

Ezra Klein Chooses Fear Mongering the Big Coin, I Choose Ending Austerity!

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Here's a commentary on [Ezra Klein's recent diatribe](#) ^[23] against [Platinum Coin Seigniorage \(PCS\)](#). ^[24]

But there's nothing benign about the platinum coin. It is a breakdown in the American system of governance, a symbol that we have become a banana republic. And perhaps we have. But the platinum coin is not the first cousin of cleanly raising the debt ceiling. It is the first cousin of defaulting on our debts. As with true default, it proves to the financial markets that we can no longer be trusted to manage our economic affairs predictably and rationally. It's evidence that American politics has transitioned from dysfunctional to broken and that all manner of once-ludicrous outcomes have muscled their way into the realm of possibility. As with default, it will

mean our borrowing costs rise and financial markets gradually lose trust in our system, though perhaps not with the disruptive panic that default would bring.

Name calling, labeling, and fear mongering aside, does Ezra understand the first thing about PCS? Does he know that if a \$60 T coin were minted, [25] and the Treasury General Account (TGA) filled with \$60 T in electronic credits, the US would be able to just say goodbye to the international markets? If we were paying off the national debt as it fell due, we would not only not be defaulting, but would be paying all our creditors on time and in full, and without benefit of further debt instrument issuance. Nor would we care whether the markets trusted us or not; since we would not be borrowing money from them for the foreseeable future. So, how could our borrowing costs rise?

And, as far as predictability is concerned, what would then be predictable is that we would be paying all our obligations to everyone whether Wall Streeters, denizens of the global markets, pensioners, Medicare, and Medicaid recipients, and everyone else we have obligations too without anyone getting the short end of the stick. Now, I'd like to see that kind of predictability from this Government, without any drama, histrionics, deficit terrorism, or whining about how our moral character is too weak to endure the Washington Post's favorite meme, "shared sacrifice"?

The argument against minting the platinum coin is simply this: It makes it harder to solve the actual problem facing our country. That problem is not the debt ceiling, per se, though it manifests itself most dangerously through the debt ceiling. It's a Republican Party that has grown extreme enough to persuade itself that stratagems like threatening default are reasonable. It's that our two-party political system breaks down when one of the two parties comes unmoored. Minting the coin doesn't so much solve that problem as surrender to it.

Well, Ezra, that's your notion of the worst problem we face. My notion of a problem is that our national debt is hopelessly misconstrued by people, and that its existence is being used by radical "free market" extremists who want to sharply cut the social safety net, and who also want to block the passage of other Government programs that would benefit most Americans. So, I want to get rid of "the national debt" as a political issue. The best way to do that is to get rid of that national debt. That can be done by using PCS, [26] and in a way that will not drive the economy into depression, or working people into even deeper poverty.

The platinum coin is an attempt to delay a reckoning that we unfortunately need to have. It takes a debate that will properly focus on the GOP's reckless threat to force the United States into default and refocuses it on a seemingly absurd power grab by the executive branch. It is of no solace that many of the intuitive arguments against the platinum coin can be calmly rebutted. It's the wrong debate to be having.

Only your version of the platinum coin. You clearly have in mind the Trillion Dollar Coin (TDC) PCS option. I agree that it would only delay a reckoning, and that a debate over its legality is not

the debate to have. But a \$60 T coin, would eliminate the debt ceiling as a factor, make the debate about getting rid of austerity irrelevant, and also make it impossible to use any of following to oppose progressive legislation:

- ?The Government is running out of money.? (Not with a \$60 T coin in the bank.)
- ?The Government can only raise money to spend by taxing and borrowing? (Not with PCS)
- ?We can't keep adding debt to our national credit card.? (We won't be using any of the money on the credit card.)
- ?We need to cut Government spending and make do with no more money.? (Only if more spending would definitely cause inflation.)
- ?if the Government borrows more money, then the bond markets will raise our interest rates.? (The Government won't be borrowing anymore.)
- ?If we continue to issue more debt, our main creditors: the Chinese, the Japanese, and our oil suppliers, may cease to buy our debt, making it impossible for us to raise money through borrowing which, in turn, would force us into radical austerity, or perhaps even into insolvency, which would then be followed by radical austerity and repudiation of our national obligations." (Again, the Government won't be borrowing anymore, so who cares if they no longer want to buy our debt)
- "Our grandchildren must have the burden of repaying our national debt." (There won't be any debt or any burden.)
- ?Now, the final step ? a critical step ? in winning the future is to make sure we aren't buried under a mountain of debt.? (Again, no debt; either mountain or molehill.)
- ?Our government spends more than it takes in. That is not sustainable. Every day, families sacrifice to live within their means. They deserve a government that does the same.? (But it is sustainable. If we use PCS, then we can have gaps between taxes and spending every year.)
- ?We need to cut entitlements like Social Security and Medicare, because we are running out of money and they are not fiscally sustainable.? (But they are with PCS, because we won't be running out of money!)
- ?If we make the hard choices now to rein in our deficits, we can make the investments we need to win the future.? (Given PCS, what we do now about deficits has nothing to do with our capability to make the investments we will need)
- ?We need to reduce our deficits to be fiscally sustainable.? (Deficits have nothing to do with fiscal sustainability in the sense of continued capability to spend, which will be very plain to people if \$60 Trillion is sitting in the TGA.)

-- ?We face a crushing burden of debt. The debt will soon eclipse our entire economy, and grow to catastrophic levels in the years ahead.? (Can't say that if most of the debt is about to be paid off.)

-- ?Our debt is out of control. What was a fiscal challenge is now a fiscal crisis. We cannot deny it; instead we must, as Americans, confront it responsibly.? (PCS can confront it responsibly, but the bipartisan horror just enacted can't.)

-- ?We believe the days of business as usual must come to an end. We hold to a couple of simple convictions: Endless borrowing is not a strategy; spending cuts have to come first.? (Right! So let's stop borrowing and use PCS.)

-- ?Everyone knows that the U.S. budget is being devoured by entitlements. Everyone also knows that of the Big Three - Medicare, Medicaid and Social Security - Social Security is the most solvable. . . . ? (The budget can be as big as we need it to be with PCS.)

-- ?The Social Security Trust fund is a fiction, a mere bookkeeping device.. . . There is no free lunch. There is nothing in the lockbox.? (There will be if we pay back the trust fund through PPCS.)

-- ?There is a deficit/debt reduction problem for the Federal Government that is not self-imposed.? (What's the problem? We can't run out of money with PCS!)

-- ?The Federal Government is like a household and that since households sacrifice to live within their means, Government ought to do that too.? (What nonsense! As PPCS shows very well; the Government is not like a household. Households can't create unlimited funds through PCS; but the Federal Government can.)

-- ?The only way to tackle our deficit is to cut excessive spending wherever we find it.? (It's always good to cut spending that's not in the public interest. But if spending is having good results, and we're using PCS, then there's no reason to cut it, whether taxes cover the spending or not.)

-- ?We should also find a bipartisan solution to strengthen Social Security for future generations.? (With PCS, we can easily strengthen SS by extending benefits, and we don't need to do it through a bipartisan Rube Goldberg contraption. [27])

-- ?The United States is in danger of becoming the next Greece or Ireland.? (Even without PCS it can't become Greece or Ireland, only the next Japan. But with PCS it can become the United States again.)

-- ?Fiscal Responsibility means stabilizing and then reducing the debt-to-GDP ratio and achieving a Federal Government surplus? (With PCS, the debt-to-GDP ratio will be stabilized and reduced, but no "surplus," in the sense of more tax revenue than spending, will ever be necessary for revenue purposes.)

Ezra goes on to say that using the Platinum Coin will trigger a debate within the Republican Party, that will strengthen its worst factions, because its extremists will be able to argue against:

. . . a wild, unprecedented, inflationary power grab by an overreaching president. Making matters more difficult, it will become impossible for more cautious Republicans to break ranks. It's one thing to argue, as many are already doing, that inducing default risks destroying the Republican Party for a generation. It's another to abet such a blatantly unconstitutional, dangerous move from the executive branch.

Well, it's not blatantly unconstitutional at all Harvard Law Professor Laurence Tribe thinks it's legal [28]. Yale Law Professor Jack Balkin thinks it's legal. [29] The lawyer who came up with the idea, beowulf (Carlos Mucha), thinks it's legal. [30] Philip Diehl, former Director of the US Mint thinks it's legal. [31] And, I, a Ph.D. political scientist with some background in Constitutional Law, also think it's legal. [32]

Even Ezra says it's legal earlier in this very column. So, who are the Republicans to label it ?blatantly unconstitutional?? What evidence would they have that it's ?blatantly illegal? If the President uses it he will have legal opinions supporting its legality. In addition, the plain language of the law says it's legal. Arguments that it's not are more complex and detailed than the plain language of the law. So, how will this play in the court of public opinion?

Ezra goes on to suggest that using the coin won't end the conflict; but will cause the Republicans to work even harder and in a united fashion to get what they want. Well, isn't that too bad, they're just going to work harder at being even more nasty, so the rest of us shouldn't do anything that will get them really ticked off. What kind of advice is that, the advice of a columnist who works for a newspaper with a deficit hawk editorial director, and a financial deal with the world's most prominent deficit hawk: Peter G. Peterson?

Can't you just picture it? Ezra gets called into a meeting with Fred Hiatt who asks him whether he can't do anything to dampen this platinum coin wave that everyone is riding, and Ezra replying says: well, maybe I can write something that will make people very, very afraid of the tea partiers fomenting a new American Revolution.

Of course, Ezra may be right about a big coin making Republicans even more determined to destroy the US economy than they are now. Things could happen that way; but if a very high face value coin, like a \$60 T coin, is minted; then the mere presence of the \$60 T in the Treasury General Account (TGA), and its use to pay down debt, will change the political context, and make Republican propaganda look much more fanciful, than it does in an imagination that assumes the political context and the future won't be changed by minting a big enough coin and using it to fill the public purse.

So, Ezra, notice what happens to the memes listed above. They're just not going to work anymore, if a \$60 T coin gets used. If the Republicans remain stiff-necked, what justification would they then have for austerity? Now, they have the debt, and no apparent means of paying it off except lowering spending and raising taxes. But what would they have after that coined filled

the public purse? The answer is ZIP!

It is likelier that the platinum coin would drive the Republican Party towards a much more dangerous and enduring standoff. If Republicans never permitted another debt increase, would we just keep minting platinum coins? Would the Federal Reserve abet the strategy and work to hold down inflation, effectively putting itself in the middle of a titanic political fight? Would the market eventually begin to panic because American governance has entered into unknown territory?

If the Administration minted a \$60 T coin, then it would probably never have to mint one again, since the first one would lead people to understand that the world won't come to an end if Treasury can print money to fill the public purse to spend Congressional appropriations. Would the Fed help hold down inflation? Of course, it's their mandate. It's not about politics. They'd have to act that way. If they didn't; there'd be immediate talk of folding them into Treasury! Finally, minting and using a \$60 T coin to pay for debt and deficit spending won't be inflationary. [33]

There are two ways to truly resolve the debt-ceiling standoff. One is that the Republican Party needs to break, proving to itself and to the country that the adults remain in charge. The other is that America is pushed into default and voters ? and the world ? reckon with what we've become, and what needs to be done about it. Sadly, there?s no easy way out. It?s heads America wins, tails America loses.

Well, rule out the platinum coin, and sure, these may be one's only two choices. But Ezra hasn't shown that using a really BIG coin would elicit real problems, other than getting the Republicans and the right wing really, really, mad (maybe they won't have lunch with him anymore), and there are compelling arguments [34] suggesting the contrary. So, I think that Ezra's gone off the deep end in this column, especially when you consider the cost of default to people, [35] and also the cost of the austerity alternative. Both default-induced austerity; and major party-induced austerity by compromise are both utterly unacceptable.

We must find a third way! Ezra can't just assume that there is no way out of his Hobson's choice. He and we need to consider game-changing PCS [34] before condemning the nation to default.

(Cross-posted from New Economic Perspectives [36].)



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