legislative reform has not yet been exhausted by the experience of monetary displacement. Weimar's population could not be reasoned back to institutional confidence after 1923. Confidence must be preserved, not restored.

The political economy of correction remains contestable. The stablecoin industry's political spending infrastructure is proven and operational. But it has not yet achieved the entrenched position of the railroad trusts in 1894 or the financial industry in 2007. The counterweight, consumer organizations, community banks, labor organizations, academic economists, and the Federal Reserve's own research division, has documented the structural failures in real time. The argument exists in the institutional record. The question is whether it will find political expression before the window closes.

The historical record does not counsel optimism. The pattern is clear and consistent: correction arrives late, at high cost, after the conditions that made early correction possible have been exhausted by the time required for the political economy of the extractive arrangement to exhaust itself.

The historical record also does not counsel fatalism. Walpole acted. Congress acted in 1863. Roosevelt acted in 1933. In each case, the correction was possible because the structural failures were identified, documented, and advocated for by actors with sufficient institutional standing to force legislative attention before the conditions became irreversible.

That is the purpose of this series. Not to predict the outcome. To document the conditions, before the window closes.

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The Architecture of Opportunity: An Investor's Analysis of the Emerging Stablecoin Economy

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This document is produced as a companion to the Cantillon Institute's Dollar Displacement Working Paper Series. The opportunities identified below are analytical consequences of the policy architecture that series critiques. Their identification here is not an endorsement of that architecture, the legislation that produced it, or the actors who

benefit from it. The analysis is offered in the spirit of David Ricardo's foundational insight: that understanding where value flows in a given economic arrangement is the prerequisite for both critiquing and participating in it.

The author holds no positions in any securities or digital assets discussed. Readers should consult a qualified financial advisor before making any investment decision. Regulatory, legislative, and market conditions are subject to rapid change. The CLARITY Act referenced throughout has passed the Senate Banking Committee as of the date of this publication and is pending full Senate consideration. Material changes to either GENIUS or CLARITY could alter the opportunity landscape described below.

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Preface: The Analytical Edge

The investor who reads only the financial press sees a stablecoin market growing at 80 percent annually, a Circle IPO that surged 750 percent in its opening weeks, and a legislative framework that has transformed digital assets from regulatory uncertainty into investable infrastructure. That investor has a trade.

The investor who has also read the Cantillon Institute's Dollar Displacement series sees something more valuable: a map of where the value flows, why it flows there, who captures it at each layer, and how long each capture opportunity persists before network effects consolidate the market and the early positions are closed to new entrants.

This document is written for the second investor.

The structural failures documented in the Dollar Displacement series are real. They are also, from a purely analytical standpoint, investable. A monetary architecture that transfers seigniorage from public to private actors, creates captive Treasury demand, hollows community banking, and builds compliance infrastructure generates specific, identifiable investment opportunities at each stage of its adoption curve. Understanding

the mechanism is the edge. The market is pricing the growth. It is not yet fully pricing the structure.

Irving Fisher taught us that returns are a function of the relationship between present and future value, mediated by the interest rate that connects them. David Ricardo taught us that in any productive arrangement, returns flow to whoever controls the scarce factor. In the stablecoin economy, the scarce factors are regulatory standing, reserve management infrastructure, compliance technology, and network-established consumer trust. This analysis identifies where those factors concentrate, when they become investable, and what conditions would alter the thesis.

The Adoption Framework: Four Tiers

The stablecoin market has grown from $28 billion in 2020 to approximately $323 billion in May 2026, a tenfold increase in five years, with $33 trillion in annual transaction volume as of 2025 (Stablecoin Insider, 2026; Visual Capitalist, 2025). Stablecoin transaction volumes now exceed Visa's annual payment volume. Stablecoin circulation is projected to exceed $1 trillion by late 2026.

Projections for the decade ahead vary considerably by source and methodology. Citi's base case projects $1.9 trillion by 2030, with a bull case of $4 trillion. The Treasury Borrowing Advisory Committee projects $2 trillion by 2028. Coinbase Institutional's framework projects $1.2 trillion by 2028. Treasury Secretary Bessent has cited $3.7 trillion by 2030. Standard Chartered's emerging market analysis projects $1 trillion absorbed from EM banks over three years.

Rather than selecting a single projection, this analysis structures the opportunity landscape across four adoption tiers. Each tier has a different probability weight, a different set of leading indicators that signal tier transition, and a different set of dominant investment opportunities. The tiers are not mutually exclusive in time; different markets, demographics, and use cases will occupy different tiers simultaneously.

Tier 1: Normalization

Definition: Stablecoin penetration below 15% of consumer transactions. Regulatory framework established, early adopter base dominant, network effects nascent. Timeline assumption: Current through approximately 2028. Probability of reaching this tier: Already achieved. We are in Tier 1 now. Analogous historical period: Internet adoption 1995–1998. The infrastructure is real. The killer application for mainstream consumers is not yet fully defined. The early movers are building rails that will carry the next tier's volume regardless of which specific applications emerge.

Leading indicators of Tier 1 → Tier 2 transition:

- Stablecoin market cap exceeds $750 billion
- Major U.S. retailer announces native stablecoin acceptance
- First major bank-issued stablecoin reaches $10 billion in circulation
- CLARITY Act passes Senate in substantially current form

Tier 2: Acceleration

Definition: 15–40% penetration of consumer transactions. Network effects compound. Dominant issuers emerge. Secondary infrastructure, compliance, analytics, custody, tax, builds at scale. Timeline assumption: 2028–2032 under base case; 2027–2030 under hyper case. Probability: High conditional on CLARITY Senate passage. Citi's base case and Coinbase's projections both imply Tier 2 conditions by 2028–2029. Analogous historical period: Smartphone adoption 2010–2014. The platform is established. The ecosystem builds around it. The value migrates from hardware to applications and services.

Leading indicators of Tier 2 → Tier 3 transition:

- Federal Reserve publishes formal assessment of monetary transmission impairment
- First significant stablecoin run event and resolution
- Regional bank M&A activity accelerates measurably above historical baseline
- Stablecoin payroll adoption exceeds $5 billion monthly

Tier 3: Displacement

Definition: 40–70% penetration. Dollar retreats measurably to institutional layer. Credit system restructuring visible in lending data. Fed transmission impairment documented. Timeline assumption: 2032–2038 under base case; 2029–2033 under hyper case. Probability: Moderate. Requires sustained Tier 2 adoption without a major corrective legislative event. The structural forces are present; the political economy of correction is the primary uncertainty. Analogous historical period: Streaming displacing physical media 2015–2020. The old system still functions. The new system is clearly winning. The transition trades are the highest-conviction positions.

Leading indicators of Tier 3 → Tier 4 transition:

- Dollar-denominated consumer savings instruments below 50% of total household savings
- Community bank count below 3,000 (from approximately 4,500 today)
- First legislative attempt to extend stablecoin compensation to W-2 employees
- Stablecoin issuers collectively hold more T-bills than the Federal Reserve's SOMA portfolio

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Tier 4: Dominance

Definition: 70%+ penetration. Architecture mature. Network effects prohibitive. Dollar accessible primarily at institutional layer. Seigniorage capture at full scale. Timeline assumption: 2038+ under base case; 2033+ under hyper case. Probability: Low-to-moderate under base assumptions; the political economy of correction may intervene before this tier is reached. High under hyper adoption scenario. Analogous historical period: Visa/Mastercard duopoly in card payments post-1990. The infrastructure is invisible because it is everywhere. The returns are in the infrastructure owners, not the applications.

The Probability-Weighted Scenario Matrix

The following matrix assigns probability weights to each tier across four adoption scenarios. These are not forecasts. They are analytical tools for structuring position sizing and entry timing.

Scenario	Tier 1→2	Tier 2→3	Tier 3→4	Timeline to T4
Slow	60%	25%	10%	2040+
Medium	80%	50%	25%	2035–2040
Fast	90%	70%	45%	2030–2035
Hyper	95%	85%	65%	2028–2032

Slow scenario conditions: CLARITY Senate modifications significantly tighten DeFi exclusion and impose yield pass-through requirements; ethics provision enacted; one major stablecoin run event in 2027–2029 damages consumer confidence; legislative correction on CRA and tax treatment advances.

Medium scenario conditions: CLARITY passes in modified form; adoption follows Citi base case ($1.9T by 2030); Fed transmission impairment documented but not corrected; community bank M&A accelerates but does not collapse.

Fast scenario conditions: CLARITY passes in substantially current House form; adoption follows Citi bull case ($4T by 2030); employer stablecoin payroll programs normalise in gig economy by 2028; no major run event.

Hyper scenario conditions: Fast scenario plus major EM dollar-stablecoin adoption event (e.g., significant currency crisis in a major emerging market producing rapid flight to stablecoins); bank-issued stablecoin programs achieve critical mass by 2027; CLARITY ethics provision blocked entirely.

The medium-to-fast range carries the highest probability weight given current legislative trajectory. The Senate Banking Committee's 15-9 advancement of CLARITY on May 16,

2026, with two Democratic crossovers, represents a meaningful shift toward the fast scenario, conditional on floor passage at 60 votes.

Opportunity Category I: Infrastructure, the Picks-and-Shovels Layer

Applicable tiers: All tiers. Highest near-term probability. Lowest tail risk.

The infrastructure layer wins regardless of which specific issuers dominate, which applications emerge, or which adoption speed materializes. Every stablecoin transaction, regardless of issuer, requires the same underlying services.

Reserve Management Infrastructure Stablecoin issuers must hold 1:1 reserves in qualifying instruments: T-bills, Fed reserves, qualifying bank deposits. As the market grows from $323 billion to $1–4 trillion, the infrastructure for managing those reserves, custodians, repo facilities, money market intermediaries, and settlement systems, scales proportionally. The BIS documents that a $3.5 billion stablecoin inflow compresses 3-month T-bill yields by 5-8 basis points during periods of bill scarcity (BIS Working Paper 1270, 2026). At $2-4 trillion in reserves, this yield compression becomes a permanent structural feature of the short-duration market. The custodians and intermediaries processing this flow capture fee income that is effectively a tax on stablecoin adoption volume.

Blockchain Analytics and Compliance Technology The GENIUS Act mandates BSA compliance for all stablecoin issuers. The 1099-DA reporting framework, mandatory from January 2025 for gross proceeds and January 2026 for cost basis, requires institutional-grade transaction monitoring. Every issuer, every exchange, every hosted wallet provider requires compliance infrastructure. The stablecoin issuance and management platform market was valued at $3.21 billion in 2025 and is projected to reach $25.60 billion by 2034 at a 25.9% CAGR (IntelMarket Research, 2026). This growth is structural; it is mandated by law, not by consumer preference.

Tax Compliance Automation As documented in Dollar Displacement Working Paper 9, the IRS property classification creates per-transaction taxable events for every stablecoin consumer. This compliance burden generates demand for automated tracking, cost-basis calculation, and filing assistance that does not exist at scale for traditional payment instruments. The crypto tax software market, Koinly, CoinTracker, TokenTax, is a direct beneficiary of the gap between the payment architecture GENIUS creates and the tax framework it failed to address. This market grows proportionally with consumer stablecoin adoption, independent of issuer competition outcomes.

Payment Rails and Settlement Infrastructure Visa's stablecoin settlement volumes hit $4.5 billion annualized as of January 2026, up 460% year-over-year (Stablecoin Insider, 2026). Stripe, Shopify, and Fidelity National Information Services have all announced stablecoin integration programs. Circle's partnership with FIS, announced following GENIUS passage, embeds USDC into the core infrastructure of traditional financial institutions for cross-border settlements. The settlement infrastructure layer captures a basis-point fee on every transaction routed through it. At $33 trillion in annual stablecoin transaction volume growing at 72% annually, the settlement infrastructure revenue opportunity is calculable.

Entry timing: Now through Tier 1–2 transition. The infrastructure build-out is in progress. The window for sub-scale entry closes as the Tier 2 network effects establish dominant players.

Opportunity Category II: Issuer Positioning - The Seigniorage Capture Layer

Applicable tiers: Tier 1 peak through Tier 3. Highest return potential. Requires issuer-specific analysis.

The Dollar Displacement series identifies stablecoin issuers as the primary beneficiaries of the seigniorage transfer embedded in the GENIUS Act architecture. The T-bill float, the yield earned on reserve holdings not passed to consumers, is the business model. At scale, this is among the highest-margin businesses in financial services.

Circle (CRCL) Circle's IPO on July 6, 2025, raised $1 billion at an initial valuation that surged to over $40 billion in its opening weeks before correcting to approximately $29.5 billion as of March 2026 (TradingKey, 2026; Morgan Stanley, 2025). The business model generated $1.25 billion in revenue in H1 2026, with 95.5% derived from interest income on T-bill reserves. This is the seigniorage capture in its purest public-company form. The FIS partnership positions USDC as institutional settlement infrastructure for cross-border payments, a strategic shift from consumer stablecoin to institutional rail that significantly expands the total addressable market and reduces consumer adoption risk.

The investment thesis for CRCL is a T-bill yield spread business with a network effect moat, growing at the rate of USDC adoption, with a regulatory first-mover advantage under GENIUS that no subsequent entrant can easily replicate. The risk factors are: yield compression at scale (BIS documents the mechanism: at $1T+ in reserves the compression becomes material to Circle's own economics); competition from bank-issued stablecoins with institutional distribution advantages; and legislative correction risk if yield pass-through requirements are enacted.

The Bank-Issued Stablecoin Programs JPMorgan's JPM Coin, Citi Token Services, and prospective programs from Wells Fargo and Bank of America represent the institutional pivot documented in Dollar Displacement Working Paper 6. Large banks cannot follow deposits into non-bank stablecoins, so they are building their own. The institutional advantage is distribution: banks with existing corporate client relationships can onboard stablecoin settlement without consumer adoption friction. The float capture model is identical to Circle's. The regulatory capital treatment differs; bank-issued stablecoins may carry different reserve requirements depending on CLARITY's final Senate form. Exposure through the issuing banks' equity carries this optionality within a diversified financial institution structure.

Tether (Private) Tether reported more than $10 billion in net profits in 2025, from a company with approximately 100 employees. This is the most concentrated seigniorage capture in financial history: roughly $100 million in profit per employee. Tether is not publicly traded. Exposure is indirect through USDT ecosystem participants, derivative instruments where available, and the infrastructure that processes USDT volume. The compliance and regulatory risk profile for Tether, operating from the British Virgin

Islands, with historical reserve disclosure issues, is materially higher than Circle's. The return profile reflects this.

T-Bill ETFs and Short-Duration Treasury Instruments The stablecoin reserve mandate creates structural, price-inelastic demand for short-duration Treasury instruments. BIS research documents that a $3.5 billion stablecoin inflow compresses 3-month yields by 5-8 basis points during periods of bill scarcity, roughly double the baseline estimate. The trade: long short-duration T-bill ETFs ahead of stablecoin market cap milestones, capturing the price appreciation that precedes yield compression events. The entry window for this trade closes as stablecoin adoption milestones become consensus expectations and are priced in advance.

Entry timing: Tier 1 through early Tier 2. The dominant issuers are being established now. Network effects that make later entry prohibitively expensive are forming in the Tier 1–2 transition.

Opportunity Category III: Displacement Trades, the Restructuring Layer

Applicable tiers: Tier 2 through Tier 3. Moderate near-term probability. Highest analytical complexity.

The Dollar Displacement series documents the hollowing of the insured banking system as the deposit migration thesis plays out. This creates a set of identifiable restructuring opportunities.

Regional Bank Consolidation Dollar Displacement Working Paper 6 documents the structural disadvantage facing regional and community banks competing for deposits against non-bank stablecoin issuers with lower compliance overhead. A U.S. Treasury report estimates that stablecoin adoption could trigger as much as $6.6 trillion in deposit outflows from the banking sector (Morgan Stanley, 2025). Boston Consulting Group has estimated that the tokenized asset market could reach $16 trillion by 2030, driven by interest from investors, institutions, and governments. Regional banks that cannot build

stablecoin infrastructure become acquisition targets for large institutions that can. The M&A premium in regional banking consolidation is a documented historical pattern in stress-driven consolidation cycles, savings and loan crisis, post-2008 consolidation, and the structural driver here is clear and quantifiable. Exposure through regional bank equity or bank M&A focused ETFs captures this dynamic.

Alternative Community Lending As CRA-obligated community lending contracts with the deposit base, the market gap it creates is real and growing. The $387 billion in annual CRA lending documented in Working Paper 6, 77% of outstanding small business loan dollars, does not disappear because the bank funding it migrated to stablecoins. The demand for small business credit, agricultural lending, and community mortgages persists. It migrates to non-bank lenders, SBA programme vehicles, CDFI-certified instruments, and alternative lending platforms filling the gap the banking system is exiting. This is a Tier 2 opportunity with a clear structural driver and limited current market recognition.

Compliance-as-a-Service for Stablecoin Freeze and Due Process The surveillance architecture documented in Working Paper 7, combined with the due process gaps identified in the same paper, creates demand for legal and technological services that did not exist at scale before GENIUS. The March 2026 DFINITY incident, in which Circle froze public bridge infrastructure serving thousands of unrelated users, will recur at scale as transaction volumes grow. The legal, insurance, and technical response infrastructure for stablecoin freeze incidents, dispute resolution services, freeze insurance products, compliance monitoring for institutions with stablecoin treasury exposure, is an emerging category with identifiable demand and no dominant provider.

Entry timing: Tier 1–2 transition through Tier 2. The restructuring thesis is visible now but not yet at the scale that produces maximum displacement pricing. Regional bank equity exposure is available today. The alternative lending and compliance service opportunities are earlier stage.

Opportunity Category IV: The Seigniorage Scale Trade, the Dominance Layer

Applicable tiers: Tier 3 through Tier 4. Lower near-term probability. Highest long-term return if thesis fully materializes.

This is the trade that Irving Fisher would have modeled most precisely: the present value of a permanent, legislatively-protected yield spread on the consumer monetary layer, discounted at the rate of adoption.

The Float Arithmetic at Scale At $323 billion in stablecoin market cap today, with approximately 63–64% held in T-bills at a current 3-month T-bill yield of approximately 5.2%, the reserve float generates approximately $10-11 billion in annual gross yield across the stablecoin sector. At Citi's base case of $1.9 trillion by 2030, the same arithmetic, assuming yield compression reduces the T-bill rate to approximately 4% at scale, produces approximately $50–60 billion in annual gross yield. At the bull case of $4 trillion, approximately $100–120 billion annually. This is the seigniorage that the Dollar Displacement series identifies as the critical public-to-private transfer. From an investor perspective, it is a structurally growing, legislatively-protected revenue stream with a defined beneficiary class.

Positioning for Tier 4 The Tier 4 position is not a trade; it is a structural allocation to the entities that will own the monetary infrastructure of the consumer economy. The historical analogues, Visa and Mastercard's duopoly, SWIFT's correspondent banking infrastructure, the Federal Reserve's institutional role, suggest that entities that achieve Tier 4 positions in monetary infrastructure earn returns commensurate with their irreplaceability. The entry point for this position closes at Tier 3. By Tier 4, the network effects are prohibitive and the valuation reflects full dominance.

Entry timing: Tier 2 peak. The entry is too early now for pure Tier 4 positioning, the probability weight is insufficient to justify full allocation. The position builds through Tier 2 as leading indicators confirm the Tier 3 transition.

Hedge Positions: The Correction and Variance Layer

The scenario matrix assigns meaningful probability to legislative correction at each tier transition. The following positions perform well under correction scenarios without requiring them.

Privacy-Preserving Financial Instruments The surveillance architecture documented in Working Paper 7 creates demand for financial instruments and services that provide transactional privacy within a compliant framework. Zero-knowledge proof technology, which allows transaction validity to be verified without revealing transaction content, is the technical solution with the most institutional credibility. Exposure through ZK-focused development infrastructure and tooling captures privacy demand that exists across both correction and non-correction scenarios.

CBDC-Adjacent Infrastructure The Dollar Displacement series documents the U.S. CBDC foreclosure. If a future administration reverses the Anti-CBDC prohibition, an event the foreword by H.E. Martyn assigns non-trivial probability, the infrastructure required to implement a U.S. CBDC would need to be built rapidly. The distributed ledger technology, identity verification, and monetary policy interface infrastructure that a CBDC would require is substantially overlapping with stablecoin infrastructure. Exposure to the technology layer, rather than the issuer layer, captures both the stablecoin adoption scenario and the CBDC pivot scenario.

Short-Duration Credit Instruments in Non-Stablecoin Markets If the T-bill yield compression thesis is correct, the relative value of equivalent credit risk in non-T-bill short-duration instruments, agency MBS, investment-grade corporate short duration, FDIC-insured deposit instruments, increases as T-bill yields are artificially suppressed. Relative value trades between stablecoin-demanded instruments and functionally equivalent alternatives capture the compression without direct stablecoin exposure.

Legislative Correction Hedges The five legislative reforms proposed in Dollar Displacement Working Paper 10 each have an identifiable market impact if enacted. Yield pass-through requirements would compress Circle's margin and redirect value to consumers. CRA extension would impose costs on non-bank issuers currently avoiding them. Tax de minimis exemption would reduce demand for compliance software. Portfolio hedges against these specific reform outcomes, structured as option positions on affected

equities or sector ETFs, allow a primarily bullish stablecoin portfolio to remain exposed to the core thesis while limiting downside from correction events.

The Probability-Weighted Opportunity Summary

Opportunity	Primary Tier	Scenario	Relative Attractiveness
Reserve management infrastructure	All	All	High - structural, mandated
Blockchain analytics / compliance tech	All	All	High - legislative mandate
Tax compliance automation	All	All	High - IRS gap is durable
Settlement rails (Visa, Stripe, FIS)	1–3	Medium–Hyper	High - volume-based
Circle (CRCL) equity	1–2	Medium–Hyper	High with yield risk caveat
Bank stablecoin programs	1–3	Medium–Hyper	Moderate - regulatory uncertainty
T-bill ETF compression trade	1–2	Fast–Hyper	Moderate - entry window closing
Regional bank M&A	2–3	Medium–Fast	Moderate - longer timeline

Opportunity	Primary Tier	Scenario	Relative Attractiveness
Alternative community lending	2–3	Medium–Fast	Moderate - early stage
Freeze/compliance legal services	2–3	All	Emerging - no dominant provider
Seigniorage scale trade	3–4	Fast–Hyper	High return / lower probability
ZK privacy infrastructure	All	All - correction hedge	Moderate - scenario hedge
CBDC-adjacent technology	All	Correction scenario	Low probability / asymmetric

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Risk Factors: What Would Break the Thesis

Legislative Correction Risk The five reforms proposed in Dollar Displacement Working Paper 10, yield pass-through mandate, CRA extension, tax de minimis, freeze due process, CBDC prohibition review, each carry non-trivial legislative probability. Yield pass-through is the highest-impact reform for the issuer layer: it would compress the seigniorage spread that underlies the Tier 2–4 opportunity categories. The probability weight assigned to legislative correction increases with adoption speed; the faster stablecoins scale, the more visible their distributional consequences become, and the more politically viable correction becomes.

Run Event Risk A major stablecoin issuer losing its peg, the 2008 money market fund scenario applied to the consumer transaction layer, would reprice the entire category. The GENIUS Act's 1:1 reserve requirement provides structural protection against insolvency. It does not protect against the liquidity run dynamic documented in Working Paper 1. The March 2023 USDC depeg event, triggered by Circle's $3.3 billion exposure to Silicon Valley

Bank, lasted 36 hours and reached $0.87 before resolving. At Tier 2–3 adoption levels, an equivalent event would have materially larger market impact.

Adoption Plateau Risk The 80% annual growth rate of 2020–2025 will not persist indefinitely. S-curve dynamics predict deceleration as the early-adopter market saturates and mainstream adoption friction proves higher than current trajectories imply. If adoption plateaus at Tier 1–2 transition levels, stablecoin market cap stabilising at $500–700 billion rather than scaling to $2–4 trillion, the Tier 3–4 opportunity categories do not materialise on any timescale that rewards a position taken today.

Geopolitical Fragmentation Risk The Triffin analysis in Dollar Displacement Working Paper 8 identifies the risk that stablecoin dollarization accelerates credibility erosion of the dollar as a neutral international settlement medium. If BRICS nations successfully develop viable digital currency alternatives; the digital yuan's international deployment is the leading indicator, the TAM for dollar-stablecoin adoption in the markets that drive the Tier 2–3 growth thesis (EM financial inclusion) contracts. This is a slow-moving risk with a long lead time. It is not priced in current valuations.

Concentration Risk Tether and Circle control approximately 84% of stablecoin market cap. The infrastructure layer bets described in Category I are robust to competition between them. Direct issuer exposure is not. A competitive disruption, a major bank-issued stablecoin achieving rapid institutional scale, a yield-bearing stablecoin from a regulated non-bank issuer winning regulatory approval for a modified yield structure, could compress market share faster than consensus expects.

Conclusion: The Informed Position

Ricardo's theory of rent established that in any productive arrangement, returns in excess of normal profit flow to whoever controls the factor that is scarce and cannot be replicated. In the stablecoin economy, that factor is not the technology; it is the regulatory standing, the reserve management infrastructure, and the network-established consumer trust that GENIUS has made the prerequisite for operating in the U.S. dollar stablecoin market.

Fisher's equation of exchange established that the value of money is a function of its velocity, volume, and the price level of the goods it purchases. The stablecoin architecture increases the velocity and volume of dollar-denominated transactions while separating the price level signal from the Federal Reserve's policy instruments. The investor who understands this separation, who sees that the Fed's impaired transmission is not a policy failure to be corrected but a structural feature to be priced, has the analytical framework that the market has not yet fully discounted.

The Cantillon Institute's Dollar Displacement series is a policy critique. This document is its investment complement. The same architecture that the series identifies as a structural failure of monetary governance is, for the investor who understands it, a map of where the value flows.

The architecture is being built. The question is not whether to engage with it. The question is where in the structure to stand, at what tier of adoption, with what hedges against the correction that history suggests eventually arrives.

The informed position is not optimism or pessimism about the architecture. It is precision about its mechanics.

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D.I. Fisher is a pseudonym for an independent analyst writing on monetary economics, financial markets, and the investment implications of monetary policy architecture. This document is produced as a companion to the Cantillon Institute's Dollar Displacement Working Paper Series.

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