

Minting a \$1 trillion distraction

By: Mark Calabria – January 9th, 2013

Negotiations over increasing the debt ceiling have barely begun, and already we are being hit with silly proposals to side-step the process. The latest is a proposal to have the Treasury mint a \$1 trillion platinum coin. Sadly, this is just another gimmick to avoid dealing with the real issues facing our country.

Here's how it would work. The Mint, under the direction of Treasury Secretary Tim Geithner, would strike a \$1 trillion platinum coin and then deposit it with the Federal Reserve. In exchange, the Federal Reserve would print \$1 trillion, which it would give to the Treasury, allowing the Treasury to continue spending money without borrowing and hitting the debt ceiling.

Tucked into a 1996 omnibus spending bill is language authorizing the treasury secretary to “mint and issue” platinum coins. Unlike most coin legislation, this legislation gives the Treasury broad authority to determine denominations and specifications. That's why the coin would have to be platinum — the restrictions on silver and gold coins are too numerous. So this much is clear: the Treasury could legally mint a \$1 trillion platinum coin. And it would not have to be \$1 trillion worth of platinum. In fact, it could contain little more than platinum dust.

What is less clear is whether that coin could be deposited with the Federal Reserve. The law states that the Treasury can “mint and issue” platinum coins. The question is whether “issue” can mean “deposit.” At best, that's a stretch, and one that could be litigated. Even the proponents of the \$1 trillion coin admit that it was never Congress' intent to allow the executive branch to deposit \$1 trillion platinum coins with the Fed. A court could very well read “issue” to mean “broadly distribute to the general public.” So the Treasury could try selling its \$1 trillion coin to the general public. Maybe the Chinese would be interested. Or it could try selling lots of platinum coins worth a total of \$1 trillion.

More importantly, the Federal Reserve Act places restrictions on the direct purchase of U.S. government obligations. For instance, Section 14 requires those purchases to be “only in the open market.” So while the Treasury can mint the coin, the Fed cannot directly purchase it from the Treasury.

That's assuming Bernanke and company would even be willing to do so. Yes, the Fed was willing to engage in fiscal operations during the financial crisis (what else could you call the AIG rescue?), but I believe it is highly unlikely Bernanke would be willing to involve the Fed in what is so clearly a fiscal operation.

The Fed's reluctance would be understandable. Considering its status as the largest purchaser of treasuries, I would argue the Fed is already monetizing the debt. Printing \$1 trillion to avoid the debt ceiling would place the Fed directly in the middle of a contentious fiscal issue. Whatever independence the Fed has left would be gone after

that. The result would likely be a spike in interest rates, as the world finally recognized that the remaining political constraints on inflationary finance were gone. Recall that the argument for raising the debt ceiling is based on a concern that failing to do so would push interest rates higher. Using the gimmick of a \$1 trillion platinum coin would jolt the public's expectation of inflation.