Our Government Wishes To Prevent Progress That Serves Consumers So That It Can Protect Banks

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The Driver of Change, and Its Haters

- Improvements in information technology are making it unnecessary to combine payments and lending within a single bank.
- Absent a synergy, the two are better done separately, which is why all innovations in FinTech are either lenders or payment providers, not both.
- Banks don't like that answer, because they like cheap deposits.
- The Fed doesn't like that answer because their political power depends on banks under current regime, and their centralized payment system.
- Politicians, therefore, don't like that answer.

The Unbelievably Bad Argument for Limiting Stablecoins

- The argument: “We can’t let stable coins succeed, because then deposits will exit the banks.” (There are other phony arguments…monetary policy, etc.)
- But what if unbundled banking would be more efficient? They don’t care about that.
- Even the OCC’s Final Rule promises that they will be vigilant to stop stablecoins if they compete too well.
- What about consumers?
- Stable coins are… faster, more secure, can accomplish messaging alongside transacting, can pay higher interest, virtually riskless if backed by Treasury bills.
- None of that matters to politicians or regulators.

How To Cripple Progress

- Genius Act requires **redeemability**, which is unnecessary to achieve riskless par value, if backed by Treasuries. It adds liquidity risk.
- Genius Act **prohibits interest** with no justification other than preventing banks from losing deposits. The WSJ Editorial Board supported that proposal, which is a shock and a disgrace.
- OCC Initial Rule also would have required 10% backing with bank deposits across the board (!!!!)
- OCC Initial Rule also effectively prohibited rewards programs (interest get around).
- Final OCC Rule has reserves policy grounded in risk with discretionary assessment. That is a positive.
- Final OCC Rule only prohibits Reward Programs if effectively funded by issuers, but leaves enforcement discretion, and is vague.
- It is 700+ pages. Rewards? **In equilibrium, it will happen** without issuer "funding" it. Will OCC stop it? State chartered banks?

When Will Consumers Wake Up?

- The purpose of the financial system is not to serve existing financial intermediaries, or the Fed.
- My advice to consumers: Wake up and tell the politicians to stop protecting the fat cat bankers and the power-hungry central bankers.
- Regulate stable coins from the perspective of consumer welfare, not banker and central banker welfare!