

In the stablecoin era, what counts as a 'dollar' is getting complicated

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What is a dollar? Noelle Acheson highlights how stablecoins are underlining the ways in which the absence of an official definition can have geopolitical and macroeconomic consequences.

Toru Hanai/Bloomberg

We all assume we know the meaning of the term "dollar."

But look closely at the easy definitions, and they fall apart. It's the currency of the United States — but roughly a dozen other countries and territories have adopted the dollar as legal tender, and it is [used by virtually all](#) as settlement for global trade. So, it's more than that.

OK, then, it's the currency created by the Federal Reserve and authorized American banks — only, European banks also create dollars, a lot of them, as part of the [Eurodollar system](#).

Comb through established [legal code](#), and you'll be told what a dollar can be divided into, what its coin should measure and how much it should weigh. You'll be told it's legal tender. But you won't find a standalone, noncircular identifying phrase that distinguishes it from other commodities, denominations or abstract concepts.

Former Fed Chair Ben Bernanke, when asked point blank for his definition of a dollar, [reportedly responded](#): "My definition of the dollar is what it can buy." Not exactly helpful.

It turns out that there is no official definition, something that is becoming increasingly obvious and possibly contentious with the global [expansion of stablecoins](#). What's more, the resulting confusion goes beyond semantics: It has potential geopolitical and macroeconomic implications.

The prevailing theory behind the full-throated support from the White House for the development of [dollar stablecoins](#) is that they will boost demand for U.S. government debt. More stablecoins backed by compliant reserves means more purchases of short-term Treasuries and related instruments. Prices go up, yields come down and the economy hums.

However, the theory rests on a bold assumption: that all dollar stablecoin issuers will comply with the U.S. GENIUS Act, or similar legislation in other jurisdictions such as Singapore and Hong Kong that mandate 1:1 backing reserves of short-term U.S. government or central bank liabilities.

Of course, foreign issuers of dollar stablecoins that want to access global pools of liquidity and interact with the networked system will comply.

Those that don't will end up with niche products and limited use.

But what if that is not a significant barrier for some issuers? What if, for instance, a major state-linked sanctioned Russian bank decided to issue USD stablecoins to more easily settle dollar-based trade invoices from willing partners?

There are obvious obstacles to a Russian entity doing this. One is finding counterparties willing to incur the risk of [further U.S. sanctions](#). Another is trust

in the token's peg: Russian banks hold almost no short-term U.S. Treasuries and would not be able to easily acquire them in the market. But the Russian government in the past has [issued dollar bonds](#), listed on international exchanges such as Ireland or Luxembourg. These are currently frozen, although future dollar bond issuance by Russia's Ministry of Finance could trade as private contracts. Trust would not be high, but if the contracts were sufficiently backstopped and officially encouraged, that could become less of a concern.

Or, what if China were to issue a local USD stablecoin to facilitate regional trade, including with Russia? The Chinese government issues a lot of dollar bonds which could serve as reliable backing reserves; these are now [yielding the same](#) as their U.S. counterpart, suggesting no demand or liquidity issues. We know that many Chinese companies are [already using dollar stablecoins](#) for trade and to overcome certain market inefficiencies. It's not a stretch to imagine the monetary authorities wanting to onshore the relevant issuance.

And sovereign dollar bonds are not the only asset that can act as dollar stablecoin reserves. Kyrgyzstan, for example, recently issued USDKG, [a dollar-pegged stablecoin backed by gold](#). It has the reserves: The country's main industry is gold production, and its central bank has been actively buying in recent months. Kyrgyzstan is also a staunch Russian trade partner and military ally, and some of its entities have been hit by sanctions as a result, which makes a dollar stablecoin not linked to the U.S. particularly useful.

True, the volumes of "unapproved" dollar stablecoins are tiny and unlikely to become significant in the near term. However, given fragmenting trade and building geopolitical tensions, they could. And if they did, it would mean growth in a type of dollar stablecoin that does not boost demand for Treasuries, which could undermine the administration's stablecoin support.

It would also signal a loss of control over the use of the term "dollar" and its currency code USD.

Presumably, the U.S. authorities will want to stop this from happening. But how?

Also relevant is: Why?

If it's to stop sanctions-busting, that's not so easy. Among the Kyrgyzstan entities recently sanctioned were the developers, backers and distributors of [a ruble stablecoin](#). Similar measures could befall the state entities involved in the issuance of its gold-backed dollar-pegged token should blockchain forensics

show it is being used to circumvent barriers to Russian trade settlement. But stopping stablecoin issuance is a game of whack a mole, given the open nature of the public blockchains on which they run.

If the motive is to stop the use of the term "dollar," that's even more complicated. On what grounds? A currency can't be trademarked — but an argument could be made for limits on who can use the term given the need to prevent misrepresentation and market confusion. Financial regulation through vocabulary? How would that be enforced?

These stablecoin-related issues bring us back to the initial question: What is a dollar? Technically, we still don't know.

All this serves as a reminder that, always, new technologies give us cause to rethink well-embedded terms. Arguably, your mobile phone is more a computer than a device on which to receive calls, but the term sticks. Text has become a verb. The envelope icon represents emails that don't need an envelope.

Crypto continues this tradition. The introduction of bitcoin and its use as a medium of exchange triggered debate around the definition of "money." And now, stablecoins push us to think about what the term "dollar" means, and who gets to decide.

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