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A Washington Effect? How the United States Reasserts Monetary Power through Stablecoins

by João Paulo Nicolini Gabriel

- US stablecoin legislation embeds scalable digital money within Treasury markets, reinforcing dollar dominance through private balance sheets.
- The Washington Effect captures how liquidity, market access and legal credibility globalise US monetary standards without formal extraterritorial regulation.
- For Europe and the Global South, stablecoins accelerate asymmetric adjustment, weakening monetary autonomy through market-driven dollarisation.

Digital money has ceased to be a marginal financial experiment and has become a structural component of **contemporary monetary power**. What is at stake is not technological innovation in payments, but the authority to define how money is issued, settled, redeemed and legally enforced in an increasingly digital environment. As settlement migrates away from traditional banking interfaces and becomes programmable, **monetary power** concentrates in those jurisdictions capable of governing the legal, institutional and balance-sheet foundations that sustain trust at scale.

In 2025, the United States completed a decisive repositioning in the governance of digital money. In January, the White House issued an executive order explicitly prohibiting the development or

João Paulo Nicolini Gabriel *is Visiting Research Fellow at King's College London (Brazil Institute).*
joao.nicolini_gabriel@kcl.ac.uk

issuance of a US central bank digital currency (CBDC), signaling a strategic preference for private and supervised forms of digital money. Likewise, Trump's administration endorsed a broader framework for public engagement with crypto assets, including the exploration of reserve and investment mechanisms at the federal level. In July, Congress enacted the Guaranteeing Essential National Infrastructure for United States Stablecoins Act (GENIUS Act), establishing the first federal regime for dollar-denominated payment stablecoins. Nowadays, negotiations over the Digital Asset Market Clarity Act (CLARITY Act) intensified, a bill aimed to shape regulatory expectations and market behaviour.

Trump's administration endorsed a broader framework for public engagement with crypto assets

Arguably, US crypto policy is best understood as an exercise in institutional consolidation rather than technological containment. Rather than issuing sovereign digital money or attempting to suppress private innovation, the United States has chosen to absorb scalable forms of digital money into the dollar system, embedding them within US legal authority, Treasury markets and market-access conditions. The mechanism through which this strategy operates can be described as a sort of "Washington Effect" (playing with the Brussels Effect terminology) in digital finance: the export of monetary conditions through market access, liquidity and legal credibility, rather than through formal extraterritorial regulation or coercion. This effect has asymmetric consequences for Europe and, more profoundly, for the Global South.

Stablecoins and the institutionalisation of digital dollars

The empirical trajectory of digital finance over the past five years is unambiguous. Cryptocurrencies did not displace the dollar as a unit of account or settlement medium. Dollar-denominated stablecoins did. By 2024-2025, more than 95 per cent of global stablecoin market capitalisation was denominated in US dollars, with two issuers accounting for the overwhelming majority of outstanding supply. At peak levels in mid-2025, combined circulation exceeded 200 billion dollars, a scale that places stablecoins firmly within the architecture of global liquidity.

This expansion has been driven not merely by speculative demand, but by sustained transactional use. Stablecoins have become a core settlement instrument for crypto-asset markets, cross-border business payments and remittance corridors, particularly in environments marked by volatile currencies, capital controls or limited access to international banking. Part of their continued uptake also reflects the persistence of informal and unlawful uses of crypto infrastructures, which favour instruments offering rapid settlement and value stability outside conventional financial channels.

Their credibility, however, does not rest on decentralised governance or algorithmic design. It rests on reserves. Leading issuers hold substantial volumes of cash and short-dated US Treasury bills and, between 2023 and 2025, repeatedly ranked among the largest non-sovereign holders of US T-bills. What appears as private fintech innovation is therefore structurally embedded in US money markets and public debt financing.

The GENIUS Act formalises this configuration by defining payment stablecoins narrowly as par-redeemable settlement instruments, restricting issuance to authorised entities operating under US law, mandating reserve backing in cash and short-dated Treasuries, prohibiting interest-bearing features and tightly circumscribing issuer activities. In doing so, it relocates monetary trust from decentralised networks to public authority. At the same time, this legal consolidation does not eliminate concerns about reserve robustness and liquidity under stress. Persistent questions surrounding the transparency and composition of reserves held by major stablecoin issuers.

Payment stablecoins become legally enforceable claims on dollar liquidity under US jurisdiction. As adoption expands, global demand for digital liquidity is mechanically channelled into US Treasury markets. Issuing a retail CBDC would have placed digital payments directly on the Federal Reserve's balance sheet, expanding public liabilities and politicising retail money. Supervised private issuance, by contrast, allows the digital footprint of the dollar to expand while preserving the hierarchy between sovereign money and private intermediation.

Hence, the strategic importance of the CLARITY Act lies less in its technical provisions than in its effect on market structure. For more than a decade, global crypto platforms expanded by exploiting jurisdictional fragmentation, maintaining global liquidity while limiting exposure to any single regulator. CLARITY seeks to close it by **clarifying federal oversight of exchanges**, brokers and custodians accessing US markets. This is where the **Washington Effect** becomes operative. By defining the legal conditions under which scalable digital money can be issued, held and settled, the United States exports its monetary standards through access rather than coercion. Firms that wish to **retain access** to dollar liquidity, US banking relationships and institutional capital face a constrained choice: either align their global operations with US regulatory and legal requirements, or accept fragmented liquidity, reduced scale and higher risk premiums.

Compliance becomes a business decision rather than a legal obligation. Global platforms adapt not because they are formally compelled to do so abroad, but because exclusion from US markets is economically prohibitive. Liquidity, reputation and network effects enforce convergence. Unlike traditional extraterritorial regulation, the Washington Effect operates through the structure of markets rather than through the extension of jurisdiction. It is sustained by the centrality of the dollar as the dominant unit of account, settlement medium and safe asset. Monetary standards travel more easily than regulatory norms, particularly when embedded in private payment instruments that can circulate globally without formal international agreements.

> *The Washington Effect operates through the structure of markets rather than through the extension of jurisdiction*

Structural asymmetries and the limits of alternatives

The implications of this configuration become clearer when viewed comparatively. China's digital currency initiatives have registered real, quantifiable activity but remain constrained in terms of global **monetary influence**. According to analysis by the Federal Reserve, the renminbi's share of global currency usage – measured across reserves, FX transactions, foreign currency debt issuance and international banking claims – is around 2-3 per cent, lagging well behind the **US dollar's roughly 66 per cent share**. This illustrates how digital infrastructure alone does not generate monetary hierarchy. Without deep, open capital markets, freely accessible liquidity and credible legal protections for foreign holders, alternative settlement systems, even when technologically advanced, struggle to scale beyond politically aligned corridors and limited use cases.

Europe faces a different, but equally binding, constraint. The **European Union** has developed substantial regulatory capacity in digital finance and has advanced the **Digital Euro initiative** as a means of preserving monetary sovereignty in an increasingly cashless economy. Yet these efforts confront a structural limitation: the absence of a unified fiscal authority capable of supplying a deep, liquid and globally accepted safe asset comparable to **US Treasuries**. Regulatory sovereignty without monetary depth produces compliance rather than power.

Restrictive measures tend to push stablecoin usage offshore, reinforcing the appeal of dollar-denominated instruments

For sanctioned and revisionist states, crypto-based settlement has reduced friction at the margins but has not generated viable alternatives to dollar-based settlement at scale. Volatility, shallow liquidity and legal uncertainty prevent digital assets from functioning as reliable units of account for trade and finance. The binding constraint is not technological capability, but monetary depth and legal authority. The most consequential effects of the Washington Effect are unfolding in Global South **developing economies**. Stablecoins allow firms and households to access dollar liquidity without formal **dollarisation**, IMF programmes or bilateral monetary arrangements. They operate through private platforms rather than state channels, creating parallel pools of dollar liquidity that are difficult to monitor, tax or regulate.

Over time, this dynamic weakens capital controls, erodes monetary policy transmission and reduces the effectiveness of domestic financial regulation. **Seigniorage-like** benefits shift from public authorities to private issuers whose balance sheets are anchored in US sovereign debt. Domestic currencies lose relevance gradually rather than abruptly, producing a form of digitally mediated dollarisation that operates through markets rather than diplomacy. Attempts at prohibition frequently backfire. Restrictive measures tend to push stablecoin usage offshore, reinforcing the appeal of dollar-denominated instruments perceived as safer and more liquid. For governments in the Global South, the policy dilemma is acute: tolerating stablecoin usage undermines monetary sovereignty, while suppressing it risks accelerating capital flight and financial disintermediation.

From a geopolitical perspective, this represents a low-cost extension of **US monetary power**. Without formal agreements, conditionality or coercion, private digital instruments channel global demand into dollar assets and US legal frameworks. Adjustment costs are borne primarily by peripheral economies, while the benefits of increased demand for dollar-denominated safe assets accrue to the issuer of the dominant currency.

Digital money and the reproduction of hierarchy

The incorporation of stablecoins into the dollar system marks a transition from crypto's insurgent to its infrastructural phase. Through the GENIUS Act, the CLARITY Act and the explicit rejection of a US central bank digital currency, the United States has demonstrated how a hegemonic power can adapt to technological change by embedding innovation within existing monetary hierarchies rather than resisting it. This strategy is not necessarily aligned with ambitions to weaken the dollar's exchange rate in support of export competitiveness, which operate at a different policy level and over different time horizons. Instead, it reflects a clearer priority: preserving the dollar's role as the dominant unit of account, settlement medium and private store of value in an increasingly digital financial system. The Washington Effect in digital finance is about anchoring the future of money in dollar liquidity, US law and Treasury markets.

In a world where power is exercised through payment rails, balance sheets and safe-asset provision, digital money has not eroded hierarchy. It has become one of its most efficient mechanisms.

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Via dei Montecatini, 17
I-00186 Rome, Italy
T +39 06 6976831
www.iai.it

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Editor: **Leo Goretti** (l.goretti@iai.it)
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