



## Filling the Public Purse and Getting the Public Spending We Need

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There's a distinction between Congressional appropriations, the mandate to spend particular amounts on particular goods and services, and the capability to spend those mandated amounts. The capability is the amount of electronic credits in the public purse, whether any of it has been appropriated for spending by the Congress or not. Congressional appropriations, not the size or contents of the purse, 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 USD level in the purse and whether any of it can be spent.

It may be the case that ?the purse,? the Treasury General Account (TGA), contains far more credits than the funds needed to repay Federal debt and spend Congressional appropriations in any fiscal year. Or, the normal situation, until now, is that it won't contain enough credits to cover debt repayment and Congressional appropriations, and will be credited throughout the year in

amounts corresponding to tax payments, bond sales, sales of other assets and profits from coin seigniorage.

So, in this situation, the Treasury implements appropriations mainly through taxing and borrowing first, and then spending, since Congress prohibits the Fed from lending money to the Treasury.

**The need to fill the public purse continuously, and through borrowing in order to implement appropriated deficit spending has created a conservative bias in fiscal politics,** since any spending proposals aren't evaluated primarily on the basis of expected impacts, but on the basis of how they will be funded?

Will they be funded by issuing debt? Will they be funded by raising taxes? Will they be funded by paying for them? with cuts in other spending programs? These fiscal issues become the main ones. The likely impacts of the programs, (or even the obvious need for them) take a back seat in debates. Instead, even though Congress has the constitutional authority to create unlimited amounts of money; it's all about "We Can't Afford This Because We're Running Out of Money."

In past months, we've seen Congressional debates over whether the debt ceiling ought to be extended to accommodate deficit spending previously agreed to; or whether existing programs should be cut to pay for the debt ceiling extension. Right now, there's a disagreement over a Continuing Resolution to keep the government operating. Republicans will vote for such a resolution; but only if Democrats will vote for cuts in existing programs to pay for disaster relief to the victims of natural disasters.

The new Congressional "Super-Committee," an outcome of the unnecessary agreement to extend the debt ceiling, is deliberating now on a plan to cut spending to achieve long-term deficit reduction, which is thought to be necessary because "we are running out of money" and therefore must slow the rise of the debt-to-GDP ratio. There will be big fights in the Committee and in Congress over proposed entitlement cuts, defense cuts, and cuts in other programs that are important to working people and the middle class; and with the political consensus that there is, in fact, a deficit problem, it's likely that there will be substantial cuts in Federal programs, whether working people want them or not.

It's likely that in 2012, this same pattern of legislative conflict over filling the purse and the price to be paid in needed Federal programs will continue. The Republicans certainly won't give the President any program successes to run on in 2012. And Democrats will be increasingly unlikely to give in on further cuts in programs for their constituencies in an election year.

This ruinous dynamic will leave the US in an increasingly sad place as time goes on, and will lay waste to our country. We will not meet our real problems. We will not generate enough aggregate demand through deficit spending to create full employment. We will stay in recession or sink deeper into depression and growing inequality will bring the US closer and closer to the model of a banana republic. There will be no help for this from the political system until the ideology of economic austerity [18] is beaten politically, and is weakened in both parties.

To avoid the fate of austerity-induced double- and even triple-dips, the most important thing that can be done is to remove the conservative bias in Federal fiscal policy. **The opportunity for fights over the debt ceiling, the level of debt and the debt-to-GDP ratio must be removed from politics; along with the objection to needed spending, claiming that we are running out of money.**

If we can get rid of those two things, then progressive fiscal measures can be debated on their merits and pressure on the conservative House will build to pass them in the absence of the debt-related excuses the conservatives now rely on for spending cuts.

The good news is that we can get rid of both debt ceiling fights and the debt/deficit issues that paralyze Congress now, and that the President can make that happen without the concurrence of Congress or any other agency outside the Executive Branch, by filling the public purse to an extreme level, using the new money to pay off the national debt, and to spend Congressional appropriations, and then letting the rest of the extreme funding sit there in the TGA, providing a backdrop for conflicts over appropriations, and concrete proof that the Government has plenty of money to spend in worthwhile ways.

I've explained in detail how the President can do this in previous posts [here](#) [19], [here](#) [20], and [here](#) [21]. **The main point is that in legislation passed in 1996, the Mint was given the authority [22] to create 1 oz. proof platinum coins with arbitrarily high face values having no relation to the cost of producing the coin or coins involved.** The President can cause the Mint to create a coin of arbitrary face value, for example, \$60 Trillion. The coin is legal tender and would be deposited in the Mint's Public Enterprise Fund (PEF) account at the Fed. The Fed would have no option but to credit the deposit to the PEF since 1) the coin is legal tender, and 2) in disputes between the Fed and the Treasury over interpretations of the law; the opinion of the Treasury Secretary is controlling. The Treasury can then "sweep" the seigniorage profits (the difference between the cost of producing the coin and its face value) in the PEF into the TGA, filling the public purse with \$60 Trillion.

The President can spend part of the money in the filled public purse to pay down, and eventually pay off, the national debt, and also to spend Congressional appropriation amounts exceeding tax revenues, so that no more debt issuance would be necessary. It's likely that \$60 T would cover the national debt and also all appropriations exceeding tax revenues between now and at least 2030, perhaps longer if the economy returns to full employment, which it could be made to do if a Federal Job Guarantee program were passed. The first round of debt payments could be made almost immediately, and by the end of the year would leave us with a national debt down to \$7.1 T or so, down from the present 14.7 T.

So the initial paydown of the national debt over the next three months would remove debt and deficit considerations from the national debate over funding for jobs, infrastructure, education, innovation, further health care reform, new energy foundations, and any other proposed spending where appropriations would exceed tax revenues. Entitlement "reform" interpreted as cuts necessary for long-term deficit reduction would disappear as an issue, to be replaced by discussions about whether Medicare and SS benefits should be extended. In short, **almost overnight, the conservative bias in national fiscal policy would be removed and the way would be clear to reconstruct America on thoroughgoing progressive economic lines.**

**We badly need the public purse filled with a \$60 Trillion or greater face value proof platinum coin, in order to end our economic troubles.**

This is not a necessity from the viewpoint of economics. If our people and their representatives understood the operations of our fiat monetary system, there would be no need to end austerity by getting rid of debt issuance and removing concerns about the national debt and deficits that

threaten our solvency. Everyone would recognize that the debt and growing debt-to-GDP ratios do not affect the ability of the Federal Government to spend. So, make no mistake, I am not proposing the \$60 T Proof Platinum Coin Seigniorage (PPCS) solution because it is the best measure we can take to get us out of economic troubles. There are lots of ways for Congress to reform our Federal fiscal structure to ensure that we are not hamstrung by rules that maintain the conservative fiscal policy bias. I am calling for it to be done through PPCS because the President has the authority to implement high value PPCS, and because an overfilled Federal purse will remove the conservative bias in fiscal policy and allow the United States to serve most of its people again, rather than only a miniscule elite.

Next, I'm very well aware that commenters will object to this post on grounds that it will cause inflation or hyper-inflation. Others and myself have considered the possibility of inflation very seriously. [Here](#) [23], [here](#) [24], [here](#) [25], [here](#) [26], and [here](#) [19], are some pieces on the inflation issue for people who want to use that dog-whistle in reply to this post.

If, after reading these posts you still want to advance the inflation objection, then please do so by making very explicit the causal transmission mechanisms that you think will cause inflation when the TGA money is just sitting there in the TGA reserve account, and is not being spent. And please also explain how the repayment of debt can be inflationary, **because without such explanations of why you think inflation will occur, you are just making noise, and not providing serious objections.**

Finally, returning to my main point, to understand how important it is to remove the conservative fiscal bias by issuing the \$60 T coin;

-- please try to imagine whether there would have been any debt ceiling negotiations earlier this year if there had been \$52 T remaining in the TGA at the time after repayment of roughly 50% of the national debt.

-- Also, try to imagine if the Republicans would dare to insist on ?paying for? disaster relief aid by cutting other programs in passing a continuing resolution.

-- Then try to imagine if they would dare to oppose a jobs bill to create full employment against the same TGA backdrop later this year, or in the election of year of 2012. In thinking this through they can no longer talk about fiscal solvency, fiscal responsibility, or fiscal sustainability. Those slogans would be gone.

Instead, they'd have to start stoking fears of inflation. But people won't buy that with 9 ? 10% unemployment and 17% under-employment, unless there really is demand-pull inflation caused by spending that exceeds tax revenues. Rest assured however, that's not going to happen. There will be no such inflation.

There may be inflation caused by speculation in commodities. But if the Administration starts prosecuting and jailing people who try to control markets through speculation, then it can short-circuit that kind of inflation easily enough.

In short, it's time for the President to act. He needs to create the \$60 Trillion coin to change politics and get Congress working for the American people again. Will he do it, or will he go right

on failing us by letting the losing political dialogue continue undisturbed?



No votes yet

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- [22] <http://my.firedoglake.com/beowulf/2011/01/03/coin-seigniorage-and-the-irrelevance-of-the-debt-limit/>
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