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The monetary dilemma of the "separation of name and substance": a historical dialogue between Wang Mang's currency reform and the credit anchoring of stablecoins

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Abstract. From ancient bronze coinage to modern blockchain-based tokens, the form of money has undergone a clearly identifiable process of evolution. Yet its fundamental dilemma has remained unchanged: how can a symbol devoid of intrinsic value—the "name"—be made to assume the function of measuring real social wealth—the "substance"? At first glance, the "treasure currency system" introduced by Wang Mang in the late Western Han dynasty appears entirely unrelated to contemporary stablecoins. In essence, however, both confront the same predicament—the separation of name and substance. This study therefore presents a perceptive and logically rigorous comparison of their respective credit mechanisms. Wang Mang's monetary reform ultimately collapsed under the issuance of "nominal values" driven by state power, whereas the central challenge for stablecoins lies in how to anchor their nominal value to credible "substance" within a decentralized framework. From this perspective, the paper naturally arrives at the conclusion that only when name and substance are unified through a credible credit anchor can monetary stability be achieved. The historical experience thus provides a valuable point of reference not only for the study of ancient monetary reforms, but also for contemporary discussions on the regulation of digital currencies, the internationalization of the Renminbi, and the ongoing process of monetary digitalization.

Keywords: stablecoins, Wang Mang's currency reform, monetary credit

1. Introduction

Throughout the history of money, the tension between nominal value and substantive value has been a persistent theme, spanning the transition from commodity money to credit money. As the most typical and significant carrier of economic relations in human society, the stability of money's internal structure has always depended on a delicate and fragile balance. The fulcrum of this balance lies precisely in the enduring tension between money's nominal value and substantive value. *Nominal value* refers to the unit of account and legal tender denomination assigned to money by state authority, social contract, or technological protocol; it is an explicit institutional and declarative symbolic marker. *Substantive value*, by contrast, refers to the utility embodied in money itself, the quantity of goods and services it can command in exchange, and the actual value of the ultimate assets that support its credit. In this respect, the history of ancient Chinese currency offers

a clear and elegant insight: the evolution of money has never been merely a change in form, but rather a continuous process in which political authority, economic conditions, institutional power, and technological factors seek equilibrium within a broader structural framework. From a special commodity functioning as a general equivalent, to a pure symbol representing sovereign credit, and ultimately to algorithmically defined digital assets, each major transformation in the form of money has not eliminated the inherent tension between name and substance. On the contrary, it has reinforced and highlighted this tension in new forms. Consequently, this dynamic has naturally become a fundamental driving force behind the evolution of monetary systems and the occurrence of financial crises. At a deeper level, the tension maintained between the "name" and the "substance" of money constitutes the essential contradiction through which money transcends its physical form. This underlying logic can be traced consistently through both ancient Chinese society and Western historical experience.

Such a delicate balance can also be observed within the traditional intellectual heritage of China. Legalist thinkers emphasized the principle that *names must correspond to realities*, advocating the alignment of nominal designation with substantive conditions. Similarly, the Confucian doctrine of the rectification of names (*zhengming*) also embodies the pursuit of harmony between the nominal designation of things and their essential nature. When applied to the monetary sphere, this philosophical reflection implies that the legally designated price or denomination of money—its nominal value—should correspond as closely as possible to its substantive value, represented by metal fineness, weight, or actual purchasing power. Once the "name" becomes excessively detached from the "substance", it is regarded as a manifestation of political failure or loss of credibility. During the historical evolution of ancient Chinese society, this issue appeared vividly in monetary practice. Under the influence of Legalist thought during the Qin and Han periods, the Banliang coin implemented under Qin rule attempted to unify nominal and substantive value: its nominal designation of "half a liang" theoretically corresponded to half a liang of bronze, legally enforced by the state. This measure contributed to stabilizing transactions during the unification under Qin Shi Huang and represented a classic attempt at aligning name with substance. However, by the period of the Han Wuzhu coinage, fiscal pressures increasingly compelled the government to deviate from this principle. Practices such as scraping copper filings from circulating coins or minting underweight currency gradually caused the nominal value of money to diverge from its substantive value, ultimately planting seeds of instability that contributed to the decline of the dynasty.

Within the history of Western economic thought, this tension is commonly summarized as the classic opposition between metallism and nominalism. Proponents of metallism, such as William Petty and Adam Smith, emphasized that the substantive value of money derives from its intrinsic properties as a commodity—namely the labor value or scarcity utility of precious metals such as gold and silver—while the "name" of money merely reflects its underlying substance. By contrast, nominalist theorists, including Nicholas Barbon and Georg Friedrich Knapp, argued that money is fundamentally a "creature of the state", whose value is entirely conferred by law, political authority, or social convention; its denomination itself constitutes value, rendering substantive value irrelevant. Despite their apparent opposition, these two perspectives jointly delineate the poles of the tension between name and substance and reveal the dual nature of money: it functions simultaneously as a symbol of sovereign credit and an instrument of policy, while also serving as a measure and store of social wealth. The duality of money is clearly illustrated in the medieval bimetallic system. Under bimetallism, gold and silver coins each possessed their own intrinsic metallic value, yet their legally mandated exchange ratio frequently became misaligned with the fluctuating market ratio of gold to silver. This discrepancy generated the well-known phenomenon of "bad money driving out good money". The

inherent instability of the system arose precisely from the irreconcilable tension between the two metals' substantive values and the officially stipulated nominal ratio between them.

Whether in China or in Western societies, the tension between the nominal and substantive value of money has thus consistently accompanied the evolution of monetary systems. Entering the twenty-first century, the rise of digital currencies has initiated a new phase in the development of money. U.S. dollar–denominated stablecoins, issued with a one-to-one peg to the dollar, rely on traditional underlying assets while simultaneously employing blockchain technology to construct a new framework for the circulation of nominal value. In essence, this mechanism bears a striking resemblance to the extreme separation between name and substance produced by Wang Mang's "treasure currency system". Indeed, the emergence of issues such as code vulnerabilities, regulatory constraints, and crises of credibility within blockchain-based systems has rendered the development of stablecoins even more complex. Against this background, the present study takes the divergence and eventual reconciliation between nominal and substantive value as its central analytical thread. It conducts an in-depth examination of Wang Mang's currency reform and modern stablecoins from three perspectives: the credit foundation of anchored assets, the internal logic sustaining institutional arrangements, and the conditions that trigger systemic collapse. Through this comparative inquiry, the paper aims to offer constructive insights for the internationalization and digital transformation of the Renminbi.

2. The historical predicament of Wang Mang's currency reform

The most distinctive feature of Wang Mang's monetary reform was the issuance of "overvalued large-denomination coins"—currency whose face value was artificially elevated far beyond its intrinsic worth through compulsory state decree. Wang Mang's reform bore a strong Confucian revivalist orientation. He attempted to reconstruct social order in accordance with the *Rites of Zhou* (*Zhouli*), believing that the restoration of the ancient monetary principle of "mutual valuation between principal and subsidiary currencies" could resolve the social crisis of the late Western Han period. Yet this excessive reliance on classical prescriptions ultimately detached policy from economic reality. Between the second year of the *Jushe regency* (AD 7) and the first year of the *Dihuang era* (AD 20), Wang Mang carried out four major currency reforms within little more than a decade, a frequency of institutional change rarely seen in history. With each reform, new denominations and currency names were introduced—*Qi Dao* (contract knives), *Cuo Dao* (inlaid knives), *Daquan* (large coins), *Xiaoquan* (small coins), *Baohuo* (treasure currencies), *Huobu*, and *Huoquan*. These intricate and ever-changing "names" embodied Wang Mang's vision of restoring ancient institutions, yet they paid little regard to the market's capacity to recognize or accept them. During the first reform, the so-called Cuo Dao coin—containing only a small amount of embedded gold—was assigned a legal value equivalent to five thousand Wuzhu coins. Similarly, the Daquan Fifty coin weighed only twelve *zhu* (approximately 2.5 times the weight of a standard Wuzhu coin) but was mandated to circulate as the equivalent of fifty coins. The second reform introduced the even more extravagant "Treasure Currency" system, which included *five categories of currency materials, six denominations, and twenty-eight grades*. Currency forms ranged from tortoise shells and cowries to bronze spade-shaped coins, with exchange ratios so complicated that, as contemporary sources recorded, *"the people were utterly confused, and the currency failed to circulate"*. Moreover, the interval between the second and third reforms was no more than a single year. Each successive reform introduced new names and denominations, fundamentally reflecting a system in which the state imposed artificially inflated "names" upon underweight currency through administrative authority. In essence, this represented the use of fictitious nominal value to appropriate the real wealth of society. As some scholars have noted, when the legally mandated value of currency greatly exceeds its metallic value, it

effectively constitutes a form of expropriation of private wealth. The third reform's "Treasure Currency system", with its five materials, six denominations, and twenty-eight grades, was astonishing in its complexity. Even literate officials struggled to remember the classifications or calculate the exchange ratios accurately, let alone the ordinary population, many of whom were illiterate. As a result, the public largely refused to use the new currency and continued to conduct transactions privately using the long-established Wuzhu coins. Wang Mang responded to this resistance in the most direct manner—coercion. He decreed that *"those who rejected the well-field system and secretly carried Wuzhu coins would be deemed to have misled the masses and would be exiled to the frontier regions".* Those who privately minted coins were subjected to collective punishment under a system whereby *"if one household minted currency, five neighboring households would be implicated and all confiscated as slaves".* Regulations even required officials and commoners alike to carry cloth currency when traveling; otherwise, inns were forbidden to provide accommodation and border checkpoints were prohibited from allowing passage [1]. Yet harsh punishments could not generate monetary credibility. On the contrary, they deepened popular resistance. Contemporary accounts describe how *"farmers and merchants lost their livelihoods, trade and currency circulation collapsed, and the people wept openly in the marketplaces".* Ultimately, hundreds of thousands of individuals were sentenced to penal servitude for violating the currency laws, and among them "six or seven out of ten died in misery". In the capital city of Chang'an, it was said that "the air was filled with the stench of the dead".

The "names" imposed through coercive power by Wang Mang, lacking adequate "substance" to support them, ultimately destroyed the credibility of the state itself. From this perspective, the essence of fictitious currency becomes clear: it functions as an instrument of wealth extraction. From the "knife coin valued at five thousand" to the "Daquan Fifty", Wang Mang effectively used the power of the state to confiscate private wealth by artificially inflating the nominal value of money. Each reform constituted a redistribution of wealth: holders of old currency suffered the depreciation of their assets, while those controlling political authority benefited. When the market refused to accept these overvalued currencies, Wang Mang did not adjust policy but instead intensified coercive enforcement. The result was that "agriculture and commerce fell into decline, the circulation of goods and money ceased", and the economic foundation of the state was severely undermined. As a consequence, public confidence in the monetary system collapsed.

The historical predicament of Wang Mang's monetary reform therefore leads naturally to a fundamental conclusion: for the "name" of money to remain stable, it must be supported by a corresponding "substance". This "substance" consists not only of adequate metallic value but also of credible state backing. Once political power attempts to replace economic substance with a coercively imposed nominal designation, the collapse of monetary credibility follows almost immediately.

3. The logic and practice of contemporary stablecoins

The development of contemporary stablecoins can be understood as another clear and logically coherent response to the monetary dilemma of the separation between name and substance. If the failure of Wang Mang's currency reform stemmed from the imposition of fictitious nominal value through state coercive power, the challenge faced by stablecoins lies in their attempt to construct a credible substantive foundation through technological mechanisms. Because the financial market prices of crypto-assets such as Bitcoin fluctuate dramatically, they are still unable to fully perform the function of a reliable store of value. Consequently, their scope of application is inevitably limited. In contrast, stablecoins—digital assets designed to maintain stable value—serve as an effective complement. They enable businesses and consumers to conduct transactions with relative security, without bearing the significant price volatility commonly associated with

other crypto-assets [2]. More importantly, purchasing and holding stablecoins essentially amounts to indirectly holding U.S. dollars, making them a natural and effective hedge against the risk of domestic currency depreciation. In countries and regions with unstable national currencies and severe inflation—such as Argentina and Turkey—citizens have already made extensive use of stablecoins to store value in dollars as a means of mitigating the impact of local currency depreciation and high inflation. Correspondingly, the emergence of the "digital dollar" has significantly reduced both the cost and time required for cross-border payments, bypassing the multiple intermediary layers and high transaction fees characteristic of the traditional banking system. As a result, in regions such as Southeast Asia and Latin America—where inclusive financial services remain insufficiently developed—stablecoins are increasingly becoming practical tools for small and micro merchants to receive payments and for overseas workers to remit funds to their families.

As a key intermediary connecting the traditional fiat monetary system with the crypto-digital ecosystem, the stability and long-term sustainability of stablecoins depend not only on adequate reserves of anchored assets and the technical security of algorithmic mechanisms, but also on effective governance capabilities in areas such as rule-making, resource allocation, and risk management within the ecosystem [3]. Beneath these technical and institutional arrangements lies a deeper issue: the migration of trust. Within the traditional monetary system, credibility derives from the sovereign authority of the state. People accept fiat currency because the state ultimately guarantees it through its power of taxation and its coercive apparatus. In the decentralized world of cryptocurrencies, however, no such central authority exists. Stablecoins must therefore establish new sources of trust. This trust may be placed in the reserve assets and regulatory commitments of centralized issuers—as in the cases of USDT and USDC—or transferred to code, algorithms, and mechanisms such as overcollateralization, as exemplified by DAI. Some projects have even attempted to simulate market self-regulation through purely algorithmic designs, as in the case of the now-defunct UST.

The migration of trust is far from an easy process. Just as Wang Mang's Daquan Fifty coins required harsh punishments to enforce their circulation, stablecoins must confront a fundamental question: in the absence of the coercive authority of the state, how can the market be convinced that a digital token is genuinely "worth" one U.S. dollar? The answer lies in the mechanism of credit anchoring—linking the value of digital tokens directly and transparently to a credible external reference asset.

The rapid expansion of the stablecoin market vividly illustrates the growing importance of this mechanism. The global circulating market capitalization of stablecoins increased from less than USD 2 billion in 2019 to more than USD 200 billion by early 2025, reflecting remarkable growth in recent years. More specifically, as of May 2025, the market capitalization of USDT had reached USD 150.663 billion, with USDC ranking second; together, the two accounted for over 85 percent of the total market share. It can therefore be said that stablecoins have evolved from marginal instruments within the cryptocurrency ecosystem into "bridge assets connecting traditional finance and the digital crypto economy".

4. Are stablecoins truly stable

At present, most mainstream stablecoins are issued under U.S.-dominated financial structures. According to differences in their anchoring mechanisms, they can generally be divided into three categories: fiat-collateralized stablecoins, crypto-collateralized stablecoins, and algorithmic stablecoins. Among these, fiat-collateralized stablecoins currently dominate the market. Taking the most well-known example, USDT, although its design logic is relatively clear and its market adoption is widespread, it is worth examining the fundamental logic underlying its development. In essence, the foundation of its stability lies in the credibility of the U.S. dollar—or more precisely, the strong public trust associated with the U.S. government. Investors

believe that every stablecoin issued is backed by one U.S. dollar in real reserve assets, and this belief is reinforced by the issuer's compliance commitments, auditing mechanisms, and governance rules.

The "substance" underlying such stablecoins is therefore essentially a digital extension of U.S. dollar credit. Yet an important question arises: is the credit of the dollar itself truly reliable? In other words, can a stablecoin genuinely be redeemed for one dollar at any time? Using USDT as an example, the token is designed to maintain a 1:1 peg with U.S. dollar–denominated assets. One USDT is theoretically redeemable for one dollar. Investors exchange one dollar for one USDT, after which the issuing company, Tether, uses the dollars obtained from investors to purchase off-chain assets such as U.S. Treasury securities, dollar cash reserves, and short-term commercial paper. In theory, investors can redeem one USDT for one dollar, meaning that each USDT effectively corresponds to a portion of short-term U.S. Treasury debt. From this perspective, purchasers of USDT do not demand interest or investment returns; they merely require assurance that the token can be redeemed at a 1:1 ratio. Meanwhile, the U.S. government benefits indirectly from the arrangement: as stablecoin issuers allocate reserves into U.S. Treasuries, demand for government debt increases, thereby helping absorb the pressures associated with large-scale Treasury issuance and alleviating the burden of rising interest costs. This dynamic helps explain why the United States enacted the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) in 2025. From this perspective, the deeper economic logic behind stablecoins can be interpreted as part of a broader strategy to sustain global demand for dollar-denominated assets, thereby indirectly mitigating the pressures associated with U.S. debt expansion. Nevertheless, questions regarding the reliability of stablecoin reserves have persisted. In 2019, it was revealed that only 74 percent of Tether's reserves were backed by actual assets, despite the company's longstanding claim of full collateralization. By 2024, Tether disclosed that more than 60 percent of its reserves consisted of short-term U.S. Treasury securities, yet the company continued to face criticism because its audit disclosures were conducted quarterly, compared with the monthly disclosures adopted by USDC. According to a 2024 report on the cryptocurrency industry, only about 30 percent of stablecoin issuers publicly disclosed the specific custodians and detailed composition of their reserve assets. Critics have therefore described certain stablecoin operations as "black boxes" characterized by limited transparency, resistance to external auditing, and potential risks of excessive issuance. Issuers have also occasionally reported incidents such as hacking attacks that resulted in cryptocurrency losses, which further fueled regulatory scrutiny from U.S. authorities [4]. For investors, the difficulty of verifying the authenticity and security of reserve assets creates a situation strikingly similar to that faced by ordinary people during Wang Mang's era when they confronted the perplexing circulation of Daquan Fifty coins. The difference lies in the source of opacity: in Wang Mang's case, it originated from coercive state enforcement; in the modern stablecoin system, it arises from the informational opacity of commercial institutions. The fragility of stablecoin stability was vividly illustrated in 2023, when the collapse of Silicon Valley Bank triggered a crisis of confidence in USDC. Within a single day, investors redeemed approximately USD 3.8 billion, and the price of USDC temporarily fell to 0.87 dollars. This episode demonstrated that even a stablecoin widely regarded as a compliance benchmark cannot fully avoid panic-driven redemption pressures. When confronted with market-wide panic, whether a stablecoin can truly maintain its one-to-one convertibility with the U.S. dollar becomes uncertain. Just as Wang Mang's Daquan Fifty ultimately collapsed under widespread public resistance, contemporary stablecoins face a similarly dangerous chain reaction: confidence loss → redemption runs → de-pegging. Ultimately, the "substance" underlying fiat-collateralized stablecoins still depends on the credibility of the issuing institution and the security of its reserve assets. Once confidence in this centralized credit foundation is shaken, the crisis of separation between nominal value and substantive backing may erupt almost instantaneously.

5. A comparative reflection on the two historical logics of "name and substance"

If Wang Mang's currency reform and today's USDT are placed within the same analytical framework, an illuminating comparison emerges. The former represents a monetary experiment dominated by ancient state authority, while the latter embodies a form of financial innovation driven by markets and digital technology in the contemporary era. Despite their fundamentally different institutional contexts, both ultimately confront the same problem: how to ensure that the "name" of money is supported by a credible "substance".

5.1. Why does the "name" tend to detach from the "substance"

Both Wang Mang and modern stablecoin issuers possess strong incentives to allow the nominal designation of money to diverge from its substantive backing. For Wang Mang, the issuance of overvalued currency primarily served the purpose of extracting wealth from society and alleviating fiscal shortages. The so-called *"Yi Dao Ping Wu Qian"* ("one knife coin equal to five thousand") weighed only about 16.5 grams, yet its official value was set at the equivalent of five thousand Wuzhu coins, which together weighed approximately 20,000 grams. The degree of overvaluation thus reached nearly 1,200 times its intrinsic worth [1]. The essence of such a design was to employ state authority to artificially impose a high face value upon an underweight currency, thereby transferring wealth from the population to the state. Wang Mang believed that as long as he controlled the power of currency issuance and could arbitrarily determine its denomination, he would be able to regulate social wealth and realize his vision of comprehensive economic control. Contemporary stablecoin issuers are likewise motivated by incentives that may lead to a divergence between nominal value and substantive backing. Under the fractional reserve model adopted by some stablecoins, the dollars deposited by users may be invested in assets such as corporate bonds or cryptocurrencies—assets that offer higher returns but also carry greater volatility. In such arrangements, the issuing institution may hold only 0.8 dollars in highly liquid assets for each 1 dollar of stablecoin issued, while allocating the remaining 0.2 dollars to higher-risk investments in pursuit of profit. When market selling pressure emerges, issuers must repurchase tokens using their own capital in order to maintain the peg. If their capital reserves prove insufficient, a de-pegging crisis may occur. In this sense, the practice of publicly claiming a 1:1 peg while maintaining insufficient reserves is not fundamentally different from Wang Mang's issuance of overvalued currency. The difference lies merely in the mechanism of enforcement: state coercive authority has been replaced by commercial credit endorsement.

The behavioral logic behind the separation of name and substance in both cases can be traced to two clear structural conditions: information asymmetry and power advantage. In Wang Mang's time, the state relied on its coercive apparatus to enforce the circulation of currency, while ordinary people had no means to directly verify the true value of coins. In the modern context, stablecoin issuers rely on the opacity of reserve assets, making it difficult for investors to conduct thorough verification. Consequently, the profit-maximization incentives of private issuers inevitably drive them to balance asset risk against fee income. The logical outcome of this trade-off often manifests as a divergence between name and substance: when regulatory oversight is weak and information transparency is limited, issuers possess a clear incentive to support an excessively high nominal value with insufficient underlying assets in order to capture excess profits.

5.2. Credit as the lifeline of money

Although Wang Mang's monetary reform and modern stablecoins differ clearly in their institutional contexts and operational logic, they ultimately converge on the same fundamental issue: whether the "name" of money is supported by credible "substance". Regardless of whether monetary authority is enforced through political

power or constructed through algorithmic design, once the nominal value of money loses its substantive backing, the collapse of credibility can occur almost instantaneously. Both historical experience and contemporary developments repeatedly demonstrate a central truth about money: credit is the lifeline of the monetary system. Wang Mang's failure provides one of the most direct and powerful historical examples of how political authority can undermine monetary credibility. He believed that control over the right to issue currency would enable him to arbitrarily determine its value and thereby regulate social wealth. In reality, however, the stability of money's nominal value necessarily requires substantive support. When political authority attempted to substitute the coercive imposition of nominal value for genuine economic substance, the market delivered its verdict in the most severe terms: agriculture and commerce collapsed, the circulation of goods and money ceased, and the foundations of the economy were severely damaged. The experience of modern stablecoins offers an equally instructive warning. The collapse of UST (TerraUSD) clearly demonstrated that even the most sophisticated algorithmic designs cannot generate monetary credibility out of nothing. Once market confidence in UST disappeared, the arbitrage mechanism that had previously sustained its peg reversed and triggered a cascading collapse. The system unraveled at exponential speed, and nearly USD 40 billion in market value evaporated almost overnight. This historical and contemporary evidence leads to a clear conclusion: the substantive foundation of money must consist of real, sufficient, and verifiable asset reserves, rather than relying solely on algorithmic promises or hedging strategies.

At its core, monetary credibility rests upon the anticipated unity between "name" and "substance". Money is inseparable from credit—in a fundamental sense, money itself is credit, and credit constitutes the essence of money. Whether in ancient monarchic systems or within modern financial institutions, the separation of nominal designation from substantive backing represents a persistent and universal challenge in the monetary sphere. Wang Mang attempted to enforce a nominal anchor through state authority backed by coercive power, yet his experiment ultimately failed because it violated basic economic principles. Stablecoins, by contrast, attempt to establish their anchors through algorithms and mechanisms supported by reserve assets and arbitrage incentives, but they still face significant risks arising from limited transparency and the inherent fragility of algorithmic structures. Therefore, regardless of how technology evolves, the nominal dimension of money must always be supported by a credible substantive foundation. In the contemporary context, such "substance" includes transparent and fully backed reserve assets, rigorous and independent auditing mechanisms, and a clear and well-defined legal framework. More fundamentally, it also requires institutional norms and market trust that transcend both technological systems and the exercise of political power.

5.3. The cycle of government credit expansion and the rise and fall of political regimes

The expansion of government credit essentially refers to the state's acquisition of present control over resources by drawing upon its future taxation capacity or sovereign credit. Government credit constitutes the foundation of monetary credibility. The scale of government debt and the state's ability to service it directly influence the quality of central bank assets, while the government's capacity to manage the economy also indirectly affects monetary credibility through the overall performance of economic activity [5]. Within reasonable limits, such expansion of government credit can stabilize economic fluctuations through monetary policy and provide public goods, thereby enhancing the state's ability to conduct macroeconomic regulation and reflecting the broader capacity of national governance. However, once the expansion of government credit exceeds the carrying capacity of the real economy and drifts toward the abyss of deficit monetization, its nature becomes fundamentally distorted. As analyzed earlier, Wang Mang's monetary reform represented precisely such an extreme and irrational form of government credit expansion. The regime attempted to assign high nominal values to low-value coinage through administrative decree. This issuance of "overvalued

currency" in reality amounted to the state's imposition of an inflation tax through political authority. The result was widespread doubt regarding fiscal sustainability and government credibility, triggering monetary instability, severe inflation, and economic disruption. Ultimately, these developments became a direct cause of the collapse of Wang Mang's regime. This predatory form of credit expansion may appear in the short term to replenish state finances and strengthen governmental control over national resources. In reality, however, it severs the bond of trust between the state and the population that is grounded in the principle of equivalent exchange. Historical experience repeatedly demonstrates that when the expansion of government credit degenerates from serving economic development into extracting wealth, money ceases to function as a medium of exchange and instead becomes a catalyst for political self-destruction.

Monetary credibility and political legitimacy therefore share a deeply symbiotic relationship. Money is not merely an economic instrument but also a political contract. The rise and fall of a political regime often correlates closely with the credibility of the currency it issues. In ancient Chinese society, the metallic content of coinage could be regarded as a direct indicator of monetary credibility, which in turn influenced the degree of public acceptance of imperial authority. If legal tender lacked precious-metal backing, it would inevitably become an instrument for extracting wealth from society and eventually trigger severe inflation [6]. Once the separation between nominal and substantive value emerged, public rejection of the currency would follow, leading to fiscal collapse, social turmoil, and ultimately regime change. Although modern sovereign credit monetary systems have abandoned metallic anchors, the underlying logic remains fundamentally unchanged. Money still requires an anchor in order to maintain value stability. The stability of currency reflects the effectiveness of governmental governance, while the stability of government itself forms the foundation of monetary credibility [7]. When a government falls into fiscal crisis and attempts to sustain operations through unlimited money creation, it effectively signals the breakdown of monetary credibility and the abuse of sovereign credit. Hyperinflation can then rapidly erode the wealth of the middle class and lower-income groups, deepening social divisions and instability. The historical sequence of currency collapse → economic paralysis → political upheaval has repeatedly appeared in different contexts, from the Weimar Republic to the Latin American debt crises and numerous war-torn states. Consequently, maintaining clear limits on credit expansion and preserving the unity between the nominal and substantive dimensions of money constitute a fundamental lifeline for governments seeking long-term stability and sustainable governance.

6. The pressure of unlimited U.S. debt expansion on dollar credibility

The influence of U.S. Treasury debt on American monetary policy can essentially be understood as a relationship between debt constraints and credibility games. By the end of 2025, the total debt of the U.S. federal government had exceeded USD 38 trillion and continued to rise rapidly. Net interest payments had already become one of the largest categories of federal expenditure, second only to Social Security. Under such circumstances, the Federal Reserve faces a difficult policy dilemma between controlling inflation and managing the burden of excessive debt. Persistently high fiscal deficits and the expanding scale of government liabilities are gradually eroding the credibility of U.S. Treasury securities, which in turn restricts the policy space available to the Federal Reserve. Since the U.S. Congress first introduced the concept of a debt ceiling in 1917, the statutory limit has been raised more than one hundred times over the past century. This effectively "soft" ceiling has become a structural factor contributing to the persistent gap between government revenue and expenditure, as well as a systemic factor weakening the credibility of the U.S. dollar [8]. As the lender of last resort to the U.S. government, the Federal Reserve announced the launch of unlimited Quantitative Easing (QE) following the outbreak of the COVID-19 pandemic in 2020, and for a prolonged period it has financed

massive fiscal deficits either directly or indirectly through asset purchases and other monetary operations. Beginning in January 2026, the Federal Reserve introduced a new mechanism known as RMP. Although Federal Reserve Chair Jerome Powell repeatedly emphasized that this mechanism does not constitute a continuation of quantitative easing, market observers have sharply argued that this technical operation under the name of RMP is in fact an extension of long-term QE policies. In essence, it represents the Federal Reserve's attempt to address long-term structural challenges with short-term policy tools. Traditionally, quantitative easing was employed during periods of economic recession and depressed asset prices in order to stimulate economic recovery, after which it would gradually be withdrawn. At present, however, the United States faces simultaneously high debt pressure and unresolved inflationary risks. Under such conditions, the RMP mechanism may effectively perpetuate the familiar cycle of "Treasury issuance of debt – Federal Reserve purchase of assets." Although the Federal Reserve has indicated that RMP operations would slow significantly after mid-April, if in reality the program were to expand again—perhaps due to renewed pressures on bank reserves or fiscal demands from the Treasury—financial markets might interpret this as a form of "stealth quantitative easing". In that scenario, investors could begin to question the independence of the Federal Reserve itself. Once such confidence erodes, the credibility of the U.S. dollar could face serious damage.

The monetary policy framework shaped by the influence of U.S. Treasury debt is therefore encountering substantial challenges. In this system, the expansion of government credit has become deeply intertwined with the issuance of the dollar. The status of the dollar as the world's primary reserve currency will depend significantly on future improvements in the U.S. economy and the stability of its domestic political environment. If the American economy continues to stagnate and political polarization intensifies, global investor confidence could weaken further—an outcome that would not only harm U.S. interests but also threaten the stability of the international financial system [9]. In recent years, persistent fiscal deficits and mounting debt burdens have gradually eroded the foundations of dollar credibility. Historically, the institutional independence of the Federal Reserve has been one of the key pillars supporting confidence in the dollar, reinforced by the United States' formidable economic scale, military power, and technological strength. Yet once public debt accumulates beyond a certain threshold, trust can begin to dissipate almost imperceptibly. At that point, the foundations supporting the dollar may no longer be the structural strengths of the United States but rather institutional inertia—and inertia is unlikely to withstand a genuine crisis of confidence.

Taken together, it becomes evident that U.S. Treasury debt is confronting a severe challenge of separation between nominal claims and substantive support. The scale of U.S. government debt has already reached historic highs, and the expansion of sovereign credit increasingly depends on the global hegemonic status of the dollar rather than on domestic productivity growth. In a certain sense, this logic bears resemblance to the monetary strategy previously discussed in Wang Mang's reforms: both rely on forms of authority to sustain the nominal value of currency. Once the international dominance of the dollar weakens or global confidence in U.S. Treasury securities declines, the debt-financing model—essentially a cycle of issuing new debt to repay old obligations—may face systemic risks of collapse. From this perspective, stablecoins denominated in U.S. dollars, such as USDT, can be viewed to some extent as an extension of the same logic. Through technological means, they further digitize and partially privatize dollar-based credit, thereby helping to sustain global demand for dollar assets and potentially delaying the emergence of a debt crisis. However, this development does not resolve the underlying contradiction of credit expansion that lacks a fully sufficient and tangible asset foundation.

7. Conclusion

Although Wang Mang's "Daquan Wushi" and USDT are separated by two thousand years, from the perspective of monetary philosophy they reveal a striking and meaningful intertextual relationship. Both attempt to define value through a form of authority: in the case of Wang Mang, the supreme imperial power of the state; in the case of USDT, the combination of algorithmic design and commercial credibility behind the stablecoin. This comparison naturally leads to a persistent temptation in the history of monetary governance—namely, the belief that power or technology can override economic laws, allowing nominal value to overshadow real value. Yet the lessons of history are unambiguous. The vitality of money has never depended primarily on the form of its carrier, but rather on the fragile and delicate balance between "name" (nominal value) and "substance" (real economic support). The overvalued currency maintained by Wang Mang through severe legal coercion ultimately collapsed under the rejection of the market, while the algorithmic utopia constructed by UST vanished in a sudden collapse of confidence. The conclusion is therefore both powerful and cautionary: whether in the form of ancient "treasure currency systems" or modern algorithmic stablecoins, if money becomes detached from real asset anchoring or lacks verifiable credit backing, the so-called "stability" is nothing more than a tower built on sand. Monetary credibility may temporarily be established through power or technology, but its long-term sustainability must ultimately return to the logic of the real economy. The rapid and often disorderly expansion of stablecoins today is therefore not the endpoint of monetary evolution; rather, it represents a profound test of the essence of monetary credibility. The most appropriate lesson is clear: a sound monetary order cannot rely solely on technological sophistication or coercive authority. Only by returning to the fundamental basis of transparent, adequately backed, and redeemable credit can monetary stability be ensured.

In contrast, the Chinese government has consistently adhered to an independent and prudent monetary policy framework. China's monetary issuance is primarily anchored in foreign exchange holdings and the credit demand of the real economy, meaning that the "substance" behind the renminbi is supported by China's vast manufacturing capacity, sustained trade surpluses, and robust productive forces. Moreover, the People's Bank of China has long emphasized maintaining stable growth in credit aggregates, ensuring that the growth rates of broad money (M2) and total social financing remain broadly consistent with the growth of nominal GDP [10]. The prohibition of direct monetary financing of fiscal deficits effectively blocks the possibility of uncontrolled money creation by the government. This institutional arrangement ensures that the expansion of China's monetary credit remains supported by tangible economic fundamentals, thereby avoiding the asset bubbles and wealth polarization that often accompany the separation of nominal monetary expansion from real economic foundations.

Drawing on the historical lessons discussed above and the comparison between the Chinese and American models, China should adhere to the principle of "unity between nominal value and real economic backing" while advancing the development of the digital renminbi and the internationalization of the renminbi.

(1) Uphold sovereign credit backing and avoid commercial credit risks. The credibility of the digital renminbi must be strictly derived from state sovereign credit, rather than relying on algorithmic models or the asset reserves of private institutions. For cryptocurrencies to become legitimate legal tender, one feasible approach is for them to be issued directly by the state or monetary authorities, using existing or innovative token and ledger systems—among which blockchain technology may serve as a useful reference [4]. As a digital currency issued by the People's Bank of China, the digital renminbi relies on sovereign credit and the authority of the state. Its issuance, circulation, usage, and value stability are guaranteed by national law, and its legal status is fully equivalent to that of physical renminbi [11].

(2) Deepening the dual-layer operational system to firmly safeguard financial stability. Accordingly, the digital RMB should logically adhere to a "central bank–commercial bank" dual-layer operational system. The central bank handles issuance and credit backing, while commercial banks manage conversion and circulation. In this context, relevant authorities need to explore how to universally promote digital RMB and digital payment technologies at both enterprise and commercial bank levels, accelerate the establishment and development of the digital industry, and ultimately form a digital currency and payment network system covering the entire payment and settlement infrastructure [12]. The benefits of this approach are clear: it leverages both the credit advantage of the central bank and the mature retail network of commercial banks, while avoiding the run risk associated with USDT, which relies entirely on the reserves of a single commercial institution, and also mitigating the systemic risks that could arise from algorithmic failure.

(3) From the perspective of returning to the core function of payment and serving the real economy, the positioning of the digital RMB should be systematically and clearly articulated. The digital RMB is essentially a digital form of legal tender, and thus its primary purpose should be retail payments and financial inclusion, rather than a speculative instrument. Accordingly, it is essential to strictly uphold the principle that digital RMB does not bear interest, guiding it back to its fundamental role as a payment tool, and proactively preventing it from becoming a means for financial disintermediation or capital speculation. This approach provides a clear and thorough lesson drawn from the "name–substance separation" caused by the U.S. debt-driven model, and naturally leads to the conclusion that currency issuance should be synchronized with the development of the real economy.

(4) From the perspective of building a China-specific digital currency regulatory framework, the paper systematically and hierarchically discusses the balance between financial innovation and security. While actively and prudently advancing research, development, and pilot testing, it is necessary to deepen cross-border cooperation in financial supervision and digital finance, gradually cultivating a digital currency ecosystem to strengthen the international use of the RMB [13]. Accordingly, it is appropriately suggested that a three-tier regulatory system led by the central bank with clearly defined responsibilities be established, and that technical measures such as controllable anonymity be adopted to simultaneously protect user privacy while achieving regulatory objectives including anti-money laundering and counter-terrorism financing.

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