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Beyond Debt/Deficit Politics: The $60 Trillion Plan for Ending Federal Borrowing and Paying Off the National Debt

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Well, here we are again, House leaders have agreed [17] on a compromise continuing spending resolution at the same level as before from October 2012 through January 2013. It's likely now that the President(s?) will probably try to make the money available for deficit spending as of today, last through the time period of the continuing resolution so that one deal including both the budget and raising the debt limit can be made by March of 2013. According to the July 31, Daily Treasury Statement, [18] there's $499,424,000,000 left until the debt ceiling. That's an average of $62,428,000,000 deficit spending per month for the next 8 months, ending March 31, 2013.

For the past 10 months, average deficit spending was at $114,802.3 Billion per month, and that amount was not enough stimulus for a full recovery. So, the likely 46% reduction in average deficit spending over the next 8 months is unlikely to be any more effective in pulling us out of the extended employment recession we are experiencing, than the deficits in the preceding 10 months were. On the contrary, deficit spending over the next 8 months is unlikely even to allow us to maintain the unemployment levels we have now. So, what ought to be done?

The most important thing that can be done is to change the fiscal context of politics from one of apparent scarcity "justifying" austerity to one where spending capacity is so plentiful, that Congress will be hard-pressed to impose austerity, because its justification in the form of apparent limitations on spending capacity will just seem silly. In the summer of 2011 I proposed a solution [19] to the debt ceiling crisis calling for the minting of a $30 T platinum coin to overcome the problem and also improve the fiscal context for progressive legislation. Now, I want to update that post and apply it to the present political situation, where based on the above events, the next serious fiscal crisis is likely to happen in February and/or March of 2013. So, here's the update.

The Law and Proof Platinum Coin Seigniorage

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 or eliminating the revenue gap between spending and tax revenues. Platinum coins with huge face values, here $1, $2, and $3 Trillion coins have been mentioned, could close the revenue gap entirely in ant fiscal year, and, if used often enough, technically end deficit spending, while still retaining the gap between tax revenues and spending that can produce full employment in an economy like the US's, with private sector savings and a current account deficit.

Proof Platinum Coin Seigniorage (PPCS) is now frequently and increasingly being mentioned [22] on popular blogs as a possible solution to the debt ceiling crisis. It is one of the two solutions [23] currently being suggested that requires no further legislation from Congress and also no challenge to either the debt ceiling law itself, or to the Congressional prohibition on the Fed extending credit to the Treasury.

However, PPCS is not only a solution to avoid a debt ceiling crisis. It also has the potential to take off the legislative/fiscal table the whole austerity mind set that bedevils our current budgetary process and provides it with a constraining conservative cast focused on narrow monetary costs considerations, rather than a broader progressive framework that weighs the real costs and benefits of proposed fiscal activities of the Federal Government.

PPCS can free the Government from narrow green eye shade concerns and force both Congress and the Executive to evaluate the substance of legislative proposals based on their likely direct impacts and side effects on the lives of Americans, rather than their impact on Federal deficits and surpluses.

Government deficits and surpluses are important in themselves when the supply of Treasury funds is restricted to the amount that can be taxed or borrowed; but they are not intrinsically important when, through using PPCS, the supply of Federal funds is limited only by the President's or the Treasury Secretary's orders to the US Mint to use PPCS to fill the public purse without either taxing or borrowing

The PPCS alternative comes in more than one flavor. It's actually a class of alternatives. Here are some different coin seigniorage proposals.

PPCS Alternatives

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 buy back the debt held by the Fed because that debt counts against the debt ceiling. Of course, this proposal is a solution to the debt ceiling problem alone. It would prevent a default crisis caused by anti-government tea party Republicans. But, it wouldn't do very much to defeat the austerity/deficit hawk mind set in politics.

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, and at least one alternative PPCS proposal would require only two coins to implement. So there really is no platinum supply/market price 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. The Fed would place one of the coins in its vault after deposit and the Mint would place the other coin in one of its vaults.

A second proposal is to mint a $6.7 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 $6.7 T in headroom relative to the debt ceiling, that's more than enough to carry us through the 2014 elections without breaching the ceiling. Again, this wouldn't result in any ?money? immediately going into circulation, but over time SS and Medicare payments to individuals and organizations would be adding to bank reserves without any reserves being withdrawn from the private sector due to debt issuance. But this isn't a change from the present situation so it would not add to inflation.

This alternative would render the debt ceiling problem a dead letter for some time to come, and it also might take some of the austerity pressure off. But it probably wouldn't end the austerity drive, because the deficit hawks would still point to long-term problems in entitlements that would be projected as running up the public debt in future years.

Some might think this alternative would be inflationary, because they believe that net reserves added to the private sector are more inflationary than debt instruments added would be. However, there's plenty of 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 $6.7 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 $20 T coin is enough for that, including about $4.0 T to more than 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 2 years or so, that would result in a remaining public debt outstanding of roughly a few trillion dollars in long term debt, which would please the bond markets except for the fact that the US wasn't issuing any more debt instruments, which would probably make the bond vigilantes scream for those safe harbor debt instruments again.

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, 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 (NFA) [28] to the private sector.

How about the seigniorage profits of $4.0 T set aside for closing the gap between tax revenues and spending during the next two years? Will that be inflationary? Actually, I don't know if Congress will appropriate a $4.0 T spending/tax revenue gap over the next two years or so, but if such a gap is needed to move towards full employment, and if it does, then the coin profits will cover it without new Federal borrowing. And as long as Congress does 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 PPCS won't be inflationary.

If, also, Congress does 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 will be no need for all 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 $2T could be left before the President might want the US 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 even generous Congressional appropriations and deficit spending for at least 15 years, until 2025 and beyond.

Why not mint a $60 T coin and then another one in case the Fed gets obstreperous sometime down the road and presents the $60 T 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 Congressional mandate to spend particular amounts on particular goods and services, and the capability to spend the mandated accounts by having the funds (electronic credits) in the public purse (the TGA). In a fiat currency system, the capability always exists if the legislature provides for it under the Constitution. But the value of the $60 T 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 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 credits in its own accounts. With coin seigniorage its capability could be and should be publicly demonstrated by minting the $60 T coin, and getting the profits from depositing it at the Fed transferred to the TGA.

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.**

This fourth alternative is the one that best solves both the debt ceiling problem and the problem of taking austerity, justified by ?we're running out of money,? off the table. The debt ceiling would no longer be an issue if the Treasury immediately paid off $6.7 T in Fed and intra-governmental debt, and was poised, with the money in its account, to pay off the rest of the debt subject to the limit as it falls due. Nor would there be any justification for austerity policies if the Treasury had a public purse with $44 T of unearmarked funds in it to cover future deficit spending.

At that point we'd be free to seriously debate: 1) full payroll tax cuts for both employers and employees until full employment is reached; 2) revenue sharing payments to the States of $1,000 per person to save and restore State government employment to pre-crisis levels; 3) creating a Federal Job Guarantee program which would guarantee a job offer at a living wage with full fringe benefits to anyone seeking full time work; 4) passing HR 676, John Conyers enhanced Medicare for All bill; 5) public education reforms to create a world class educational system open to all, from preschool to graduate school; 6) passing an infrastructure program re-creating the energy foundations of the United States and rapidly eliminating dependence on fossil fuels; 7) passing new legislation stopping human-created climate change; and passing a $3 Trillion infrastructure program for renewing the US's infrastructure.

This brings us again to inflation. I've already pointed out that repaying the debt won't be inflationary. So, the inflation issue then focuses on the $44 T in seigniorage profits in the TGA that would be used to cover gaps between Federal spending and tax revenues in the years following minting the $60 T coin. How much of that is spent ,and when, will depend on what Congress appropriates. To avoid demand-pull inflation, the kind caused by Government deficit spending, Congress must not spend more than is needed to create the aggregate demand necessary for full employment.

How much that is will depend on the savings and import desires of the American people. Right now, desired savings seems to be at the level of 6% of GDP, while import desires greater than export amounts seem to be at roughly 4% of GDP. So, roughly speaking that tells us that a full employment budget should involve a deficit of $1.6 T or 10% of GDP, [29] give or take a few hundred billion depending on the fiscal multipliers associated with the specific government spending involved. As long as deficit spending is within those limits demand-pull inflation will not occur.

This doesn't mean that cost-push inflation caused by supply problems, or monopolistic activities, or other supply bottlenecks won't happen. But these won't be caused by excessive government deficit spending, and can't be cured by backing off such spending or by raising taxes. They have to be treated in other ways. The best discussion of the relationship between coin seigniorage and inflation has been provided [30]by Scott Fullwiler.

The Speech

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 $60 T coin seigniorage to short circuit the upcoming fights over the debt ceiling and the budget, say in January, or better still during the lame duck, then there would be a spectacular uproar in the Congress and the Press over what he had done. All kinds of overblown and downright crazy claims would be made because the President's action would shock people, everyone would have a tough time getting their minds around it, and the media would report on what was going on in a very sensationalist way using stereotypes created by the neo-liberal perspective that journalist at places like the WaPo, NYT, and CNN are superficially well-schooled in. Places like CNBC and Fox would be absolutely foaming at the mouth in response to something like this, and Timmy Geithner might very well resign over it, as might Ben Bernanke, since he'd be forced to have the Fed credit the coin.

There would also be an immediate move in Congress to repeal the 1996 law that enabled the President's action. This would fail however, because even if it got through the Congress, the President would simply veto it. The opposition couldn't possibly get the 2/3 vote necessary to override the veto. Even if by some miracle, repeal got through, however, it would be too late. The coin would have done its work and the $60 T would be in the TGA, a fait accompli, and a vivid demonstration that the government can create as much money as it wants, and can only run out of money by choice.

However, the President would then have to defend himself with a political campaign aimed at persuading the public that his move was a bold and liberating move and the first step in finally getting out of this protracted economic depression. And yes, he should use the D-word, whatever the Republicans and the so-called ?fact-checkers? say about it in that campaign. And he should also begin the campaign by explaining to the public the issuance and deposit of the first $60 T coin in a high profile TV address, this way (the second coin just stays at the Mint for safekeeping. Its existence to be kept secret). Here's the speech.

My Fellow Americans:

1) Until now the Treasury has 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, so, if and when we reach it, we can?t borrow back our own money without Congressional approval, anyway, and lately Congress has been using the need to raise the debt ceiling as an excuse to extort cuts in safety net and discretionary programs that the majority of Americans oppose.

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 $60 Trillion using a single 1 oz. platinum coin, and deposited it at the NY Fed. It?s legal tender, so the Fed credited the Mint's Public Enterprise Fund (PEF) account with $60 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 the Treasury will use the $60 T in USD credits only to pay back debt and to spend what Congress has already approved, which is only a small fraction of these credits and far from the amount needed to cause inflation.

6) **My action ends any possibility of a debt ceiling crisis in February or March,** because we have no further need to borrow our own money back in the markets, and that's why we don?t need the tea party or other Republicans, or even my fellow Democrats to agree to raise the debt ceiling any more.

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 2013, and may approve in March, including all deficit spending and, again, we won?t have to borrow our own money back, either to repay debts or to implement future deficit spending.

8) So we will pay all Government debts which will come due in 2012 and 2013. 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 $12 T, reducing the ?debt burden? by about 75% by the end of 2013, and creating an actual Social Security trust fund with 2.7 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 all through the remainder of 2012, continuing through 2013, 2014, and beyond until it is all paid off.

9) None of the $60 T in new credits created by our actions is ?money? in the private sector 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 $60 Trillion in new credits even though we probably needed less than that to cover anticipated deficit spending and debt repayment until 2027. 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 2027), and all projected Federal deficits covered over the next 15 years, even extraordinary deficit spending needed to be performed without further borrowing over this period.

11) Of course, we can always make new coins if our projections about future deficits turn out to be wrong; but I thought it would be best to ensure that all $16 T plus 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, as required by the Constitution, continue to control the purse strings, the national purse is very, very full, and that we would be able to cover from the Treasury Account whatever deficit spending for the public purpose, including for full employment, Medicare for All, infrastructure, education, and other things, that Congress, in its wisdom, chooses to appropriate now, before the next election, and for some elections to come.

Good night, my fellow Americans! Rest well knowing that our beloved country won't be defaulting on any of its debts when the debt ceiling is reached in February or March, and that I've prevented this without going over the legal debt ceiling or borrowing any more, 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 loose talk about the possibility of the Federal Government defaulting on its obligations.

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! Nor need you ever think that our Government is running out of money for the things we must do. We can never run short of money unless Congress refuses voluntarily, to use its unlimited constitutional authority to make more of it. But as long as it delegates to me the authority to create high value bullion and proof platinum coins to cover our needs, you can be sure that running out of US money will never happen!

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