Why Use Stablecoins Instead of Dollars

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During crypto winter it became readily apparent that you need to use stablecoins backed by a hard currency like the US dollar. Algorithmic stablecoins sounded like a great idea. Then it turned out that fancy blockchain programming was no match for hard currency when markets started to collapse. So, now anyone with any sense uses tether, circle, or one of the other major stablecoins backed by US dollars. If what you are doing is just getting interest on your savings, why use stablecoins instead of US dollars?

Why Use Stablecoins in the First Place?

Stablecoin is a cryptocurrency term. Cryptocurrencies are digital currencies. Transactions in cryptocurrencies are maintained on the blockchain, a decentralized system of computers where they are also verified. This type of money is not issued by a central bank or any other centralized authority. A problem that arose in the cryptocurrency world as prices (in dollars) rose was that prices became very volatile. A reason to use crypto is to transfer assets, make purchases, or invest somewhere else in the world. You can do this without making multiple forex transactions if you use crypto instead of dollars and a string of other currencies. However, crypto volatility caused problems in this regard.

Stablecoins Eliminate or at Least Greatly Reduce Exchange Rate Risks

Very often crypto assets need to be converted back into a standard currency on the other end of a transaction. The problem with crypto volatility is that when exchange rates in and out of crypto change, profits can evaporate, and businesses can go bankrupt. Here is where stablecoins come into the picture. Because they are pegged to the dollar, euro, yen, British pound or other major currency, the volatility issue is virtually eliminated, at least in the short term.

Stablecoins and the Crypto Dream

The first cryptocurrency was Bitcoin. The idea was to allow people to send money via the internet without middlemen or centralized control. Otherwise, it was intended to work pretty much like the "fiat" currencies. When Bitcoin was brand new it was really cheap. The first known purchase with Bitcoin was in 2010 when a man named Laszlo Hanyecz paid **10000 BTC for two pizzas** (Papa John) including home delivery. At today's Bitcoin prices these two pizzas cost $26,136 x 10,000 = $261,360,000 or $130 million per pizza.

The point of this little example is that Bitcoin quickly became an investable and tradable asset. A mystique grew up around Bitcoin and subsequent cryptocurrencies. They were a hedge against inflation, a safe haven in times of financial and social turmoil and would go up in price virtually forever. This seemed to be true by 2021 when Bitcoin peaked at $61,000 and then $64,000 with a $31,000 bottom in between. The original crypto dream was forgotten as everyone expected untold, easy riches if they just bought Bitcoin at virtually any price because Bitcoin (and the rest) were always going to go up in price. And then they didn't. The cold harsh reality of **crypto winter** set in and crypto fell and kept falling. The exceptions were stablecoins backed by hard currencies that held their value against the dollar. The dollar went up as the US Federal Reserve raised interest rates while stocks and standard cryptocurrencies plummeted.

Why Use Stablecoins if You Have Dollars?

The original crypto dream is still valid. It costs a lot less to move monetary assets across the world with crypto than with traditional currencies. With stable crypto assets the exchange rate risk that drove businesses into bankruptcy during crypto winter goes away. The fact that crypto is a good idea is reinforced by the fact that central banks all over the world are working on developing their own digital currencies. President Biden issued a presidential directive regarding the **future of US money and payment systems**. As a result the Federal Reserve is looking at developing a digital US dollar. US regulatory agencies are getting their houses in order in regard to who will regulate what in the digital world. This is why use stablecoins instead of dollars. They may well be easily interchangeable in the near future!

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