Stablecoins are being compared to that of 19th-century bank practices

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These stablecoins are making quite a buzz as of late, though there are those who are uneasy about it as they point out the risks involved with these digital assets. That said, analysts and regulators alike are pretty worried about its rise in popularity stating that if these coins are left unchecked, it could turn into something like that of a 19th-century style of banking.

'Wildcat Stablecoins'

Yale University economist Gary Gorton alongside U.S. Federal Reserve attorney Jeffrey Zhang teamed up and recently published an academic paper – "Taming Wildcat Stablecoins" as they believe that there are similarities between the 19th century's privately released "wildcat" bank money and the present-day stablecoins. Also, they stated that there's what they described as a "systemic risk present" within the financial system by a digital currency that is privately produced that is being set as one-to-one with safe assets.

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Per the report's abstract, the two noted that "privately produced monies are not that an effective medium of exchange" as they explained that these are not always accepted at par and added that these are prone to runs. As above-mentioned, Gorton and Zhang compared today's stablecoin to private banks of old where they released their own notes for them to meet the increasing consumer demand during those times. This idea didn't age well as it only made it more difficult for people back then to transact as a result of fluctuating prices.

It was also stated on the paper that in the event that regulators wait for a decade, individuals who roll out these stablecoins will become market funds of the 21st century – too big to fail – adding the government has to enter the fray alongside its "rescue package" whenever there's "financial panic." Also, it pointed out that the protection of the government's "monetary sovereignty" is essential for establishing monetary policy.

Stablecoin conclusions

In conclusion, Gorton and Zhang believe that issuers of these stablecoins need to be checked upon, regulated, and treated similar to that of a typical bank. Additionally, releasing a central bank digital currency (CBDC) – according to the paper's authors – would tackle head-on the risks involving stablecoins as this would usher in uniformity since there's only a single currency.

Report 'misleading' according to some

However, George Selgin – director of the Cato Institute's Center for Monetary and Financial Alternative begs to disagree with what Gorton and Zhang have published. He believes that what they've published is somewhat confusing as he pointed out the sovereignty demands of the state have surpassed that of the consumer's. He said that even the move to put up a U.S. currency during the Civil War era had nothing to do with consumers' preferences. Further, if it does have, Selgin went on to say that the need for a 10 percent tax to pressure state banks to stop rolling out their notes would not be there.

Yellen to meet with the working group on financial markets about stablecoins.

Meanwhile, U.S. Treasury Secretary Janet Yellen announced on the 16th that she is set to convene a meeting of the president's working group on financial markets on Monday, July 19 to tackle stablecoins.

In a statement, she said that bringing together regulators will enable them to assess the potential benefits of these stablecoins while reducing the risks that these digital assets could pose to markets, users, and the financial market in general.

She added that in view of the rapid growth in digital assets, she said that it is essential for the agencies to collaborate on the regulation of the said sector including the development of new authorities.