

# A Public Response to BPI's Blog Article

## *“Yield-Bearing Stablecoins Can Destroy Deposits”*

A recent Bank Policy Institute blog post titled *Yield-Bearing Stablecoins Can Destroy Deposits* (May 8, 2026) characterizes findings in my white paper circulated last December, *Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design*, in ways that warrant correction, because the differences are not minor framing choices. I welcome substantive debate on stablecoin regulation, but I do need to correct any inversion of the paper’s argument in service of a predetermined advocacy position. Below I respond to four specific points where the BPI article misinterprets or misrepresents my paper.

### **1. The “\$3.7 trillion destroyed deposits” figure is not in the paper.**

The BPI article writes: *“Cong states: ‘Stablecoin adoption is believed to expand substantially, reaching roughly four trillion dollars by 2030.’ In that case, using this analysis sponsored by the stablecoin industry, deposits would therefore decline by \$4 trillion. Deposits would have first risen by \$300 billion then fallen by \$4 trillion, so that’s \$3.7 trillion in destroyed deposits, far from deposits just moving around.”*

This figure is BPI’s construction, not mine. My paper nowhere reports a \$3.7 trillion deposit decline or the \$2.7 trillion lending reduction attributed to it in BPI’s related commentary. The Citi 2030 number is cited in a single footnote as a third-party adoption scenario — not as a quantity of deposits leaving the U.S. banking system.

The arithmetic the article performs — subtracting \$4 trillion of stablecoin adoption from \$300 billion of competitive deposit gains and labelling the residual “destroyed deposits” — either rests on a logical error or implicitly invokes very strong assumptions. It appears to me to be similar to arguing that, because Canada is expected to add three million jobs over a period, the United States must therefore lose three million jobs. Two economies, two markets, with no accounting identity linking Citi’s adoption projection to a one-for-one decline in U.S. bank deposits.

More fundamentally, the article treats a modeling simplification — that, in the Chiu et al. (2023) framework, deposits and the outside option are modeled as substitutes for tractability — as if it were a finding. Chiu et al. is an equilibrium model in which prices (deposit rates), quantities, and intermediation margins adjust jointly to changes in the outside option. When adapted to our setting, it is not a fixed-flow accounting exercise in which every dollar of stablecoin growth mechanically deletes a dollar of deposits.

If one further relaxes the assumption that stablecoins and deposits are perfect substitutes — which is what realism would dictate, since banks can themselves issue tokenized deposits and

stablecoins are used primarily for transactions and operational cash rather than savings (a point my coauthors and I document empirically in my companion paper, *Five Facts about Stablecoins*, which shows that stablecoin balances are managed like cash rather than like bank deposits and exhibit a high-flow, low-stock dynamic) — the deposit-erosion effect attenuates further. The BPI article appears to lean on a simplifying assumption and treats it as the paper’s conclusion.

## **2. The market-power critique misses deposit-market frictions.**

The BPI article dismisses the role of bank market power on the grounds that *“there are over 9,000 depository institutions in the United States and a new deposit account is merely a mouse-click or phone-tap away for most consumers.”*

This does not engage carefully with the deposit-market literature. Market power in deposit markets does not require a small number of banks. It arises from product differentiation, switching costs, search frictions, payment-rail integration, and deposit-rate stickiness — all of which are well documented in the empirical banking literature and which Chiu et al. (2023) model in reduced form. The empirical regularity that retail deposit rates pass through only partially and slowly to market rate changes is precisely the wedge the model captures.

Two further points are worth noting. First, the largest depository institutions enjoy substantial cross-sell and bundling advantages that smaller competitors cannot easily replicate. Opening a checking account at a national bank with an integrated brokerage, credit card, mortgage, and rewards ecosystem is not the same product as opening one at a community bank with which the customer has no other relationship. Convenience and integration are themselves sources of pricing power.

Second, the Bank Policy Institute itself exists because individual banks cannot achieve through atomistic competition what a coordinated trade association can achieve in legislative and regulatory advocacy. Coalitions of this sort are a textbook mechanism through which fragmented industries aggregate market power. It is, at minimum, ironic for BPI to argue that market power in U.S. banking is implausible.

Finally, I never claimed — and my paper never claims — that the threat to bank market power weakens once stablecoins begin to circulate. If anything, observed circulation may sharpen the competition, intensifying pressure on deposit rates and supporting deposit growth and credit expansion at moderate yield levels. The BPI article asserts the opposite reading and attributes it to me; that reading is not what my paper says.

## **3. The contractionary outcome is prevented by law and by economics.**

My white paper is explicit about when the model predicts deposit and lending contraction: only when stablecoin yields rise materially above the return on the underlying reserve portfolio —

roughly above six percent in the current calibration, with current short-term Treasury rates near four percent.

The GENIUS Act explicitly prohibits stablecoin issuers from paying interest or yield to holders. Even allowing for indirect rewards through digital asset service providers, sustaining effective yields several percentage points above reserve returns at scale would require ongoing subsidies, risk transformation that the Act forbids, or some other durable wedge between reserve returns and end-user remuneration. None of these are economically sustainable equilibria.

The BPI article focuses on the contraction region and presents it as the general result. The paper points in a different direction. Under current parameters and within the GENIUS Act's reserve and yield constraints, the predicted equilibrium lies in the expansion region, in which competition from stablecoins disciplines bank deposit pricing, raises deposit rates, and expands intermediation. Picking a corner of the parameter space that is largely ruled out by both the statute and basic profit-maximization arithmetic reads, in my view, is closer to advocacy than to an impartial analysis.

#### **4. On transparency and disclosure.**

The BPI article implies that the underlying model details are obscure or unavailable. The framework on which the analysis draws is Chiu, Davoodalhosseini, Jiang, and Zhu, "*Bank Market Power and Central Bank Digital Currency: Theory and Quantitative Assessment*," published in the *Journal of Political Economy* in 2023 — one of the leading peer-reviewed journals in economics. The mathematical structure, identification, and calibration are public. The parameter updates in my white paper are documented in detail in the relevant footnotes and appendix. A properly trained economist can replicate the comparative statics.

By contrast, the BPI article contains no model, no calibrated mechanism, and no quantitative argument. It contains an argument based on a heuristic arithmetic operation — subtracting one third-party adoption number from another to produce a deposit-loss figure — together with the assertion that this represents the implication of my research.

The BPI article also prominently mentioned that the white paper was prepared "with financial support" from Coinbase, Paradigm, PayPal, and Stripe. That disclosure appears on my paper's cover page, as it should. I am not employed by any of those firms and the financial support is for conducting a more in-depth analysis of how stablecoins affects domestic banking in the United States, which was missing from various industry reports. The sponsors had no editorial approval beyond standard comments and feedback. The research design, analyses, and conclusions are mine.

For completeness: the BPI article was authored by the institute's Chief Economist, Dr. Bill Nelson. The Bank Policy Institute is a trade association whose membership consists of the largest U.S. banks, and which has been the most active institutional opponent of stablecoin yield permissibility in the GENIUS Act debate. The institutional interests on its side of this argument are not concealed. Nor are mine. Readers can weigh both.

I hope that future commentary engages more with the model, the parameter ranges, and the equilibrium logic — rather than reducing a quantitative framework to whichever corner of its parameter space best supports a predetermined policy position.

The white paper, including the appendix responding to earlier commentaries by certain advocacy groups, is available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=6163266](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6163266).

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