

Can you trust Stablecoins?

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Stablecoins are promoted as financial innovation, but are the real winners those avoiding oversight, whether as tax dodgers, money launderers, or crypto speculators?

<https://www.youtube.com/watch?v=HBuF2c48OhM?si=sQ4o0fb2ZVLahD2k>

This is the audio version:

https://www.podbean.com/player-v2/?i=hch23-18e9b64-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Hi, I'm Richard Murphy, and we are here today to answer another of the questions that a viewer has put to us. Tom's got the questions, what are they, Tom?

The questions are:

- * *What are Stablecoins?*
- * *Why are they being promoted, and,*
- * *Who gains from them? I think our viewers would be really interested in this.*

There's lots of indications that people really are interested in issues around crypto and

now stablecoin. It's one of those topics which is causing confusion. So let's just talk about what Stablecoins are, and I stress we're talking about Stablecoins and not crypto as a whole today.

A Stablecoin is a form of cryptocurrency, but it's meant to mimic a real currency. Now that is usually the US dollar, but it can be a euro, a yen, or even gold, and these are issued by private companies and not states. So in other words, you are buying what looks like a state currency, but you're getting it from a private company.

And now, the point is that the value of the Stablecoin is meant to be backed by the real currency, and of course, to buy these things, you will have had to pay real euros, yen, or even swap gold to get them. But the question then becomes, why do people buy them?

Well, the answer appears to be that people want to trade using crypto and not using banks. In other words, they want to avoid the entire banking system, but at the same time, what they don't want to do is face the instability that most cryptocurrency markets create.

We all know that things like Bitcoin go up in value by the day, and nobody really knows what they're worth.

The point about a Stablecoin is that, as their name implies, because their value is linked to a real currency, they shouldn't see that oscillation in value. So the person who's buying a Stablecoin wants the benefits of trading, as they see them to be, through the blockchain, using a cryptocurrency in the process of avoiding a lot of financial regulation, but without taking the risk of the volatility that mainstream cryptocurrencies create.

Now, there are hidden costs to doing this. First of all, and perhaps most crucially, whilst there are meant to be reserves, that is real money to back up the value of the Stablecoin, so for every \$1 dollar of Stablecoin you've got, there's meant to be a dollar of real currency sitting somewhere in a bank account, you are taking somebody's word for that. There's absolutely no guarantee that the reserves in question exist, and I cannot emphasise that enough. There's a real risk that if something goes wrong with a Stablecoin, then either redemption will be delayed - you ask for your money and you don't get it at the time that you make the request - or that you won't get it at all.

And in those situations, you also face the massive risk that there could be price manipulation. In other words, the value of your Stablecoin in relation to the supposed underlying currency could fall considerably. A \$1 Stablecoin could suddenly become worth 50 cents, for example, and there would be nothing you'd be able to do about that because you're dealing with a private company, and you're not dealing with a real currency.

So why do people find these things attractive? And I've got to say the answer is that in most cases, people are trying to use these to get around some form of either currency control or anti-money laundering rule, or even, let's be blunt, the law itself, because the currency in question is being used for a criminal purpose or to buy something that is illicit, like drugs, and that undoubtedly is one of the major attractions of these things.

For some people, the fact is that Stablecoins are easy to move without scrutiny. They exist outside the realm of banking regulation, and therefore, they appeal to anyone who's trying to avoid oversight, but of course, the risk is that this leads them to being used for criminal purposes, and your use of them could be tainted by that, and as a consequence, you don't know whether the trading platform you're dealing with is straight or not, to be blunt, because they must know that some of their funds are being used for this purpose.

How much is involved in this market? It's claimed that up to \$150 billion of Stablecoins might now exist. We have no idea if that is true because there is no legal audit of the reserves of these companies, which can prove the point. So when it comes down to it, the value of these currencies depends very heavily on trust.

Now, I stress that's a very different trust from the one you need in the government to accept the coin on which the Stablecoin is based at face value. We accept a dollar is worth a dollar because the US government says it is; the same with the Euro; the same with the pound; the same with the yen, and so on. But in the case of these currencies, you are just accepting the word of the company that issued them, and that's not the same as having a legal backup, which you have with a currency.

So there is a threat from them. They do undermine central banks because they create a shadow currency within an economy, which can therefore reduce the central bank's control of the money supply and, as a consequence, threaten economic stability within an economy.

They also might allow the creation of criminogenic environments, which is not good for honest businesses, and they do allow capital flight and regulatory arbitrage.

It's not a chance that tax havens love these things. And that is really where they also give rise to the threat to tax revenues. After all, tracking these things is going to be hard. Making sure that taxes paid on the deals done with them will be harder still.

So what happens if a crisis arises in the Stablecoin world, as I, by the way, think it will. There will come a moment when there's either a crisis in confidence, because a demand for redemption has been made to a Stablecoin company, and it can't pay. That could then trigger large collapses in the value of their Stablecoins, and we have seen this in the case of some crypto exchanges already, it has happened.

What will happen at that point? We simply don't know. But there's a risk that regulators

would finally step in. If they do, that in itself could trigger a crisis of this sort because it could uncover the fact that there aren't the reserves to cover the values of the Stablecoins in issue, and at that point, the government might turn on these things.

So don't believe that these things are as stable as they say is my point. It could be, and I'm not saying it is, but I'm saying it could be that some Stablecoins at least are a financial con trick. It is entirely possible that that could be the case, and because they exist to dodge rules, they are inevitably unwilling to expose themselves to more rules and inquiries than they have to.

My belief is that the consequence of that is that governments must regulate or ban these things now because they are a threat to our economic stability, and that's something I don't like.

So Tom, does that answer the questions?

It does. Thank you.

We'll see you again soon.