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The "Printing Money" Thing

Submitted by letsgetitdone on Wed, 06/15/2011 - 11:54am
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If you're a progressive and want to fix problems like unemployment, the health care and health insurance systems, infrastructure, education, our energy and climate crises and want Government to deficit spend to do it, sooner of later you'll get the question: ?Aren't you just 'printing money'? Here's my answer to that one.

No!

Because:

1) Today the Government prints very little money. It mostly just ?marks up accounts? using a computer when the Treasury spends, or when the Fed buys financial assets, in return for reserves it creates. So, literally, I'm not saying we should ?print money,? I'm saying we should deficit spend by ?marking up? non-Government accounts.

2) Also, the idea of "printing money" being a bad thing is a hangover from the days before 1971 when money was backed by gold or other commodities. "Just printing money" referred to printing it without acquiring the gold or silver or other commodities needed to back it. So, before 1971, there was a contrast between old money, which was commodity (largely gold) -backed, and merely printed money which was not. Money that was backed was worth something; printed, but unbacked, money was worth less, or even worthless, depending on conditions.

3) Now that we have our fiat currency system, to describe Government deficit spending as ?printing money? is way off-base, because it ignores two important realities:

First, these days ALL US Government money is fiat money. It is all unbacked by any commodity. There is no distinction between old money and newly created money. And the new money created when Government deficit spends, is worth no more and no less than the old money.

Second, assuming that the Government did create money without issuing debt (the closest thing you can get right now to the old "printing money") to pay its bills, would the effect be bad or intolerable, or would it be good? That's the real issue raised by Government spending deficit or otherwise.

4) So, I know your printing money? question is raising the issue that Government deficit spending for state revenue sharing programs, payroll tax holidays, Job Guarantee programs, or other Government deficit spending I favor would have a bad outcome because it would cause inflation. What you're really asking me is not whether I'm in favor of ?printing money? but whether I'm in favor of inflationary deficit spending?

My answer to that REAL ISSUE is no, I'm not proposing inflationary government deficit spending. I'm proposing Government deficit spending targeted on job creation and other valued outcomes until we get full employment. There's no evidence that such spending is inflationary at all.

If you have any I'd love to see it, but all I see right now is some commodity inflation which has nothing to do with Government deficit spending, and also a great deal of deflation in other areas of the economy that has everything to do with the fact that the Government is deficit spending far too little, and also on the wrong things, to enable the economy to perform up to its potential.

(Cross-posted at All Life Is Problem Solving [9] and Fiscal Sustainability [10]).

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