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**Money and Power:
Historical Lessons for Stablecoins and U.S. Dollar Dominance***

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This paper uses the history of private money to assess the conditions under which stablecoins could function safely at scale and what their growth may imply for U.S. monetary power. Historical systems of private money in the United Kingdom, the United States, Canada, Sweden, and Switzerland show that par circulation depended on institutional arrangements rather than payment technology. Drawing on the monetary history of private money, convertibility, and international currencies, the paper identifies five foundations for scalable private money: credible convertibility, high-quality and transparent backing, a uniform regulatory perimeter, par clearing infrastructure, and credible crisis management and loss allocation. Stablecoins may improve settlement speed, programmability, and cross-border access, but they do not remove these requirements. Applying this framework to contemporary stablecoins and the GENIUS Act, the paper finds that the Act addresses several of these foundations more fully than others, with crisis management and cross-border coordination less fully developed. Dollar stablecoins could extend the reach of dollar settlement, but historical experience reviewed here suggests that whether this strengthens the dollar system depends both on the institutional framework supporting stablecoins and on the deeper foundations of U.S. monetary dominance: confidence in U.S. institutions, fiscal capacity, monetary credibility, and the rule of law.

Keywords: Stablecoins, digital money, private money, commitment, coordination, crisis management, international role of the dollar, dollar dominance, cross-border cooperation, rules, regulations, rails

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1. Introduction

Stablecoins, and the crypto ecosystem that they currently serve, are frequently described as a technological revolution in monetary history. Built on distributed ledgers and operating continuously across borders, they appear to bypass the institutional constraints that shaped earlier monetary systems. Economically, however, the main fiat-backed payment stablecoins are not unprecedented. They are privately issued, redeemable liabilities designed to circulate at par against a sovereign anchor. In this respect, payment stablecoins also echo older proposals for narrow banking or 100-percent-reserve money, in which transaction liabilities would be backed by safe, liquid assets rather than by fractional-reserve bank portfolios (Simons 1948; Friedman 1960).¹ This paper focuses on stablecoins that seek that money-like role, including those brought inside GENIUS-type regulatory frameworks.

Private money has repeatedly emerged, expanded, fragmented, and consolidated over centuries. Its durability has depended less on the instrument used to transfer claims than on whether the surrounding institutional arrangements solved three recurring problems: commitment to redemption, coordination at par, and crisis management under stress. When those problems were credibly addressed, private money could scale. When they were not, fragmentation and instability followed.

This paper asks three related questions.

First, under what conditions has private money historically functioned safely and at scale? Drawing on historical experience from the United Kingdom (U.K.), the United States (U.S.), Canada, Sweden, and Switzerland, we show that scalable private money has required arrangements that jointly supported commitment, coordination, and crisis management. These arrangements included credible convertibility into a trusted anchor, high-quality and transparent backing, a uniform regulatory perimeter, reliable clearing and settlement infrastructure that sustains par exchange, and credible mechanisms for loss allocation and liquidity provision in crises. These arrangements emerged gradually, often in response to stress, and frequently through the layering of public authority onto initially decentralized systems.

Second, do today's stablecoins satisfy these conditions, domestically and internationally, or are they headed toward simply replicating earlier coordination failures in digital form? Stablecoins may improve settlement speed, programmability, and cross-border reach. They may also compete with bank deposits, bank payment services, and correspondent banking rather than with the dollar as the unit of account. But these functional advantages do not eliminate the need for enforceable redemption rights, credible backing, regulatory coherence, and stress-management capacity.

¹ Stablecoins are not simply narrow banks in digital form since they may circulate across platforms, borders, and regulatory regimes, raising questions of redemption, settlement, and liquidity support that go beyond reserve backing alone.

Third, what are the implications of stablecoin expansion for the international monetary role of the U.S. dollar? If stablecoins replicate the foundations that historically supported private money, they could extend the global reach of the dollar by embedding it in new settlement channels and reinforcing demand for U.S. safe assets. But enlargement is not the same as strengthening, particularly in terms of confidence. A wider dollar perimeter is also harder to govern, especially if claims circulate across jurisdictions, issuers, and platforms that do not share the same rules for redemption, supervision, financial-crime controls, liquidity, and loss allocation.

Much of the recent analysis of stablecoins has focused on regulatory safeguards, financial stability, and payments efficiency (IMF 2022; BIS 2023). Gorton and Zhang (2023) draw explicit parallels between stablecoins and U.S. wildcat banking, while Bordo (2021) and Bordo and Roberds (2024) place digital private money within the longer evolution of gold standard credibility and central banking. The international monetary literature associated with Eichengreen (1992, 2011) similarly emphasizes that regime stability and reserve currency dominance rest on credible institutional commitments. This paper works within that monetary history tradition, aiming to contribute to it in two ways. First, it distills common foundations for scalable private money across multiple historical episodes and applies them directly to contemporary stablecoins. Second, it extends that analysis to assess the implications for international monetary power in the post-GENIUS environment.

The paper proceeds in four steps. It first examines historical private-money systems in the United Kingdom, the United States, Canada, Sweden, and Switzerland. It then draws out the conditions that supported stable par circulation. Next, it evaluates contemporary stablecoins and current regulatory proposals in light of those conditions. Finally, it asks whether stablecoins are likely to reinforce, weaken, or fragment the dollar-centered international monetary system.

2. Historical Evolution of Private Money Under Stress and Scale

Private money systems aim to achieve par circulation through decentralized issuance. The challenge is that balance sheets are managed privately, while confidence must be maintained system-wide.

Historical debates did not treat private money as inherently unstable. Vera Smith (1936) argued that instability was not intrinsic to private issuance but reflected institutional design, emphasizing the role of clearing and redemption in imposing continuous discipline on issuers. Banks that expanded faster than demand came under immediate reserve pressure through the clearing process, rather than only in crises or runs. Later work emphasized redemption credibility and the role of institutional arrangements, including clearing coordination and crisis management, as central determinants of stability (Bordo 1981; Bordo and Schwartz 1995).

Across the cases examined, including the U.K., the U.S., Canada, Sweden, and Switzerland, instability did not arise simply because issuance was private. It also reflected situations in which the mechanisms that imposed discipline were weakened or delayed by fragmentation, weak coordination, or regulatory constraints. Instability emerged when decentralized issuers could not internalize system-wide liquidity and coordination externalities. Liquidity provision in a panic

benefits the system as a whole, because when one institution stabilizes its position, the risk of broader runs declines. Still, no single issuer has the incentive to bear the full cost of protecting the system in advance. This section examines these cases comparatively to identify the recurring institutional and structural features that shaped private money under stress and scale.

United Kingdom: Convertibility and Endogenous Centralization

The English case illustrates how decentralized private issuance scaled under stress through progressive institutional adaptation. Crises did not end private money; rather, they exposed weaknesses and triggered institutional responses that internalized coordination and liquidity externalities.

Private note issuance in England emerged from seventeenth-century goldsmith banking. Goldsmiths issued receipts against deposited specie, and these receipts began circulating as transferable claims. By the early eighteenth century, both the Bank of England (chartered in 1694) and numerous country banks issued notes redeemable in gold. Institutional structure mattered immediately. Under the Bank of England Act of 1708 (7 Anne c. 7), partnerships of more than six persons were prohibited from issuing notes payable on demand. As a result, country banks operated as small partnerships with limited capital and unlimited liability.² They were locally embedded but lacked the capital depth and geographic diversification necessary to absorb systemic shocks.

Pressnell (1956) documents the rapid proliferation of country banknotes during the late eighteenth and early nineteenth centuries. In normal times, these notes circulated locally at par. In periods of stress, however, discounts emerged, and redemption was delayed, with confidence clearly issuer-specific rather than system-wide. The Panic of 1797 marked a major systemic test of this regime. Faced with gold outflows during wartime, the Bank of England suspended convertibility under the Restriction Act, and convertibility was not restored until 1821. We interpret the eventual resumption at par as consistent with Bordo and Kydland's (1997) broader view of the gold standard as a contingent rule: a temporary suspension need not destroy credibility when markets expect restoration at the original parity.

The crisis of 1825 exposed a different weakness, not of convertibility but of capitalization and geographic fragmentation. Dozens of small country banks failed, revealing the fragility created by the six-partner rule and the limited capital base of localized institutions (Pressnell 1956; Neal 1998). Parliament responded with the Country Bankers Act of 1826, which permitted joint-stock banking outside a 65-mile radius of London and allowed the Bank of England to establish provincial branches (Clapham 1944). The reform increased capital depth and geographic diversification, representing an institutional response to coordination failures within a fragmented private banking system.

² Under English partnership law, partners were jointly and severally liable for the debts of the firm. The six-partner restriction imposed by the Bank of England Act of 1708 (7 Anne c. 7) prevented the formation of large joint-stock note-issuing banks outside London until 1826, effectively confining country banking to small partnerships with unlimited liability. See Clapham (1944); Pressnell (1956); White (1984).

The institutional design of Scottish banking differed sharply from that of England. In the absence of a six-partner restriction, joint-stock banks developed extensive branch networks under double liability, thereby strengthening shareholder incentives. Regular note exchange through clearing ensured that excess issuance quickly translated into reserve pressure, as notes accumulated at rival banks were returned for settlement. As documented by White (1984) and Bordo and Schwartz (1995), this clearing discipline limited persistent discounts and helped absorb liquidity shocks. The Scottish case shows that decentralized issuance could remain stable when branching, capitalization, liability rules, and clearing arrangements internalized risk.

The Bank Charter Act of 1844 formalized the gold standard commitment by separating the Bank of England's note issue from its banking function and tying note issuance more tightly to gold reserves. It also constrained new private note issuance. While the objective was to limit discretionary expansion and strengthen confidence in convertibility at a fixed parity, the Act did not eliminate financial crises. The panics of 1847, 1857, and 1866 showed how liquidity shortages could still arise from credit contraction and gold outflows (Clapham 1944; Bordo 1990). On each occasion, the government authorized a temporary suspension of the note issuance ceiling to allow emergency lending. Country banks also adjusted the composition of their liabilities over time. Bearer notes payable on demand were curtailed, while greater reliance was placed on time-bound instruments, including interest-bearing notes and bills, which were less likely to be presented unexpectedly for payment (Clapham 1944). In these cases, the commitment to convertibility survived because temporary deviations were believed to be exceptional rather than permanent.

Over time, the Bank of England's role expanded beyond that of fiscal agent of the government. It became the central clearing institution for the London market and, increasingly, the source of emergency liquidity in moments of panic. The sheer concentration of reserves at the Bank made it the only institution capable of stabilizing the system. Centralization thus emerged not as a rejection of private banking, but as a practical response to recurrent liquidity crises that exceeded the capacity of individual firms.

Liability structure also shaped this evolution. As Bordo and Schwartz (1995) argue, incentives for prudence were stronger when shareholders clearly bore losses in failure. Unlimited or double liability increased the personal exposure of bank owners and reinforced market discipline. Where loss allocation was less clearly defined or where institutional arrangements muted private exposure, incentives weakened. That meant credibility of private issuance rested partly on whether liability and loss allocation were clearly defined and credibly enforced, and not simply on capital and convertibility.

England and Scotland addressed the same coordination problem in different ways. England relied on progressive centralization around the Bank of England after repeated crises. Scotland instead relied on branching, double liability, and clearing discipline among private banks. The contrast shows that stability did not rely on suppressing private issuance, but on institutional arrangements that internalized liquidity and coordination externalities.

The lesson is that scalable private issuance required credible convertibility, enforceable liability, capital depth, and mechanisms for crisis liquidity. Where these were strengthened, par circulation endured under stress.

United States: Fragmentation as Regulatory Externality

During the Free Banking era (1837-1863), note discounts varied systematically with collateral quality, distance from redemption centers, and issuer reputation (Weber 2015). Because collateral rules, supervision, and enforcement differed across states, noteholders bore issuer-specific risk. Discounts reflected rational pricing of heterogeneous backing and redemption costs rather than arbitrary instability. Par circulation therefore depended on ongoing assessment of issuer quality and market conditions rather than being institutionally guaranteed. As Gorton (1996) emphasizes more generally, banking systems become highly information sensitive when backing and liquidity are uncertain. The Free Banking experience illustrates that sensitivity.

The Panic of 1857 illustrates how collateral risk could interact with broader coordination failures. In states operating under free-banking laws, notes were backed by state bonds and other eligible securities deposited as collateral. Declines in the value of some eligible securities weakened the collateral supporting particular note issues and contributed to wider discounts (Weber 2015). These issuer-specific pressures formed one part of a broader panic that produced runs and suspensions across a decentralized banking system lacking a national liquidity authority (Calomiris and Gorton 1991). The episode therefore highlights two distinct vulnerabilities: heterogeneous collateral risk at the issuer level and the absence of a system-wide mechanism for stabilizing expectations once the panic spread.

The National Banking Acts of 1863 and 1864 sought to standardize collateral and create a uniform national currency backed by U.S. government bonds. By requiring national banks to deposit eligible federal bonds as security for note issuance, Congress aimed to improve backing quality and eliminate the heterogeneity that characterized the earlier period. While collateral quality improved and note uniformity increased, instability persisted. Because note issuance required eligible United States government bonds to be deposited with the Treasury, currency supply could not adjust freely to short-run changes in demand. It was widely observed that liquidity pressures intensified during harvest seasons when demand for currency rose sharply. The panics of 1873, 1893, and 1907 revealed that standardized collateral alone could not provide an elastic currency capable of absorbing system-wide stress. The reforms had not addressed the fundamental coordination and liquidity problems.

Private clearinghouses, particularly in New York, attempted to compensate for this rigidity. In particular, clearinghouses coordinated suspension practices and issued clearinghouse loan certificates during crises, creating temporary settlement media among member banks (Gorton 1985). Clearinghouses effectively acted as lenders of last resort as these certificates functioned as emergency liquidity instruments and reduced the need for immediate asset liquidation. They mitigated panic within clearinghouse networks, but their reach was regional and membership-based, leaving stabilization geographically segmented.

The Panic of 1907 did not represent a complete collapse of private crisis management. Clearinghouses and private actors, most notably J.P. Morgan, successfully organized emergency support and prevented systemic breakdown. However, stabilization depended on extraordinary private coordination and regionally concentrated reserves. The episode showcased the absence of a permanent national mechanism capable of supplying elastic liquidity and centralizing settlement (Calomiris and Gorton 1991). The *Federal Reserve Act* of 1913, following the Aldrich Vreeland Act of 1908, institutionalized functions that in 1907 had depended on private leadership and improvised cooperation.

Viewed alongside the United Kingdom, the U.S. system addressed institutional weaknesses in a different order. National Banking improved collateral quality but did not unify supervision or create a national liquidity authority. Note uniformity increased, yet coordination remained localized. Discounts persisted where confidence was issuer-specific rather than system-wide (Weber 2015). Clearinghouses mitigated stress regionally, but crisis management remained decentralized. Only with the creation of the Federal Reserve in 1913 did the U.S. establish a national mechanism capable of supplying elastic liquidity and centralizing settlement.³ Standardized backing alone proved insufficient to sustain durable par exchange at national scale.

Canada: Liability Structure as Credible Commitment

Canada's banking system developed under different institutional conditions from the outset. Prior to Confederation in 1867, banking operated under colonial charters modeled on British practice in provinces including Upper Canada and Lower Canada. Early institutions such as the Bank of Montreal, founded in 1817, and the Bank of Quebec, founded in 1818, were chartered joint-stock banks permitted to establish branch networks. After Confederation, the federal *Bank Act* of 1871 consolidated supervision under national authority and formalized a system of chartered banks with nationwide branching. Unlike in the United States, the regulatory perimeter was federal and uniform across provinces, including Quebec despite its civil law tradition.

Canada's relative stability reflected institutional design rather than chance. Bordo, Redish, and Rockoff (1994) emphasize that nationwide branching allowed banks to diversify geographically and smooth regional shocks, in contrast to the banking system in the United States. Canadian banks issued notes backed by general assets rather than specific bond collateral. Yet enforceable double liability and first lien noteholder protection created strong ex ante incentives for prudence (Fung, Hendry, and Weber 2017). Loss allocation was clearly defined: shareholders bore

³ During the Free Banking era and in the decades before World War I, several U.S. states established deposit insurance schemes (Calomiris 1990; English 1993). Many failed when state-specific shocks exhausted their insurance funds, reflecting both design weaknesses and the absence of cross-state or federal mechanisms for sharing losses. Friedman (1960) and Friedman and Schwartz (1963) viewed the creation of federal deposit insurance in 1934 as solving the panic problem that had contributed to the Great Contraction and earlier U.S. banking crises, pointing to the absence of bank failures over the following three decades. Other countries, notably Canada and the U.K., largely avoided the widespread failures associated with U.S. unit banking through nationwide branch banking. Canada and several other countries consequently adopted deposit insurance much later and under quite different circumstances.

substantial exposure, and noteholders held priority claims in insolvency. This structure reduced uncertainty about who would absorb losses under stress.

Uniform federal regulation limited jurisdictional fragmentation across provinces. Collateral rules and supervisory standards were national rather than provincial, and redemption expectations were correspondingly system-wide rather than localized. The Canadian Bankers Association coordinated clearing and redemption across institutions, reinforcing par circulation and reducing the need for issuer-specific monitoring. Canada did experience episodes of financial stress, including 1907 and the early 1930s, but these did not produce persistent note discounts or generalized suspension of convertibility, in contrast to the U.S. experience (Fung, Hendry, and Weber 2017).

Notably, Canada did not establish a central bank until 1935. Prior to that, there was no standing lender of last resort comparable to the Bank of England or the later Federal Reserve. Liquidity pressures were absorbed primarily through internal reserve reallocation within nationwide branch networks, and through coordinated clearing arrangements under the Canadian Bankers Association. Large chartered banks, including the Bank of Montreal in its role as fiscal agent, sometimes provided support, but crisis management did not depend on a single designated authority. Stability appears to have rested less on discretionary liquidity provision than on diversification, enforceable liability, and uniform federal supervision, features associated with greater banking stability in Canada relative to the United States (Bordo, Redish, and Rockoff 1994; Fung, Hendry, and Weber 2017).

Canada therefore provides a clear case in which private note issuance sustained durable nationwide par circulation without a formal central bank lender of last resort.⁴ Institutional design addressed commitment, coordination, and liquidity pressures in advance, so stability did not depend as acutely on standing public crisis liquidity provision.

Sweden and Switzerland: Central Banking as Settlement Technology

Sweden combined public and private note issuance for much of the nineteenth century. The Riksbank had issued notes since the seventeenth century, while private Enskilda banks were authorized to issue redeemable notes beginning in 1831. These private banks operated branch networks and issued notes backed by general assets under double liability rules, strengthening shareholder discipline (Jonung 2021; Fung, Hendry, and Weber 2018). In normal times, private notes circulated at par alongside Riksbank notes, supported by mutual acceptance practices and interbank clearing arrangements.

Convertibility, however, was not uninterrupted. Sweden experienced suspensions linked to political and wartime pressures, illustrating that monetary credibility depended on the state's commitment to maintain or restore parity (Jonung 2021). As Bordo (1981) emphasizes for metallic regimes more generally, strains tended to surface first in redemption and liquidity markets when convertibility was questioned. Swedish private notes did not fail simply because

⁴ The principal exception to this was during the outbreak of World War I in August 1914 when, in the face of a massive global scramble for liquidity, the Department of Finance used the *Finance Act* to engage in massive liquidity support by advancing Dominion notes to chartered banks against collateral.

they were privately issued. Strains intensified when convertibility was suspended, and markets questioned the credibility of eventual resumption at parity. The commitment problem therefore remained politically contingent rather than purely institutional.

Coordination was supported by branching networks and regional clearing practices, which sustained par circulation in normal times (Jonung 2021; Fung, Hendry, and Weber 2018). Settlement nevertheless remained decentralized, and coexistence between public and private issuers complicated liquidity management during periods of stress. Sweden already possessed a central bank, and the Riksbank provided liquidity at various points, but its lender-of-last-resort role evolved gradually rather than emerging fully formed (Jonung 2021). As economic integration deepened and national markets expanded, consolidation of note issuance became increasingly attractive as a means of standardizing settlement and centralizing liquidity provision. Full monopoly of note issuance was established under the 1897 *Riksbank Act*.

Switzerland presents a distinct case because monetary decentralization persisted without repeated systemic breakdown. The nineteenth century opened with a decentralized structure that mirrored the country's federal political organization. Cantonal banks and private institutions issued notes under heterogeneous cantonal laws. Reserve practices and supervisory standards also varied across regions, and acceptance depended partly on geography and institutional reputation rather than fully national redemption expectations (Gerlach and Kugler 2015). As in the United States, regulation was fragmented. Unlike the United States, however, persistent nationwide discounts were not endemic. Metallic convertibility and relatively concentrated banking structures helped sustain confidence despite regulatory heterogeneity.

The constraint that eventually became binding was not chronic instability, but the growing difficulty of coordinating settlement at increasing scale. As trade and financial integration deepened in the late nineteenth century, decentralized clearing and differences in oversight made uniform settlement more complex (Gerlach and Kugler 2015). Without a national authority capable of standardizing expectations and coordinating liquidity, episodes of stress carried wider consequences (Bordo and James 2007).

Constitutional reform in 1891 transferred authority over note issuance to the federal government, and the Swiss National Bank began operations in 1907. The creation of the SNB reflected the growing need for monetary unification and coordinated liquidity management in an increasingly integrated national economy (Bordo and James 2007).

Sweden and Switzerland differ from the United Kingdom and the United States mainly in timing and trigger. In Britain and the United States, centralization followed repeated episodes of stress that exposed weaknesses in convertibility, coordination, or liquidity provision. In Sweden and Switzerland, private and public note issuance coexisted for extended periods of time without persistent collapses. As a result, the pressure to consolidate came from the growing complexity of coordinating settlement and liquidity at scale in increasingly integrated national markets.

Conditions Under Which Private Money Scales

The “no-questions-asked” (NQA) property emphasized by Gorton and Zhang (2023) provides a modern statement of a basic monetary principle: a claim functions as money when it circulates at par without users needing to assess issuer-specific risk. The history just examined can be understood as repeated attempts to preserve this property under different political and institutional contexts. When users begin to question collateral quality or the likelihood of redemption at par, the claim becomes information-sensitive and ceases to function as uniform money.

Decentralized private issuance over history has repeatedly encountered three constraints. First, redemption commitments must remain credible when economic or political pressures raise the cost of maintaining convertibility. Second, decentralized issuance creates coordination problems because claims circulate at par only when users share common expectations about their value. Third, systems of demandable liabilities require mechanisms to address correlated liquidity shocks. The institutional arrangements that evolved in response to these constraints differed across countries, but they gradually converged toward a common set of foundations that supported privately issued money that circulated at par.

Foundation 1: Credible Convertibility

Money is a short-term liability whose value rests on expectations of redemption at par. Bordo and Rockoff (1996) show that adherence to gold convertibility reduced borrowing costs, indicating that credibility effects extended beyond metallic backing itself. In the United Kingdom, strains appeared first in liquidity markets when convertibility was questioned (Bordo 1981). Where suspension was perceived as temporary and rule-bound, as in the classical gold standard described by Bordo and Kydland (1997), credibility could be preserved. Where suspension appeared discretionary or politically driven, confidence deteriorated.

Credibility did not require direct state monopoly, but it did require enforceability. In Scotland, joint-stock structure and double liability strengthened discipline and supported redemption expectations (White 1984; Bordo and Schwartz 1995). In Canada, uniform federal regulation and clear liability rules anchored confidence in note redemption (Fung, Hendry, and Weber 2017). In Sweden, instability emerged not from private issuance per se but when the convertibility anchor itself became politically uncertain.

Foundation 2: High-Quality, Transparent Backing

Credible redemption requires assets capable of supporting it. Asset quality anchors confidence by constraining over-issuance and limiting expected losses in the event of liquidation. Under the classical gold standard in the United Kingdom, metallic convertibility provided a clear and widely understood anchor (Bordo 1981). In the U.S. Free Banking era, note issuance was tied to state bonds or other eligible securities whose market value could fluctuate and whose risk varied across jurisdictions. Note discounts moved systematically with collateral quality, distance from redemption centers, and issuer reputation (Weber 2015). Even where backing was legally specified, its strength depended on the underlying asset.

Transparency is related but distinct. Assets must not only be sound; they must be legible and comparable across issuers. When backing is difficult to value, volatile, or inconsistently supervised, users begin to condition acceptance on issuer-specific assessment. At that point, the no-questions-asked property weakens, and claims become information-sensitive (Gorton and Zhang 2023).

Foundation 3: Uniform Regulatory Perimeter

Even with credible backing and convertibility, fragmented regulation and supervision can undermine uniform expectations across issuers, users, and locations. The U.S. experience shows that variation at the state level in collateral rules, enforcement, and oversight produced persistent note discounting and localized confidence (Weber 2015; Bordo and Schwartz 1995). Improvements in backing under the National Banking Act did not eliminate coordination frictions because supervision and liquidity management remained structurally divided.

Switzerland illustrates a milder version of the same issue. Decentralized cantonal oversight proved workable at a smaller scale, but as economic integration deepened, settlement and liquidity coordination became more complex without a unified national framework (Gerlach and Kugler 2015).

By contrast, Canada's federal Bank Act created a single supervisory regime across provinces, reducing jurisdictional variation and supporting nationwide par circulation (Bordo, Rockoff, and Redish 1994; Fung, Hendry, and Weber 2017).

A uniform regulatory perimeter reduces the scope for issuer-specific interpretation of rules. It addresses the coordination problem by anchoring par acceptance in shared institutional standards rather than localized supervision or reputation.

Foundation 4: Par Clearing and Settlement Infrastructure

Clearing and settlement arrangements determine whether privately issued notes circulate at par. This imposes discipline through routine note exchange. As emphasized in early discussions of free banking, including Smith (1936), this discipline operates continuously. Notes received by rival banks are returned for settlement, so issuers that expand more rapidly than demand face reserve losses even in normal times. The mechanism does not rely on crisis conditions; it constrains balance sheet expansion through routine payments activity.

In Scotland, banks met regularly to return each other's notes for settlement, so excess issuance quickly translated into reserve pressure (White 1984). This limited persistent discounts because notes did not remain outstanding indefinitely but were presented and settled. In Canada, nationwide branching and coordinated redemption under the Canadian Bankers Association meant that notes issued in one region were systematically returned through the banking network rather than circulating unchecked at distance (Fung, Hendry, and Weber 2017). Settlement practices, not just formal rules, reinforced par acceptance.

When clearing networks are weak or regionally segmented, issuer-specific discounts can persist, as in parts of the U.S. experience. Effective clearing reduces the scope for localized confidence and supports uniform acceptance across institutions and locations.

Foundation 5: Credible Crisis-Management and Loss Allocation

Even well-capitalized institutions can face runs when short-term liabilities are demandable, and this reality extends to private money issuers. Diamond and Dybvig (1983) showed that, once depositors expect others to withdraw, liquidation becomes rational. Stability therefore requires credible arrangements for managing system-wide liquidity stress and clarifying how losses will be allocated.

Several mechanisms have served this role historically. As discussed earlier, double liability and noteholder priority clarified ex ante who absorbed losses and strengthened discipline in systems such as Canada and Scotland (Fung, Hendry, and Weber 2017; Bordo and Schwartz 1995). Clearinghouse cooperation in the U.S. provided coordinated suspension and temporary liquidity, albeit only within member networks. In the U.K., the Bank of England's evolving lender-of-last-resort function and temporary suspension of statutory limits on issuance during crises allowed liquidity to expand without permanently abandoning convertibility (Bordo 1981; Bordo and Kydland 1997). These arrangements mattered because, when people understood how liquidity would be provided and how losses would be allocated, panic was less likely to take hold.

Deposit insurance provided another mechanism for sustaining the nominal value of private money after the banking crises of the early 1930s. Friedman (1960) viewed the FDIC as an important reason for the greater stability of U.S. deposits after 1934. Stablecoins have no comparable pooled insurance arrangement. That gap could matter even when reserve assets are sound—for example, if redemption is impaired by fraud, custody losses, or a cyber incident. Any such scheme would also raise familiar questions of moral hazard and loss sharing.

Major geopolitical shocks exposed the limits of decentralized crisis management. During World War I, convertibility was suspended across countries, and governments layered public liabilities over private systems. In Canada in 1914, Dominion notes became convertible into private bank notes rather than gold, effectively inserting a public backstop into the system. These episodes underscore a recurring lesson: correlated liquidity shocks require credible coordination at system scale, whether private, public, or layered.

Mapping the Five Foundations to the GENIUS Act

These foundations are not artifacts of the gold or any specific monetary standard. Stablecoins are privately issued, redeemable short-term liabilities operating in digital form. Their technological design may differ from nineteenth-century banknotes, but the underlying economic constraints are similar. Par circulation depends on credible redemption, uniform expectations across users, and mechanisms to manage correlated liquidity stress. Faster settlement and real-time redemption may compress adjustment margins, but they do not eliminate these structural requirements.

Nonetheless, stablecoins may still have value even if they are not a new unit of account. Their practical case rests on 24/7 settlement, programmability, crypto-native collateral use, cross-border reach, and access in markets where dollar banking is limited or costly. The question posed here is whether those advantages can be delivered by claims that remain money-like, even under stress. A token that deliberately offers higher return by taking more reserve risk may be useful to some investors, but it is not the same object as a payment stablecoin intended to circulate at par.

U.S. policymakers have recognized that privately issued digital liabilities raise institutional questions similar to those faced by earlier note systems. The GENIUS Act reflects an effort to place stablecoin issuance within a clearer federal framework. The Act sets reserve rules, clarifies redemption rights, and defines supervisory and insolvency authority. The question is how that architecture maps onto the historical conditions for durable par exchange under stress.

Table 2 maps the GENIUS Act onto the five historical conditions for par circulation and identifies issues that are not yet fully addressed. The Act was enacted in July 2025, but its implementing rules and effective date remain prospective. The framework strengthens commitment by requiring one-to-one reserves, clarifying redemption rights, limiting eligible reserve assets, and establishing a more consistent supervisory perimeter. These provisions move stablecoins closer to credible convertibility and transparent backing. But the backing framework is not risk-free. Eligible reserves include commercial bank deposits, repos and reverse repos, and qualifying money market funds, each of which can introduce liquidity, counterparty, custodial, or market-functioning risks under stress. The Act also does not establish a mechanism to manage correlated redemptions or support redemption under adverse market conditions. The central gap is therefore not ordinary backing or redemption rights, but whether the system can preserve the no-questions-asked property when many holders redeem at once.

In May 2026, the Federal Reserve requested comment on a proposed limited-purpose Payment Account for eligible institutions. Such accounts could reduce reliance on correspondent banks and improve operational resilience in normal times, but they would not provide access to intraday credit or the discount window, would not pay interest on balances, and would include automated overdraft controls (Federal Reserve Board 2026). Accordingly, without access to central bank liquidity or a broader public backstop, they would not resolve the core vulnerability associated with demandable liabilities. The historical constraint remains: redeemable claims require credible liquidity support in stress (Bordo 1990), and that condition is not fully met.

The emerging U.K. framework provides a useful comparison because it distinguishes between non-systemic qualifying stablecoins, regulated by the Financial Conduct Authority (FCA), and systemic stablecoins, which are brought into the Bank of England's remit and jointly regulated once recognized by HM Treasury (Bank of England 2026; Financial Conduct Authority 2026). The FCA has issued final rules for qualifying stablecoins, while the Bank of England has set out policy positions and consulted on a draft Code of Practice for systemic issuers. Like the GENIUS Act, the U.K. regime addresses redemption, backing, supervision, settlement, and financial stability. The main differences are not in the categories of issues covered, but in the stringency of some requirements. For systemic stablecoins, the Bank of England's proposed framework is much more restrictive on backing assets, relying on short-term U.K. government debt and unremunerated Bank of England deposits while excluding commercial bank deposits and broader backing assets. While many details are yet to be determined, information published so far gives more explicit attention to crisis management, including potential central bank liquidity access,

direct payment-system access, liquidity contingency planning, and failure-management arrangements.

Table 2: Mapping the Five Foundations to the GENIUS Act

	Historical Condition	GENIUS Act Provisions	Issues not Fully Addressed
1: Credible Convertibility	Clear, enforceable right of redemption at par; predictable insolvency treatment	1:1 reserve requirement; explicit redemption rights; priority treatment of payment stablecoin holders in insolvency	Uniform enforceability across issuers and jurisdictions; operational redemption timing; stress treatment clarity
2: High-Quality, Transparent Backing	Narrow, liquid assets; standardized disclosure; limits on maturity and credit risk	Reserves limited to cash, demand deposits and similar withdrawable deposits, short-duration Treasuries, eligible repos and reverse repos, qualifying money market funds, and central bank reserve deposits; monthly reserve disclosure and certification requirements	Liquidity under correlated redemptions; risks associated with repos, commercial bank deposits and custodians; cross-border transparency harmonization
3: Uniform Regulatory Perimeter	Consistent supervisory standards; elimination of regulatory arbitrage	Federal approval framework; state regime option below \$10 billion market capitalization if substantially similar; transition to federal regulation above threshold	Heterogeneity below federal thresholds; supervisory consistency; international coordination
4: Par Clearing Infrastructure	Integrated clearing and settlement reinforcing par valuation	Federal regulators to assess and, if necessary, prescribe interoperability standards; custody and safekeeping requirements	No dedicated clearing or mutual liquidity pool; interoperability standards remain market-driven
5: Credible Crisis Management and Loss Allocation	Clear ex ante loss allocation; mechanisms to manage correlated liquidity shocks; credible discipline	No federal guarantee or deposit insurance; reserve segregation and holder priority in insolvency; supervisory oversight and enforcement powers	No formal lender-of-last-resort access; no systemic liquidity backstop; potential implicit too-big-to-fail expectations

The comparison suggests that the Bank of England’s proposed framework would satisfy the five foundations more fully for stablecoins that become systemic. That may make the business model harder because it limits the return on backing assets and imposes more demanding liquidity and

failure-management requirements. But it would also make systemic stablecoins more likely to function well as money-like settlement instruments under stress.

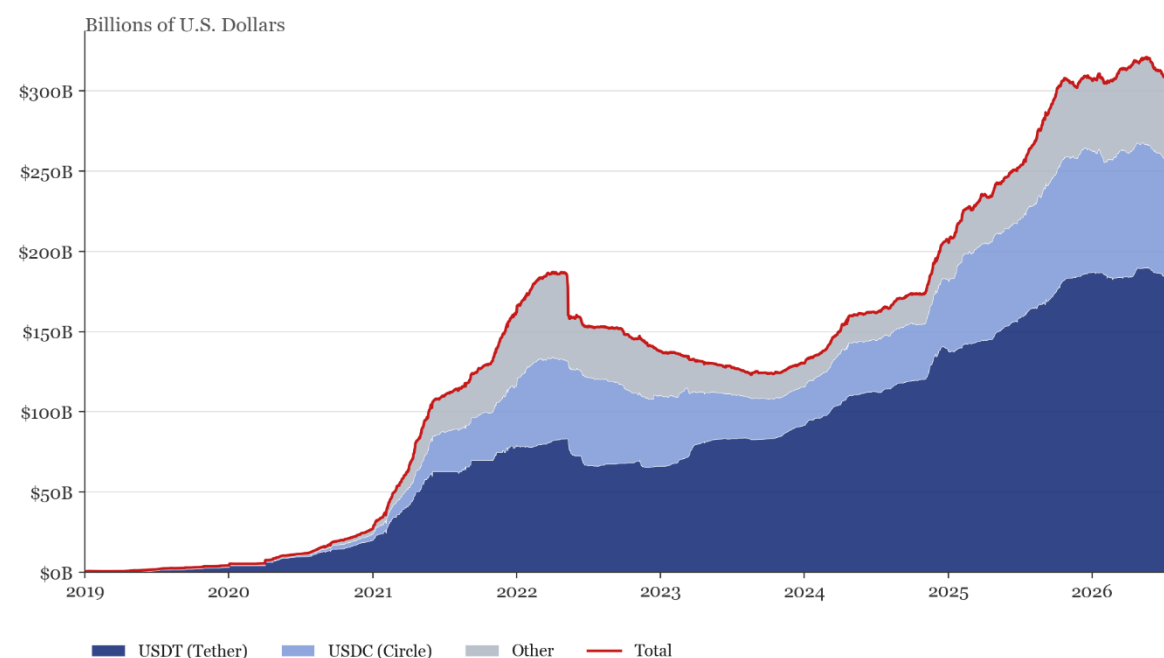
3. Stablecoins and International Monetary Order

Stablecoin issuance has expanded rapidly, and the overwhelming majority is denominated in U.S. dollars (Figure 1). As of May 2026, approximately 98 percent of stablecoin value was dollar-denominated (Aldasoro, Frost, and Ito 2026). Stablecoins are therefore not a marginal payments experiment. They are emerging as a dollar-linked settlement layer with global reach.

This makes the international question immediate. If dollar stablecoins scale, they may reinforce existing dollar network effects. If they fragment or lose credibility, they may accelerate efforts to develop alternative payment infrastructures. The issue is whether stablecoins can satisfy the institutional conditions that historically allowed private money to circulate across borders.

Stablecoins are currently mainly used within crypto markets, serving as a base settlement asset for trading, lending, collateral management, and liquidity provision in decentralized finance (Bertaut, von Beschwitz, and Curcuru 2025). They also support limited cross-border peer-to-peer transfers, often cited for speed and programmability. Yet these use cases do not demonstrate that stablecoins can operate at scale as general-purpose domestic or international money.

Figure 1: Stablecoins in Circulation by Market Capitalization



Cross-border payments have rarely been constrained primarily by technology. In *Around the World in Eighty Days*, Phileas Fogg finances global travel with sterling instruments drawn on London banks. The technology was from the nineteenth century. The system functioned because property rights, convertibility commitments, and correspondent networks were credible.

The same logic applies today. The Federal Reserve's FedNow service provides real-time domestic settlement capacity. The binding constraints are governance and access: who can participate, how settlement interacts with commercial banks, and what legal protections apply. A related issue is how well U.S. wholesale payment infrastructure, including Fedwire, will interface with tokenized and distributed-ledger systems as digital settlement develops. In both historical and modern systems, the core constraint is institutional design, not computing power.

Internationalization magnifies the three economic problems identified earlier, making institutional requirements more demanding.

What Makes Money International?

A claim that circulates across borders must preserve commitment, coordination, and crisis management across sovereign legal systems. The historical record shows that private money scaled internationally only when domestic credibility was reinforced, not undermined, by cross-border legal alignment. The examples that follow illustrate how those additional constraints shaped international monetary systems.

Early Trade and the Development of Institutional Trust

Long-distance trade expanded across the Mediterranean and Northern Europe between the eleventh and fifteenth centuries. In the absence of centralized cross-border enforcement, merchant networks relied on repeated relationships and reputation. Greif (1993) documents how the Maghribi traders sustained exchange through coalition-based enforcement mechanisms rather than state courts.

From the thirteenth century onward, bills of exchange became central to European trade finance. A bill was a written order for payment in another city at a future date, allowing merchants to settle obligations without transporting specie. Bills circulated because merchants trusted the issuing house and because notarial and commercial courts increasingly provided enforceable legal backing (Neal 1990).

By the eighteenth and nineteenth centuries, international finance operated through large private banking houses such as Barings and Brown Brothers. These firms arbitrated exchange bills across markets and helped integrate regional settlement systems (Bordo, Humpage, and Schwartz 2015). Technology such as the telegraph reduced communication delays and enabled arbitrage across distances, but integration depended on legal predictability and institutional credibility rather than communications alone (Flandreau 1997).

Cross-border private money required trust throughout this evolution. Personal reputation remained central, but it increasingly operated within formal legal and financial institutions rather than outside them.

Bills of Exchange under the Classical Gold Standard

Under the classical gold standard, roughly 1870 to 1914, many cross-border payments and trade-finance instruments were privately issued and privately intermediated, but they rested on a public monetary anchor. Gold coin and bullion provided the ultimate monetary anchor and settlement asset. National currencies were defined by fixed gold parities, and convertibility at those parities was the core monetary commitment. Balance-of-payments disequilibria were ultimately settled through international gold flows regardless of whether they arose from the current account or the capital account.

Trade finance operated through bills of exchange, acceptance houses, correspondent banks, and clearing networks. London functioned as the central clearing hub, and sterling bills became the dominant instrument of international settlement, both for trade transactions and for capital-account payments. The system was therefore highly private in its day-to-day operation, but its credibility depended on the public commitment to gold convertibility and on the institutional depth of the London money market.

Convertibility stabilized expectations only when the commitment to maintain parity was credible. Bordo (1981) shows that when confidence weakened, strains first appeared in liquidity and redemption markets. Bordo and Rockoff (1996) document that adherence to gold lowered sovereign borrowing costs, indicating that markets valued credibility rather than metallic backing alone. Still, convertibility could operate as a contingent rather than an unconditional rule, in that temporary suspension could be consistent with credibility if resumption at the original parity was expected (Bordo and Kydland 1997).

Not surprisingly, credibility was not uniform across countries. The gold standard functioned more effectively in Britain, France, Germany, the Netherlands, and later the United States, where fiscal capacity and political commitment supported convertibility. Countries such as Italy or Argentina, where adherence was less reliable, experienced weaker credibility. Even within a formally symmetric regime, hierarchy emerged with a key role for some currencies such as sterling, the French franc, and the German mark (Lindert 1969). Bordo and MacDonald (2005) emphasize that exchange rate credibility and financial depth determined which currencies anchored international markets.

The importance of central bank cooperation remains debated. Eichengreen (1987) characterizes the Bank of England as coordinating crisis management among leading central banks. Flandreau (1997) and Bordo and Schwartz (1999) place more weight on domestic commitment than on systematic cooperation. What really mattered was that the leading monetary authorities shared an incentive to preserve convertibility. The Banque de France and the Reichsbank, alongside the Bank of England, influenced short-term capital flows and gold movements through discount rate policy and reserve management, thereby affecting liquidity conditions during periods of stress (Bordo and MacDonald 2005; Flandreau 1997).

The constraint on this regime was the cost of maintaining parity. Gold flowed out when countries ran balance of payments deficits or experienced capital outflows. Under the adjustment mechanism, central banks raised discount rates and contracted credit to stem gold losses and defend parity. Maintaining convertibility therefore required governments to accept higher interest rates and, at times, domestic contraction.

The classical gold standard effectively ended with the suspension of convertibility in 1914 as countries financed World War I (Bordo 1993). The interwar attempt to restore gold was not successful. By the early 1930s, fiscal strain, banking crises, and political resistance to deflation undermined that credibility (Bordo and Kydland 1997). The system failed when governments were no longer willing or able to bear the domestic costs required to maintain the anchor. The breakdown reflected erosion of commitment, not changes in payment technology.

The classical gold standard, at least for the advanced countries, therefore satisfied several of the foundations identified earlier, including fixed-par convertibility, liquid backing in gold and short-term bills, predictable redemption rules, and enforceable legal claims. Ultimately, though, the system's durability rested on political support for the anchor, and its breakdown reflected the erosion of that support rather than changes in payment technology.

Bretton Woods

The Bretton Woods system established a dollar-centered international monetary order after World War II. Under the 1944 agreements, the U.S. committed to convert the dollar into gold at 35 dollars per ounce for official holders. Other countries pegged their currencies to the dollar within narrow bands. This meant that currencies were fixed to the dollar rather than directly to gold. Capital controls were permitted to limit destabilizing private capital flows, and the International Monetary Fund was created to provide conditional liquidity to countries facing temporary balance of payments pressures (Bordo 1993).

Unlike the classical gold standard, Bretton Woods was designed to allow greater domestic policy flexibility. Exchange rates were fixed but adjustable with IMF approval, and capital controls limited private arbitrage. Adjustment was therefore managed rather than automatic. Convertibility applied only to official holders, and the anchor rested on the fiscal and monetary credibility of the United States rather than on decentralized gold flows.⁵ Its stability depended on sustained political agreement and institutional coordination among governments rather than on market discipline alone (Eichengreen 2011).

In terms of the foundations identified earlier, Bretton Woods addressed the commitment problem through official dollar-gold convertibility at a fixed price. Coordination was achieved by fixing currencies to the dollar within agreed bands, and embedding those commitments in a treaty-based institutional framework under IMF oversight. Crisis management relied on capital controls and IMF lending, which provided liquidity to countries under external pressure (Bordo 1993).

⁵ Under Bretton Woods, only foreign central banks and monetary authorities could convert dollars into gold at the official price. Convertibility operated at the level of sovereign reserve management rather than ordinary transactions among businesses and households (Bordo 1993).

The perceived weakness of the system at the time lay in the tension identified by Triffin (1960). As global demand for dollar reserves expanded, outstanding dollar liabilities increasingly exceeded the U.S. gold stock valued at the official price. Sustaining global liquidity required continued dollar issuance, but additional dollar liabilities reduced confidence in gold convertibility.⁶

By the late 1960s, expansionary fiscal policy, rising inflation, and a steady decline in U.S. gold reserves placed growing strain on the dollar-gold commitment. Efforts to defend the official price through coordinated interventions, most notably the London Gold Pool, became increasingly difficult to sustain under persistent pressure, and its collapse in 1968 exposed the fragility of the Bretton Woods arrangement (Bordo, Monnet, and Naef 2019).⁷ As confidence in the dollar's gold convertibility weakened, maintaining the fixed exchange rate structure required tighter domestic policies than were politically feasible. In August 1971, the U.S. suspended gold convertibility.

This experience parallels the classical gold standard. The Bretton Woods system unraveled because the political foundations of the anchor eroded, not because payment technology changed (Bordo 1993).

The Post-Bretton Woods Dollar System

After 1971, the international monetary system no longer relied on gold convertibility. The external metallic anchor disappeared, but the foundations of international money did not. They were reconstituted around sovereign balance sheets, legal enforceability, and domestic monetary credibility. The system did not lose its anchor, but rather transformed the basis of its credibility (Eichengreen 2011).

The foundation of commitment shifted from gold convertibility to confidence in the fiscal and monetary capacity of the U.S., given that dollar liabilities were no longer redeemable into gold. Credibility therefore rested even more heavily on macroeconomic stability, the depth and liquidity of U.S. Treasury markets, and the enforceability of dollar-denominated contracts. More generally, monetary stability has long depended on credible policy frameworks rather than solely on mechanical backing (Bordo 1981; Bordo and Rockoff 1996). In the post-1971 system, monetary stability (eventually explicitly inflation control) and institutional reliability replaced metallic convertibility as the mechanism anchoring expectations. Attempts to influence exchange rates independently of monetary policy via sterilized exchange market intervention have historically proven ineffective and, in some cases, have undermined policy credibility by blurring the signal about central bank objectives (Bordo, Humpage, and Schwartz 2015).

Coordination also persists and is shared across both public and private sector entities. Cross-border payments rely on correspondent banking networks, reserve accounts at central banks, and

⁶ A prominent contrary view to Triffin (1960) was that the U.S. acted as a financial intermediary and that the gold dollar standard could have lasted considerably longer had it not been for expansionary fiscal and monetary policies after 1965. Despres et al 1966.

⁷ The London Gold Pool, established in 1961, was an arrangement among the United States and several European central banks to coordinate gold sales in order to maintain the official price of 35 dollars per ounce.

standardized messaging infrastructure such as SWIFT.⁸ The launch of Continuous Linked Settlement (CLS) reduced foreign-exchange settlement risk by providing payment-versus-payment settlement for eligible currencies. However, it too relies on sovereign monetary infrastructure. These kinds of networks may be privately operated, but they ultimately settle in central bank money. As Klein (2024) argues, cross-border systems scale when embedded in predictable legal and monetary frameworks rather than in technology alone.

Crisis management capacity also remains central. In the U.S., the Federal Reserve continues to function as lender of last resort domestically, and has provided dollar liquidity internationally during periods of stress, including through swap lines in 2008 and 2020 (Bordo 2021). The system therefore continues to rely on credible public backstops, even though day-to-day payments operations are decentralized.

Recent sanctions episodes highlight a structural limit of the current system. The dollar's no-questions-asked (NQA) property depends on assured access to settlement in U.S. legal and monetary infrastructure. Because cross-border payments ultimately clear through institutions subject to U.S. law and Federal Reserve oversight, access can be restricted for political reasons. When that possibility becomes a real concern, the information insensitivity of dollar claims is not universal across jurisdictions.

Cross-border money is ultimately anchored in sovereign authority, legal enforceability, and central bank balance sheets. Any alternative cross-border monetary arrangement, including stablecoins, must confront the same structural imperatives.

Implications for Stablecoins

The cross-border historical episodes add an important dimension to the institutional lessons developed above. When privately issued monetary claims circulate internationally, the problems of commitment, coordination, and liquidity management must be solved *across* jurisdictions rather than *within* a single legal and supervisory framework. The historical record suggests that this raises the institutional bar for stable par circulation.

These constraints carry directly to stablecoins and are harder to execute when cross-border cooperation may be challenging. A dollar-pegged stablecoin circulating globally must sustain uniform redemption expectations across jurisdictions with different insolvency regimes, supervisory frameworks, and legal enforcement mechanisms. If redemption rights vary, privately issued claims will not circulate uniformly at par and may instead trade at issuer- or jurisdiction-specific discounts. Correlated redemptions could also transmit directly to U.S. Treasury and repo markets, given their role as primary backing assets. Absent coordinated liquidity arrangements, fragmentation becomes a material risk.

The classical gold standard shows that an international monetary system can operate without a single issuing hegemon, but only when backing assets, legal commitments, and political incentives are aligned across core jurisdictions. Stablecoins do not remove these requirements.

⁸ SWIFT transmits payment instructions, but it does not create settlement finality.

They change the technological layer through which privately issued claims circulate, not the institutional conditions that support them.

If these conditions are met, stablecoins could reduce settlement frictions in retail and wholesale payments. Programmability may reduce reconciliation and operational errors. However, these gains are not automatic. New payment technologies could also increase currency competition and potentially fragment monetary networks (Rey 2025; Brunnermeier, James, and Landau 2019). Without uniform redemption rules, stablecoins risk fragmentation reminiscent of free banking. Without credible liquidity arrangements, rapid redemption dynamics can amplify settlement risk rather than reduce it. Open access and interoperability are therefore not technical details. They shape whether privately issued digital claims can circulate at par across issuers and platforms.

The historical record also underscores the difficulty of sustaining private monetary instruments when more credible public or regulated alternatives are available. Stablecoins compete with bank deposits and other regulated liabilities embedded in established legal and supervisory frameworks. These instruments offer interest, deposit insurance, and access to central bank liquidity, particularly in stress conditions, which reinforce confidence in redemption. The GENIUS framework narrows this gap through stronger backing requirements, clearer redemption rights, and enhanced supervisory clarity, but it does not extend access to central bank liquidity.

As noted above, the Federal Reserve’s proposed Payment Account could reduce reliance on correspondent banks and improve operational resilience in normal conditions (Federal Reserve Board 2026). The proposal would constrain balances, prohibit overdrafts, and exclude access to central bank credit. As a result, it would not resolve the core liquidity vulnerability associated with demandable liabilities. Redemption capacity under stress would still depend on asset liquidity and market functioning rather than on a public backstop.

This distinction is central to the comparison between stablecoins and tokenized deposits. Tokenized deposits could mitigate domestic disintermediation concerns because they remain bank liabilities rather than shifting money-like claims outside the banking system. They also sit inside the regulated banking perimeter and may benefit from deposit insurance, access to central bank liquidity, and bank-resolution frameworks, which makes them closer to the five foundations outlined earlier. Garratt and Shin (2023) make this point in terms of the singleness of money, arguing that tokenized deposits that settle in central bank money are more conducive to par exchange than bearer-style stablecoins.

This does not mean tokenized deposits are exempt from the same test. They may start closer to the institutional architecture that supports par money, but they still depend on confidence in the issuing bank, the supervisory framework, settlement arrangements, and the credibility of official support in stress. The failures of Silicon Valley Bank and Credit Suisse in 2023 are reminders that bank liabilities can also become fragile when confidence weakens.

Stablecoins may still serve different purposes. Their strongest case may be in cross-border settlement, crypto-native collateral use, programmable payments, and access to dollar settlement where domestic banking systems are costly or difficult to access. Still, stablecoin payment rails

do not eliminate intermediation; they simply shift it to issuers, exchanges, on- and off-ramps, and on-chain liquidity providers. Du, Huang, and Scharfstein (2026) show that stablecoin advantages are most evident in some emerging-market corridors with capital controls or segmented FX markets, although shallow liquidity limits scalability. Their results are consistent with stablecoins offering advantages in some payment corridors without removing the institutional requirements for money to work across borders.

4. Stablecoins and U.S. Dollar Dominance

The discussion so far has focused on the circumstances under which stablecoins could function as credible payment instruments domestically and across borders. The next question is whether U.S. dollar stablecoins will enlarge the dollar system in a way that reinforces or weakens the institutional foundations on which that system rests. Broad use is part of what gives a reserve currency its value. But the more widely dollar claims circulate outside the existing banking and regulatory perimeter, the harder it becomes to govern confidence, liquidity, and loss allocation across the system.

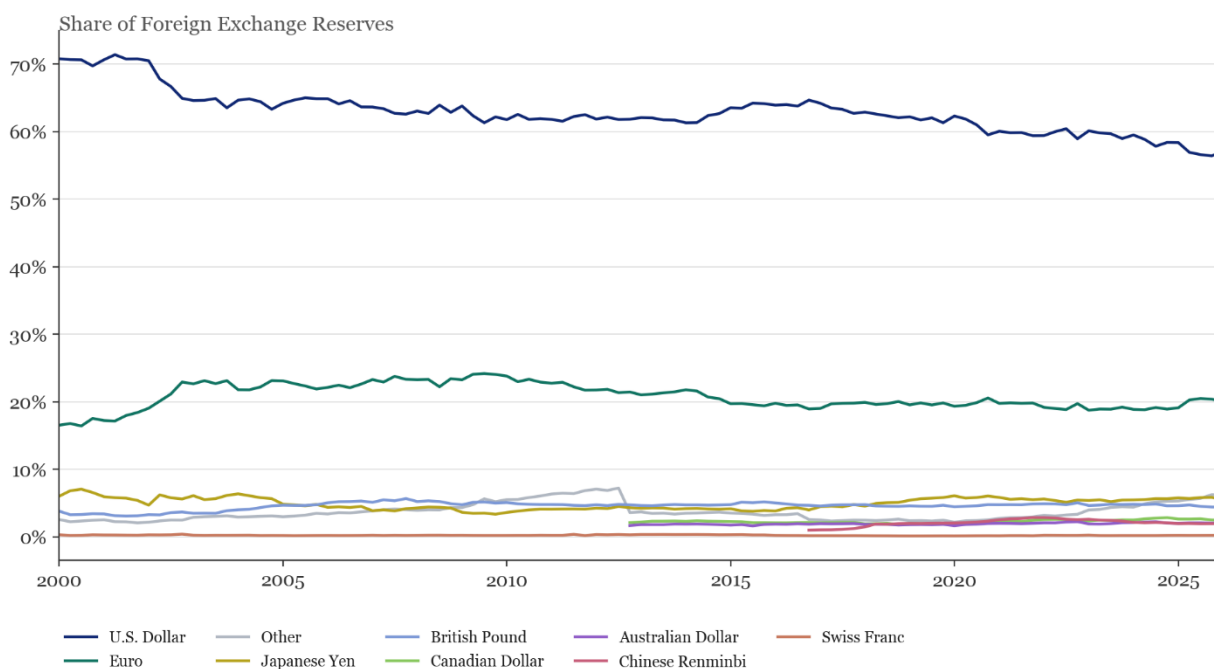
History provides useful guidance. The literature on international currencies emphasizes that reserve currency status has never rested on a single attribute. Rather, it reflects a bundle of complementary institutional characteristics, including deep and liquid financial markets, credible legal systems, institutional stability, and geopolitical influence (Eichengreen 2011; Rogoff 2025; Blustein 2025). Together, these attributes generate the network effects that anchor financial activity around a dominant currency.

Network effects in international monetary systems are powerful. Once trade contracts, financial instruments, and payment infrastructures become coordinated around a given currency, switching costs become high. Firms prefer to invoice trade in the currency most widely accepted by counterparties. Financial institutions hold assets denominated in the currency with the deepest markets and most liquid hedging instruments. Over time, these practices reinforce one another, making the dominant currency increasingly embedded in global finance.

By these measures, the U.S. dollar remains in a strong position, although its share of global reserves has declined since the beginning of the century. The dollar's share of disclosed global foreign-exchange reserves fell from a little over 70 percent around 2000 to about 57 percent in the first quarter of 2026 (Liao, Prasad, and Zhang 2026). At the same time, the dollar was on one side in 89.2 percent of over-the-counter foreign-exchange trades in April 2025 (BIS 2025). These patterns reflect the depth of U.S. financial markets and the network effects created by decades of dollar-based financial contracting.

Figure 2 illustrates the gradual decline in the dollar's reserve share, which nevertheless remains far larger than that of any other currency. The euro remains near 20 percent, while the renminbi accounts for only a small share. Blustein (2025) argues that the dollar's position is likely to remain strong, absent major policy mistakes by the United States.

Figure 2: Official Foreign Exchange Reserves by Currency



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

That said, history also shows that network effects are not irreversible. Transitions between international currencies tend to occur slowly, but they do occur when underlying institutional credibility erodes. The historical literature on the late nineteenth- and early twentieth-century monetary system shows that several currencies competed for international roles and that changes in credibility gradually altered their relative positions (Eichengreen and Flandreau 2009; Flandreau and Jobst 2005). Fiscal sustainability, institutional stability, and broader economic and geopolitical strength ultimately constrain monetary dominance even when network effects remain strong (Eichengreen 2026; Rogoff 2025).

The Decline of Sterling

The decline of sterling after the First World War illustrates this dynamic particularly clearly. Sterling remained widely used in trade invoicing, financial contracts, and reserve holdings long after Britain's relative economic position had begun to weaken. The persistence of sterling reflected the institutional structures that had grown around it. London remained a central financial hub, the British Empire reinforced trade links denominated in sterling, and the sterling area provided a network of countries that maintained financial relationships anchored to the British currency (Schenk 2010).

Yet the system gradually weakened as the credibility of the underlying commitments deteriorated. War debts strained Britain's fiscal capacity, the political sustainability of gold convertibility became increasingly fragile, and the U.K. found it more difficult to provide liquidity to the international system during periods of financial stress. This weakened the credibility of the system's capacity to manage crises. As these constraints intensified, confidence

in sterling gradually eroded, and the international system shifted toward the U.S. (Schenk 2010; Eichengreen 2011). Other structural factors also contributed to Britain's decline, including slower productivity growth and weaker economic performance relative to emerging rivals such as the United States and Germany, which gradually eroded Britain's economic and geopolitical position (Crafts 2014).

Importantly, payment technology played no causal role in this transition. The displacement of sterling occurred because the institutional foundations of the system weakened, not because new forms of payment infrastructure emerged. This distinction is important when evaluating the potential implications of stablecoins. New payment technologies can extend the reach of a currency, but they cannot substitute for the institutional credibility that ultimately sustains its international role.

U.S. Dollar Stablecoins

Stablecoins represent a new technological mechanism for transferring and settling monetary claims. As argued earlier, the foundations that sustain international currencies are unchanged. The relevant question is therefore whether stablecoins strengthen or weaken those foundations in the case of the U.S. dollar.

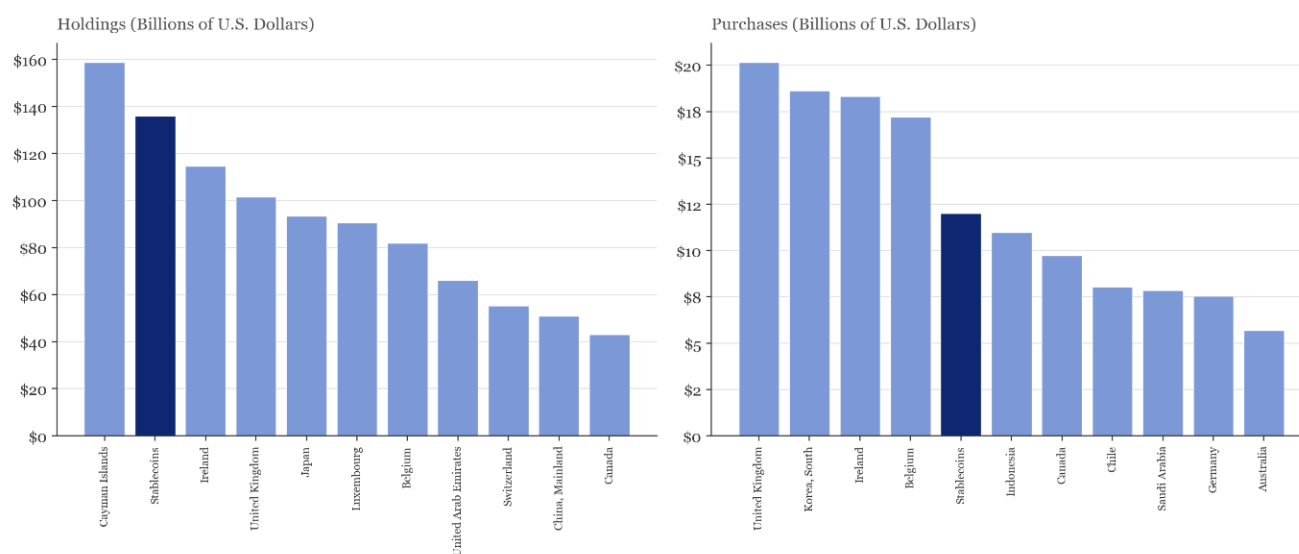
Some policymakers believe that stablecoins could reinforce them. U.S. Treasury Secretary Scott Bessent has argued that the expansion of dollar-backed stablecoins could support the dollar's role as a global reserve currency and increase demand for U.S. Treasuries (Bessent 2025). The regulatory framework emerging in the U.S., anchored by the GENIUS Act discussed in Section 2, appears partly motivated by this view. By bringing payment stablecoins within a clearer national regulatory perimeter, policymakers are attempting to harness private innovation to extend the reach of dollar-based financial infrastructure.

Dollar-denominated stablecoins already dominate the sector, giving them a substantial first-mover advantage. Estimates from the Bank for International Settlements suggest that the vast majority of stablecoins are linked to the U.S. dollar (Figure 1). This means that the dollar functions as the primary “on- and off-ramp” between crypto markets and the broader financial system. Stablecoins denominated in dollars are widely used to settle transactions across cryptocurrency exchanges, decentralized finance platforms, and cross-border transfers. In countries with weak currencies or limited access to dollar banking services, they can also function as a digital store of value.

If stablecoins continue to expand, they could reinforce several structural features that already underpin dollar dominance. One channel operates through demand for safe assets. The GENIUS Act permits stablecoin issuers to hold reserves in several highly liquid assets, including short-dated U.S. Treasury securities. As issuance expands, greater demand for Treasury bills could reinforce the liquidity and depth of U.S. public debt markets. Given the sector's still-limited scale, however, it is too early to assess whether stablecoin demand will materially offset any decline in foreign demand for Treasuries.

Large stablecoin issuers already hold substantial quantities of short-term U.S. Treasuries, embedding stablecoins more closely within U.S. funding markets. Figure 3 compares the combined Treasury holdings of USDT and USDC with those of selected foreign holders and separately compares their net purchases over the preceding year. Among the holders shown, stablecoin issuers' combined holdings are smaller than those of the Cayman Islands but larger than those of each of the other selected foreign holders. Their net purchases are also sizable, below those of the United Kingdom, South Korea, Ireland, and Belgium, but above those of the remaining countries shown. These comparisons place stablecoin issuers among meaningful participants in the short-term Treasury market, although their holdings remain small relative to the Treasury market as a whole.

Figure 3: Stablecoin Issuers' Holdings (Left Panel) and Purchases (Right Panel) of Short-Term U.S. Treasuries Relative to Selected Foreign Holders



Source: Adapted from Ahmed and Aldasoro (2025, revised June 2026). Foreign country holdings as of April 2026 from US Treasury TIC (top 10 foreign holders). Stablecoin holdings is the sum of USDT T-bill positions as of March 2026 and USDC positions as of April 2026 from reserve reports. Purchases are calculated as the change in T-bill positions over a 1-year period (i.e., April to April for countries, March to March for USDT and April to April for USDC).

A second channel operates through settlement infrastructure. Stablecoins allow transactions to occur continuously and across borders without relying directly on traditional correspondent banking networks. The system still depends on financial institutions, including stablecoin issuers, exchanges, custodians, and market makers. Nevertheless, dollar-denominated tokens extend the reach of dollar settlement. Transactions can occur twenty-four hours a day, across jurisdictions, and with programmable features embedded in smart contracts. These characteristics could deepen the network effects that already sustain the dollar's role in international payments and settlement.

Stablecoins may also contribute to a form of digital dollarization. In countries with weak monetary institutions or volatile domestic currencies, residents already rely on dollar assets as stores of value (IMF 2022). Dollar-denominated stablecoins extend this behavior into digital payments, allowing households and businesses to hold and transact in dollar-linked assets without direct access to the U.S. banking system.

Virtuous and Vicious Circles in Dollar Infrastructure

How this will evolve is highly uncertain, but offshore dollar markets provide a useful illustration of what really matters. The Eurodollar market expanded rapidly after the Second World War, extending the reach of dollar intermediation far beyond the United States (Eichengreen 2011). BIS data put dollar credit to non-bank borrowers outside the United States at \$14.3 trillion at the end of 2025. Separate BIS estimates put off-balance-sheet dollar obligations arising from foreign-exchange swaps, forwards, and currency swaps at \$26 trillion for non-banks outside the United States at the end of June 2022 (BIS 2026; Borio, McCauley, and McGuire 2022). Yet these markets ultimately depend on confidence in U.S. institutions and the safety of dollar-denominated assets (Farhi and Maggiori 2018). Similarly, global financial messaging infrastructure such as SWIFT has increased the efficiency of international transactions. SWIFT operates within, rather than determines, the institutional foundations of the dollar-centered monetary system. The payments it supports ultimately depend on correspondent accounts and settlement in sovereign money.

Stablecoins could therefore generate a virtuous circle if confidence in U.S. institutions remains strong. Increased stablecoin issuance would raise demand for Treasury securities, reinforcing the liquidity of U.S. public debt markets. Greater liquidity would strengthen the attractiveness of dollar assets as global stores of value, encouraging wider adoption of dollar-denominated payment instruments and further deepening network effects. Some studies suggest that increased demand from stablecoin issuers could modestly reduce Treasury yields, reflecting additional demand for safe assets (Ahmed and Aldasoro 2025; Aldasoro, Frost, and Ito 2026).⁹

At the same time, a vicious circle is also possible. Stablecoins rely on confidence in both their issuers and the assets backing them, among other foundational conditions. If concerns arose about the quality or liquidity of reserve assets, holders might attempt to redeem their tokens simultaneously. These concerns could arise for many reasons, including inflation, fiscal sustainability, central bank independence, or broader institutional credibility. Large-scale redemptions would force issuers to liquidate Treasury holdings, transmitting stress into short-term funding markets.

In this scenario, the effects of flows may be asymmetric. Some evidence suggests that redemptions from stablecoins can put upward pressure on Treasury yields, particularly under stressed market conditions (Ahmed and Aldasoro 2025). Rapid asset sales could also increase volatility and rollover risk in Treasury funding markets. In addition, widespread adoption of stablecoins could displace traditional bank deposits, potentially altering the structure of financial intermediation and affecting bank funding conditions (Brunnermeier et al. 2019; Prasad 2021).

Stablecoins could strengthen the dollar system if institutional credibility remains strong, but they could also amplify financial stress if confidence weakens.

⁹ The overall effect may be modest if stablecoin demand largely reflects a reallocation from other dollar assets, particularly bank deposits, rather than a net increase in demand for safe assets.

Money, Power, and Strategic Competition

The preceding sections establish that stable monetary systems depend on credible structural foundations, and that these requirements become more demanding when monetary claims circulate across jurisdictions. For a *dominant* international currency, the standard is higher still, because it functions not only as a settlement asset, but also as the backbone of the global financial system.

Historically, reserve currency status has brought both advantages and responsibilities. There is a benefit from deep global demand for its financial assets and from strong network effects in trade invoicing, finance, and payments. With that comes the responsibility to supply safe assets to the world economy and often act as a source of liquidity during periods of stress. This duality became clear in the late stages of the Bretton Woods system, as discussed earlier, and is a central theme in the historical literature on international monetary systems (Triffin 1960; Bordo and Schwartz 1999; Bordo 2019; Eichengreen 2011).

The dual role is still present in the contemporary dollar system. Dollar funding markets are central to the international financial system, and the dominant role of the dollar in trade invoicing, global capital markets, and reserve holdings allows U.S. financial conditions to influence global financial conditions through interest rates, asset markets, and liquidity provision (Gopinath et al. 2020; Farhi and Maggiori 2018). The system also depends on institutions operating under U.S. jurisdiction, including U.S. financial markets, the Federal Reserve's balance sheet, and payment infrastructure embedded in U.S. legal frameworks.

This system also allows the use of state power. As Farrell and Newman (2019) emphasize, the effectiveness of U.S. financial sanctions stems not simply from economic size, but from the central position of U.S.-linked institutions within global financial networks. When transactions are intermediated through systems subject to U.S. jurisdiction, authorities can compel disclosure of information and restrict access to those systems, thereby monitoring financial flows and excluding targeted actors from key nodes in the network. The imposition of U.S. sanctions on Iran in 2018 clearly illustrates this mechanism. Because these measures included secondary sanctions, even non-U.S. firms faced strong incentives to comply given the risk of losing access to U.S. financial markets and dollar funding.

Several forces underpin the persistent dominance of U.S. dollar assets, including powerful network effects, the supply of safe and liquid assets, and the credibility of U.S. institutions. U.S. Treasury securities have provided a combination of liquidity and safety that investors have historically valued highly, and Krishnamurthy and Vissing-Jorgensen (2012) estimate a convenience yield of about 70 basis points over long periods. More recent evidence shows that, while the convenience value of the dollar remains strong, the Treasury convenience yield has declined substantially and has become negative at medium- to long-term maturities (Du, Keerati, and Schreger 2026). Still, international monetary infrastructure rests heavily on U.S.-centered financial and legal arrangements.

Recent developments help explain efforts to reduce reliance on dollar-centered financial infrastructure. The use of financial sanctions has increased attention to payment arrangements

that rely less heavily on traditional correspondent banking networks and the SWIFT messaging network. China has expanded the Cross-Border Interbank Payment System (CIPS), which processes renminbi-denominated international payments (Eichengreen 2022; Cipriani, Goldberg, and La Spada 2023). Other initiatives include regional payment platforms and experiments with cross-border settlement using wholesale central bank digital currencies, such as the BIS Innovation Hub's mBridge project involving China, Hong Kong, Thailand, the United Arab Emirates, and Saudi Arabia (BIS 2024).

The potential for broader use of foreign-currency-denominated digital instruments has also caught the attention of some advanced economies. In the euro area, the United Kingdom, Canada, and elsewhere, these responses are framed mainly in prudential and regulatory terms, but they also reflect concerns about monetary sovereignty and financial stability (MacKenzie and Zelmer 2026; Angeloni and Tille 2025). Several jurisdictions are also exploring domestic alternatives, including regulated stablecoin frameworks and, in some cases, central bank digital currencies (Atlantic Council 2026).

As already discussed, dollar-denominated stablecoins could extend the reach of dollar settlement by embedding the currency within new digital transaction networks. In practice, such instruments are most likely to be used in cross-border transactions, in markets where access to domestic currency infrastructure is limited or costly, or as a common settlement asset for digital platforms operating across jurisdictions. In some cases, this can extend into domestic contexts, particularly in smaller or open economies or in digitally intermediated markets, where foreign-currency-denominated instruments may be used alongside domestic money for transactions or settlement.

Stablecoins could therefore reinforce the existing monetary order by strengthening the network effects that support dollar usage. At the same time, the emergence of alternative settlement infrastructures means that parallel payment networks are developing in other currencies, including through stablecoins, and across different institutional frameworks. The international payments system could therefore become more infrastructurally multipolar, even if the dollar remains the dominant reserve asset.

Despite these shifts, the dollar's position does not appear under immediate threat. The depth and liquidity of U.S. financial markets remain powerful anchors, and network effects in trade invoicing and financial intermediation remain strong (Krishnamurthy and Vissing-Jorgensen 2012; Eichengreen 2011). At the same time, the expansion of CIPS, mBridge, and other alternative settlement arrangements discussed above suggests that international payment infrastructure may become more fragmented or multipolar even if the dollar continues to dominate reserves and financial markets (Eichengreen 2022; Cipriani, Goldberg, and La Spada 2023; BIS 2024). Non-dollar stablecoins may add to this trend, but technology alone is unlikely to overturn the existing currency hierarchy. Any large stablecoin zone would still depend on deep markets, legal certainty, credible policy frameworks, and reliable liquidity arrangements.

Competition across monetary arrangements could yield efficiency gains by disciplining issuers and fostering innovation (Hayek 1976). That said, the historical experience suggests that such competition is sustainable only when supported by robust institutional frameworks, including coordination around redemption, settlement, and loss allocation.

Ultimately, stablecoins operate as a technological layer on top of existing monetary institutions. They do not substitute for confidence in the strength of U.S. institutions, the rule of law, and fiscal sustainability. If those foundations remain strong, stablecoins might reinforce the dollar's global role. If they weaken, stablecoins will not by themselves preserve it and could, through a vicious circle in Treasury markets, undermine it by creating financial stress. As earlier historical episodes demonstrate, international monetary orders tend to change when institutional credibility erodes rather than when payment technology evolves.

5. Conclusions

This paper set out to answer a simple question: can privately issued digital money function as reliable money, and what would that imply for the international monetary system and U.S. dollar dominance? Private monetary systems have historically worked when they solved three problems: commitment to redemption, coordination at par, and liquidity in stress, and when they were supported by a consistent set of institutional arrangements. They have consistently failed when those conditions weakened.

Stablecoins do not change those constraints. They could, nevertheless, reduce frictions that have proven persistent in payments, particularly across borders and platforms. Realizing those benefits requires the same five foundations: credible convertibility into a trusted asset, high-quality and transparent backing, a uniform regulatory perimeter, reliable par clearing and settlement infrastructure, and credible crisis management and loss allocation.

The review of the history of private money in this paper supports several broader conclusions.

Coexistence depends on institutional arrangements. Private digital money can coexist with government money, but it does not happen by accident. What mattered in practice, whether in the U.K., the U.S., Canada, Sweden, or Switzerland, was not technology but earned confidence. The historical cases suggest that stablecoins are more likely to sustain par circulation when similar properties are present: credible convertibility, transparency, consistency across issuers, and credible arrangements in stress. Where those conditions are met, private money can scale alongside public money and improve efficiency. Where they are not, fragmentation and financial instability follow. The U.S. Free Banking era is a sharp comparison here. The GENIUS Act addresses several of these conditions, while others, particularly regulatory uniformity and crisis management, remain less fully developed. The emerging U.K. framework for systemic stablecoins addresses some of these issues differently, albeit at the cost of a more demanding business model.

International use raises additional coordination problems. Cross-border use raises the same problems but without a single legal or supervisory authority. In banking, responsibilities are divided between home- and host-country authorities; for stablecoins, the allocation is less clear, particularly when dollar-denominated claims are used between non-U.S. parties. Similar problems have been addressed in other areas of finance through international coordination, including arrangements along Basel-type lines. The classical gold standard offers a partial historical analogy: it sustained cross-border convertibility and settlement for decades, but only

while political commitment held, and the extent to which systematic central-bank cooperation was essential remains debated.

Dollar dominance depends on trust, not technology. Dollar-denominated stablecoins could increase demand for U.S. Treasuries. But dominance ultimately rests on institutional credibility: legal enforceability, fiscal capacity, and the ability to provide liquidity in stress. Sterling's decline illustrates this point well. Network effects can persist, but they erode when the underlying commitments weaken. Stablecoins may amplify the system's reach, but they do not insulate it from those forces.

Competition may increase fragmentation. Other jurisdictions are already responding to technological change in money, with geopolitics accelerating that shift. Financial sanctions and the central role of U.S.-linked financial infrastructure have increased incentives to reduce reliance on dollar-centered systems, as seen in China's development of alternative payment arrangements. At the same time, the euro area, the United Kingdom, and Canada are exploring digital currencies and regulated stablecoin frameworks to support monetary sovereignty and financial stability. These initiatives could increase currency competition, with potentially different effects depending on the degree of cross-border coordination and interoperability. Greater compatibility across systems could reduce transaction costs, while history shows that fragmented rules and infrastructures could instead segment markets and increase financial-system risks.

The extent to which stablecoins can provide broader payment benefits will depend on the institutional framework in which they operate. The historical conditions identified in this paper are not yet present uniformly, particularly across borders, which may limit their development as general-purpose money. What happens internationally will depend less on the technology than on whether jurisdictions will align rules on redemption, supervision, financial crime controls and crisis management. Stablecoins may extend dollar use at the margin, but they do not by themselves strengthen what ultimately matters. Dollar dominance will continue to depend on confidence in U.S. policy, institutions, and fiscal capacity.

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