The Stable-Coin Myth

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The problems with the latest wave of cryptocurrencies will be familiar to anyone who has encountered even a single study of speculative attacks on pegged exchange rates, or to anyone who has had a coffee with an emerging-market central banker. But this doesn't mean that the flaws in these schemes will be familiar to investors.

BERKELEY – While the mania for cryptocurrencies may have peaked, new units continue to be announced, seemingly by the day. Prominent among the new arrivals are so-called "stable coins." Bearing names like Tether, Basis, and Sagacoin, their value is rigidly tied to the dollar, the euro, or a basket of national currencies.

It's easy to see the appeal of these units. Viable monies provide a reliable means of payment, unit of account, and store of value. But conventional cryptocurrencies, such as Bitcoin, trade at wildly fluctuating prices, which means that their purchasing power – their command over goods and services – is highly unstable. Hence they are unattractive as units of account.

No grocer in his right mind would price the goods on his shelves in Bitcoin. No worker would want a long-term employment contract that paid her a fixed number of those units.

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