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Washington's GENIUS Act promises real competition in money movement, but a fatal blind spot threatens to crown a single king instead. The risk isn't theoretical. Stripe and Circle are racing toward vertical integration — proprietary blockchains (Tempo, Arc), orchestration, wallets, compliance — bundling the coin, the rail, and the checkout so the UI quietly favors the house brand. That's not an improvement over the status quo, it's a moat with better marketing. It's the 19th-century "break of gauge" for the digital age: value rolls smoothly until it hits the border of a corporate network, then everyone hauls luggage across the platform. The fix is interoperability — by rule, not press release — on two fronts. Asset-level first: require safe, neutral clearing across regulated stablecoins, the modern clearing-house for digital dollars. But the decisive battle is at the network layer: mandate open, trust-minimized connectivity so different scaling solutions and corporate chains must interconnect, not just promise they might. When the wallet, rail, and coin sit under one roof, an open network becomes a captive one. The choice is simple: build an open highway for all, or pave a faster road to a single kingdom.

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Imagine a single button at online checkout: “Pay with digital dollars (recommended).” One tiny default, seen millions of times a day. If Washington gets the rules for this new ecosystem almost right, that button can help democratize money movement. If it gets them slightly wrong, the button chooses the coin, the coin chooses the network, and the network chooses the king.

To understand the stakes, we don’t have to predict the future. We just have to look back to the 19th century — and a fight over about two feet of iron. In the 1840s, a train on Isambard Kingdom Brunel’s magnificent 7-foot broad gauge was a technological marvel. But it was useless the moment it reached a town like Gloucester, where it met the competing 4 ft 8½ in standard gauge that would become today’s global norm. This was the break of gauge — a point of total paralysis that forced cargo and passengers to be moved by hand from one train to another, a crippling tax on commerce born of competing, non-interoperable networks. The ensuing “Gauge War” was won not by the best technology, but by the standard with the strongest network effects, forcing a massively expensive nationwide conversion.

That battle over physical rails is the perfect warning for the one now beginning over digital ones.

The GENIUS Act is a major step toward restoring competition in payments and financial services. For decades, fintech innovation mostly meant making legacy infrastructure look better: sleeker onboarding, pretty apps, friendly developer APIs — same old pipes. Cross-border giants like Wise had to simulate instant settlement by pre-positioning liquidity around the world rather than moving value in real time. At home, sponsor-bank dependencies endured and banking-as-a-service platforms could only go so far.

This is where “stablecoins” change the game. In combination with blockchains, they offer an opportunity to tackle the very infrastructure of money movement, turning a monolithic banking and money-transmission stack into a more modular one that startups can build on in an agile way, without introducing new risks.

The reason is simple: the GENIUS Act hardwires the rules into the asset itself. By mandating clear 1:1 reserve requirements, legal claims for holders, and strict compliance standards, a permitted stablecoin becomes a reliable bearer asset. This ensures it’s redeemable on demand for a U.S. dollar, making it “good money” — a prerequisite for the mass adoption of programmable dollars.²

Ironically, the GENIUS Act is likely to do more for digital cash than any CBDC project to date. Government projects in this area — China perhaps excepted — have been slow, bureaucratic, and largely unfocused.

On the surface, the GENIUS Act’s first effect is profoundly pro-competitive. By unbundling the digital dollar from legacy structures and promoting interoperability between different issuers, the law invites a massive wave of experimentation. The market’s response has been immediate. Startups, crypto natives, and global financial institutions are all racing in. The early signs point toward a market where consumers and businesses will have real choice.

But zoom out. The Act failed to resolve the most consequential competition questions, and the rulemaking now in the hands of the Fed, OCC, and Treasury will only go so far. Haunted by Facebook’s Libra “original sin,” the law tightly polices who is allowed to issue a stablecoin, even creating a special approval committee for public non-financial companies. Yet the equally critical question of what the resulting market structure will look like received far less detail.

If the agency rules aren’t crafted carefully, we could wake up in a few years to find an extremely concentrated stablecoin market — a significant setback, even relative to today.

Meanwhile, a few companies are already sprinting to consolidate the entire stablecoin stack. If the Act’s gaps aren’t closed, this nascent market could quickly tip into a “winner-take-most” scenario. And while incumbents like banks and card networks want to see stablecoins become a commodity — a goal the law’s push for fungibility supports — that may not matter. In this game, speed to market and, crucially, control of distribution will decide the winner.

Today, market concentration is already **stark**: Tether (issuer of “USDT”) commands 60 percent of the USD stablecoin supply, with USDC a distant second at 26 percent. This dominance wasn’t an accident.³ Tether won early by wiring up the deepest global liquidity network for USDT with crypto exchanges and market makers. In much of Asia, Latin America, and Africa, USDT is a synonym for the digital dollar. Meanwhile, USDC cornered the market for Decentralized Finance (“DeFi”) and U.S. developers by embedding itself deeply within Coinbase, its most powerful distribution channel. That beachhead, however, is now under assault from a wave of new entrants.

² See <https://openbanker.beehiiv.com/p/stablecoinsingleness>.

³ See <https://app.artemisanalytics.com/stablecoins>.

You could argue the market is still in its infancy, and that the single factor that drove early adoption — simply trusting the reserve was actually there — is now just table stakes. But that ignores the power of path dependency. Fintechs, wallets, and merchant aggregators will naturally gravitate toward the liquidity and user habits already built by USDT and USDC.

Circle's strategy anticipates a world with lower interest rates — where revenue from reserves dries up — by moving aggressively into the payments business itself. The company launched CPN ("Circle Payments Network") as its settlement scheme and Arc as its own high-throughput, proprietary rail. Together, they are designed to position Circle's coin — "USDC" — at the center of every transaction, from FX and price discovery to compliance. The strategy should sound familiar: it rhymes with the classic playbook that allowed card networks to dominate merchant payments for decades. First, you own the standard. Then, you close the loop.

But the more immediate threat comes from a fintech giant: Stripe. Its recent moves have been deliberate. It acquired Privy for embedded wallets and Bridge for stablecoin payment orchestration. Then it unveiled Tempo, its own payments-first blockchain. Now, combine those new pieces with Stripe's existing engine room — Payments, Connect, Billing, Invoicing, Treasury, Radar (for fraud), and Identity. Suddenly, you have the blueprint for a network that doesn't just challenge the card networks, but could plausibly eat a significant slice of SWIFT.

If that is where the GENIUS Act ultimately lands — inadvertently crowning a single global fintech that controls the rails and the flow of the settlement asset — then genuine competition will have lost. To prevent that outcome, regulators drafting the rules must focus on closing the Act's biggest gaps.

01

A PLATFORM-SIZED BLIND SPOT

If you ask banking incumbents to name the biggest gap in the GENIUS Act, they will obsess over a single clause they lobbied for relentlessly: the ban on issuers paying interest or "yield" to stablecoin holders.

Their concern is perfectly rational. They worry that a stablecoin — offering less friction and near-instant settlement — will simply be more useful than a standard checking ac-

count. And because the reserves will be fully backed with high-quality assets, they argue it will be perceived as safe even without the FDIC insurance that has long been their key selling point.

If that stablecoin also shared the yield from its reserves, its superiority over not just checking but most savings accounts would be undeniable, threatening the low-cost deposit base that is the lifeblood of traditional banking.

The irony, of course, is that this battle is already being lost. Deposits are steadily drifting away from bank accounts toward higher-yield options like money market funds and Treasuries — many of which are now themselves being tokenized and put onchain. Lobbying against stablecoin yield isn't building a wall, it's merely installing a few speed bumps on a financial highway that's already under construction.

To see a preview of this, we only need to look at China a decade ago. In 2013, Ant Group launched Yu'e Bao, a money market fund integrated directly into its Alipay app. With a simple, one-tap user experience and higher yields, it became the fastest-growing financial product in history, vacuuming up hundreds of billions of dollars in household savings from the traditional banking system. The state banks pushed back hard, and regulators eventually stepped in to curtail its growth.

The lesson is simple: capital flows with incredible speed toward better yield and a superior user experience. Whether through stablecoins or other products, this means inevitable competition for bank deposits. Prudent rules must be designed to harness that reality, not deny it.

From a competitive standpoint, the ban on yield-sharing is primarily a protectionist move for incumbent banks. It directly hobbles the ability of stablecoin issuers to compete for trillions in household and business savings. But the rule has a perverse, and perhaps more dangerous, side effect. It doesn't actually eliminate yield, it just pushes the economic benefit from the issuer to the distribution layer — the wallets, exchanges, and payment providers. This allows the biggest distributors to offer proprietary rewards and rebates that favor their stack, further entrenching their market power.

A second provision that favors incumbents is the vague language around access to the Fed's master accounts and settlement services. By not setting clear rules, the Act leaves a structural advantage for bank-affiliated issuers, who get cheaper liquidity and cleaner final settlement.

As these payment systems scale and platforms begin scraping for every basis point on cost and speed, that advantage becomes a formidable barrier to entry for non-bank innovators. A better approach would be to set trans-

parent thresholds — based on payment volume or market cap — at which qualified issuers automatically gain access.

02

THE DISTRIBUTION CHOKEPOINT

But these specific issues are symptoms of the Act's core conceptual error: its intense focus on the issuer of the stablecoin, and its near-total neglect of the ecosystem where that coin will actually live.

From a regulatory perspective, this focus makes sense: the Fed and OCC supervise financial institutions, not tech platforms. But in practice, it creates a massive loophole. The Act's Big Tech clause becomes effectively toothless if a large company simply decides to partner with a bank and become a distributor. Likewise, the anti-tying clause is moot if a dominant wallet can use rewards and UI defaults to favor one stablecoin over another. The law lacks any general "fair access" or non-discrimination rule for the platforms that will ultimately control and define the market. By regulating the mint and not the mall, the GENIUS Act risks missing the forest for the trees.

Blockchains are ruthlessly efficient at lowering the cost of verification in financial transactions once all the necessary information is onchain.⁴ The economic bottleneck, therefore, will always be the link between the onchain and off-chain worlds: identity verification, AML checks, and compliance screening.

Whoever controls that last mile — and arrives with pre-existing distribution, be it a marketplace, a social network, a financial institution, or a payment provider — is positioned to capture most of the value. Expect these players to favor their preferred stablecoin through bundling and other tactics, often disguised as novel rewards and loyalty programs. When you combine that power with a proprietary, high-speed rail, you have the recipe for a formidable moat.

But the single gap that could decide the Act's fate is the one that ignores what this technology was designed to prevent. Blockchains are, by design, inefficient compared to the proprietary databases we rely on every day. That inefficiency is the price users willingly pay for two fundamental promises:

1. **No Central Chokepoint:** The ability to transact without a powerful intermediary taking a cut or changing the rules.
2. **Credible Neutrality:** The assurance that if you build on the network, the owner can't later hold you hostage or expropriate the value you've created.

That second promise — credible neutrality — is precisely where today's Big Tech monopolies were born. The GENIUS Act now risks creating a new generation of them for our financial system. The playbook is predictable because it's been run so many times. To build a network, the platform architect starts by over-sharing the economics, offering generous terms to attract users and partners. We see this today, with stablecoin issuers sharing the lion's share of their revenue with key distributors.

But once the platform reaches critical mass, its incentives flip. It becomes more extractive — hardening the lock-in, raising fees, and subtly shifting standards to favor its own products. This dynamic ultimately stifles innovation and can lock in a market structure for decades, as we've seen in everything from social media and app stores to online commerce.

The primary way a dominant platform will flip that switch from generous to extractive is by subtly breaking interoperability. Right now, every corporate blockchain proposal is wrapped in bold promises of openness and neutrality. But there is nothing in the GENIUS Act to hold them to it. Without clear rules, even basic clearing between different permitted stablecoins could become contentious. The dominant player and its network will always have a ready-made excuse to deny access to a smaller rival, framing true interoperability as too technically challenging, unprofitable, or simply risky from a compliance perspective.

This is where the GENIUS Act's language fails most profoundly. The text states that regulators "may" prescribe standards to promote interoperability. In markets defined by network effects, "may" is a dangerously gentle word. Optional standards are almost always too late.

If corporate blockchains recreate the walled gardens this technology was meant to dismantle, then the whole experiment will have been for nothing. Worse, by pairing those closed ecosystems with a cheap and efficient settlement asset, the Act won't just rebuild the old system — it will supercharge it, handing the keys to a handful of powerful fintechs.

4 See <https://www.nber.org/papers/w22952>.

03

FROM “MAY” TO “MUST”: THE INTEROPERABILITY IMPERATIVE

As this new market takes shape, regulators must protect one principle above all others: interoperability.

The promise of this technology — a more competitive and innovative financial system — hinges entirely on the open nature of its protocols. If the end result of this massive technological shift is just the replacement of old walled gardens with new, faster ones, the entire effort will have failed.

The risk to interoperability exists at two distinct levels: the asset and the network.

At the **asset level**, the GENIUS Act provides a powerful pro-competitive foundation. By pushing all permitted stablecoins toward equal safety and clarity of claim, the law supports their fungibility. The goal is to ensure that a dollar is a dollar, period, regardless of who issues it. This is profoundly important, as it prevents any single issuer from gaining dominance simply by marketing its coin as safer than the rest.

But market forces could still undermine this legal fungibility. Economies of scale in branding and global liquidity can create a world where just a few brands capture the majority of consumer mindshare, even if the underlying assets are identical. The battle, then, won't be over who mints the best dollar, but who controls the outlets — the wallets, apps, and merchant relationships through which those dollars must flow.

Regulators must therefore enforce this fungibility at the infrastructure level. A powerful way to do this would be to require the creation of an efficient, shared clearing and settlement system that allows any permitted stablecoin to be seamlessly exchanged for another at par. Much like the Fed's ACH and Fedwire systems guarantee interoperability for commercial bank deposits, this would be the ultimate guarantee of “singleness” — ensuring a dollar is a dollar, regardless of the brand on the token.

At the **network level**, however, the challenge is even more acute.

The proliferation of corporate blockchains — like Circle's Arc or Stripe's Tempo — is great for user experience, but it creates a massive risk of fragmentation. If these networks

evolve into closed ecosystems, we will have simply rebuilt the same siloed payment systems we have today, just with newer technology. This risk is heightened because breaking interoperability between networks is dangerously easy: it can be subtly accomplished under the guise of a necessary technical upgrade or a prudent compliance rule. The ability to move value and data seamlessly between these networks is therefore paramount.

It's an inevitable economic reality that companies will build their own high-speed regional rail lines (in the form of Layer 2 scaling solutions). For a company, there's little point in paying the high cost of a fully decentralized network if all your users are already relying on you as a trusted intermediary. But without a legally enforced standard gauge connecting these proprietary lines, we will have simply recreated the “break of gauge” problem from the 19th century. Every transaction will be forced to a halt at the border where one company's network ends and another begins.

This is why we need the modern equivalent of TCP/IP for value. Initiatives that create common, open standards for different scaling solutions — like the “[law of chains](#)” concept — or build trust-minimized, fully functional bridges between competing networks are not just technical details.⁵ They are the essential public infrastructure required for a truly open financial system. Think of this connectivity as the shared rail gauge for digital money: with it, networks run end-to-end. Without it, every interchange is a costly break of gauge. They are the essential public infrastructure required for a truly open financial system.

The internet unleashed innovation because its foundational layer was permissionless and interoperable. While powerful companies certainly carved out dominant positions in key verticals — search, social media, e-commerce — no single entity could own the underlying protocol. This is the crucial distinction. A fragmented blockchain ecosystem would be a regression to the pre-internet era of walled gardens like AOL and CompuServe, undermining the very premise of a global, unified layer for value.

Regulators should therefore view any proprietary chain designed to lock in users with extreme skepticism. The policy goal must be to promote open standards that make cross-chain communication not just possible, but frictionless. The paved road must also be the open road.

The GENIUS Act laid the groundwork for a more open financial future. Now, regulators and builders must decide whether they will scale that vision, or simply build a better throne for the next king. ■

5 See <https://optimism.mirror.xyz/JfVOJ1Ng2I5H6JbIAtfOcYBKa4i9DyRTUJUuOqDpjls>.

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