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Opinion **Markets Insight**

'Flatcoins' are the way forward

The tokens merge the benefits of blockchain and fintech to provide a hedge against inflation while doing social good

NOURIEL ROUBINI December 14, 2023 - 00:00

'Flatcoins' store their worth in a basket of assets such as gold, lithium and other green metals, sustainable real estate ai inflation-linked bonds © FT Montage

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The launch of Bitcoin in 2009 was accompanied by strident claims that cryptocurrencies would trigger the reform of monetary systems and lead to more inclusive financial systems.

Over the past 15 years, however, despite advances in blockchain technologies, this promise has yet to be realised: almost no cryptocurrency has emerged as a reliable store of value, and none has developed into a widespread medium of exchange. Thus, a potentially innovative technology — blockchain — has been, at best, used mainly for risky speculation and, at worst, mostly hijacked by bad actors.

What has been the “killer app” of crypto? Insiders now argue it is stablecoins that track the value of major fiat currencies such as the US dollar. Notice the paradox, however: crypto started as a revolt against fiat currencies and the risk of their debasement via inflation.

But this “best” application of crypto is a digital version of fiat currencies with worse flaws — the same risk of debasement; a greater risk of a run than bank deposits, as stablecoins do not have access to central banks as lenders of last resort or deposit insurance; a lack of transparency into the assets backing them; worse money laundering problems with stablecoins used to pursue illicit activities; and zero nominal return.

Thus, the potential benefits of stablecoins — speed, portability and privacy — are offset by their many risks and limitations. Moreover, stablecoins may become redundant when safer central bank digital currencies are issued by big central banks.

But despite my longstanding scepticism over such crypto developments, the need for a more secure store of value backed by stable assets that can also be a means of payment is legitimate in a world in which inflation is likely to be higher even in advanced economies, let alone in unstable emerging market economies where poorer households don’t have access to a stable currency. Even the most traditionally safe asset as a store of value — long duration bonds — is not safe when inflation rises. Last year, for example, the rise in long yields implied that US Treasury bonds lost more than the S&P 500.

The real solution is secure currencies — or “flatcoins” — such as the one my company is developing. These differ from most stablecoins that are ostensibly pegged to one asset. Instead flatcoins are backed by a basket of different assets that aim to produce returns in line with a goal such as matching inflation. Flatcoins reflect the value of the underlying basket of assets.

They are an innovation that merges the benefits of blockchain and fintech: programmable securities backed by a portfolio of assets that protect against a variety of risks. These include inflation, currency debasement, and potential de-dollarisation, as well as political and geopolitical instability and climate change.

Based on historical evidence, the safest assets vis-à-vis the tail risks described above are short-term bonds and inflation-indexed bonds; gold; green metals that are key for the green transition; and sustainable real estate. The latter includes existing real estate assets with lower risk of huge losses that climate change will cause; as well as new real estate that supports the adaptation that environmental shifts will require.

Thus, a flatcoin can do a social good — providing investment in assets that ameliorate or seek to offset the effects of climate change — as well as doing well by hedging against other tail risks.

Since these assets have negatively correlated returns, a portfolio of them gives good returns with low volatility in stable times, and much higher returns when tail risks materialise.

In essence, a flatcoin is a secure currency that is backed by hard assets and financial instruments with low volatility: it becomes a good store of value but also a global means of payment with a positive return rather than the 0 per cent of fiat.

Blockchain technology also allows transactions at unprecedented speed; custody of the underlying assets in a cloud-based account to make holdings transparent and redeemable; the use of smart contracts with anti-money laundering features to prevent illicit financing; and financial inclusion, as flatcoins will be available in unstable monetary systems.

We need to reform the current monetary and currency system to protect existing national currencies while hedging against tail risks and providing financial inclusion. Flatcoins are the way forward.