The 200-Year-Old Stablecoin Debate



GOODWICK SANDS, 1797

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In February 1797 during the War of the First Coalition, a small French force invaded Southern Wales, moved a mile inland and seized Trehowell Farm. Not long before the invasion, a Portuguese ship carrying wine had been shipwrecked, the locals had pillaged it and stored the wine at Trehowell Farm for a wedding. The French soldiers found the wine, got drunk and became impossible to lead. The invasion lost momentum and the French army surrendered to a much smaller British force a few days after.

Ironically, the ***news*** of the attack had a greater impact than the invasion. Once the news of the invasion reached London there was a run on the Bank of England as depositors demanded that their banknotes be converted to gold. Unfortunately, the number of banknotes in circulation was twice the quantity of gold reserves in the Bank, so the government of Prime Minister William Pitt passed the Bank Restriction Act, which suspended gold convertibility and effectively implemented a fiat standard. The Act would stay in place until 1821.

The Bullionist Controversy

Opponents of the Act came to be known as Bullionists. They believed that excessive issuance of bank notes led to a depreciation of the currency, which in turn led to higher prices for gold bullion. They argued in favour of resuming gold convertibility to restore economic stability. The group included figures such as the economist David Ricardo, who was famous for his concept of comparative advantage in international trade.

Opposing them were the Anti-Bullionists, who maintained that currency depreciation was caused by abnormal wartime demand for foreign funds and a negative balance of trade, not excessive note issuance.

The debate came to a head with the convention of Parliament's Bullion Committee in 1810 and, ultimately, a return to convertibility in 1821.

The Banking and the Currency School

Despite the return to convertibility, the debate about how money should be structured continued between the Currency School, who had a similar membership to the Bullionists, and the Banking School.

The Currency School argued that money creation should be separated from credit creation and tightly controlled. Bank notes, and by extension, the money supply, should be fully backed by gold or equivalent reserves, with issuance limited by rules rather than issuer discretion. Banks should not expand the money supply through fractional-reserve lending, meaning that any credit or lending should not be funded by demand deposits, but rather by time deposits, equity, or bonds. The goal was to prevent over-issuance, inflation, and boom-bust cycles.

Opposing them was the Banking School, whose membership included James Wilson, who would go on to co-found The Economist as well as Chartered Bank, now part of Standard Chartered Plc. The Banking School argued that money, especially deposits and bank notes, is endogenous, meaning it is created by banks in response to the "needs of trade" via the Real Bills doctrine. Fractional reserves were seen as self-regulating. Over expansion would be checked by notes and deposits returning for redemption or the demands of trade. Strict rules were unnecessary as they could constrain credit and commerce, creating a more flexible system.

The 1844 Bank Charter Act partially implemented the Currency School's position by separating the Bank

of England’s note-issuing department, which was mandated to maintain 100% gold backing beyond a fiduciary limit, from its banking department. However, the debate was never fully resolved. While the Currency School won the 1844 legislative battle, Banking School ideas regained influence as deposit banking grew, and fractional reserves became the norm.

The Chicago Plan

Nearly a hundred years later in 1931 in the wake of the Great Depression, the UK again suspended the convertibility of banknotes for gold. The US followed this by ending domestic gold convertibility for its citizens in 1933.

In 1934 a group of economists from the University of Chicago including Henry Simons and Irving Fisher responded to the Great Depression's bank runs and credit collapses by writing a memorandum that came to be known as the ‘Chicago Plan’. It proposed that demand deposits used for payments should be fully backed by reserves such as cash or low risk government securities (e.g., T-bills). Sometimes known as ‘narrow banking’, it meant that commercial banks could no longer create money through fractional-reserve lending.

The Plan also argued that credit should be funded by private institutions using equity, bonds, or time deposits, not by fractional reserve demand deposits. The goal of separating payments and credit was to eliminate the money multiplier, bank runs, and procyclical credit booms and busts. The plan was radical and was rejected in favour of retaining FDIC insurance and fractional reserves.

The Spontaneity of Stablecoins

The spontaneous emergence of fully backed stablecoins in the twenty first century as narrow, fully reserved digital money paired with the expansion of private credit markets has echoes of the three schools: Bullionist, Currency and Chicago. The stablecoin and private-credit structure represents a partial market-driven realisation of the Currency School and Chicago School’s core vision, while coexisting with the fractional-reserve flexibility favoured by the Banking School.

Stablecoins operating under strict reserve rules as mandated by regulations such as the GENIUS Act are a tech-enabled manifestation of the Currency School’s ideal of payment instruments fully backed by cash or cash equivalents. There can be no fractional-reserve expansion of the token supply and issuance can only be at par redemption. Stablecoins provide a medium for payments without creating new money.

This mirrors the 1844 Act's principle of ring-fencing note issuance and the Chicago Plan's 100% reserves on demand deposits.
It is also noteworthy that narrow banks such as N3XT in the US and Clearbank in Europe have recently been established in the wake of the 2008 Financial Crisis. These banks enact the Chicago Plan's requirement for demand deposits to be fully backed and have found a niche supporting digital asset service providers, partly due to their ability to deliver rapid and reliable cash settlement. Digital assets settle quickly, usually in minutes or seconds, and with 24-7 availability. When traded against cash they require the fiat payment to have similar settlement speeds and availability, which full reserve banks are well suited to provide since there is no maturity transformation in their business models. Cash is always at hand.

The Changing Price of Time

While payments have partially shifted to stablecoins, so credit has also shifted in part to new models such as private credit, asset-backed securities and wider bank adoption of originate-to-distribute models. Digital asset markets have seen the development of DeFi lending protocols such as Aave, peer-to-peer lending and a nascent over-collateralised lending market. These create credit without necessarily expanding the money supply, which is the separation the Currency and Chicago Schools demanded.

Opponents of the Chicago Plan argued, as the Banking School did, that full-reserve money could be too rigid, "sterilising" deposits into safe assets such as T-bills and money market funds, raising borrowing costs, and constraining credit, which is potentially deflationary. However, a 2012 IMF study of the Chicago Plan posited that a modern implementation, '*could significantly reduce business cycle volatility caused by rapid changes in banks' attitudes towards credit risk, it would eliminate bank runs, and it would lead to an instantaneous and large reduction in the levels of both government and private debt*'.

The impact, at least so far, has been limited. Stablecoins have coexisted with traditional fractional-reserve banking, a point that was highlighted in recent Standard Chartered Research on the impact of USD stablecoins on US bank deposits. At a market cap of $300bn stablecoins remain small compared with other asset classes. However, in 2025 stablecoins processed $33 trillion, surpassing Visa and Mastercard's combined $25.5 trillion, so scale is coming quickly for a market that is barely ten years old.

Chicago Goes Global

Arguably this growth in stablecoin market cap and velocity is that they make the full-reserve payment instrument more scalable, global, and digital in a way the 1930s Chicago Plan could never have contemplated. In this global context stablecoins introduce not only a fully reserved asset, but specifically a fully ***US dollar***-reserved asset. This competes with other currencies both as a medium of exchange in cross border trade, as well as a store of value with demand deposits. The risk is that USD stablecoins many either displace USD deposits that are fractionally reserved in non-US banks (in other words Eurodollars), or local currency deposits as customers look to buy USD stablecoins as a superior store of value.

The pace of adoption will therefore vary in different countries in a way that the Chicago Plan economists and their successors could not have imagined. For example, in June 2026 the International Monetary Fund (IMF) published a paper highlighting that Nigerian households and small firms are moving money across borders using stablecoins. While this helps address frictions in cross-border transactions, the IMF highlights that it can threaten monetary and regulatory frameworks. For example, in 2023 and 2024, the depreciation of the naira, high inflation, and limited access to foreign exchange increased demand for USD-linked stablecoins. This demand more than compensated for the inability of stablecoins to pay interest to holders.

This is the same demand for currency stability that was identified by the Bullionists, the Currency School and the Chicago Plan. The IMF's thesis is likely accurate that reduced confidence in developing market currencies will drive demand for USD-linked stablecoins, which in turn will further reduce confidence in developing market currencies, risking a negative feedback loop.

The IMF report also highlights that bans or similar repression can be self-defeating. In 2021 the Central Bank of Nigeria restricted local banks from serving crypto exchanges, which led to the stablecoin market shifting to unregulated peer-to-peer markets, which carry a higher risk of financial crime. Similarly, the 1797 Bank Restriction Act caused hoarding of gold and silver coins in response to the devaluation of pound sterling relative to bullion. In 1934 economic historians estimate that three quarters of households engaged in quiet non-compliance by burying gold coins in gardens or stashing them under floorboards. Perceptions of precious metals shifted from looking upon them as medium of exchange to a store of value. The same is true of USD-linked stablecoins in some markets, hence the premium offered over USD deposits in those countries.

Conclusion

Stablecoins and digital assets introduce new technologies, but as we can see, these prompt the next phase in a long-standing debate about how currency and finance should be structured. The assets may have changed, and the scale may have globalised, but the fundamental risks and economic decisions are the same.

Today, the private sector has developed stablecoins that, at about a third of a trillion-dollar market cap, has clearly found a product-market fit. While the debate may rage about the relative merits (and threats) of tokenised deposits, central bank digital currencies and stablecoins as it did between the nineteenth century schools, it may be the case that a hybrid system is more resilient.

It took a small group of drunk French soldiers in a farmhouse in Wales to have a meaningful impact on the London market, the largest market in the world at the time. Similarly, it may turn out that crypto enthusiasts creating stablecoins in 2014 may also change the world.

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