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?

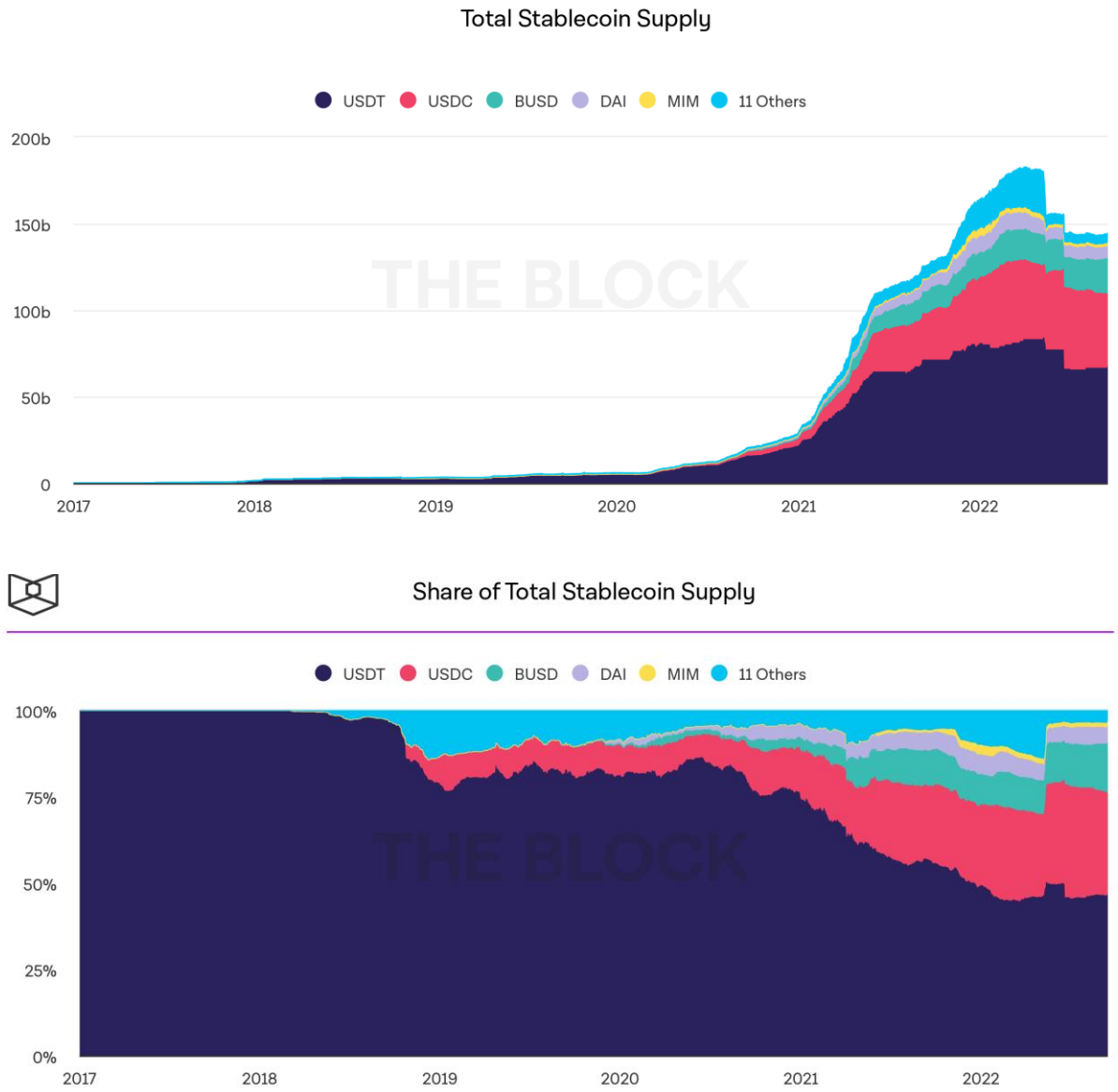
Different types of stablecoins?

- 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



SOURCES: THE BLOCK, COIN METRICS
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Competition between stablecoins

- 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 excusive 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

To sum up

- 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?