

Treasury Dept Considering Minting a One Trillion Dollar Coin

October 5, 2021 - You may think that the cash that we use is simply printed by the US Government and put into circulation. But that isn't the case. The money we use on a daily basis is created by the Federal Reserve (the FED); a public, private partnership between the federal government and big banks. And the way that the government creates that money is by selling bonds - which puts the government in debt to the people buying those bonds. Once those bonds are sold, the government essentially buys the currency from the FED and puts it into circulation. This is a simplified explanation but it is pretty well the way all of the cash we use is currently created, with one exception: Coins. Coins are created by the treasury and they aren't based on bond sales. The government (meaning taxpayers) don't incur any debt when the Treasury Department issues a new coin.

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All of this is important because of a battle that is playing out in Washington, DC right now over the "debt ceiling." That's the maximum amount of money that the government can legally borrow and it can only be raised by congress. This year, it needs to be increased by October 15th or the government could default on its bond interest payments.

Regardless of what you think about the FED - and for the record, we think it should be abolished - defaulting on those payments could be catastrophic for Americans and the United States. But there is no reason to default, even under the current system. The Democrat Party controls the White House and both chambers of congress. They can easily include a debt ceiling increase in a reconciliation bill that only requires a simple majority in each house to vote for it. They don't want to do that though. They want Republican support because without it, the Democrats alone will be to blame for the huge amount of debt they are trying to incur in the two massive "infrastructure bills" they are trying to push through congress.

The inability of the political parties to come together here is a problem and there is no resolution in sight. The Democrats want to raise the debt ceiling so they can spend more money, and the Republicans are against raising it to prevent them from spending more money. But none of that alleviates the issue of the government having to make interest payments on bonds. Enter the \$1 trillion coin idea.

It would take about ten minutes for the US Mint to make a \$1 trillion coin. And that coin could then be deposited in a Federal Reserve bank as legal tender. Since the coin wouldn't be debt-based currency, no increase in the debt ceiling is needed. The government could then go on operating without any congressional action. And the rumor is that Treasury Secretary Janet Yellen has instructed the mint to make the dies for just such a coin... just in case it is needed.

Word of this is going viral on the internet. It is the top story this morning on Populist. And it is making the rounds on other sites too. What's surprising about it though isn't the rumor itself. The real question, that nobody seems to be asking, is why the government needs to sell bonds in the first place if it can create money without first placing itself in debt? Very frankly, all of the tax money that the government collects is used to pay down that debt. So if the government can do this, there is no need to raise taxes. In fact, there is no need to collect taxes at all.

If that sounds a little crazy, then consider this. This wouldn't be the first time that the federal government used currency that had nothing to do with debt. During the Civil War, President Lincoln approached the banks in New York to ask for funds to pay for the war. While the banks agreed to lend the government money, they wanted exorbitant interest rates so Lincoln looked elsewhere. He finally decided to issue non-debt-based currency called United States Notes or Greenbacks. And these notes were used not only to pay for the war, but well into the 20th Century. In fact, the Treasury issued them until 1971.

The point here is that the US Dollar is what is known as "fiat currency." That really means that it isn't backed by anything other than the belief that it is worth something. There is absolutely no reason that a fiat currency such as the dollar should be created by bond sales - incurring debt - if the Treasury can issue its own currency and have it accepted - debt free.

To be clear, we're not saying what's being considered is a good idea. The inflationary pressure it would create would be tremendous, especially if it became a habit on the part of the government. There would need to be checks and balances put in place by congress. But we could eliminate the FED at the same time and start paying off the country's debt.

So again, why are we putting the country in more debt to issue currency if we don't have to? More specifically, why is the government doing this? It's a question worth asking, but not too many seem interested in.

by Jim Malmberg

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