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Crypto Fans Say Stablecoins Are Good for the Dollar. The Truth Is More Complicated

The Genius Act may boost demand for Treasuries. It could also cause problems in that critical market.



Photographer: Tais Sirote for Bloomberg Businessweek

By Christopher Beam
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Last July, President Donald Trump signed the Genius Act into law. The legislation establishes a nationwide regulatory framework for stablecoins – cryptocurrency tokens that are pegged to the US dollar – and officially clears the way for banks and other financial institutions to issue their own with federal approval.

Crypto boosters like Donald Trump Jr. have argued that legalizing dollar-denominated stablecoins would help reinforce the greenback's status as the world's dominant currency. Treasury Secretary Scott Bessent has made the same case. The basic idea is

that, because stablecoin issuers are required to back tokens 1-to-1 with dollar-denominated assets such as Treasury bills, the proliferation of stablecoins will translate into more demand for government-issued debt. That in turn would drive down yields and make borrowing cheaper – not just for Uncle Sam but for all Americans.



Bessent speaking at the Republican National Convention in Dallas on Sept. 9. *Photographer: Kevin Dietsch/Getty Images*

Many say the dollar's global dominance is under threat. The proportion of central banks' foreign reserves held in greenbacks has been declining in recent years, from 64% in 2015 to 56% in 2025, according to the International Monetary Fund. There are many reasons for that. Among them: Trump's tariffs have alienated even reliable allies, while the administration's attempts to curb the independence of the Federal Reserve have given investors jitters. The US government's now-$40 trillion debt doesn't inspire confidence either.

It's true that federal approval of stablecoins could help shore up the buck, economists say. "It's a big plus for the US, the more traction

stablecoins get, because it means the dollar stays dominant as a payment currency, and it boosts demand for US Treasuries," says Eswar Prasad, a professor at Cornell University who's an authority on money in all its forms.

But will that actually translate to lower interest rates in the US? "Economists, you know what our favorite answer is: 'It depends,'" says Amit Seru, a professor of finance at Stanford Graduate School of Business. If someone buys US-backed stablecoins using cash they pulled from a money-market fund, it wouldn't make much difference; that's just moving dollar-denominated assets around. But if they paid for the tokens with Turkish lira, that would create new demand for Treasuries, and American borrowers might benefit. Even then the proliferation of stablecoins would mainly affect interest rates on short-term Treasuries, since the Genius Act requires stablecoin issuers to keep money in investments with a maximum duration of 93 days. It wouldn't have as much effect on yields on 10-year Treasuries, a benchmark for mortgages and other types of consumer loans, which have spiked recently, causing headaches for the administration. "In the short run, I don't see issuing stablecoins leading to a major decline in interest rates," Seru says. "If interest rates go down, it will be because we got our fiscal situation under control."

Stablecoins could also introduce complications into the financial system. In a recent paper, Brookings Institution economist Nellie Liang and University of Chicago Booth School of Business professor Brent Neiman argue that, because the law requires stablecoins to be backed by relatively safe and liquid assets, interest rates on short-term Treasuries could become more variable and unpredictable. They also point out that the proliferation of stablecoins could take the teeth out of US sanctions and make it harder to enforce anti-money-laundering policies, since users can exchange stablecoins anonymously more easily than dollars.

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Then there's the chance that stablecoins lose their stability. The Genius Act tries to ward off this outcome by requiring tokens to be fully backed by dollar-denominated assets – ideally T-bills, but also overnight loans backed by T-bills or money-market funds. So far, so

safe. More problematic is legislators' choice to allow uninsured bank deposits as collateral. A bank failure could put those deposits in jeopardy. In that case the stablecoin itself could lose its peg to the dollar, and it takes only a small break to start a run that could engulf the entire asset class. Say a stablecoin suddenly trades at 99¢: Anyone who doesn't want to lose money will ditch it, driving the token's value down further, only worsening the stampede.

And that's for stablecoins that are compliant with the Genius Act. Unapproved stablecoins, including those minted by issuers overseas, aren't held to the same rules and could be invested in riskier assets. (That includes the most popular stablecoin of all, Tether, whose issuer is based in El Salvador.) If some of a coin's underlying assets tank, the issuer might be forced to sell its safer assets, putting downward pressure on those markets too. "What happens in offshore dollar markets does not stay in offshore dollar markets," says John Crawford, a professor at the University of California College of the Law at San Francisco who's written about stablecoin risks.

To address that concern, Tether is creating a US-specific token that complies with the new law. Plus, Tether says it maintains a buffer of reserves equivalent to 3.7% of capital, so the value of its assets would have to fall by more than that amount to cause real trouble. "It all sounds very good, but one can imagine a situation in which a dollar-backed stablecoin that is compliant with the Genius Act does face some redemption pressures," Prasad says.

The biggest threat to the dollar, Seru points out, isn't stablecoins, or any other currency, but rather declining faith in US leadership and institutions. "Technology cannot compensate for weak institutions," he says. "The dollar remains dominant because people trust the system behind it."

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