Published on *Corrente* (http://www.correntewire.com)

Wake Up Progressives: the Trillion Dollar Coin Can Be Game-Changing!

letsgetitdone's blog [1]Log in[2] orregister[3] to post comments
Departments:
Department of Why Can't We Do That? [4]
Thread:
Class Warfare [5]
Corporatism [6]
Tags:
Modern Monetary Theory [7]
MMT [8]
fiscal cliff [9]
Debt Ceiling [10]
debt subject to the limit [11]
fiscal policy [12]
Trillion Dollar Coin [13]
platinum coin seigniorage [14]
TDC [15]
PCS [16]
$60 T coin [17]
Krugman [18]
Wiesenthal [19]
Linkins [20]
O'Brien [21]
austerity [22]
game-changing PCS [23]
small-ball PCS [24]

Well, not really. But if you view the Trillion Dollar Coin (TDC) meme, as I do, as a short-hand for the more general idea of using Platinum Coin Seigniorage (PCS), then yes, it can change the whole political game for progressives if President Obama dares to use it.

Literal TDC proposals would solve the debt-ceiling, but they won't solve the larger problem of defeating the austerity politics that is so close to getting the cuts to social safety net and important discretionary government programs that austerians have long sought. PCS game-changer proposals are the ones calling for, or analyzing the impact of, PCS options aimed at paying off the national debt and covering anticipated federal deficit spending for some years.

PCS options of that kind change the game of fiscal politics by removing the issue of austerity from fiscal policy considerations. With this kind of PCS the national debt and the debt-to-GDP ratio go away as matters of concern. The focus of fiscal policy then becomes the impact of specific policies rather than some overall deficit or debt reducing target. The issue in fiscal policy then becomes public purpose. It becomes what specific impacts, including inflation, and full employment, are anticipated from passing specific legislation, and whether or not those impacts are in line with public purpose. But, when the national debt and the debt-to-GDP ration go away as matters of concern; then the issue of the deficit viewed as something that is draining a limited supply of financial resources goes away, also, because people will understand that using PCS to cover deficits ensures that the US Treasury can never run short of its own fiat currency.

I'm sorry to say that there are few posts of this kind, relatively speaking. I'll list and link to some of those posts later. But first I want to point to what some in the MSM blogosphere are saying right now.

A popular position in the MSM blogosphere

In response to a tweet from the National Republican Congressional Committee (NRCC) yesterday:

> The amount of platinum needed to mint a coin worth $1 trillion would sink the Titanic http://t.co/xKO5hYN1 [25] http://t.co/w4IYF91J [26]
>
> 2013-01-09 [27] via
>
> web
>
> **Reply** [28] **Retweet** [29] **Favorite** [30]
>
> Image not found
> http://a0.twimg.com/profile_images/2428683757/ovkifqitx31kzp09ppfr_normal.jpeg
>
> [31]
>
> @NRCC [31]
>
> NRCC

Jason Linkins at HuffPo repeats [32] Joe Wiesenthal's earlier contention [33] that the platinum coin has nothing to do with additional spending, but only with solving the debt ceiling problem. And Linkins says:

> The only role the platinum coin plays, in the scenario described by those who promote the idea, is an emergency measure that protects the United States taxpayer and the global economy from the catastrophic effects of a debt ceiling breach.

Linkins is just wrong about this, some, like myself have been advocating game-changing platinum coin seigniorage since July 2011 [34] to get rid of austerity politics and enable the United States to handle its various problems without progressives having to constantly struggle against memes like ?we can't afford it,? ?we're running out of money,? ?we're going to leave huge financial debts to our grandchildren,? and other nonsense memes along these lines from austerians. Linkins accuses the NRCC of lying about this and says that the idea that some people are advocating using the coin to provide the means for spending is ?a myth.?

Well, I don't know whether the NRCC knows the PCS literature well enough to know about game-changing proposals, so they may have been lying about it out of ignorance. But, nevertheless, even though they may have misrepresented the position taken by many in the MSM ?liberal? blogosphere, they haven't told an untruth about people like myself who aren't part of the MSM echo chamber, and who think more broadly about the possibility and potential of PCS applications. The real issue here isn't whether the NRCC is lying. It's why people like Wiesenthal, Linkins, Krugman, [35] and Matthew O'Brien of the Atlantic aren't focusing on game-changing PCS. In an earlier post, I pointed out that Wiesenthal was concerned about inflation; and surprise, surprise, it turns out that O'Brien is too. He says; [36]

> **So why not just mint 16 of these $1 trillion coins and retire the entire national debt, smart guy? Or, even better, create a single $16 trillion coin -- scratch that, make it $100 trillion!**
>
> Now that's just crazy talk. Let me be clear: Nobody wants to use platinum coins to eliminate the debt. As http://krugman.blogs.nytimes.com/2011/08/15/mmt-again/ [35] Paul Krugman points out, there's a limit to how much seigniorage a government can extract before hyperinflation sets in, and that's certainly far less than $1 trillion, let alone $16 trillion. . . . .
>
> **Can we cut this short? I need to run out and buy some canned food and gold bars to prep for the coming hyperinflation. A trillion dollar coin is only two orders of magnitude away from usmatching Zimbabwe[37] for monetary ignominy.**

OK. So, it's really about the fear of hyperinflation from a guy who tweets under the name @obsoletedogma, and the reference to Krugman indicates that O'Brien, like Krugman, still goes along with the Quantity Theory of Money (QTOM), [38] which Keynes put to a well-deserved rest during the 1930s. Talk about obsolete dogma, IS-LM and loanable funds models aren't exactly examples of up-to-date economic models.

Here's a good blogosphere refutation [38] for Matt to read to understand that the QTOM dog won't

hunt! And that he and the others need a specific analysis of why a $100 T coin would cause inflation including specifying causal transmission mechanisms for causing inflation when the seigniorage profits, including the debt repayment money would be paid out over a period of years, and the immediate money to be paid out, would go only to pay intragovernmental and Fed-held debt.

Before O'Brien, Wiesenthal, Linkins, and others start chanting: Zimbabwe! Weimar! I think they ought to do such an analysis and put off going out for some canned food and gold bars. I've done a fairly detailed analysis [39] of PCS impact showing why it wouldn't be inflationary, whatever the denomination of the coin(s) involved. So has Scott Fullwiler. [40] With so much at stake in the debate over the TDC, I think they should at least read these Posts and tell us why they disagree, before they go off half-cocked about using PCS and getting hyperinflation or even inflation!

Wiesenthal, [41] and Linkins, agree that the Platinum ?. . . . coin debate coin could be the most important fiscal policy debate you'll ever see in your life." I agree but, if that's truly the case, then let's see them expand the debate to a serious consideration of game-changing PCS, and get off the shtick of talking only about the TDC as a solution to the debt ceiling problem.

Game-changing Platinum Coin Seigniorage Options and Posts

So, again, PCS game-changer proposals are those calling for, or analyzing, the impact of, PCS options aimed at paying off the national debt and covering anticipated federal deficit spending for some years. They probably start at no less than $30 Trillion, because you need $16. 4 T to set aside for paying off the national debt, and then another 14T, which may cover the next 10 years of needed deficit spending if we can get the economy recovered again and get a better balance of trade than we have now. A $60 T option would cover the debt and deficits for 15 ? 25 years, and $100 T would probably work for 40 - 45 years.

The further you go out, the more nominal money value you have to have in the public purse to cover deficit spending. The reason for that is that an economy like the US, which imports more than it exports, needs Government deficit support of full employment of roughly the size of the trade deficit plus the size of the demand leakage to private sector savings per year. Assuming the private sector will want to save 6% of GDP per year and that our trade deficit is likely to continue at 4% per year, we can see that we'll need a Government deficit of about 10% of GDP per year to sustain full employment. This follows from the well-known sectoral financial balances model of macroeconomics. It's an accounting identity and always holds.

Once the savings and trade balances are determined, then the deficit will be the sum of those. The only question is whether the deficit spending will be done well, that is, in such a way that full employment is facilitated along with investments that guarantee a bright economic future, or whether the deficit spending will be ad hoc and strictly dictated by the automatic stabilizers like unemployment insurance payments, food stamps and the like. So, since GDP will be growing throughout this period, the deficit spending we'll need per year also will be growing along with the size of the economy.

Some bloggers have advocated minting a $quadrillion coin, and that is another option for how to proceed with game-changing PCS. I'm not really opposed to that. But I've proposed the $60 T coin, because I think a game-changing PCS solution is a transitional stage preceding the

reorganization of the Federal Reserve and its placement under the supervision of the Treasury Department. Since the $60 T coin will cover debt repayment and debt-free deficit spending for 15 - 25 years; it provides enough time to educate people politically about the desirability of such a change, while providing the Executive Branch with the power to fill the public purse while retaining Congressional control over the purse things themselves, as the Constitution requires.

Why do I call options like the ones above game-changing options in contrast to using the $1 T coin? The reason is that they, unlike the $1 T coin option, not only solve the debt ceiling; but also change the way the Treasury gets the credits into its spending account to deficit spend. The Treasury doesn't create those credits directly with the platinum coin; but it does mandate the Fed to use its power to create them in response to depositing the very high value coin. Once the credits are swapped for the very high value coin involved, the national debt subject to the limit can be paid down and eventually off, without severely contracting the economy, and also deficit spending can then proceed using the credits already in the Treasury's spending account. In short, the very high value PCS options fill the public purse with enough credits to take the debt off the table as an issue, and also to make the question of how we're going to pay for the deficit spending we may need to adjust to the sectoral balances irrelevant, because the money will already be there to support that needed deficit spending.

With the debt ceiling, and the ?how you gonna pay for it? issues gone from political debate; the foundation for austerity politics is also gone. We can forget about the Washington think tank industry talking about 50 year budget projections, fixing the debt, debating the debt, agonizing over the debt, calling for cuts to the safety net, saying we cannot afford Medicare for All, or programs for facilitating full employment, etc. This would be a new day for progressive and American politics. It would mean goodby to Bowles-Simpson, Maya McGuineas, Pete Peterson, Alice Rivlin, and all their cohorts.And it would mean hello to a new generation of progressives who could aggressively push a movement for social and economic justice for the 99%.

Moving to PCS game-changing posts, there are very few people blogging game-changing PCS until now. I began blogging it [34] on July 21, 2011, during the first wave of mainstream posts on PCS, with a $30 T PCS post, including a speech the President could make announcing it and politically justifying it, and also a pretty detailed discussion of the inflation issue.

I concluded that inflation due to PCS per se wouldn't be an issue, because the $6.4 T in intragovernmental and Fed-held debt wasn't going to get into the economy. The repayment of other debt, gradually, and when it fell due, would have a similar impact on the economy as quantitative easing, already shown not to be inflationary. In addition, there was plenty of evidence to suggest that the reserves swapped for debt instruments when these are retired are less inflationary then the debt instruments, in any event. Finally, the use of PCS for deficit spending, in place of debt instrument sales, also would not be inflationary, because 1) the difference between these two is like QE; and also 2) the net financial assets produced by the deficit spending would be reserves rather than debt instruments, already shown to be less inflationary.

I followed that one on July 25, 2011, with an open letter to the President and Congress [42] using the $30 T PCS proposal, and followed those posts with two more mentioning high value PCS on the 26th [43] and 29th. [44] At that point, on July 30, a popular blogger at DailyKos, Seneca Doane, wrote a blockbuster post on high value PCS [45] that received 569 comments there, a large

amount for DailyKos. It was a one-off thing for Seneca, but nevertheless did a lot to establish blogging about PCS at DailyKos, and also, Seneca was the first to mention the $quadrillion platinum coin in one his comments.

After Seneca's post I kept blogging about high value PCS, routinely including it in my posts. Then on August 2nd, the day after the debt ceiling settlement Scott Fullwiler published his post on coinseigniorage and inflation. [40] This was a comprehensive analysis of the types of payments that might be made using coin seigniorage funds. Scott, a top-level MMT [46] economist showed that 5 different types of payments would not be inflationary, regardless of the face value of the coins that were minted.

After August 1, 2011, mainstream bloggers dropped PCS like a hot potato since the debt ceiling was no longer in the news. But I kept blogging about it because I knew the debt ceiling would be coming back, and also because I had become far more interested in game-changing PCS than in the Trillion Dollar Coin itself.

On August 3, 2011, I blogged ?Proof Platinum Coin Seigiorage: A Political Game-Changer for Progressives,? [47] along with the $30 T post, I consider this post to be one of my most important ones. For one thing it introduced the $60 T alternative for the first time. For another, it made very clear the idea that minting such a coin would change the political context and also the terms of political debate. I still think that post is the most compelling one I've done for high value PCS. On August 5th I followed with ?Mint the Platinum Coin: End the Austerity War Against the People? [48] which urged the President to implement high value PCS ($60 T) immediately. It outlined a scenario, in which the President minted a $60 T coin and then had to cope with the results of his action.

I continued blogging on the $60 T option bringing it up in the context of various issues throughout the rest of August and most of September 2011. Then on September 26, I posted ?Filling the Public Purse and Getting the Public Spending We Need.? [49] Another one, I consider very important. That post emphasized the distinction between filling the public purse and opening the purse strings. It made the point that while PCS gives power to the President to get the public purse filled; it doesn't open the purse strings for deficit spending. It's still up to Congress to do that, showing that PCS DOES NOT interfere with the constitutional power and duty of Congress to appropriate Government spending. Throughout the rest of 2011 and the first half of 2012, I blogged on PCS in the context of other issues. During the second half of 2012, I blogged about it in defending entitlements, on debt/deficit issues, and the debt ceiling and fiscal cliff issues. I also updated my $30 T post to a $60 T post [50] and started a petition [51] on $60 T PCS which has gotten very little support so far.

That pattern of blogging relating high value PCS to other issues like unemployment, the fiscal cliff, health care etc. continued until December of 2012, when the Second Wave of MSM posts about PCS broke on December 3. At that point I began a series of posts you can find at, among other places, New Economic Perspectives (NEP) and Correntewire. The posts at NEP will be found on my page there. [52] The posts at Correntewire are related to one another through a handy link structure which forms ?a book? [53] over there. The book begins with a history post and then considers various aspects of PCS including reviews of posts in the current debate. One post in the series extends Scott Fullwiler's analysis of PCS and inflation further. This post is part of the

developing book on high value PCS.

Most recently, apart from from my own posts, other bloggers at DailyKos are starting to support High value PCS. These include: a post by priceman, [54] one by bunnygirl60, [55] and, a third by NBBooks. [56]

Conclusion

So, that's it! What the mainstream blogs are missing in their discussions of PCS is game-changing PCS, because their posts are overwhelmingly focused on the TDC. They dismiss game-changing PCS, when they recognize it at all by saying, of course PCS isn't about that; it's only about getting around the debt ceiling, and anything beyond the TDC intended to do much more would be inflationary, and a great and unwelcome disturbance in the normal way of doing things of developed nations. However, when the likelihood of inflation and hyperinflation is analyzed as in posts written by myself, and Scott Fullwiler, it becomes clear that claims about hyperinflation and inflation are very stereotypical and are based on either no analysis or very primitive notions about the QTOM.

The importance of the high value PCS the MSM bloggers won't talk about, meanwhile, is that if tried it promises to end austerity and usher in a new era of progressive, even Green New Deal Politics, because the ideological basis of austerity politics which is the growing national debt would be gone. There are very few people blogging about this so far. But I've completed many blogs on $30 T and $60 T PCS which have discussed the major issues involved in high value PCS, and which have certainly provided a better basis for more extended discussion of it than the mainstream has so attempted. Whether they will ever go beyond the TDC, I don't know; but hopefully this and other posts I've completed in past weeks will challenge the more curious among mainstream bloggers to begin to write about game-changing PCS and leave the small-ball TDC behind.

(Cross-posted from New Economic Perspectives [57].)

No votes yet

Source URL (modified on 01/11/2013 - 8:20pm):
http://www.correntewire.com/wake_up_progressives_the_trillion_dollar_coin_can_be_game_changing

Links
[1] http://www.correntewire.com/blog/letsgetitdone
[2] http://www.correntewire.com/user/login?destination=node/35501%23comment-form
[3] http://www.correntewire.com/user/register?destination=node/35501%23comment-form
[4] http://www.correntewire.com/departments/department_of_why_cant_we_do_that
[5] http://www.correntewire.com/thread/class_warfare
[6] http://www.correntewire.com/thread/corporatism
[7] http://www.correntewire.com/category/tags/modern_monetary_theory
[8] http://www.correntewire.com/category/tags/mmt
[9] http://www.correntewire.com/category/tags/fiscal_cliff

[10] http://www.correntewire.com/tags/debt_ceiling
[11] http://www.correntewire.com/taxonomy/term/18625
[12] http://www.correntewire.com/category/tags/fiscal_policy
[13] http://www.correntewire.com/category/tags/trillion_dollar_coin
[14] http://www.correntewire.com/category/tags/platinum_coin_seigniorage
[15] http://www.correntewire.com/taxonomy/term/18642
[16] http://www.correntewire.com/taxonomy/term/18626
[17] http://www.correntewire.com/category/tags/60_t_coin_0
[18] http://www.correntewire.com/tags/krugman
[19] http://www.correntewire.com/category/tags/wiesenthal
[20] http://www.correntewire.com/category/tags/linkins
[21] http://www.correntewire.com/category/tags/obrien
[22] http://www.correntewire.com/category/tags/austerity
[23] http://www.correntewire.com/category/tags/game_changing_pcs
[24] http://www.correntewire.com/category/tags/small_ball_pcs_0
[25] http://t.co/xKO5hYN1
[26] http://t.co/w4IYF91J
[27] http://twitter.com/#!/NRCC/status/289029749555212288
[28] https://twitter.com/intent/tweet?in_reply_to=289029749555212288
[29] https://twitter.com/intent/retweet?tweet_id=289029749555212288
[30] https://twitter.com/intent/favorite?tweet_id=289029749555212288
[31] http://twitter.com/intent/user?screen_name=NRCC
[32] http://www.huffingtonpost.com/2013/01/09/platinum-coin-nrcc_n_2440273.html?utm_source=Alert-blogger&utm_medium=email&utm_campaign=Email%2BNotifications
[33] http://www.businessinsider.com/3-huge-myths-about-the-plan-to-save-the-economy-with-a-trillion-dollar-platinum-coin-2013-1
[34] http://www.correntewire.com/beyond_the_debt_ceiling_the_30_trillion_plan_for_ending_borrowing_and_the_national_d
[35] http://krugman.blogs.nytimes.com/2011/08/15/mmt-again/
[36] http://www.theatlantic.com/business/archive/2013/01/everything-you-need-to-know-about-the-crazy-plan-to-save-the-economy-with-a-trillion-dollar-coin/266839/?google_editors_picks=true
[37] http://online.wsj.com/article/SB10001424052748703730804576314953091790360.html
[38] http://neweconomicperspectives.org/2011/07/two-theories-of-prices.html
[39] http://neweconomicperspectives.org/2012/12/platinum-coin-seigniorage-issuing-debt-keystroking-deficit-spending-and-inflation.html
[40] http://neweconomicperspectives.org/2011/08/coin-seignorage-and-inflation.html
[41] http://www.businessinsider.com/why-the-mint-the-coin-debate-could-be-the-most-important-fiscal-policy-debate-youll-ever-see-in-your-life-2013-1
[42] http://www.correntewire.com/whats_wrong_with_you_an_open_letter_to_congressional_dems_and_the_president
[43] http://www.correntewire.com/the_presidents_address_on_the_debt_ceiling_an_exercise_in_fantasy
[44] http://www.correntewire.com/what_if_a_debt_limit_extension_is_voted_down
[45] http://www.dailykos.com/story/2011/07/30/1000778/-Cut-the-Gordian-Knot-with-the-Platinum-Sword
[46] http://www.correntewire.com/glossary#MMT
[47] http://www.correntewire.com/proof_platinum_coin_seigniorage_a_political_game_changer_for_progressives
[48] http://www.correntewire.com/end_the_austerity_war_against_the_people_mint_the_platinum_coin
[49] http://www.correntewire.com/filling_the_public_purse_and_getting_the_public_spending_we_need
[50] http://www.correntewire.com/beyond_debtdeficit_politics_the_60_trillion_plan_for_ending_federal_borrowing_and_payin
[51] http://www.correntewire.com/the_60_trillion_petition_for_taking_austerity_off_the_table
[52] http://neweconomicperspectives.org/category/joe-firestone-2

[53] http://www.correntewire.com/how_the_proof_platinum_coin_concept_was_propagated
[54] http://www.dailykos.com/story/2013/01/09/1177480/-Mr-President-Mint-that-Coin-and-Keep-that-Option-Don-t-Sell-Us-Out
[55] http://www.dailykos.com/story/2013/01/08/1177202/-Mint-the-Coin-vs-the-Debt-Ceiling
[56] http://www.dailykos.com/story/2013/01/09/1177662/-Drive-a-stake-in-banksters-hearts-MINT-THE-COIN
[57] http://neweconomicperspectives.org/