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Beyond the Debt Ceiling: The $30 Trillion Plan for Ending Borrowing and the National Debt

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Congress provided the authority [20], in legislation passed in 1996, **for the US Mint to create platinum bullion or proof platinum coins with arbitrary fiat face value** having no relationship to the value of the platinum used in these coins. These coins are legal tender. So, when the Mint deposits them in its Public Enterprise Fund account at the Fed, the Fed must credit that account with the face value of these coins. This difference between the Mint's costs in producing the coins and the credit provided by the Fed is the US Mint's profit. The US code also provides [21] for the Treasury to periodically ?sweep? the Mint's account at the Federal Reserve Bank for profits earned from these coins. **Coin seigniorage is just the profits from these coins**, which are then booked as miscellaneous receipts (revenue) to the Treasury and **go into the Treasury General Account (TGA),** narrowing the revenue gap between spending and tax revenues.

Platinum coins with huge face values, $1, $2, and $3 Trillion coins have been mentioned, could close the revenue gap entirely, and, if used often enough, technically end deficit spending, while still retaining the gap between tax revenues and spending.

Coin seigniorage is now being mentioned increasingly [22] on popular blogs as a possible solution to the debt ceiling crisis. It is the only solution [23] currently being suggested that requires no agreement in Congress and also no challenge to the debt ceiling law itself. If Congress fails to increase the debt ceiling by August 2nd, it may even become the constitutional duty of the President to use coin seigniorage to avoid default.

But the proof platinum coin seigniorage alternative comes in more than one flavor. It's actually a class of alternatives. Here are some different con seigniorage proposals.

First, mint a $1.6 Trillion coin and have Treasury use the profits from it to buy all the outstanding debt instruments held by the Fed [24]. This would retire a substantial part of the national debt and immediately create $1.6 T in ?headroom? relative to the debt ceiling. This alternative involves the least amount of change in current procedures. The coin, once deposited at the Fed, would remain in a Fed vault, and would not go into circulation. The Government would then go right back to issuing debt in order to meet its debt obligations and spend previous Congressional appropriations. With this alternative it is hard for critics to raise the inflation issue, since the new credits created by the coin are never spent into the economy, but are only used to reduce buy back the debt held by the Fed because that debt counts against the debt ceiling.

One objection made to coin seigniorage proposals is that the high face values of the coins would drive up the market price of platinum. However, the Mint is already scheduled to produce 15,000 platinum coins [25] having relatively small arbitrary face value. There would be no conceivable need for more than enough material for 100 very high face value proof platinum coins. So there really is no supply issue.

Having said that, every time the Mint creates a high value coin for deposit at the Fed, it would have to create a duplicate coin, so that it had the means to swap with the Fed if it ever decided to redeem the coin for currency of equal value. This is not a likely event; but it is possible. So, it would be necessary to create duplicate coins and place them in a vault at the Mint.

A second proposal is to mint a $6.2 T coin to pay back all debt held by the Fed, and all Intra-governmental debt [26], including that owed to Social Security, Medicare, and a host of other other agencies. That would create $6.2 T in headroom, more than enough to carry us through the 2014 elections. Again, this wouldn't result in any ?money? immediately going into circulation, but over time SS and Medicare payments would be adding to bank reserves without any reserves being withdrawn from the system due to debt issuance. Some might think this would be inflationary, because they believe that net reserves added to the private sector are more inflationary than debt instruments added would have been. However, there's evidence that debt instruments provide much higher leverage [27] than added reserves, and, in addition, they lead to greater interest payments than reserves do, even if the Fed decides it wants to pay interest on reserves, which it doesn't always do.

A third proposal for applying coin seigniorage is to mint a coin with face value large enough to cover the $6.2 T intra-governmental and Fed debt repayment, plus all private debt coming to

maturity, and all Congressional Appropriations expected to require deficit spending. I'll estimate, roughly, that a $15 T coin is enough for that, including about $4.5 T to close the expected gap between tax revenues and Government spending through the 2014 elections, and the rest for paying down the national debt further. Issuing a coin that large, using the profits from seigniorage, and assuming that Congressional appropriations continue the pattern of the past year or so, that would result in a remaining public debt outstanding of roughly $4.6 T, which would please the bond markets except for the fact that the Us wasn't issuing any more debt instruments.

Again would this coin seigniorage proposal be inflationary? Well, the intra-governmental and Fed debt repayments won't be, for reasons already stated. Also, there's no reason to believe that the repayment of further debt will be, unless one believes, again, that reserves swapped for bonds, and not swapped again for more bonds, is inflationary. But, other than the interest payments which certainly add to private sector assets somewhat, payback of debt instruments is just an asset swap, followed by destruction of securities. There's no addition of net financial assets [28] to the private sector.

How about the profits of $4.5 T set aside for closing the gap between tax revenues and spending? Will that be inflationary? Actually, I don't know if Congress will appropriate a $4.5 T spending/tax revenue gap over three years, but if such a gap is needed, and if it does, then the coin will cover it without new Federal borrowing. And as long as Congress doesn't do the right kind of spending and creates a large enough gap to add sufficiently to private sector assets to support full employment, their appropriations, backed by coin seigniorage won't be inflationary.

If, on the other hand, they do the right kind of spending to bring full employment inside a year, then tax revenues will come back as they did during the Clinton Administration, and then there'll be no need for the profits from the proof platinum coin to be used completely between now and 2014. In fact, if the right jobs creating program is immediately enacted, as much as $3T could be left before the President might want the Mint to strike another proof platinum coin.

So far, I've discussed three alternative coin seigniorage proposals ranging in scale from a minimal proposal to handle the current crisis to one that would provide enough funds to both pay down debt, and support a gap between spending and taxes that might be sufficient to enable full employment. Now here's **a fourth,** enough to handle Congressional appropriations for a decade.

Why not mint a $30 T coin and then another one in case the Fed gets obstreperous sometime down the road and presents the 30T coin, that was deposited in the Mint PEF account, for redemption?

I favor this fourth alternative above all, because it institutionalizes the idea that there is a distinction between appropriations, the mandate to spend particular amounts on particular goods and services, and the capability to spend the mandated accounts. In a fiat currency system, the capability always exists if the legislature provides for it under the Constitution. But the value of the 30T coin, and the profits derived from it, is that **it is a concrete reminder of the Government's continuing ability to buy whatever it needs to meet public purposes.** It demonstrates very concretely that **the Government cannot run out of money** and that the claim that it can is not a valid reason for rejecting spending that is in accordance with the Public purpose.

So, in reading what follows, please keep in mind the distinction between the capability to spend more than government collects in taxes, and the appropriations that mandate such spending. The capability is what's in the public purse, and it is unlimited as long as the Government doesn't constrain itself from creating currency. With coin seigniorage its capability could be and should be publicly demonstrated by minting the $30 T coin, and getting the profits from depositing it at the Fed.

On the other hand, Congressional appropriations, not the size or contents of the purse, but whether the purse strings are open or not, determines what will be spent and what will simply sit in the purse for use at a later time. So there is a very important distinction between the purse and the purse strings. **The President can legally use coin seigniorage to fill the purse, but only Congress can open the purse strings through its appropriations.**

If the President decided to rise above the debt ceiling controversy, safeguard the social safety net, and do something really, really important from the perspective of history by using $30 T coin seigniorage, then he could explain the deposit of the first $30T coin to the public in a high profile TV address, this way (the second coin just stays at the Mint for safekeeping. Its existence to be kept secret):

> My Fellow Americans:
>
> 1) Until now we?ve been borrowing the money the Government created back from the private sector, in order to cover our deficit spending, so the national debt has been steadily growing.
>
> 2) That?s silly! According to the Constitution, this Government, of the people, by the people, and for the people, is the ultimate source of all US money. So why should we ever borrow US money back and pay interest on it, since we can create it any time by the authority of the Constitution and Congress?
>
> 3) Congress has also imposed a debt ceiling, which, as you know, we've now reached, so we can?t borrow back our own money, anyway.
>
> 4) So, on my order, and in accordance with legislation passed by Congress in 1996, and with the US Code, the US Mint has issued $30 Trillion in a single platinum coin,

and deposited it at the NY Fed. It?s legal tender, so the Fed credited the PEF with about $30 Trillion in USD credits using its unlimited authority from Congress to create US Dollars.

5) This is not inflationary because the Fed will put our coin into its vault, and keep it there permanently out of circulation, and we will use the $30 T in USD credits only to pay back debt and to spend what Congress has already approved, which is only a fraction of these credits and far from the amount needed to cause inflation.

6) **My action ends the debt ceiling crisis,** because we have no further need to borrow our own money back in the markets, so we don?t need the tea party or other Republicans, or even my fellow Democrats to agree to raise the debt ceiling.

7) Now the Treasury, has plenty of money, much more than we need, in fact, to pay for all appropriations Congress has already approved for 2011, and, again, we won?t have to borrow our own money back.

8) So we will pay all Government debts which will come due in 2011. Treasury securities and all other debts included. We will also pay back all debts held by other agencies of Government and the Federal Reserve. When we do this we will lower the national debt by about $7.5 T, reducing the ?debt burden? by about half this year, and creating an actual Social Security trust fund with 2.6 T in cash reserves in it; and again, to do this we don?t have to borrow our own money back, and we will also reduce our interest costs on the outstanding national debt.

9) None of the $30 T in new credits created by our actions is ?money? in the economy until the Treasury spends it. For now it is just **capability to spend** awaiting the appropriations of Congress to mandate deficit spending, should it need to compensate for the reduction in demand, probably close to 10% of GDP right now, caused by your own desire to save (which we want to do our best to facilitate), and your desire to import goods from foreign nations.

10) We have created $30 Trillion in new credits even though we needed only a fraction of that to cover anticipated deficit spending and debt repayment until 2021. The reason for this, is that I wanted to have enough capability created in the Treasury account, so that the national debt could be completely paid off (except for a small amount in very long-term Treasury debt still not mature by 2021), and all projected Federal deficits covered over the next 10 years.

11) Of course we can always make new coins if our projections turn out to be wrong; but I thought it would be best to ensure that all $14.3 T of the ?debt burden? can be completely eliminated from our political concerns; and also to provide enough funds in our spending account at the Fed so that it would be very clear to Congress and all newly elected Representatives and Senators, that even though they, according to the Constitution, continue to control the purse strings, the national purse is very, very full, and that we will be able to afford whatever deficit spending for the public purpose, including for full employment and Medicare for All, that Congress, in its wisdom,

chooses to appropriate now and before the election of 2012.

Good night, my fellow Americans and Sweet dreams! Rest well knowing that our beloved country won't be defaulting on any of its debts, and that I've prevented this without going over the legal debt ceiling, by providing money for spending mandated appropriations, in compliance with the laws authorizing coin seigniorage, while supporting the Constitution's prohibition against our Government ever defaulting on its debts. I hope that in the future everyone will obey the 14th Amendment's prohibition against questioning the validity of Federal Government debts, and think twice before they indulge themselves in such loose talk. America will always pay its debts in US Dollars according to the terms of the contracts it has concluded, and in line with the pension payments and other obligations that it owes. Neither you nor the rest of the world need ever doubt that again!

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