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Money and Power

Historical Lessons for Stablecoins and U.S. Dollar Dominance

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Overview

- We use the history of private money to assess when stablecoins can function safely at scale and what their growth may imply for U.S. monetary power.
- Stablecoins aim to maintain a fixed value against reserve assets. Distributed ledgers may improve settlement speed, programmability and cross-border access, echoing earlier proposals for 100% reserve money.
- We ask what arrangements have supported commitment to redemption, coordination at par and crisis management. Privately managed balance sheets must sustain confidence across the whole system.
- We ask whether today's stablecoins satisfy these conditions domestically and internationally, and how expansion could affect the dollar's international role.
- The GENIUS Act (2025) addresses several conditions. Systemic liquidity and cross-border coordination remain less fully developed.

Private money: lessons from the U.K., U.S. and Canada

Episode	Institutional arrangements	Lesson for stablecoins
England and Scotland	England permitted joint-stock banks after the 1825 crisis, which had decimated the fragile country banks. Crisis liquidity concentrated at the Bank of England. Scottish branching, unlimited liability, and clearing strengthened discipline.	Diversification and clearing supported convertibility. System-wide crisis liquidity increasingly required coordination.
U.S. free banking 1837–1863	State-bond backing, demand redemption and state supervision. Discounts reflected backing quality and redemption distance. Failures, panics and counterfeiting persisted.	Asset backing alone did not ensure par acceptance. Fragmented supervision remains relevant to state-regulated stablecoins.
U.S. national banks 1864–1914	Treasury backing above 100%, OCC oversight and double liability. Treasury redemption and insolvency protection supported par. The 1874 agency required a 5% redemption fund.	NQA circulation took about a decade. The 1907 crisis led to the Fed: uniform notes still needed national crisis management.
Canada 1867–1935	Nationwide branching, note insurance and clearing supported par. Designated banks absorbed failures. Government crisis management expanded in WWI.	Public–private cooperation limited contagion. Canada avoided U.S.-style panics without an early central bank.

Sources: Presnell (1956); White (1984); Bordo and Redish (1987); Bordo and Wilkins (2026).

Historical conditions for private money at scale

Money works when it is accepted at face value with “no questions asked”.

- Credible redemption at par
- High-quality, transparent backing
- Sufficiently common rules and regulatory perimeter
- Clearing and settlement that preserve exchange at par
- Credible crisis-management and loss-allocation arrangements

Technology is no substitute for these conditions.

Table 1. The GENIUS Act and the five foundations

Foundation	Historical condition	What the Act provides	What remains unresolved
Convertibility	Redemption at par and clear insolvency rules	1:1 reserves, explicit redemption rights and holder priority in insolvency	Uniform enforcement, redemption timing and treatment under stress
Transparent backing	Liquid assets, disclosure and limited risk	Eligible liquid reserves, including deposits, Treasuries, repos and money-market funds. Monthly disclosure and certification	Simultaneous redemptions, bank/repo/custody risks and cross-border disclosure
Common rules	Consistent supervision, limited arbitrage	Federal approval. Substantially similar state regimes below $10bn, with federal transition above it	Variation below the threshold, supervisory consistency and international coordination
Par clearing	Integrated settlement at par	Interoperability assessment and standards if needed. Custody and safekeeping rules	No dedicated clearing or mutual liquidity pool. Market-driven interoperability
Crisis management	Clear loss allocation and liquidity support	No federal guarantee or deposit insurance. Segregated reserves, holder priority and enforcement	No formal lender of last resort or systemic backstop. Implicit too-big-to-fail expectations

Source: Condensed from Bordo and Wilkins (2026), Table 2, p. 14.

The GENIUS Act: backing and the remaining gap

- The Act strengthens commitment through 1:1 reserves, explicit redemption rights, restrictions on reserve assets, and a more consistent supervisory framework.
- Eligible reserves include commercial-bank deposits, repos and reverse repos, and qualifying money-market funds, alongside cash and short-term Treasuries.
- These assets can introduce liquidity, counterparty, custodial, and market-functioning risks under stress. Full backing does not guarantee ready cash during a run.
- The Act does not establish a mechanism to manage correlated redemptions or a systemic liquidity backstop.
- Faster settlement and real-time redemption may compress the time available to respond. They do not remove the need for credible redemption and uniform expectations.

Can the system preserve NQA when many holders redeem at once?

Stablecoins, bank deposits and tokenized deposits

Stablecoin advantages

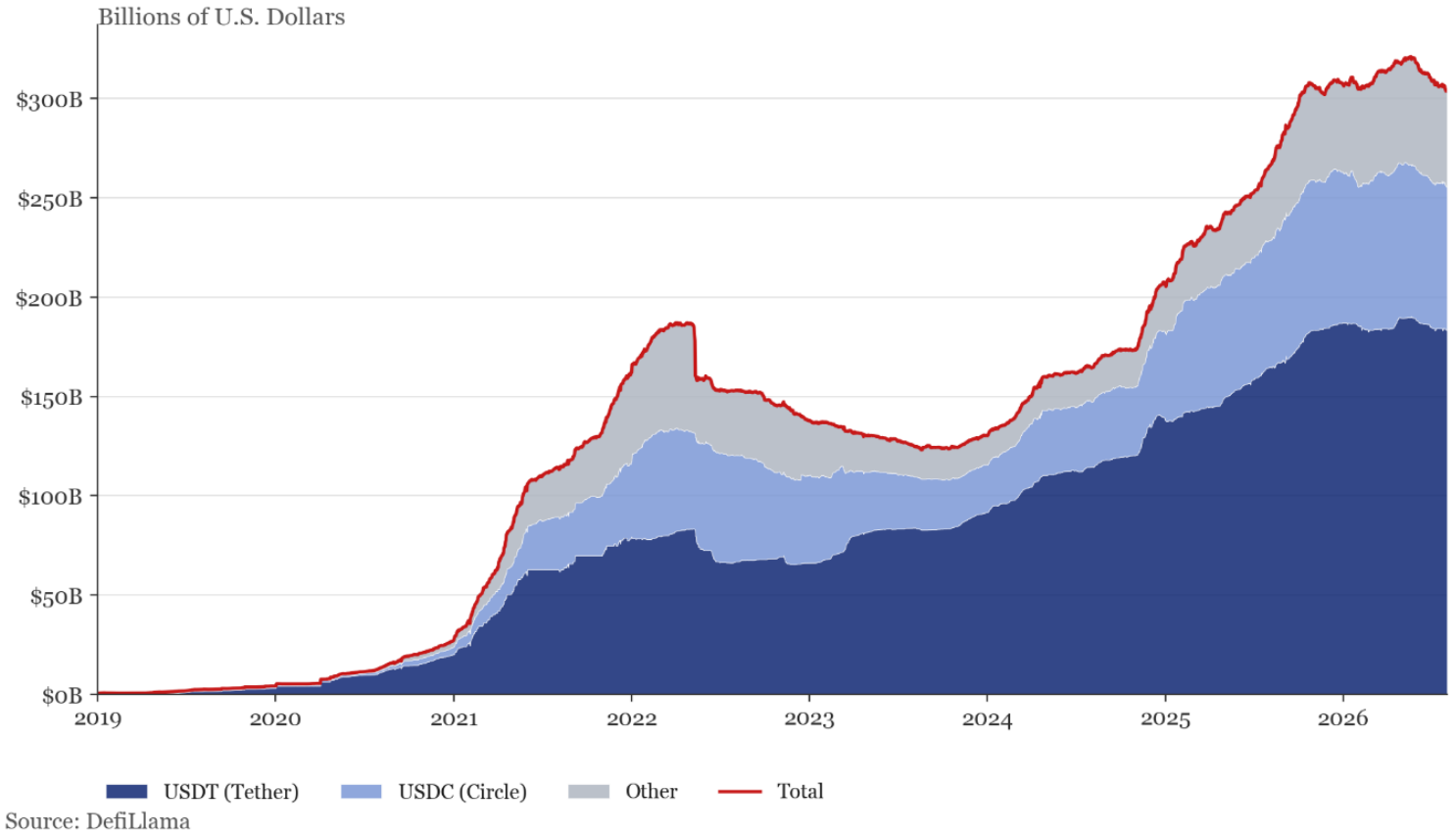
- Cross-border settlement where banking services are costly or hard to access
- Crypto-native collateral and programmable payments
- Access to dollar settlement in emerging markets with weak currencies, capital controls, or segmented foreign-exchange markets
- Benefits depend on uniform redemption rules and credible institutional support

The banking alternative

- Bank deposits operate within established legal and supervisory frameworks.
- Eligible deposits can offer interest, deposit insurance and access to central-bank liquidity through the issuing bank.
- Tokenized deposits retain funds within the regulated banking perimeter, potentially reducing disintermediation concerns and supporting par exchange.

This distinction matters in the U.S., where tokenized deposits are a likely complement or alternative to stablecoins because they enable programmable payments while preserving banks' deposit funding, lending role, and established safeguards.

Stablecoins and the international monetary order



Source: DefiLlama

- Issuance has expanded rapidly, overwhelmingly in U.S. dollars.
- Stablecoins serve crypto trading, lending, collateral management and DeFi liquidity.
- They also support limited cross-border peer-to-peer transfers with speed and programmability.
- Can they operate at scale as general-purpose international money?

Source: Bordo and Wilkins (2026), Figure 1. Underlying data: DefiLlama.

International money: institutions before technology

System	Commitment and coordination	Crisis capacity and lesson
Trade finance before gold (bills of exchange)	Maghribi traders relied on reputation. Bills of exchange used trust and commercial courts. Merchant banks and correspondent networks later connected continents.	The telegraph accelerated payments. Enforceable claims and credible institutions made international acceptance possible.
Classical gold standard (sterling bills)	Sterling bills, gold convertibility and London clearing financed trade. Core countries shared legal and fiscal credibility. Gold adherence signaled peripheral borrowers' creditworthiness.	Central banks supported the rules of the game. Multiple issuers could coexist when backing and legal commitments aligned.
Interwar and Bretton Woods (USD acceptances/ Eurodollars)	WWI ended classical gold. Interwar restoration failed. After 1944, official dollar convertibility at $35/oz, exchange-rate pegs and IMF oversight anchored Bretton Woods.	Capital controls and IMF lending supported stability. The Triffin problem and U.S. inflation eroded credibility, ending gold convertibility in 1971.
Dollar system after 1971 (Eurodollars/U.S. money center banks)	U.S. fiscal and monetary credibility replaced gold. Deep Treasury markets, enforceable contracts, correspondent banks and SWIFT sustained dollar use.	Fed lending and international dollar swaps supported liquidity. Stablecoins still need sovereign credibility and crisis capacity.

Sources: Greif (1993); Bordo and Rockoff (1996); Bordo and Wilkins (2026).

Cross-border stablecoins: redemption and fragmentation

- International stablecoins must solve commitment, coordination, and liquidity management across jurisdictions, where cooperation may be difficult.
- A dollar peg must sustain uniform redemption expectations despite different insolvency regimes, supervisory frameworks, and enforcement mechanisms.
- If redemption rights vary, claims may trade at issuer- or jurisdiction-specific discounts rather than circulate uniformly at par.
- Correlated redemptions could transmit directly to Treasury and repo markets because those markets supply key backing assets.
- Without coordinated liquidity arrangements, fragmentation becomes a material risk. The historical requirement is alignment of backing, legal commitments, and crisis capacity across jurisdictions.

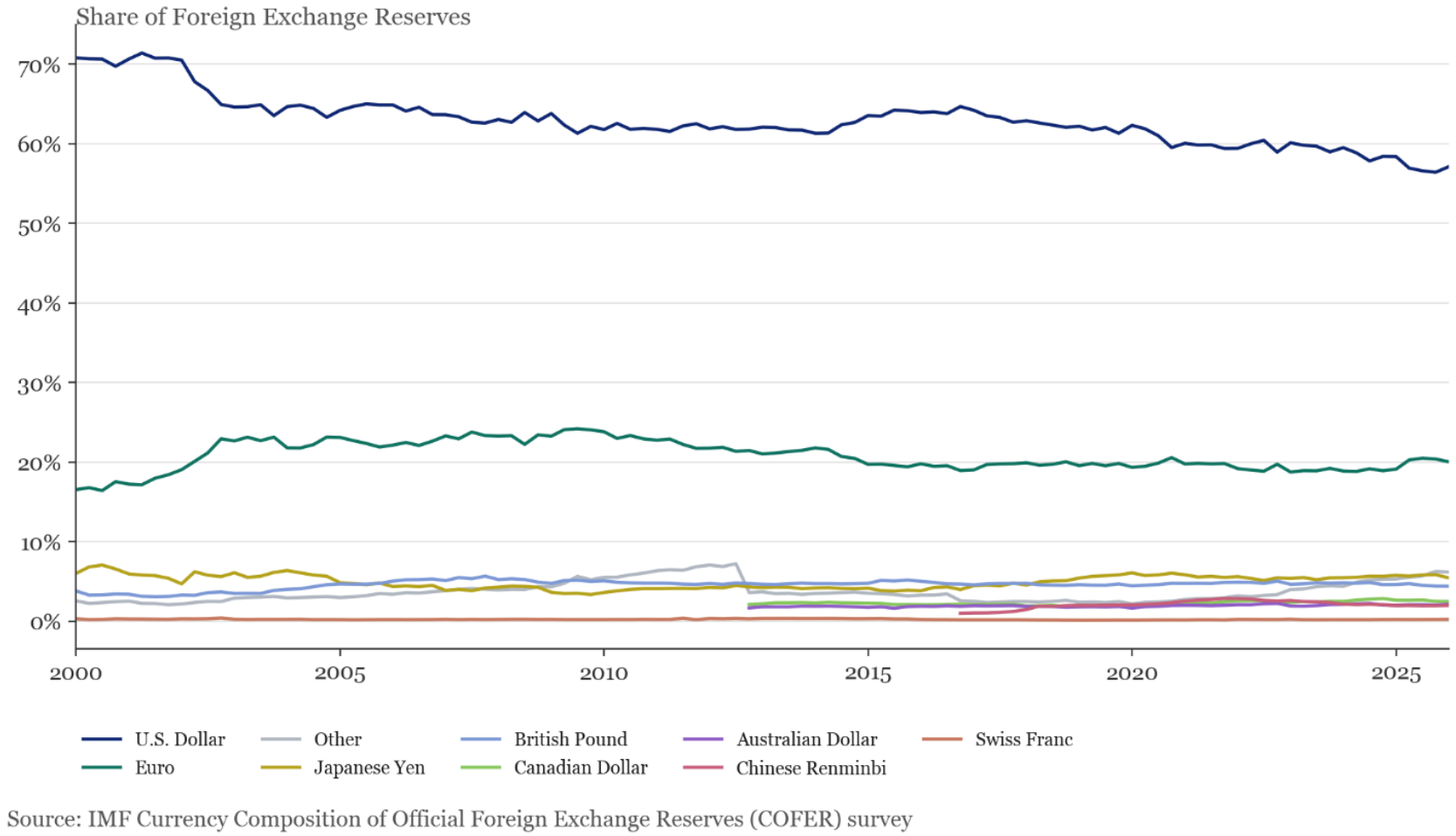
Stablecoins and U.S. dollar dominance

"This groundbreaking technology **will buttress the dollar's status as the global reserve currency**, **expand access to the dollar** economy for billions across the globe, and **lead to a surge in demand for US Treasuries**, which back stablecoins."

U.S. Treasury Secretary Scott Bessent, July 2025

- History links reserve-currency status to deep and liquid financial markets, credible legal systems and geopolitical influence (Rogoff 2025).
- Network effects reinforce these advantages, but they do not make currency dominance permanent, as was seen with sterling at the beginning of the 20th century.

The dollar's declining share of official reserves



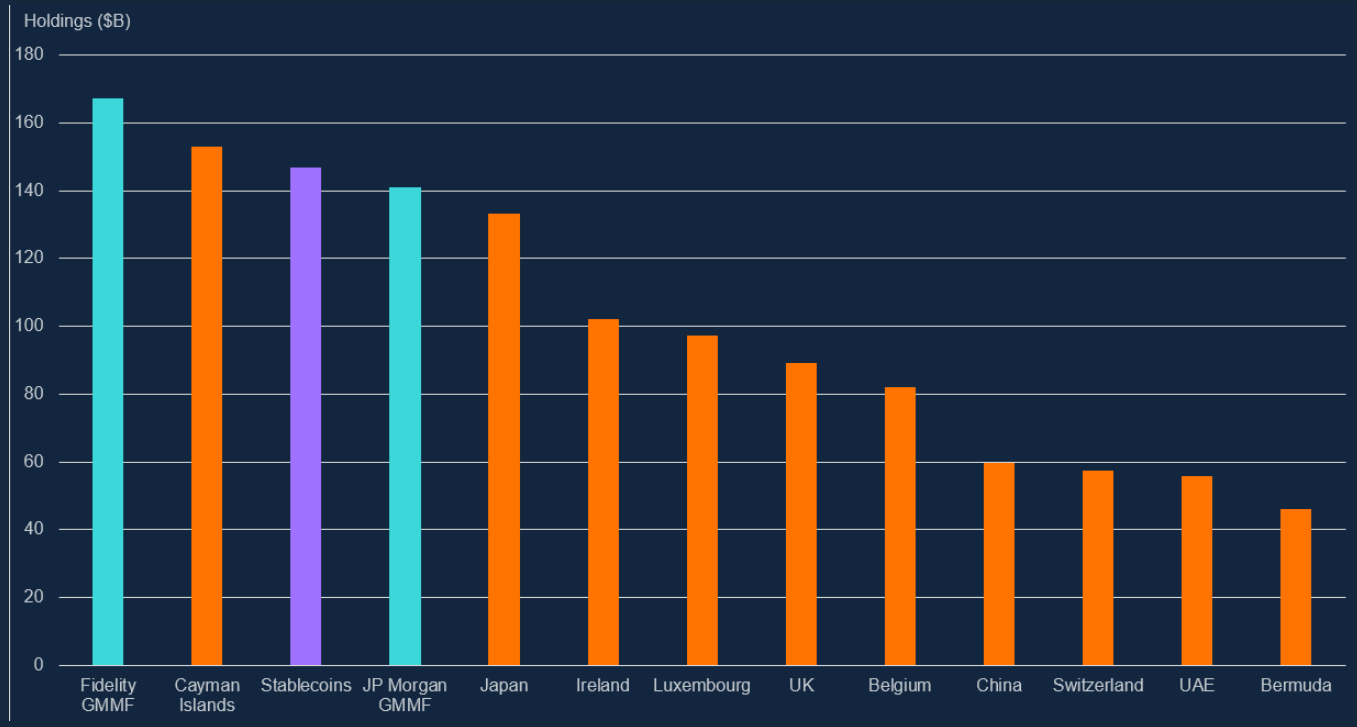
Source: IMF Currency Composition of Official Foreign Exchange Reserves (COFER) survey

Dollar share: about 57% at the end of the series, compared with roughly 70% around 2000.

Source: Bordo and Wilkins (2026), Figure 2. Underlying data: IMF COFER.

U.S. dollar stablecoins: demand for safe assets

Holdings of U.S. Treasury bills, Q4 2025 ($ billions)



- Stablecoin issuers hold almost $150 billion in U.S. Treasury bills.
- Emerging empirical findings suggest stablecoin demand is already putting some downward pressure on Treasury yields.

Source: Ahmed and Aldasoro (2025, revised 2026), authors' calculations.

Dollar settlement, digital dollarization and competition

- Dollar stablecoins connect crypto markets to finance through continuous cross-border, programmable payments with less reliance on correspondent-bank chains.
- Wider access can reinforce dollar network effects and encourage digital dollarization where domestic currencies or monetary institutions are weak.
- The postwar Eurodollar market offers a parallel: offshore dollar intermediation expanded by drawing on confidence in U.S. institutions.
- Dollar centrality also extends U.S. sanctions power. Alternatives include China's CIPS, regional platforms and cross-border wholesale CBDC experiments.
- Payment infrastructure could become more multipolar while the dollar remains the dominant reserve asset. Competition can encourage innovation, but still requires robust institutions (Hayek 1976).

Dollar dominance: virtuous and vicious circles

If institutional confidence holds

- Wider adoption increases demand for dollar stablecoins and their Treasury backing.
- Greater demand can reinforce liquidity in U.S. public-debt markets.
- Attractive dollar assets support wider use of dollar payment instruments and strengthen network effects.
- The mechanism depends on continuing confidence in U.S. institutions.

If confidence weakens

- Doubts about reserve quality or liquidity trigger token redemptions.
- Issuers may liquidate Treasury holdings to raise cash.
- Sales can stress short-term funding markets, raise yields and create rollover pressure.
- 24/7 transfers and correlated redemptions can amplify stress and weaken confidence further.

Conclusions

- Private money scales with credible redemption, transparent backing, common rules, par clearing and crisis management. Stablecoins face the same requirements.
- The GENIUS Act strengthens several foundations. Systemic liquidity and cross-border coordination remain unresolved. International use adds legal and fragmentation risks.
- Dollar dominance rests on deep markets, fiscal capacity, monetary credibility, the rule of law and geopolitical influence. Network effects reinforce these foundations.
- Slower growth, declining power and two world wars weakened sterling. Established networks prolonged its use but could not prevent its decline.
- But the dollar, despite some challenges to its democratic and fiscal foundations, is today much more secure.
- Stablecoins could reduce payment frictions and extend dollar use. Weaker U.S. institutional confidence could instead amplify stress through Treasury markets.