Funding the Future

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The FT reports this morning that:

Chinese tech giants have paused plans to issue stablecoins in Hong Kong, after Beijing raised concerns about the rise of currencies controlled by the private sector.

Companies including ... had said over the summer they would participate in Hong Kong's pilot stablecoin programme or issue virtual asset-backed products, such as tokenised bonds. But they have since put their stablecoin ambitions on hold after receiving instructions from Chinese regulators, including the People's Bank of China (PBoC) and Cyberspace Administration of China (CAC), not to move ahead, according to multiple people familiar with the situation.

The reason given is that Chinese authorities had "concerns about allowing tech groups and brokerages to issue any type of currency."

They are right to be concerned. There are a number of macroeconomic reasons why.

First, the creation of money must always be a matter of public trust. Stablecoins are, by definition, privately issued claims on supposedly safe assets. However, history has already shown that private institutions cannot be trusted to maintain parity between their tokens and the currency they claim to represent. The result has been instability and fraud, and that risk could grow so that systemic risk might arise if confidence breaks down, as I think it will.

Second, and vitally, money is not a private commodity. It is a public institution, representing a social contract guaranteed by the state. When private corporations create quasi-currencies, they are in effect privatising part of that social contract. They want to capture the benefits of issuing money without accepting any of the public responsibilities that accompany it.

Third, if major tech companies were to issue their own tokens for use in everyday transactions, they would be creating a parallel monetary system, one that sits outside democratic oversight and macroeconomic control. In practice, that means monetary policy could be undermined and fiscal sovereignty weakened. For a country as large and strategically managed as China, that is clearly unacceptable.

Fourth, the power such private currencies might confer would be extraordinary. Whoever controls the currency controls the data, the transactions, and the network effects that bind users to it. In the hands of private technology firms, that power could dwarf that of the state, creating an unelected financial oligarchy. It is hard to see how that could ever serve the public good.

Fifth, stablecoins are not, in any meaningful sense, stable. They rely on promises that the assets backing them are always available and liquid. Yet every recent crisis, from the 2008 crash to the collapse of FTX, has been centred on synthetic financial products where such promises of liquidity cannot be relied upon when markets turn. The supposed stability of a stablecoin can only be guaranteed to exist as long as no one asks to redeem it, making the implicit promise to pay meaningless, unlike that offered by a government.

So, when Chinese regulators tell their tech giants not to issue private currencies, they are acting on the principle that the creation of money must remain under public control. And while China’s own system of control may not be democratic, the underlying economic logic is sound because letting corporations create money is a direct challenge to the monetary sovereignty of the state.

Western governments should take note of this occasion. The same dangers apply when stablecoins are proposed by major corporate players in Western markets who then seek to insert themselves between the public and the central bank. The state cannot regulate effectively what it no longer issues or guarantees. Once money becomes a private good, its accountability, stability, and public purpose are lost.

The conclusion is obvious. Money is a public utility. The right to create it must be reserved by the state and not leased out to those who would turn it into yet another platform for speculation and control. Stablecoins are not progress; they are a privatisation of trust. And trust, once broken, is very hard to restore.