

Stablecoins in the USA: Politics, Markets, and Rules

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Abstract

We examine how stablecoins moved from the periphery of cryptocurrency markets and regulatory scrutiny to becoming the centerpiece of strongly bipartisan U.S. legislation. We argue that stablecoins became politically viable because they were increasingly understood as instruments of U.S. monetary strategy: privately issued digital dollars that could reinforce, rather than undermine, dollar dominance if brought within a federal regulatory framework. The case for federal regulation was therefore both prudential and strategic. Regulation offered a way to make private-dollar innovation serve public monetary power. To build support for this claim, we analyze the institutions, ideas, and interests that shaped the GENIUS Act. First, we highlight how the President's Working Group reframed stablecoins as a prudential and payments problem compatible with existing institutional arrangements. Second, we trace the ideas that shaped the legislation, including stablecoins as a private-money problem, a payments innovation, an instrument of dollar statecraft, and a politically viable alternative to central bank digital currencies. While these ideas were not always harmonious, together they pushed policy toward allowing regulated, privately issued payment stablecoins. Third, we examine how interest groups reshaped both the debate and the framing of legislation. We conclude by assessing the GENIUS Act's achievements and examining the questions it leaves unanswered.

JEL: E40, F65, G18, G20, G23, O16, O32

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INTRODUCTION

In July 2021, Jerome Powell sat before the Senate Banking Committee and offered a blunt assessment of stablecoins. They were, Powell said, like money market funds, like bank deposits — liquid instruments that investors treat as a safe store of value, redeemable one-for-one with the dollar, but the resemblance ended there. Money market funds and bank deposits sit inside a thick web of regulation: capital requirements, disclosure rules, federal deposit insurance, and access to the Fed's liquidity facilities. Stablecoins offered the same promise of par redemption with none of the protections. If stablecoins were to become a meaningful part of the U.S. payments system, they would require appropriate regulation, though Powell's tone suggested he doubted that day would come soon ([U.S. Senate Committee on Banking, Housing, and Urban Affairs 2021](#)).

Yet on July 18, 2025, President Trump signed the Guiding and Establishing National Innovation for U.S. Stablecoins Act (the GENIUS Act) into law with meaningful bipartisan support. A technology that the U.S. government had long treated as a nuisance at best and a threat at worst had become the subject of landmark bipartisan legislation and a part of President Trump's national strategy for making America the crypto capital of the world ([White House 2025](#)).

How did this happen? That is the question this chapter sets out to answer. While the narratives popularised in the press surrounding stablecoins are those of technology, speculation, or partisan politics, we argue that stablecoins became easier for policymakers to fold into existing law once they came to view their distinctive features as less like the rest of the crypto ecosystem and more like a narrow, regulatory instance that could be reframed in the familiar prudential terms. Importantly, though, the case for regulation was not only prudential but also strategic: regulation served as a mechanism by which private-dollar innovation could be made to serve public monetary power rather than undermine it. Of course, at the time, different actors saw stablecoins as politically significant for different reasons, including financial stability, dollar dominance, privacy, payments modernisation, and state capacity.

Yet the traction payment stablecoins have gained in the U.S. has not yet produced an across-the-board embrace of cryptocurrencies. Instead, it produced something narrower and, in some ways, more consequential: the U.S. privileged one class of private digital money while leaving much of the rest of the digital-asset ecosystem unsettled. For observers seeking to understand the rise of stablecoins and their related business models, the U.S. case

shows how a disruptive financial innovation can be narrowed, domesticated, and absorbed into the legal and political framework of a major state.

To appreciate these developments, we trace them through three lenses: institutions, ideas, and interests. We begin with institutions, examining how the President’s Working Group on Financial Markets (PWG), the U.S. Treasury, the banking agencies, and, eventually, Congress made stablecoins a legislative priority by framing them as a problem for prudential regulation and payments. Then, we turn to ideas, examining the competing frameworks that shaped U.S. policy, including shadow banking risk, payments innovation, dollar statecraft, and privacy debates. Finally, we focus on interests, including the lobbying coalitions, banking incumbents, and political strategies used by crypto firms such as Circle to educate policymakers.

These lenses are analytically distinct, though not separable. Institutions helped define stablecoins as the relevant policy debate within the crypto ecosystem. Ideas shaped which regulatory responses appeared credible, and interest groups influenced which of those responses became politically viable. Our aim in this chapter is not to identify a single decisive cause behind the GENIUS Act, but to show how institutional narrowing, idea reframing, and coalition politics together made payment stablecoins easier to incorporate into U.S. law.

But the GENIUS Act settles only part of the broader debate. Major questions remain beyond the narrow category of regulated payment stablecoin issuers, including cross-chain and cross-jurisdiction risk, legal reciprocity, broader digital-asset reforms, and whether a system built around private payment stablecoins differs as much from CBDCs as its advocates suggest. We return to these tensions in the conclusion.

I. INSTITUTIONS

Stablecoins are often described as a story about blockchain technology and entrepreneurial experiments in decentralized finance (DeFi) — a frontier policed, fitfully, by Gary Gensler’s SEC. That framing is incomplete. Within the federal government, stablecoins were brought into regulatory discussions early by an institution built for a different purpose: the PWG, an interagency body created by Executive Order after the 1987 market crash. Chaired by the Treasury Secretary and in conjunction with the Federal Reserve, the SEC, and the CFTC, the PWG’s mandate was crisis coordination, and this was the lens it brought to stablecoins,

treating them not as a payments innovation but through the traditional lens of systemic risk, investor protection, and market integrity.

While introduced through a traditional regulatory lens aimed at fostering public trust in markets, the formalisation of stablecoin's role within existing capital markets and risk-mitigating regulatory strategies emerged in stages. First, the PWG's December 2020 report argued that outright bans of stablecoins were wrong. Instead, the PWG recognised that stablecoin arrangements, especially those adopted at significant scale for retail payments, should be considered. Therefore, even early on the PWG saw the potential benefits, yet they also saw meaningful risks, highlighting financial stability, anti-money laundering (AML) compliance, and consumer protection concerns. In fact, the PWG report adopted the principle that similar economic functions should face similar regulatory expectations, articulated as "same business, same risk, same rules." Thus, well before Congress acted, influential policymakers had already signaled that stablecoins would encompass traditional bank supervisory activities.

The second decisive step came in July 2021, when Treasury Secretary Janet Yellen convened the PWG, along with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Company (FDIC), to examine stablecoin regulation, identify risks, and develop written recommendations. The group's expansion was institutionally consequential. Once the bank regulators joined the process, the center of gravity shifted toward prudential oversight and away from a narrower debate over disclosure or enforcement under existing securities and commodities law. The institutional effect was to convert stablecoins from a loosely defined crypto-policy problem into a banking-and-payments governance problem.

The November 2021 Report on Stablecoins issued jointly by the PWG, FDIC, and OCC made the reframing of payment stablecoins clear. This narrowing gave the federal government a clear object for regulation and one that could fit into a familiar set of prudential concerns. Moreover, the main recommendation was for Congress to require payment stablecoin issuers to be insured depository institutions, a standard that no crypto-native firm was close to meeting. [Jackson, Massad, and Awrey \(2022\)](#) pushed this logic further, arguing that regulation was achievable under existing banking law without new legislation, underscoring how quickly the policy and academic conversations had converged on a bank-regulatory template.

The Financial Stability Oversight Council (FSOC) reinforced that shift. In its December 2021 annual report and again in its 2022 report on digital asset financial stability risks, FSOC elevated stablecoins from a niche issue to one embedded in the broader federal financial

stability agenda, repeatedly endorsing the need for congressional action. Once FSOC did that, stablecoins became part of the official macroprudential agenda. In fact, Treasury’s 2022 report on the future of money and payments situated stablecoins within their agenda of payment modernisation and CBDC design without disturbing the PWG’s prudential framework.

Congress then translated the PWG template into statute, but only after narrowing the object of legislation even further. The GENIUS Act created the first federal framework specifically for payment stablecoins, leaving other categories outside its regulatory perimeter and subject to further study. These include endogenously collateralised stablecoins such as those governed by algorithms or decentralised autonomous organisations (DAOs), whose governance structures carry their own centralisation risks that are distinct from those of reserve-backed issuers (Appel and Grennan 2023) and CBDCs, which were reserved as a categorically distinct instrument.

The GENIUS Act allows for a broader set of issuers than the insured depository institutions recommended by the PWG, but overall, the continuity of spirit in the new federal regulation is clear. For example, the law retains features such as federal licensing and bank supervision while imposing reserve and disclosure requirements. The implementation of the new rules, even for crypto-native firms that become payment-stablecoin issuers, is under the exclusive control of banking agencies and the Treasury. Importantly, only three types of entities may issue payment stablecoins: bank subsidiaries, OCC-licensed nonbanks, and state-licensed entities with assets below \$10 billion. While these three entities extend beyond depository institutions, they are very similar. Finally, foreign issuers may access the U.S. market only if the Treasury Department certifies that their home country’s regulatory regime is comparable. Thus, the GENIUS Act is best understood as Congress accepting the PWG’s institutional roadmap while moderating some of its substantive boundaries. The pace of that convergence is visible in the legislative record, summarised in Table 1, across three successive Congresses.

TABLE 1: The stablecoin legislative timeline

Congress	Key bills introduced	Outcome
117th (2021-22)	Stablecoin Transparency Act (H.R. 7328 / S. 3970); Lummis-Gillibrand Responsible Financial Innovation Act (S. 4356); Stablecoin Trust Act (S. 5340)	None reached floor vote

118th (2023-24)	Clarity for Payment Stablecoins Act (H.R. 4766); Lummis-Gillibrand RFI Act (S. 2281); Lummis-Gillibrand Payment Stablecoin Act (S. 4155)	H.R. 4766 passed House Committee on Financial Services, but did not reach floor consideration; No senate enactment of S. 2281
119th (2025)	GENIUS Act (S. 394 / S. 1582); STABLE Act (H.R. 2392); Foreign Stablecoin Transparency Act (S. 3907)	GENIUS Act enacted July 18, 2025 as Public Law 119-27

Sources: Congress.gov; GovTrack; authors' analysis.

Implementation confirms how much the banking-state architecture continues to dominate. In March 2026, the OCC published a proposed rule to implement its responsibilities under the GENIUS Act, laying out a prudential framework covering licensing, reserves, governance, supervision, and custody ([OCC 2026](#)). The White House's fact sheet on the GENIUS Act emphasises 1-to-1 high-quality, liquid asset reserve backing, routine reserve disclosures and audits, and requirements on issuers to be able to freeze payment stablecoins when legally necessary ([White House 2025](#)). Therefore, it is clear that regulated stablecoins in the U.S. are being absorbed into an existing framework of prudential supervision and legally enforceable control points.

The institutional economics lesson is, therefore, not that the U.S. moved abruptly from hostility to enthusiasm under a new political regime. Rather, the relevant agencies gradually made stablecoins governable by narrowing the problem and assigning it to the parts of the state best equipped to handle prudential and payments risk. In contrast, the collapse of TerraUSD and the FTX exchange (discussed below) certainly did not create the institutional logic that underpinned stablecoin legislation, but the way the collapse cascaded across the system made it harder to dismiss growing concerns about interactions with traditional financial institutions. In this sense, the same institutional narrowing also explains why stablecoin legislation moved ahead of broader market-structure legislation. Namely, the GENIUS Act regulates a relatively narrow category of cryptocurrencies, while the CLARITY Act attempts to govern the larger ecosystem. Payment stablecoins became subject to regulation first because U.S. policymakers had already converged on a lead institutional coalition to govern them.

III. IDEAS

The ideas that organised the U.S. stablecoin debate were rooted in traditional policy debates much more so than the public discussion or media narratives suggest. Once lawmakers perceived stablecoins as a category worthy of oversight, especially for potential financial

crisis reasons, the next question was what interpretive frame would best govern policy or how a compromise could be achieved. Four ideas proved especially important: stablecoins as a shadow-banking or private-money problem; as a payments-innovation opportunity; as an instrument of dollar statecraft; and, increasingly, as a politically acceptable alternative to a public digital dollar. These ideas were not equally important at all times and were not always in harmony. Together, however, they explain why U.S. policy moved toward the stablecoin framework ultimately embraced rather than toward either laissez-faire tolerance or a state-issued retail CBDC.

Shadow banking and the private-money problem

The first foundational idea was that stablecoins are a modern form of private money, carrying run risk similar to that observed with banks, mutual funds, and other shadow banking institutions. This framing was evident in the 2021 PWG report and in policymakers' rhetoric. For example, according to [Barr \(2023\)](#), when a privately-issued asset is pegged to sovereign money and used as both a means of payment and store of value, it “borrows the trust of the central bank.” This view squarely rejects the idea that stablecoins are another speculative cryptocurrency, and instead, places stablecoins closer to that of privately issued monetary claims that depend on public confidence but are not themselves public money.

Academic work reinforces Barr's view while also revealing the historical ambiguity of the analogy. [Gorton and Zhang \(2023\)](#) compare stablecoins to banknotes that circulated in many countries during the nineteenth century, arguing that stablecoin issuers resemble unregulated banks, and that such instruments should not circulate with bank-like privileges absent public oversight. Their insight is that private monetary claims can be informationally fragile and imperfect substitutes, and therefore, policymakers need to mitigate the financial stability risks they pose. Yet the analogy is not simply to “wildcat” banking. Especially after the GENIUS Act, stablecoins also invite comparison to the post-Civil War national banking framework, in which privately issued currency was permitted only when tied to federally defined backing requirements and public supervisory authority. The relevant policy move, then, is not the elimination of private money, but its subordination to a federal monetary architecture.

This logic also appears in recent models of stablecoin fragility. [Ma et al. \(2026\)](#) highlight the runnable structure of stablecoin markets, particularly their dependence on specialised arbitrage and redemption mechanisms, while [Li and Mayer \(2026\)](#) model stablecoin issuers as a distinct form of financial intermediary whose fragility arises from the interaction between reserve-asset shocks, depegging, and seigniorage capacity. Intriguingly, the March

2023 episode, in which Circle's stablecoin (USDC) briefly lost its peg after Silicon Valley Bank failed, illustrates how stablecoins and bank stress can interact in precisely these ways ([Ahmed et al. 2025](#)).¹

The prudential framing had existed in policy circles since at least 2020. By 2022, however, these concerns had become politically urgent. The first big event was the collapse of TerraUSD in May 2022. TerraUSD was an algorithmic stablecoin whose peg to the dollar was maintained not by holding actual dollar reserves but through an automated arbitrage mechanism linked to a sister token called LUNA. When the peg came under pressure on May 7, the mechanism failed quickly. Holders sold TerraUSD, the peg slipped, more holders sold, LUNA was minted at an accelerating rate to try to restore the peg, and the system collapsed in what researchers subsequently described as a textbook bank run on a poorly capitalised institution ([Liu et al. 2023](#)). Within days, approximately \$40 billion in LUNA and \$18 billion in TerraUSD market value had vanished. The collapse cascaded through several major crypto intermediaries with exposure to the Terra ecosystem ([Appel et al. 2025](#)). The lesson regulators drew was that stablecoins backed by actual reserves, dollars, Treasury bills, repurchase agreements, were fundamentally different from algorithmic stablecoins. This distinction channeled legislative energy toward requiring reserve-backed stablecoins to be the only legally recognized kind, which was precisely the model that Circle and other compliant US issuers already followed.

The second catastrophe was the collapse of FTX in November 2022, a different kind of failure: not a design flaw but straightforward fraud. Sam Bankman-Fried had been among the most visible and well-funded crypto advocates in Washington, spending millions on lobbying and political contributions while secretly using customer funds for other purposes. When FTX collapsed and Bankman-Fried was arrested, it was tempting to conclude that the crypto industry's political project had collapsed with it. But FTX's failure was a failure of a centralised exchange, not of a reserve-backed stablecoin. The political energy the industry had accumulated did not disappear.

Payments innovation

A second, competing idea was that stablecoins are truly an innovation in payments that can address frictions in domestic and cross-border payments ([Catalini et al. 2022](#); [Grennan](#)

¹ Circle's reserves were composed of high-quality liquid assets, but approximately \$3.3 billion (roughly 8% of total reserves) were held as uninsured cash deposits at Silicon Valley Bank. SVB's collapse triggered a run on USDC as market participants rushed to redeem, and the coin briefly traded as low as \$0.87 before recovering once federal authorities announced backstops for SVB depositors (Board of Governors of the Federal Reserve System 2025).

and Sturdy 2026). But this notion of embracing innovation to improve efficiency did not move incumbent firms or policymakers to take action in the same way that the prudential framing did. Rather, the financial innovation angle is best viewed as helping keep stablecoins from simple outright prohibition (Grennan 2026). This lack of excitement for experimentation at the federal level is consistent with the dynamic that played out at the state level, too. For example, the New York Department of Financial Services (NYDFS) sought protective regulatory measures, such as BitLicenses, for startups to operate rather than light-touch, sandbox-style regulation (Cornelli et al. 2024; Grennan 2026b).

In fact, these ideas are exemplified in the Treasury’s report on the future of money and payments, which treated stablecoins as part of a broader evolution in payments. The Treasury report helps make the case that the coexistence of innovation in payments, coupled with the simultaneous threat of shadow-banking-enabled fragility, can explain why the eventual American response was neither an outright embrace of this innovation nor a complete ban (U.S. Department of the Treasury, 2022). Policymakers held both views simultaneously.

Dollar statecraft

As the stablecoin debate matured, a third idea moved to the center. Namely, that dollar-denominated stablecoins could serve as instruments of monetary statecraft. This was not entirely new. Political economists have long argued that the dollar’s reserve currency status confers advantages that U.S. policymakers would be wise to preserve (Eichengreen 2011). What changed, however, was the recognition that stablecoins had become a key channel for testing the sustainability or extension of dollar dominance into the future.

In fact, by the time the GENIUS Act reached Congress, this framing had moved into legislative language. Senator Hagerty described a federal stablecoin framework as a means of preserving the dollar’s role in the digital economy; Senator Lummis tied stablecoin legislation to maintaining dollar dominance; and the White House fact sheet on the GENIUS Act stated that the law would cement the dollar’s global role by requiring backing with dollars and Treasuries.

This argument was especially potent because it linked monetary hierarchy abroad to balance-sheet effects at home. Stablecoin issuers had to hold large quantities of short-term U.S. Treasury securities. Payment stablecoin growth, therefore, could generate captive demand for U.S. government debt at precisely the moment when federal financing needs were at historic highs. And by 2024, Treasury market data confirmed this. Tether, which issues the stablecoin USDT, had become one of the largest private holders of short-dated

U.S. government debt. The Treasury's own Borrowing Advisory Committee discussed stablecoin growth in precisely these terms. Thus, stablecoin legislation offered something both subtle and powerful: a way to harness private innovation in support of public monetary power.

In fact, [Massad \(2024\)](#) draws an explicit parallel between stablecoins and the Eurodollar market, noting that both are dollar-based liabilities that originated outside the regulated banking system, and that the Eurodollar precedent ultimately strengthened rather than undermined the U.S. sanctions architecture by bringing offshore dollar flows within reach of U.S. legal authority. Regulated payment stablecoins could do the same, while unregulated stablecoins, by contrast, had already been linked to widespread reports of sanctions evasion and fraud ([Foley et al. 2022](#); [Griffin et al. 2025](#)). This illustrates that the question was not whether stablecoins would affect the dollar's geopolitical role but whether that effect would be disciplined. The case for a federal framework was therefore not only prudential but also strategic: regulation was the mechanism by which private-dollar innovation could be made to serve public monetary power rather than undermine it.

The anti-CBDC argument

The fourth key idea in the stablecoin debates was that stablecoins could serve as a politically viable alternative to CBDCs. For a variety of reasons, ranging from civil liberties concerns to a desire to limit government control and preserve America's private-sector-first mentality, there was meaningful public and political opposition to CBDCs. Thus, support for regulated private stablecoins could be paired with opposition to a CBDC to gain broader political appeal. In practice, this gave stablecoins an additional political function, because they could be presented as a way to modernise dollar-based digital payments without placing transaction-level power directly in the central bank's hands. The economic case for caution about a retail CBDC was not merely rhetorical. Research by [Whited, Wu, and Xiao \(2023\)](#) showed that each dollar of CBDC introduced displaces approximately 80 cents of bank deposits, with lending declining by roughly one-quarter of that deposit loss. These findings gave legislators skeptical of public digital dollars credible economic grounds for their position.

In addition to economic reasons, there were surveillance concerns about CBDC. China had been building and expanding its e-CNY digital yuan, which was deliberately designed to allow the government to monitor transactions, restrict spending to approved categories, and set expiration dates on money. The programmability of a state-issued digital currency transforms it from a neutral medium of exchange into an instrument of social control. As

one member of the House Financial Services Committee warned during markup proceedings, a CBDC that is not open, permissionless, and private is “no more than a CCP-style surveillance tool waiting to be weaponised” ([H.R. 5403 2024](#)). Academic commentary reinforced this concern. [Jiang \(2023\)](#)’s legal analysis of CBDC privacy implications showed how a central bank operating a retail CBDC gains access to granular transaction-level data that creates surveillance capacity with no analogue in the existing financial system. [Schwarcz \(2025\)](#) similarly notes that CBDC privacy concerns, especially the risk of mass surveillance or data misuse by a central bank dealing directly with consumers, represent a serious constraint on CBDC design, not merely a political talking point.

Legislators argued that well-regulated stablecoins were a better answer. Payment stablecoins could offer the convenience of digital money without placing a government surveillance apparatus at the center of the payment system. This framing was not universally shared as some legislators and central bank officials viewed a public digital dollar as the more accountable alternative. But the prospect of U.S. inaction ceding the digital payments space to something closer to China’s model was genuinely influential in bringing skeptical legislators on board. This framing also explains one of the GENIUS Act’s more specific provisions. Namely, that the direct exchange of Treasury securities as a form of payment was prohibited in the final bill. This ended arguments that stablecoins backed by Treasuries were functionally CBDCs by another name.

In conclusion, the policy framework that emerged was not the product of a single theory of stablecoins but more of a negotiated settlement among competing views, each of which contributed something unique.

Critical counterpoint: unresolved tensions in the ideas

A negotiated settlement, however, is not the same thing as a resolved argument. The four ideas that converged in the GENIUS Act each carried its own internal logic, and where those logics meet, they do not always agree. We look at three inherent contradictions.

First, the reserve architecture reduces run risk but does not eliminate it. The concern about bank runs was well-founded because the same dynamic that destroyed Silicon Valley Bank applies to a fully reserve-backed stablecoin issuer. The one-for-one backing requirement eliminates structural insolvency risk, but runs are not just about solvency. Runs come from illiquidity and confidence in your belief in others’ beliefs. If a large payment stablecoin issuer faced a wave of simultaneous redemptions, it would need to sell Treasury securities to meet them. Under normal conditions, this is straightforward, but during periods of market stress,

even Treasury markets can experience illiquidity. In fact, we’ve seen this recently. The March 2020 “dash for cash” saw illiquidity in the Treasury market that required Federal Reserve intervention ([Barone et al. 2022](#)). A stablecoin run under comparable conditions could force issuers to slow redemptions or accept fire-sale losses, either of which would undermine the peg that underpins the entire system.

Second, holding Treasuries makes the privacy argument less straightforward. A big part of the political appeal of private stablecoins is the claim that they offer some distance from state-controlled money. But an issuer backed entirely by U.S. government securities is not really outside the state’s reach. It still operates within a system shaped by U.S. law, federally regulated banks, and government debt. Authorities can require account freezes in some circumstances and can obtain transaction data through legal process. So, while stablecoins may differ from a CBDC in important ways, the practical gap may be smaller than the rhetoric sometimes suggests.

Third, the dollar-dominance argument may entail macroeconomic trade-offs that are not always made explicit. Stablecoins are attractive because the dollar is trusted and stable. Yet if dollar-backed stablecoins become widely used around the world, they could create a much larger constituency of users with a direct stake in dollar stability. That is not unambiguously beneficial from a U.S. policy perspective. The U.S. has often had to balance the advantages of dollarisation against pressures to trade and competition. If global reliance on dollar stablecoins scales, it could alter the transmissions of monetary policy; specifically, the Federal Reserve may face new pressures regarding when and how to issue debt to satisfy the collateral needs of stablecoin providers. A world in which dollar-backed stablecoins are central to global payments is also one in which exchange-rate movements may carry bigger consequences for holders. Thus, while the GENIUS Act was in part embraced because of support for dollarisation, that framing also means potentially more long-term policy constraints will arise from broader adoption.

IV. INTERESTS

Once payment stablecoins had been separated institutionally from the wider crypto sector and framed as a prudential and payments problem, the distributive conflict became clearer. Stablecoin issuers sought statutory recognition, access to scale, and a regulatory perimeter calibrated to their own business models. Banks sought to prevent the emergence of privately issued digital liabilities that could compete with deposits while remaining outside the full structure of bank regulation. Trade associations and exchanges pursued broader legislative

agendas for the digital-asset sector as a whole. What made stablecoin legislation possible was that these interests partially overlapped with public objectives already identified by the PWG: reserve quality, redemption, AML compliance, and legally enforceable control points.

Banking incumbents: defensive lobbying and the deposit franchise

Banks' central concern was that stablecoins could become close substitutes for deposits while escaping the economics of bank intermediation. If customers moved dollars into stablecoins held with a non-bank issuer, the deposits banks relied on to fund lending would shrink. If stablecoin issuers were allowed to hold accounts directly at the Federal Reserve, they could bypass the banking system entirely. Banks lobbied heavily for a framework requiring stablecoin issuers to obtain full bank charters, a preference that ultimately got incorporated into the PWG's recommendations.

The lobbying data make the power dynamics of this period visible with unusual clarity as data from 2020-2023 on stablecoin lobbying show that the banking sector accounted for a significant share of all spending (see Table 2 for a list of top spenders).

TABLE 2: Top stablecoin lobbying spenders, 2020-2023

Organisation	Sector	Spending
Truist Financial	Bank	\$7,730,000
Consumer Bankers Association	Bank trade group	\$4,270,000
Financial Services Forum	Bank trade group	\$1,640,000
Independent Community Bankers of America	Bank trade group	\$1,576,000
Accenture Federal Services	Consulting/IT	\$1,570,000
Blockchain Association	Crypto-native	\$1,150,000
Regions Financial	Bank	\$830,000
American for Financial Reform	Public interest	\$620,000
Bank of America	Bank	\$620,000
Crypto Council for Innovation	Crypto-native	\$600,000
Circle (Massachusetts)	Crypto-native	\$560,000
Chamber of Digital Commerce	Crypto-native	\$559,000

Source: Authors' analysis of Senate LDA filings from OpenSecrets.org, 2020-2023.

Bank disclosures describe “monitoring crypto collapse hearings” and lobbying on “general issues related to stablecoins,” the language of an industry watching developments and shaping the terms of debate at the margins. In contrast, crypto-organisation filings reference

specific bills by name. Circle's disclosures describe meetings whose purpose was to "educate policymakers on Circle's business model." Banks were playing defense. The crypto industry was trying to create a legal existence for itself, which is a fundamentally different kind of political ask.

The banks' concern was rooted in a substantive claim about credit intermediation, not merely protectionism. Recent research is increasingly consistent with that concern ([Wang 2025](#); [Berger et al. 2025](#)) concluding that domestic substitution of bank deposits into stablecoins may directly reduce bank deposits. Thus, the prohibition on interest or yield payments inside the GENIUS framework is best understood not simply as a technical consumer-protection rule, but as the point at which the banking sector's distributive concerns were written directly into law. Even so, while the legislation prohibits issuers from paying yield or interest, loopholes currently allow third-party affiliates, including crypto exchanges, to offer yield-like rewards. Proposed OCC regulations aim to close these gaps.

The crypto coalition: from outsiders to insiders

The regulatory posture of those years reflected the balance of forces described above. The SEC, under Gary Gensler, pursued aggressive enforcement actions against crypto companies on the theory that most digital tokens were unregistered securities. The Federal Reserve maintained that stablecoin issuers should not receive master accounts, the basic access to the Fed's payment infrastructure.

What changed was not the banking sector's position, but the emergence of a different set of arguments capable of recruiting a different set of allies, combined with a substantial infusion of crypto lobbying money. The 2024 election cycle marked the entry of the crypto industry into U.S. politics on a scale with few historical precedents. Three affiliated super PACs (Fairshake, Protect Progress, and Defend American Jobs) raised and spent approximately \$133 million. This made crypto lobbyists the largest single-sector source of political spending in the election cycle ([OpenSecrets 2024](#)). Major donors included crypto exchange platforms, which together contributed about \$93 million: Coinbase (\$46.5 million), Ripple Labs (\$46.5 million), and Jump Crypto (\$15 million). The founders of Andreessen Horowitz contributed \$45.25 million combined, while Winklevoss Capital Management added another \$5 million.

The strategy was deliberate and bipartisan, but its most important targets were legislators who had been prominent opponents of crypto regulation. More than \$40 million was spent in Ohio's Senate race against incumbent Democratic Senator Sherrod Brown, who had chaired the Senate Banking Committee and been among the most vocal critics of crypto

legislation. Brown lost to Bernie Moreno. Senator Jon Tester of Montana, another skeptic of the industry, was also defeated. The Fairshake PACs won 53 of 58 targeted races. When the 119th Congress convened in January 2025, more than 50 of its members had received support from crypto-affiliated spending ([Hamilton 2024](#)), and the Senate Banking Committee had a new chairman in Tim Scott of South Carolina, who had been a co-sponsor of stablecoin bills since 2022.

The effect on legislative behavior was not subtle. Bills that had stalled for years were poised to advance quickly as Democrats joined Republicans in supporting stablecoins, reflecting both the persuasive force of the previous four ideas and the growing electoral cost of opposing crypto legislation.

Circle: a case study in institutional accommodation

Circle is a case of a firm pursuing what might be called institutional accommodation rather than a deregulatory strategy. Its commercial interest lay in securing a federal framework for reserve-backed payment stablecoins that it believed it could meet, and that would raise barriers for less transparent rivals. This is self-interest expressed through a bid for official legitimacy, not its absence.

Circle's congressional testimony makes this strategy especially clear. In June 2023, Jeremy Allaire (Circle's CEO) told the House Financial Services Committee that Circle's mission was to "expand the role of the dollar on the internet," while at the same time supporting strict reserve requirements and transparency standards, and potentially even supervision strong enough to require stablecoin issuers to hold reserves even safer than those held in banks. Circle was not asking Congress to overlook financial stability concerns in the name of technology or appealing to a particular political side. Instead, it was asking policymakers to formalise a model of stablecoin regulation that fit the four ideas discussed earlier and also aligned with its own business model. Put differently, Circle's argument was that a private issuer could safely extend digital dollar infrastructure because it was willing to operate within familiar supervisory frameworks.

Much of the wider sector lobbied for broad changes to digital-asset regulation. Circle lobbied for payment stablecoins that would be lawful, reserve-backed, redeemable, and subject to formal oversight. These lobbying actions clearly favored Circle's business model as it consistently presented itself as a candidate for incorporation into the regulatory state, not as an antagonist to it.

Broader coalitions and competing interests

Yet the broader crypto coalition operated differently from Circle. The Blockchain Association's lobbying record shows an organisation that aggregates a wide range of digital-asset interests, from stablecoins to taxation to decentralised finance. That distinction matters: whereas Circle benefited from a narrow regulatory category aligned with its strategy, a coalition such as the Blockchain Association benefited from keeping as much of the digital-asset agenda open as possible.

The banks' interest was more defensive and structurally straightforward. Their central concern was not that stablecoins were technologically novel, but that they could become close substitutes for deposits while escaping the regulatory requirements and economic realities of bank intermediation. For example, the American Bankers Association argued that interest or rewards on stablecoins could draw household and firm savings out of banks, jeopardising local lending.

Seen this way, the conflict between Circle and the banks was about more than regulatory design. Circle's underlying position was that a fully reserved payment stablecoin should not be regulated like a bank because it does not do what banks do, namely, transform maturities. The banks' answer was that once a digital liability begins to attract transaction balances and is built into the payments system, it competes with deposits, regardless of what is on the asset side. In that sense, the GENIUS Act's ban on interest or yield is best understood as the point where that conflict was resolved in the banks' favor and translated directly into law.

Thus, the GENIUS Act emerged where the interests of stablecoin issuers, trade associations, banks, and the state overlapped, but only partially. Each side secured something, but nobody secured everything.

V. WHAT THE GENIUS ACT DOES AND DOES NOT RESOLVE

The GENIUS Act is a significant piece of legislation. It establishes, for the first time in U.S. history, a federal legal framework for which entities may issue payment stablecoins, on what terms, and under what oversight. The GENIUS Act requires that payment stablecoin issuers must back their stablecoins one-for-one with high-quality liquid assets, and those reserves must be kept separate from the issuer's operating funds and may not be pledged as collateral. Issuers must comply with the same AML requirements that banks face, and they may not pay interest on stablecoins, a provision that protects the banking sector's core deposit-taking business from direct competition.

But clarity about what the law does should not obscure what it leaves undone. Several challenges deserve attention. The most immediate concern is Tether, which operates the world's largest stablecoin at roughly \$185 billion in market capitalisation, representing approximately 60% of the global market. Tether is incorporated in El Salvador, a jurisdiction with significantly weaker reserve transparency requirements, and has a documented history of misrepresenting its reserve backing to customers (CFTC 2021). As of 2025, Tether has not completed a full independent audit by a major accounting firm, although it had made promises to. Tether has indicated it will create a U.S. subsidiary to issue a compliant payment stablecoin, but that entity does not yet exist. Under the GENIUS Act, El Salvador almost certainly cannot meet the comparable foreign-jurisdiction standard, leaving unresolved whether Tether will seek compliance or whether U.S. enforcement will be required. Tether thus provides an example of the potential global risk of stablecoins operating across jurisdictions with different regulatory regimes; a “flight to the bottom” in the form of regulatory arbitrage could undermine financial stability and increase run risk in weaker jurisdictions.

A second challenge concerns data and supervisory visibility. Regulators do not currently have comprehensive, real-time visibility into stablecoin reserves and transaction flows. The GENIUS Act's monthly disclosure requirement is an improvement over the current opaque status quo, but monthly snapshots may be insufficient to detect the rapid deterioration that can trigger runs. There is also a gap in macro-financial surveillance. As stablecoin issuers become large purchasers of short-term Treasury securities, their buying and selling could begin to influence short-term funding markets, yet reports tracking such exposure remain limited.

Third, the state-federal architecture introduces fault lines. The GENIUS Act allows issuers under \$10 billion to be supervised at the state level, provided their home state meets federal standards. This creates incentives for regulatory arbitrage within the U.S., as states compete to attract stablecoin issuers (Grennan 2026b). The requirement that state frameworks be substantially similar is deliberately flexible, and its interpretation through Treasury rulemaking will determine whether the state pathway becomes a genuine alternative or a loophole.

Fourth, the GENIUS Act may succeed too well. If regulatory clarity accelerates adoption, the financial system could find itself with a much larger stablecoin sector than policymakers currently envision, and faster than the supervisory infrastructure can adapt. A world in which the largest U.S. banks each operate competing dollar stablecoins raises new questions

about interoperability, consumer confusion, and the circumstances under which the implicit safety net of federal deposit insurance extends.

VI. CONCLUSION

The passage of the GENIUS Act is not the end of the American stablecoin debate. The U.S. has established a federal framework for payment stablecoins and made it clear that they require public supervision. But precisely because the GENIUS Act narrows the broader digital-asset ecosystem to payment stablecoins, it leaves open a wider set of questions about market structure, enforcement, data, and control for what lies outside this narrow definition. Furthermore, while the GENIUS Act establishes the statutory framework, the comprehensive rule-making required to translate these mandates into standards remains unfinished and may be hampered by institutional bureaucracy.

The institutional history traced in this chapter suggests that the arc from Powell's skepticism in 2021 to bipartisan passage in 2025 was not the product of a single political moment. Rather, it emerged from an institutional and political convergence. Policymakers increasingly understood stablecoins in terms of payment and prudential frameworks that they already knew how to handle. At the same time, stablecoins were being reframed in politically attractive ways through key ideas such as financial stability, dollar statecraft, privacy rights, and the politics of CBDCs. These institutions and ideas, coupled with interest groups' electoral spending, made the pace of legislative convergence appear rapid, but the underlying groundwork had been developing for years.

As we look forward, the next phase of stablecoin debates will need to tackle unresolved issues. For example, the GENIUS Act succeeded in part because payment stablecoins were easier to isolate, conceptually and institutionally, than the rest of crypto. The debates surrounding the CLARITY Act are more difficult because they seek solutions to contested boundaries, such as those between securities and commodities and between decentralised protocols and regulated financial platforms.

Another remaining issue is implementation. For federal agencies, rules are easiest to implement at issuance and/or enforce at regulated on- and off-ramps. The harder question is what happens once digital assets are "in the wild." Once the payment stablecoins move peer-to-peer through self-custody, and thereby, they no longer pass through traditional checkpoints that would have triggered obligations for financial intermediaries. Moreover, these implementation problems may become even more salient as payment stablecoins

expand from retail to more automated forms of digital exchange, such as commerce among AI agents.

A third remaining challenge is visibility. Regulation of compliant issuers is necessary but not sufficient if risk migrates into less transparent parts of the crypto ecosystem. Finally, control is an issue. The U.S. may politically reject a retail CBDC, but regulated stablecoins still depend on centralised points of intervention. That leaves unresolved how control should be defined for legal and supervisory purposes, and what that definition will imply for privacy, competition, and monetary sovereignty.

Thus, while the GENIUS Act answered the question of whether the U.S. would legalise a narrow class of payment stablecoins, the kind of monetary system that choice ultimately produces is a question the statute does not fully answer and, by itself, cannot answer.

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