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Discussion of:
Making Money
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Overview

- Very interesting paper that seeks to calculate the distance to NQA for private bank notes and stablecoins
- Key findings for stablecoins:
  - Distance to NQA has not been decreasing over time (so far)
  - Distance to NQA is correlated with convenience yield
  - Stablecoins have an inconvenience yield
  - Stablecoins have not differentiated themselves from other stablecoins
- The paper provides a useful lens to think about developments in cryptocurrencies
This discussion

- Is it worth distinguishing between different types of stablecoins?
- Can stablecoin issuer develop an individual reputation apart from other stablecoins?
- Role of competition between stablecoins and reserve quality (stablecoins may be moving toward safer reserve)
- How are stablecoins like private money?
Different types of stablecoins?

- Stablecoins is an overly broad term that encompasses very different objects
  - “Fiat-backed” stablecoins (USDT, USDC) are typically backed by safe and liquid short-term financial assets
  - “Crypto-backed” stablecoins (DAI) are backed by cryptocurrencies
  - “Algorithmic” stablecoins (TerraUSD) are unbacked but are supposed to keep their peg through arbitrage
- Do these differences matter for the distance to NQA?
  - At a minimum, they could impact the perception of the stablecoin’s safety
Can stablecoin develop a reputation?

- The paper states: “it may be difficult for a stablecoin issuer to develop an individual reputation apart from other stablecoins”
- However, concentration of stablecoin value outstanding and its evolution suggests stablecoins are distinguishable
  - Top 3 stablecoins account for 90% of total value
  - The share of USDT has decreased significantly between June 2020 and March 2022 (and has stabilized since)
  - The share of stablecoins outside of the top 3 isn’t increasing
- How can we reconcile evidence in terms of distance to NQA with the concentration of largest stablecoins?
Stablecoin supply and share

Total Stablecoin Supply

Share of Total Stablecoin Supply

SOURCES: THE BLOCK, COIN METRICS
UPDATED: SEP 16, 2022
The top three stablecoins appear to be competing by attempting to become safer

- In June 2022, USDT announced that it was planning to completely divest from commercial paper
- USDC held over 25% of CP, CD, municipal and corporate bonds in 2021 and now only holds cash and Treasuries
- BUSD holds only cash and Treasuries

This again suggests that stablecoins may have an individual reputation apart from other stablecoins

It is interesting and perhaps reassuring that stablecoins appear to be attempting to become safer
How are stablecoins like private money?

- Private bank notes appeared in an environment where the lack of payment instruments was a big problem.
- For that reason, they likely had huge social value, even though we think of them as a bad payment system.
- Private bank notes were a lot worse than what a good payment system could be, but much better than nothing.
What void are stablecoins filling?

- Stablecoins are emerging at a time when there are many (much) more effective payment mechanisms for most use.
- Recall, Bitcoin was supposed to be money:
  - “A purely peer-to-peer version of electronic cash…” (Satoshi)
- Bitcoin is so bad at being money that stablecoins needed to be created to transact it:
  - Stablecoins are almost exclusively used for that purpose.
- There is currently no other money-like asset available on DLTs.
What are stablecoins useful for?

- DLTs may have some benefits over other transfer mechanisms
  - Ability to make transfers 24x7x365 (but this advantage is likely temporary)
  - Programmability (but is this exclusive to DLTs?)
- However, stablecoins have very limited use in any other context, which limits their benefit as money
- Indeed, the paper finds that stablecoins are not good at being money: they have an inconvenience yield
Very interesting paper that demonstrates stablecoins have some way to go before they can be considered money

Indeed, the paper finds that:

- Stablecoins have an inconvenience yield
- Distance to NQA has not been decreasing over time (so far)

The paper made me wonder:

- Does the type of backing affect distance to NQA?
- How do we reconcile evidence of concentration with the evidence that stablecoins don’t seem to build reputations?
- Should we be thinking of stablecoins as money?