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Stablecoins and the Dollar: Historical Parallels and Future Risks

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Abstract: Stablecoins have burst onto the scene, offering the potential for cheaper, faster, and smarter payments—perhaps even strengthened dollar dominance. Yet, for all the novel technology, stablecoins present a host of age-old risks that caution against such boosterism. This paper draws parallels to 19th-century monetary history, focusing on the chaotic free banking era (1837-1863) and the more stable national banking era (1864-1913), and finds that the current regime under the GENIUS Act is closer to the former than the latter. The paper also considers additional risks that could undermine trust in stablecoins, including illicit finance and corruption.

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With the recent enactment of the GENIUS Act regulating dollar stablecoins—privately-issued cryptocurrencies whose values are (in principle) held constant against the dollar—the U.S. government has aimed to settle the debate on the future of digital money for the foreseeable future. With the Eurozone and China still exploring the development of central bank digital currencies (CBDCs), a form of public money, Washington hopes that the new dollar stablecoin regime will short-circuit any efforts to use technology to undermine dollar dominance; indeed, the administration seeks to leverage the lead in technology to expand the dollar's footprint in foreign markets, helping to supply new customers for U.S. debt.

Given that dollar stablecoins have a big head start over CBDCs—there are already more than $300 billion worth of dollar stablecoins in circulation worldwide (International Monetary Fund 2025)—and that the dollar is still by far the most important global currency—even if fraying at the edges (Rogoff 2025)—many have concurred with the administration that the future of digital money is decided. After all, even setting aside currency of denomination, who would want to hold a CBDC, which presumably will be designed so that it is reasonably easy for the government to audit transactions, if it is possible to hold a more government-resistant stablecoin? And wouldn't having a wide selection of stablecoins be better for consumers as well as sparking competition and innovation among issuers?

Monetary history, we will argue, shows that the answer is far from obvious, with stablecoins presenting a host of financial stability and integrity risks that raise concerns about their role in the financial system. Stablecoins do not always trade at par, they are liable to bank-like runs, and they enable illicit financial activity. The new technology underlying stablecoins and the unfamiliar language involved—blockchains, layers, protocols—can at times obscure these risks, but the fundamental monetary forces are timeless (Group of Thirty 2025).

One way to better understand these risks is to explore historical parallels. Two periods in 19th-century American banking are particularly relevant: the free banking era (1837-1863), when state-regulated private banks issued paper money that exchanged at varying discounts across time and space, and the more stable national banking era (1864-1913), when federally regulated private banks issued paper money that exchanged everywhere and always at par. While there are surface similarities between stablecoins and the monetary system in each era, understanding precisely where the connections are strongest requires grappling with the full institutional, regulatory, and technological context of the times.

This paper argues that the GENIUS Act does not establish a regulatory structure comparable to that of the national banking system. Without the guarantee of par exchange, stablecoins pose many of the risks of the free banking era, even if guardrails in the GENIUS Act, more developed secondary markets, and greater transparency should prevent a relapse to the extreme dislocations of antebellum banking. This paper is related to the literature on stablecoins and monetary history, notably Gorton and Zhang (2023), Bordo (2025), Group of Thirty (2025), and Luck (2025), as well as stablecoin use in the underground economy (Rogoff 2025).

Section I explains the key characteristics of stablecoins and the GENIUS Act. Section II explores the analogies to antebellum and postbellum banking in the United States. Section III considers the relationship between stablecoins and dollar dominance. Section IV concludes.

I. Stablecoin Design and Regulation

Stablecoins exist on the blockchain. Centralized issuers mint coins in exchange for dollars (or the relevant fiat currency) at a 1:1 ratio. The issuer invests these dollars, earning interest. Reserves are often in cash and cash-like instruments, though the largest issuer, Tether, also invests in Bitcoin, gold, and other risky assets. Issuers promise to redeem stablecoins at par, but the right to

redeem is generally limited to institutional actors and can involve fees and delays. Most stablecoin customers buy and sell via secondary markets on centralized exchanges, where price is determined by supply and demand. Given the varying exchange rates between stablecoins and the dollar, stablecoins violate the singleness of money—the interchangeability of different forms of money at par. Arbitrageurs with access to the primary market help keep the secondary market price near par, so that stablecoins generally exhibit low volatility (unlike Bitcoin). But the arbitrage mechanism is not always sufficient, although the 2025 legislation aims to greatly mitigate this problem for those coins that conform to its standard.

The original purpose of stablecoins was to facilitate trading in speculative cryptocurrencies, obviating the need to move in and out of fiat currency. Yet stablecoins might have wider applicability. Use cases beyond the crypto ecosystem include the potential for faster and cheaper cross-border payments and new forms of contracting through programmable money; there is also demand overseas for stablecoins as a store of value in high-inflation countries. Some forecasters project that the market could grow to nearly $2 trillion by decade's end (see International Monetary Fund 2025 for a sample of such estimates).

After long existing in a regulatory gray area, stablecoins in the United States will soon operate under the framework created by the GENIUS Act.[2] The Act establishes a dual federal-state regulatory and supervisory structure. Notably, the Act requires issuers to hold reserves in high quality liquid assets, such as short-term Treasury bills and deposits at insured banks (though deposits can be above the insurance limit.) The Act also provides priority to stablecoin holders in bankruptcy and requires issuers to undertake certain anti-money laundering processes. Though the outlines of the new system are clear, federal regulators are currently drafting rules to

[2] Formally, the Act regulates "payment stablecoins," which among other characteristics, do not pay interest.

administer the law and each state can create its own regime within certain confines, so considerable uncertainty remains regarding final implementation.

II. 19th-century Banking, 21st-century Crypto

Stablecoins, at their core, are bearer instruments issued by private entities that promise to convert at par. For much of the 19th century, the circulating medium in the United States was also composed largely of bearer instruments issued by private entities that promised to convert at par. During the free banking era, state governments chartered banks, as there was no national system, and these banks issued banknotes. States required banks to post collateral against the notes, generally state or federal government bonds, and mandated that they convert notes into gold or silver at par on demand. As some banks were more credible than others and some collateral more valuable, these notes circulated at varying discounts from par.

With thousands of banknotes of differing quality in circulation, the free banking era was a chaotic time in monetary history. Brokers made a market for notes, similar to crypto exchanges today, but transacting was difficult. Holders could not be sure of a note's value at the time of payment; merchants had to consult large books listing prevailing discounts. With the singleness of money violated, some forms of money were more valuable than others. Politicians and the press railed against the system, in part because low-information workers often got stuck with the least valuable notes. Indeed, the problem of low-quality money flowing to the most vulnerable in systems with multiple moneys has recurred throughout history (Helleiner 2002, 66-75). Presumably a similar information gap, profiteering, and political discontent could happen with widespread stablecoin use.

During the Civil War (1861-1865), the Union established a national banking system, both to help finance the war and to end the monetary chaos. As Secretary of the Treasury Salmon

Chase declared, “The people demand uniformity in currency” (Group of Thirty 2025). To issue banknotes, the new national banks—private banks chartered by the government—presented federal government debt as collateral. Yet uniform rules on collateral were not sufficient to ensure par exchange, just as uniform reserve requirements for stablecoins will not ensure par exchange. The value of reserves could fluctuate, the issuer could face financial distress, the promise of convertibility into gold or U.S. government notes could come into question.

To secure par exchange, the federal government established a regulatory, supervisory, and legal structure that went well beyond collateral requirements.[3] Most important, the U.S. Treasury promised to redeem any national banknote at par on demand. The Treasury required each bank to contribute to a redemption fund in the amount of 5 percent of its circulation, but the Treasury’s promise to redeem a bank’s notes was not restricted to that bank’s individual contribution. As Dunbar (1891) writes, the government had “thus made itself fully liable in any event for the whole amount of the notes.” The full faith and credit of the government stood behind national banknotes, underpinning trust in the circulation. Many other regulations supported par exchange, such as the legal right to immediate redemption at par, even after a bank’s failure. Moreover, national banks had to accept all national banknotes at par. With this supporting structure, the era of fluctuating discounts ended (Friedman and Schwartz 1963, 22–23).[4]

When comparing stablecoins to 19th-century banking, it is clear that the regime created by the GENIUS Act does not resemble the national banking system much beyond the requirement for high quality reserves. The legislation does not mandate immediate or free redemption at par. The Act does provide for the possibility of expedited payouts to stablecoin

[3] Congress also imposed a prohibitive tax on state banknotes to end their circulation.
[4] The rise of deposits, however, injected instability into the system, as unlike banknotes, there was no safety net until the creation of the Federal Reserve and Federal Deposit Insurance Corporation.

holders in the event of an issuer's bankruptcy, but there can still be delays and costs. And most important, the government does not explicitly stand behind stablecoins as the Treasury did for national banknotes. The question, then, is what will the Treasury or Federal Reserve do if a large issuer heads toward failure—has the GENIUS Act cracked the door open to future guarantees and liquidity facilities or will stablecoin holders have to fend for themselves, no matter the consequences for the broader financial system? This question becomes more important as stablecoin growth continues and issuers become significant players in financial markets.

Given the absence of immediate par exchange, the closest parallel to the stablecoin regime is thus the free banking era. To be sure, 21st-century crypto will not be identical to 19th-century free banking. Real-time markets and digitalization should significantly lower the transaction costs relative to antebellum banknotes. Stablecoins should also trade closer to par in general given the lower redemption costs (requests via the internet travel much faster and at lower cost than shipping bundles of notes across the country by horse and cart). Nevertheless, the essential similarity remains. Issuer-specific deviations from par, even if small, lead to different moneys trading at varying rates. Such variation imposes burdens on individuals and businesses and impairs trust in the broader monetary system.

During both the free banking and national banking eras, there was little consolidation in note issuance due to restrictions on branching and interstate operations. In fact, no national bank in the 19th century accounted for more than 3 percent of the circulation (see Table 1). Stablecoins do not face these restrictions, and one might argue that a wave of stablecoin crises is simply an inevitable price of transitioning to a long-run equilibrium that, given network effects, will eventually be dominated by two or three dollar stablecoins (while Tether and Circle currently dominate the market, potential name-brand entrants post-GENIUS Act make it far from clear that

they will maintain their market share). The government does not want to be in the business of picking winners and losers, so the fact that there will be crises and collapses, in this telling, is just the unavoidable price of privatizing digital currency. It is also possible that the race to issue stablecoins will ultimately have far fewer contestants than currently envisioned; Rogoff and You (2023) show that unless a platform expects to generate substantial revenue from use by non-members, it is in general optimal to make redeemable platform currencies nontradable. Nevertheless, the process of weeding out the stablecoin losers could take a decade or more and create considerable financial stress in the interim.

Table 1: Concentration of national banknote issuance, 1870-1900

	1870	**1880**	**1890**	**1900**
# national banks	1,612	2,087	3,533	3,866
Share of circulation (top bank)	2%	1%	1%	3%
Share of circulation (top 10 banks)	7%	4%	4%	10%
Share of circulation (top 100 banks)	27%	23%	17%	28%

Source: Correia and Luck (2023) and authors' calculations

In addition to financial stability risks, stablecoins pose financial integrity risks, and parallels to past and present financial instruments are valuable here as well. The current generation of stablecoins in many ways resembles large-denomination notes—such as the infamous €500 "Bin Laden note" previously produced by the European Central Bank—in that transactions are extremely difficult to audit given the widespread use of pseudonyms, multiple wallets, and token mixers. Although the GENIUS Act aims to address illicit activity (including tax evasion), it is not yet clear if the controls are tight enough to be effective, especially if overseas accounts prove more difficult to audit. Moreover, if the government succeeds in ringfencing the new dollar stablecoins, it is quite possible that consumers will migrate to unregulated legacy stablecoins involving foreign issuers.

Lastly, though somewhat outside the scope of this paper, it is impossible to ignore the conflict-of-interest concerns that can arise if regulators have beneficial interests in the industries they are supervising. Aside from the first-order effect on standards for future administrations, the risk is that in the long-run, such conflicts may undermine public faith in the new currencies. Indeed, it is instructive to recall that Andrew Jackson vetoed the renewal of the Second Bank of the United States' charter in part because of perceived corruption between the Bank and his political opponents, allegations that had long dogged the institution (Murphy 2006).

Although the extent of the Trump family's crypto interests is not clear, press reports suggest the Trump Organization earned over $800 million in income from crypto ventures in just the first half of 2025 (Gauthier-Villars et al 2025). To put this in perspective, it amounts to more than 9,000 times per capita GDP. By comparison, the infamous Teapot Dome scandal of the early l920s involved Secretary of the Interior Albert Fall's acceptance of bribes of roughly $400,000 (around 600 times per capita GDP in 1922) in exchange for oil leases. The Whiskey Ring scandal under president Ulysses Grant at $4 million was nearly 20,000 times per capita GDP in 1874, though Grant was never shown to have benefitted from this multi-year tax evasion involving hundreds of people. Appendix Table 1 attempts to assess major corruption scandals.

III. Stablecoins and the Future of the Dollar

There are certainly reasons to think that increased stablecoin use could support the dollar's role. By making access to dollar assets easier abroad, more individuals and institutions in fragile economies could seek dollar stablecoins as a safe haven. There is already substantial demand for unregulated dollar stablecoins—foremost Tether—and that demand is likely to remain important alongside regulated ones once the GENIUS regime is operational. The competition between the two will depend on how U.S. regulators ultimately choose to balance privacy and auditability of

the new tokens (Duffie et al 2025). The fact that world underground economic activity may be as large as $20 trillion (Rogoff 2025) suggests that demand for unregulated government-resistant dollar stablecoins is likely to remain substantial. If dollar stablecoin regulation is too lax in the United States, then the costs from tax evasion could easily exceed the direct gains to the Treasury. In terms of foreign demand, much depends on how the U.S. government regulates foreign issuers and how information is shared between the United States and foreign governments.

Moreover, the U.S. government is not the only player in the race for the future of money. Other countries, particularly in Europe, do not look forward to a world of dollar stablecoins. A digital euro could offer much of the technological functionality of dollar stablecoins along with the safety of central bank money, potentially boosting the euro's international role. Indeed, if dollar stablecoins winnow down to just two to three issuers because of network effects, and if these private stablecoins are ultimately required to contain similar auditability features as CBDCs, today's sharp lines between the two approaches will be blurred.

IV. Conclusion

Stablecoins offer some potential advantages over legacy bank rails, particularly when it comes to payments across borders or outside of working hours. But the transition to a system incorporating stablecoins is not without risk. The 19th century witnessed a seismic shift from the chaos of state banknotes to the orderliness of national banknotes. As regulated under the GENIUS Act, however, stablecoins are in many ways a reversion to the free banking era rather than a reincarnation of national banknotes for the blockchain age.

Looking a little farther ahead, it would be well to remember that eventually, even the national banking era was subject to numerous destabilizing banking crises, so much so that

Congress created the Federal Reserve in 1913 to anchor the monetary system.[5] Perhaps the government will be able to iron out the glitches in this new stablecoin era, though potentially at the cost of considerable disruption. Yet the centrifugal forces inherent in crypto might also militate against the government's capacity to do so. Rather than jumping directly into a stablecoin future, allowing smaller countries to work out the problems of digital money by experimenting with CBDCs first would have been another option. In the end, stablecoins might be more of a detour than the destination.

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[5] It is interesting to note that one of the defects in the national banknote system was that the currency was inelastic—unresponsive to the needs of the economy—and a founding rationale for the Fed was to "furnish an elastic currency." Because stablecoins are fully backed, they too may lack elasticity, which could have repercussions should they become a significant component of the monetary system.

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Appendix

The table below lists some of the most famous presidential corruption scandals in U.S. history. It is by no means an exhaustive list, but it highlights key episodes in three administrations widely remembered for their corruption. Estimates are converted to multiples of nominal per capita GDP using the series from *Measuring Worth* (Johnston and Williamson, 2026).

Appendix Table 1:

Scandal	**President**	**Summary**	**Amount**
Whiskey Ring	Ulysses Grant (1869-1876)	Officials in Grant's administration accepted bribes from whiskey distillers and distributors to evade taxes. Grant's Secretary of the Treasury discovered the ring and ended it—resulting in 110 convictions. Historians dispute how much Grant knew about the ring, but he did not appear to have profited directly. The Treasury estimated $4 million in evaded taxes (Shafer 2018).	$4 million (≈20,000x per capita GDP in 1874)
Teapot Dome	Warren Harding (1921-1923)	Interior Secretary Albert Fall accepted roughly $400,000 in bribes to lease oil reserves to companies.	$400,000 (≈600x per capita GDP in 1922)

		Harding does not seem to have known about the bribes or received a kickback (Miller 1973).	
Watergate	Richard Nixon (1969-1974)	As part of the Watergate investigations, Nixon was found to have underpaid his income taxes, largely due to claiming a deduction for donating his vice-presidential papers to the National Archives (Shanahan 1974).	$432,787 (≈70x per capita GDP in 1972)
Milk scandal	Richard Nixon (1969-1974)	In exchange for increased price supports for milk, the dairy industry allegedly donated $2 million to Nixon's reelection campaign, including illegal cash contributions (Rosenbaum 1974).	$2 million (≈330x per capita GDP in 1972)

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