

CAPITAL FLOW REPORT | TECHNOLOGY

Bitcoins to Stablecoins part 2: Digital Money Has Only Three Doors

Part 2: Every new form of money promises freedom. Every one of them ends up choosing between chaos, borrowed credibility, or a central bank.

By **Manasee Kurlekar** | October 13, 2026



In Part 1, we followed digital money from Bitcoin's protest note to Visa's stablecoin. The story ended on an irony: crypto's most successful product is a digital US dollar. But that irony hides a deeper problem. And it isn't a crypto problem. It's a problem as old as money itself. What actually gives a currency its value?

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What actually gives a currency its value?

? Act 1: The Trilemma

Strip away the blockchain jargon, and any digital money can draw its value from only one of three places.

Door 1: Float free. The currency is worth whatever the market says it's worth. No one manages supply against real economic activity. This is Bitcoin. It's sovereign and unstoppable, and it can lose a third of its value in a year.

Door 2: Peg to something else. The currency promises to always equal one dollar, backed by dollars in a vault. This is USDC and USDT. It's stable, but only because it borrows the credibility of the US Federal Reserve. It's a dollar in a new wrapper.

Door 3: Be managed. An issuer actively controls supply, sets rates and stands behind the currency in a crisis. That keeps it both stable and independent. But an issuer with monetary policy has a name. It's called a central bank.

There is no fourth door. Plenty have tried to build one.

? Act 2: The Fourth Doors That Didn't Open

TerraUSD (2022) tried to be stable *without* reserves. It used an algorithm and a sister token, LUNA, to hold its dollar peg. It worked until confidence cracked. Then it unwound in days and erased tens of billions of dollars. It turned out the code was only ever a promise.

Libra (2019) was Facebook's attempt. The original plan backed the coin with a basket of currencies: dollars, euros, yen and others. Regulators across the world pushed back hard, because a private company would effectively be running a global currency. Libra retreated to single-currency stablecoins, renamed itself Diem, and was sold off in 2022. A private Door 3 was politically impossible.

Hayek's dream (1976). Long before crypto, the economist Friedrich Hayek argued that private companies should issue competing currencies, and the best-managed would win. Bitcoin's founders loved the idea. Half a century later, the market has delivered its verdict: people don't want competing private currencies. They want the dollar, delivered better.

⚓ **Act 3: The Peg Paradox**

So Door 2 won. Stablecoins are now a roughly \$300 billion market, almost all of it pegged to the dollar.

But a peg is a promise, and promises have a history.

Argentina, 1991. To kill hyperinflation, Argentina fixed its peso one-to-one with the US dollar, by law. For a decade it worked spectacularly. Inflation collapsed, investment poured in. Then a recession, rising debt and a strong dollar made the peg impossible to defend. In 2001 came bank runs, frozen deposits, riots and a default. The peg broke, and savers paid the price.

Hong Kong, 1983 to today. The Hong Kong dollar has been pegged to the US dollar for over four decades and has held through every crisis. The difference: enormous reserves and a monetary authority willing to defend it at almost any cost.

The lesson is blunt. **A peg is exactly as strong as what stands behind it, under stress.**

Stablecoins have already had their mini-Argentina moment. In March 2023, when Silicon Valley Bank failed while holding part of USDC's reserves, the coin briefly slipped well below a dollar. It

recovered only after US authorities guaranteed SVB's deposits. The peg held, because the state stepped in.

? Act 4: Eurodollars 2.0

If this all sounds new, it isn't. We've seen a shadow dollar system before.

In the 1950s and 60s, dollars began piling up in banks in London and across Europe, outside US regulation. Cold War-era Soviet-bloc banks were among the early holders, wary of keeping funds inside America. These "Eurodollars" grew into one of the largest pools of money on earth: global, lightly regulated, and fully dollar-denominated.

When the 2008 crisis hit, that offshore dollar system seized up. The Federal Reserve had to extend emergency dollar swap lines to foreign central banks to keep it from collapsing. A system built outside America's walls still needed America's lender of last resort.

Stablecoins are Eurodollars 2.0. Dollars living outside the banking system, spendable anywhere with a phone, available around the clock. The open question is the same one: **when the next crisis hits, who stands behind them?** Under the GENIUS Act, stablecoin holdings aren't insured deposits. Officially, no one guarantees them. In practice, markets may assume someone will.

? Act 5: Just a Wrapper? The Most Profitable Wrapper in Finance

Here's the objection: if a stablecoin is just a dollar in a new form, why does it matter?

Because the wrapper changes three things.

Who gets access. A freelancer in Lagos can't open a US bank account. She can hold USDT on her phone in minutes. That's dollarisation without anyone's permission, and it's why central banks in emerging markets are nervous.

Who earns the float. Under US law, stablecoin holders can't be paid interest. But the reserves backing those coins sit mostly in US Treasury bills, which do pay interest. The issuer keeps it. Tether reported more than \$13 billion in profit in 2024, with a staff in the low hundreds. That makes it one of the most profitable firms per employee in the history of finance. The "boring wrapper" is the business.

Who loses control. Every dollar stablecoin held in Lagos, Buenos Aires or Mumbai is one less unit of local currency doing its job. For a central bank, that means less control over money supply, interest rates and capital flows.

?? The Third Door, Revisited

Which brings us back to India.

The Reserve Bank's position, often read as old-fashioned hostility to crypto, looks different through the trilemma. Door 1 is too wild for a payments system. Door 2 means importing the US Federal Reserve's credibility and handing the float to private, foreign issuers. So the RBI is choosing Door 3: the e-rupee. Digital money, but with India's own central bank behind it.

China made the same choice with the digital yuan. Europe is building a digital euro.

Whether those projects succeed is another story; many CBDC pilots have struggled to win users. But the logic is clear.

? The Closing Ledger

Digital money promised to free us from the old monetary order. Instead, it has run into the old monetary order's oldest rule:

Money is trust. And trust has to come from somewhere.

You can take it from the market, and live with the chaos. You can borrow it from the dollar, and live inside America's system. Or you can build it yourself, and become a central bank.

The technology changed everything about how money moves. It changed nothing about what money is.

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