A New Global Monetary Order Threatens the Dollar

There’s a parallel financial system led by stablecoins that’s starting to jeopardize the greenback’s status as a reserve currency.

By Jim Bianco
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The history of modern finance has seen several monetary orders, from the gold standard of the 19th century to the current fiat-based era starting in 1971. Each period had its dominant reserve currency, starting with gold and then moving to the British pound and U.S. dollar. The current system is 50 years old, about the average length of previous monetary orders.

The lesson is that nothing lasts forever. The prudent should be preparing for the next monetary order, with all signs pointing to decentralized finance using a stablecoin as its reserve currency. How regulators and Wall Street handle this transition will significantly impact the global economy, as it seems destined to happen with or without their blessing.

Cryptocurrencies are decentralized computer networks that run on networks with no on/off switch or an overarching authority that makes rules. The mantra here is “code is law.” Using smart contracts on networks like Ethereum and Solana, an entirely new financial system is under construction. Such architecture aims to cut out the need for traditional banks, brokers, insurance companies, and exchanges for many processes, including collateralized borrowing and lending, market-making, insurance underwriting, and trading.

Stablecoins are cryptocurrencies that have their value pegged to another asset, such as the dollar. Their feature is that they have little-to-no volatility against the peg, making them the ideal trading pair in the cryptocurrency universe. The most widely circulated stablecoins are USDC and Tether. They are designed to be precisely worth $1. Unlike the current international banking system, transferring stablecoins as a means of payment is fast, easy and cheap.
The growth of decentralized finance, or DeFi, and stablecoins has been extraordinary. The dollar amount of coins involved in this space is known as total value locked. According to the website DeFi Pulse, it has grown from $900 million to $70 billion in just a year. It has been doubling about every two months. Since the beginning of 2019, stablecoin turnover has boomed, rising from a few billion dollars a day to an average of $100 billion in April 2021, setting a record of $250 billion on April 16. Stablecoins account for the majority of the daily volume in the crypto universe.

The “real world” is awakening. PayPal Holdings Inc. and Visa Inc. recently announced they would allow payments with stablecoins on their platforms. eBay Inc. is looking into it. Using stablecoins for cross-border payments is getting some serious consideration.

But the awakening is the most pronounced outside of the developed world. A 2020 global consumer survey by Statista found cryptocurrencies are owned or used by 6.2% of U.S. citizens, 5.2% in Germany, and 4.7% in the U.K. But in countries with many unbanked or confiscatory lending and inadequate protections, the percentages jump. In Nigeria, 32% owned or use cryptos, 21% in Vietnam, the Philippines is 20%, Turkey is 16%, and Indonesia is 13%.

The U.S. and Europe enjoy tremendous benefits from the current centralized financial system and the dollar’s reserve currency status. So, it makes sense they are lagging in adoption. What is attracting the developing world to cryptocurrencies? As a paper on DeFi published in December and co-authored by Campbell Harvey, a senior adviser at quant firm Research Affiliates and professor at Duke University notes:

> Our legacy financial infrastructure has both limited growth opportunities and contributed to the inequality of opportunities. Around the world, 1.7 billion are unbanked. Small businesses, even those with a banking relationship, often must rely on high-cost financing, such as credit cards, because traditional banking excludes them from loan financing. High costs also impact retailers who lose 3% on every credit card sales transaction. These total costs for small businesses are enormous by any metric. The result is less investment and decreased economic growth.

The current financial system extracts high rents for its services, and those on the losing end are looking for alternatives. Now that these alternatives are starting to look like a parallel financial system that can threaten the status quo, the question turns to what position do developed country financial regulators and banking officials adopt? Do they take the Charlie Munger view that what is happening is “disgusting and contrary to the interest of civilization?” Or do they see financial services as next in line to get disrupted and should be encouraged?

Given the high adoption rates in the rest of the world and how previous bans in China, Russia, Nigeria and India have not stopped its growth, any similar attempts at banning it in the developed world are likely to be equally ineffective. At worst, they could leave the developed world with a lesser role in designing the new financial system.

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