

Beowulf and Diehl Embrace Trillion Dollar Coin Incrementalism!

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A wonderful discussion thread has been going on at Monetary Realism (MR) after [a very good new post](#) ^[20] by beowulf (Carlos Mucha), who first brought forward the proposal for the Executive Branch to use the authority provided in the 1996 Platinum Coin Seigniorage (PCS) legislation to fill the public purse, on whether the Fed had a legal basis for turning down PCS in the form of the Trillion Dollar Coin (TDC). I'll leave the legal discussion for another blog post, since I agree with beo on these, and also need to review [some legal arguments](#) ^[21] against the TDC by some George Washington University Professors. Here I want to write about some of the MR discussion relating to High Value Platinum Coin Seigniorage (HVPCS) vs. incremental PCS options. I'll show that incrementalism won't work; and that HVPCS will kill austerity politics, which is its most important purpose.

Why the \$60 T Coin Is Needed

Beowulf addresses himself to my call for HVPCS using a \$60 T coin in this way:

Once you blow past the size of the public debt is there a reason to go right to \$60T? You need to ease into something that's such a break from current practices. Even a trillion dollar coin is too big to be practical (of course, like Mike said, once you think it, you can't un-think). IIRC it was Philip who suggested minting \$25B coins would be a good place to start.

?Philip? is Philip N. Diehl, former Director of the US Mint in the Clinton Administration and Co-author with Mike Castle, (Rep. DE) of the PCS legislation. In comments of the post, Philip joined Beo in advocating for an incremental process of PCS introduction.

An important reason for using a \$60 T coin, isn't because we need all that money right away. In fact, we can spend very little of it because the spending hasn't been appropriated by Congress, and most of the outstanding debt subject to the limit, will have to be paid as it falls due rather than immediately.

Still we need the \$60 T coin to be minted because:

-- a) the coin legislation may be repealed at any time by people who don't want seigniorage to be an alternative to taxing or borrowing; but once the \$60 T coin is minted, the cow would be out of the barn, and the proceeds would last 15-25 years, by which time we'd have a chance to get political acceptance for reorganizing the Fed under Treasury and ending its existence as a politically unaccountable agency dominated by private banks and Wall Street;

-- b) the seigniorage from a \$60 T coin would serve as a potent symbol of the truth that the Federal Government can never involuntarily run out of money. This is one of the central ideas of [MMT](#) [22] that the public needs to accept routinely to understand that the Government's budget isn't like their household budget;

-- c) the mere presence of the \$60 T in the public purse makes clear that the claim of those favoring austerity that we can't afford to enable full employment; or to pass Medicare for All, or to rebuild our infrastructure or do 101 other things that need doing are false, and to oppose them the austerians would then have to argue on the merits of the policy proposals and not almost solely on grounds that we just can't afford it because of all the debt we're going to leave to our grandchildren; and

d) the presence of the \$60 T in the public purse would be a positive enabler of progressive legislation creating benefits that people want now but austerians say we can't pass because "we can't afford it."

Easing Into PCS and Being Practical

Beo also says we have to ease into something that is such a break with current practices. But, I ask, why?

Are current practices so beneficial to us that we want to preserve them as much as possible? Haven't they been a critical part of a public financing system that's been failing us for a long time now in enabling us to do what must be done to create full employment and various other

elements of public purpose that would create a better life for Americans? Haven't they failed us in a very critical way by creating such complexity in public financing that the public can't see that Federal 'debt is not debt,' and instead are easily fooled into believing that we can 'run out of money,' and can't afford to pass progressive economic legislation?

Beo knows what the answers to these questions are. And he must also know that our current procedures for financing deficit spending are poison to progressives, to the need to fulfill public purpose and to the American people. The only people who really like them are people who directly benefit from the system of issuing debt instruments. These procedures are not something we should want to conserve for another moment; because they do not benefit the 99%.

Beo. also says that the TDC is 'too big to be practical . . . ? But what's 'impractical?' about it? Assuming it's legal, which he and Philip both believe, it strikes me that in its \$60 T version it's both efficient and effective in ridding us of austerity politics. Beo goes on to talk about the fear of inflation:

Considering that the fear of inflation is the biggest political hurdle to 'printing money?' (and needs to be addressed when it comes up), a shock and awe \$60 megaton coin strategy will lose more political support than it gains. Besides, there's no point to creating a Strategic Petroleum Reserve-like buffer stock of something the govt has the ability to create at will, especially if its just going to scare the hell out of people (and that it certainly would).

I can't see how beo can possibly know that, due to inflation fears, a \$60 T coin strategy will lose more political support than it gains. Maybe, he'll oblige me by doing a political analysis showing the transmission mechanisms involved. Here's mine.

The \$60 T in seigniorage would allow the President to pay off all the debt instruments held by the regional Federal Reserve banks and by Federal Agencies. Since the reserves used to redeem these instruments would not be spent into the economy, they can't possibly cause inflation without a causal transmission mechanism. That's a pay off of nearly 40% of the debt subject to the limit. If the Treasury pays that off in the week following minting and depositing of the coin, the most likely reaction on the part of the public will be very strong approval of this action.

When the Treasury then pays off \$1.7 T in Treasury Bills over the next year, and the Administration points out that debt subject to the limit has been reduced by 50% overall, people will be even happier. When, next, people see that no more debt subject to the limit is issued over the first year to cover deficit spending, I think they will be happier still.

When, finally, they see that there is no inflationary impact from paying off half of the national debt, they will be ecstatic and conclude that Obama is a genius for coming up with this great new platinum coin trick that has stopped both spending cuts and further tax increases, and yet still allows the debt that their grandchildren might have inherited, to be paid off as it falls due, with NO NEW DEBT ISSUANCE needed!

The proof of the pudding is always in the eating. We, including beo, and maybe Philip too, know

now that paying off that first \$8.2 T in debt will not cause demand-pull inflation during the first year after minting the coin. The public will know that too when they experience it.

During that first year, inflation fears will gradually recede from the first day the money is used to pay off debt. By the end of the year those fears will be largely gone among most people, except for those for whom that fear is part of a "religious belief," leaving inflation hysteria to "the gold bugs," and Austrian school economists.

I would have done the \$60 T coin in May of 2011; or most recently the day after the election. And, then I would have given a speech like the one [in this post](#) ^[23] followed by a mobilization of Organizing For America (OFA) behind the initiative.

The Senate, then, never would pass a House bill to repeal PCS, because everything would have become so visible that sticking with the coin would be a litmus test for any Democratic candidate want to run with Party support. Then, if Obama got a high percentage of the debt paid by November 2014, I doubt there'd be any trouble in the mid-terms in either keeping control of the Senate or winning back the House. After all, what's not to like: 1) debt rapidly disappearing; 2) the end of any need for austerity and no entitlement cuts; 3) no battles with Congress over debt ceilings or fiscal cliffs or austerity budgets; 4) Congress still controls the purse strings; and 5) attention turned to real issues about how to create good times here in America.

So, the brouhaha over the \$60 T coin would pass. The Rs wouldn't be able to repeal the coin capability until they got hold of both Houses of Congress, and if Obama played his cards right, actually doing things for people rather than the banks, and Wall Street, I don't think we'd see Republican control of both Houses again for some time; in spite of wholesale gerrymandering. Their earliest opportunity to get the Senate again might not be until 2018, when there will probably be many more D Senate seats than R Senate seats at risk. As for the House, if the Democrats win in 2014, and don't screw up (a big assumption I know), then they'll win in 2016, and again the Republicans will have to wait until 2018, provided their party doesn't split apart before then.

On beo's buffer stock of reserves in the public purse point, of course there would be no point in creating one if the Treasury always had the power to create Trillions to pay off that national debt; or to deficit spend Congressional Appropriations; but the authority to do that is dependent on a Congress that has little understanding of fiat currency, and that may repeal that authority at any time. So, the "buffer stock" of reserves in the public purse is needed for that reason and the other three reasons I gave earlier.

Philip Diehl, and beo joined together in an exchange advocating an incremental approach to introducing PCS which would feature a step-by-step approach to gradually increasing the amount of PCS annually. Beo suggested starting out with a \$25 B coin, and said this:

On first day of fiscal year, Tsy deposits coinage equal to net interest paid the previous year. I like plays that end in the first act. . .

If you're looking for a more incremental strategy, perhaps the way to ride the TDC

wave while also defusing opposition is to propose a "responsible alternative." Say, Tsy and the Fed should cooperate on a pilot program using \$25 billion coins to see what effects positive or negative the use of debt-free money would have on our financial system, which is swimming in debt. If it's negative, that should quiet critics who are pushing for a trillion dollar coin. If it's positive, then it will be worthwhile to slowly expand the program, to gauge its impact in larger amounts. The only time we should ever mint a trillion dollar coin is sometime after the evidence is clear to everyone the \$500 billion coin, the \$100 billion coin and the \$25 billion coin worked just fine (a red herring of course, the Mint can strike 40 \$25 billion coins almost as easily as a single \$1 trillion).

I guess it'd be worth stressing that it's not a transfer of power from Tsy to the Fed since it is the Fed who orders coins from the Mint. You could call the article, "Beating trillion dollar coins into plowshares: Can a political weapon be converted into a useful monetary policy tool?"

I think Beo meant to say a transfer of power from the Fed to the Treasury, just above.

Philip Diehl added this to the case for the incremental approach:

Beo, I like the step by step approach but I'd go faster and with a specific target in mind like increments of at least \$50 billion a year to reach the goal of covering the annual carrying cost of the debt. I figure that with the debt continuing to rise and interest rates also rising, it would take, say, ten years before HVCS is covering the full annual interest on the debt. Let's say that's \$500 billion a year. At that point, we'd be minting a half trillion dollar coin every year to continue covering the annual interest on the debt, is that correct?

A slow ramp up like this would not only alleviate fears over the inflationary effect of HVCS (assuming we're right that there won't be any), it would also make plain its significance as a way of relieving the zero sum game of budgetary politics. A constituency will form inside and outside Congress to continue or even accelerate the pace HVCS is ramped up in order to ease the squeeze on the rest of the budget as entitlement and other spending increases.

Also, wouldn't we expect interest rates to fall from what they would otherwise have been if Treasury was no longer competing in credit markets? And wouldn't we expect tax revenue to rise if there were fewer tax free bonds in the marketplace? If I'm correct on this, it seems like HVCS would develop a powerful public constituency for the lower interest rates it would bring.

What's wrong with this picture? It seems too good to be true. Where's the downside, the tradeoffs?

The HVCS acronym means High Value Coin Seigniorage, and is intended to refer to all coins

with face values in the millions, billions, or trillions. Here's another contribution from beo, supporting the incremental approach in the context of a comparison with HVPCS (which refers to platinum coins with face values of \$30 Trillion or more), using this scenario:

. . . Philip was once Chief of Staff to Tsy Sec. Lloyd Bentsen, imagine if Philip presented him as policy options:

1. a trillion dollar coin (against the Fed's wishes)
2. a \$60 trillion coin (against the Fed's wishes)
3. a joint Tsy-Fed pilot program beginning with a \$25 billion coin (or whatever face value the Secretary was comfortable with, maybe it starts with a \$1 billion coin).

Does anyone really think Lloyd Bentsen (or any Tsy Secretary) would take a "screw the flight simulator, lets see us try this in a real plane" attitude??

So, that's the case for the incremental approach, which I've tried to present fairly, and in its strongest possible light. So, now we can get to answering Philip's question about the downside.

The Downside of the Incremental Approach

First, if an upside of the \$60 T option is that its implementation through a "lightning strike," to quote Philip, eliminates the chance for its opponents to mobilize against it until after it's a fait accompli, and also removes the efficacy of any move towards repeal, before repeal no longer matters; then the opposite is true of the incremental option. Beo and Philip envision years, perhaps a decade, of ramping up until coin seigniorage is making an appreciable impact on the conditions underlying the drive towards austerity.

During that time, surely a very well-funded and powerful opposition to deficit spending and debt instrument payoff will form and do everything it can to repeal the platinum coin. And they will be able to mobilize and work against the coin before it has had a chance to solve any problems, or do any good; before, in other words, the coin can get enough love from the broader public, to ensure that the capability won't be repealed.

Philip points out, correctly I think, that during the PCS rampup, the coin, if left in place as a capability, would develop a powerful constituency of its own, both in and out of Congress. This is true. But at \$25 or \$50 B per year in PCS value, can enough people grow to love its impact to counter-balance an all-out propaganda and political campaign by Wall Street, the Fed, and right-wing austerians like the Koch brothers? I seriously doubt it.

They will see the threat from the coin, probably have already seen it, judging from the reaction to it at AEI.^[24] And they will try to get rid of it soon; at the very first opportunity. I'm sorry to say that I think an incremental strategy is not just impractical, but even feckless, given that they are now, or shortly will, come after the coin with everything they have, in much the same way that the health insurance has come after any serious health care reform. So, incrementalism in applying coin

seigniorage, will only lead to its repeal before its own constituency is powerful enough to protect it.

And what do beo and Philip hope to accomplish by this incrementalism? They hope a) their proposal will be viewed as "reasonable," compared to HVPCS options like the \$60 T or even the TDC; b) to calm inflation fears by minting coins with values low enough that they cannot possibly trigger inflation, and then increase face values gradually until over a period of years the fear of inflation is calmed and people are ready to consider really serious uses of PCS; and 3) to show people more and more positive impacts of the coin, so that they build a more and more powerful constituency as time goes on.

So, when it comes down to it, they want incrementalism to mollify people against the coin enough that they will be allowed "a seat at the table" and taken seriously by their opponents. They also want it because they care a lot about calming inflation fears, and they also care about having a general consensus about using it, before they "go big" with the coin.

The problem with this approach is that people who want the FIRE sector defended from the coin, and its lessons about fiat money, will never give them a seat at the table, have no incentive to do anything but discredit and ridicule them, and won't be convinced about the low likelihood of inflation from PCS because they have a vested interest in continuing to claim and/or believe that the coin is inflationary. Even those among them who come to believe it isn't inflationary will still oppose it on grounds that it is, because they won't consider the advantages and disadvantages of the coin in good faith.

But in addition to these problems, there is the still more serious problem that an incremental approach taking a decade to implement has very serious likely costs. Apart from the possibility of losing the capability for PCS, there are also unemployed, partly employed, uninsured sick people, ill-educated young people, and people whose careers and social mobility are heavily impacted by the refusal to use the full power and potential of HVPCS when it is available for use.

Beo and Philip are, in effect, suggesting that the underlying condition supporting austerity politics remain out there for perhaps a decade or more, when the President has the power to eliminate it now, because they want to calm fears, get a seat at the table, and have consensus before they go ahead with PCS in a big way. Is this really a serious proposal when we look at the full political context we face? Is it actually "practical," or does it just avoid facing the most important problem we need PCS to solve for more than a decade?

"First, Do No Harm," is a great maxim; but when excessive caution and waiting have the very high costs just mentioned; then we have to weigh those already experienced and continuing costs of not minting a \$60 T coin, against the potential cost and very low likelihood of inflation resulting from it filling the public purse, and getting used only to pay down debt and cover Congressional deficit appropriations. I've done [the inflation analysis](#), ^[25] and I've been unable to find any causal transmission mechanism directly from PCS to demand-pull inflation. I invite beo, Philip or anyone else to critique my analysis and show me where I've made a mistake.

Of course, [demand-pull inflation](#) ^[26] can result if Congress appropriates too much deficit spending; but that would happen whether seigniorage, or Treasury Securities or both, are used alongside deficit spending. So, before we so easily propose and decide to follow an incremental

PCS strategy, perhaps its proponents ought to make clear the causal mechanisms they see that are at least minimally likely to cause inflation, beyond the inflation from deficit spending accompanied by debt issuance? Until that's done, I don't think the incremental PCS proposal can be considered a serious one.

Second, let's look at beo's three options in the Lloyd Bentsen type of scenario. I think the President does 1) or 2) if he wants to start a long political struggle that he may very well lose, or if he wants to engage in kabuki. But if he wants to destroy the foundation of austerity politics, then he will select 3) or maybe a \$100 T coin (because it's more powerful as a meme), because those alternatives will actually do the job.

So, what coin seigniorage option should be pursued depends on what the goals of the President are, and his/her perception of the problem. Beo, Philip, and other incrementalists seem to think that the problem is how to get everyone used to fiat money, so it can be introduced on a large scale, fairly non-controversially, and with a good deal of consensus support. They think we can afford to wait for that result for a decade, and that it will be worth waiting for.

I, on the other hand, think the problem is how to destroy the political power of the austerians, *now*, so we can build a more equal and prosperous economy and society. The incremental approach could well leave us with austerity, a stagnant economy, and growing inequality, for a decade or more.

I don't think we have that much time left, before our society sees its democracy extinguished by a soft, but, nevertheless, totalitarian plutocracy. That is much too high a price to pay for the benefits of the patient, careful, and experimental introduction of platinum coin seigniorage that beowulf, Philip Diehl, and others who like the incremental approach have in mind. Incrementalism is always favored by the Very [Serious](#) ^[27] People (VSP), as the "practical" alternative; but all too often it is "impractical" in the highest sense of the term, because it simply will not work!

(Cross-posted from [New Economic Perspectives](#) ^[28].)



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