The Small Ball Trillion Dollar Coin Seigniorage Exception

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The exception to the general pattern focusing on the Trillion Dollar Coin (TDC) as the solution to the debt ceiling problem I outlined and critiqued in my last post, is in Joe Wiesenthal 's posts here [22] and here. [23] Wiesenthal alone criticizes, rather than ignores, other options than the TDC, namely the $16 T and $100 T options, on grounds that they are no more effective at meeting the debt ceiling crisis than the TDC. He says that the issue is not a lack money but the debt ceiling law, and also that if a coin that large were minted and used to pay back the debt, then the result would be inflation or hyperinflation because of the flow of the large quantity of reserves into the economy, and the ensuing great expansion in the money supply.

I think that Joe Wiesenthal is both showing his bias towards solving the smaller, more immediate (debt ceiling), rather than the larger (austerity) problem, and also that he's dead wrong about the impact of a $100 T coin on inflation. On his bias: I can only say, that I don't agree that ?we? are talking about a legal problem rather than a money problem.

If all ?we? are concerned with is the debt ceiling, then Wiesenthal is right; we need only consider the TDC option, which the President can use either once, or until the House gets tired of his minting TDCs, and raises the debt ceiling. But I think that most Americans, if they understood Platinum Coin Seigniorage (PCS) and its possible meaning for fiscal politics would go beyond debt ceiling concerns to the issue of austerity. And they would also realize that the face value of the PCS option chosen by the Secretary of the Treasury is of enormous importance for removing any perceived need for austerity arising from the level of the national debt or the debt-to-GDP ratio.

Wiesenthal's main additional stated objection to extremely high value PCS on the order of $50 - $100 Trillion is the inflationary impact he expects it to have. I've already analyzed the likely impact of a $60 T coin on inflation [24] in a fair amount of detail in an earlier post, based on Scott Fullwiler's comprehensive framework. [25] **My analysis shows that there would be no inflation due to the effect of $60 T PCS itself on the economy. I can summarize the argument this way.**

The credits in the Treasury General Account (TGA) ultimately resulting from using $60 T PCS aren't immediately spent. So, they don't all enter the economy immediately, but over a very long period of time from 15 ? 25 years in duration. So, to gauge the inflationary impact, you have to analyze when and how the credits would be entering the economy. At the end of the last fiscal year, $6.4 Trillion in debt subject to the limit was owed by the Treasury to other agencies and to the Fed itself. That debt could be redeemed in the same week after minting a $60 T coin. But **the payments wouldn't be inflationary because they would not enter the non-government economy.** Nevertheless, these payments would cut back debt subject to the limit by close to 40%, because of the ridiculous quirk in the law that counts intra-governmental debt toward the debt ceiling.

Next, the 10 T or so of debt held by private corporations, individuals, and foreign governments would only be paid as it falls due. Much of it would be paid over the first three years. But as I've argued above, the additional reserves placed in the system by paying the debt, and not issuing new debt instruments would be less inflationary than bonds would be.

Also, their presence in the banking system, would clearly flood it with reserves and drive overnight interest rates down to zero, [26] rather than raising them. For the Fed to hit any non-zero rate targets it would have to support them either paying IOR, or issuing debt instruments of its own to drain the excess reserves. In either case, there's no inflationary impact from repaying debt instruments as they fall due by adding reserves to the banking system.

That leaves deficit spending. In the case of a $60 T coin, and a national debt of $16.4 Trillion, we'll assume that $43.6 Trillion would be left in the TGA for future deficit spending. However, the fact that the credits are in the TGA doesn't mean that the Treasury could spend them. In fact, it can only spend them if Congress appropriates deficit spending. So, the bottom line is that the $43.6 T doesn't go into the economy until it's appropriated. Then some portion of it can be inflationary if Congress deficit spends past the point of full employment; but if it doesn't, then there won't be demand-pull inflation. And, if it does, **then the inflation will be due to unwise Congressional appropriations and not to using PCS.**

In short, there's no way that PCS in itself can have an inflationary impact, no matter how high the value of the platinum coin is. That's because repayment of already held debt is less inflationary than continuous rollover of and gradual increase of debt, repayment of debt to government agencies including the Fed doesn't enter the economy, and using PCS-generated funds to cover deficits is not in itself inflationary unless deficit spending is so large that it continues past full employment.

So, that's the true narrative about PCS and inflation. Not, ZOMG "Weimar, Zimbabwe." That's nonsense! Let's hope that Joe Wiesenthal, and other MSM bloggers who have jumped into the PCS pool in the past few weeks read it and cease to spread ?the silly idea? that PCS, in whatever denomination greater than say a few Trillion Dollars may be used, is inherently inflationary. It is nothing of the kind! Inflation, due to Government spending, is always and everywhere, in the rare instances that it occurs, a Congressional phenomenon!

(Cross-posted from New Economic Perspectives [27].)

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