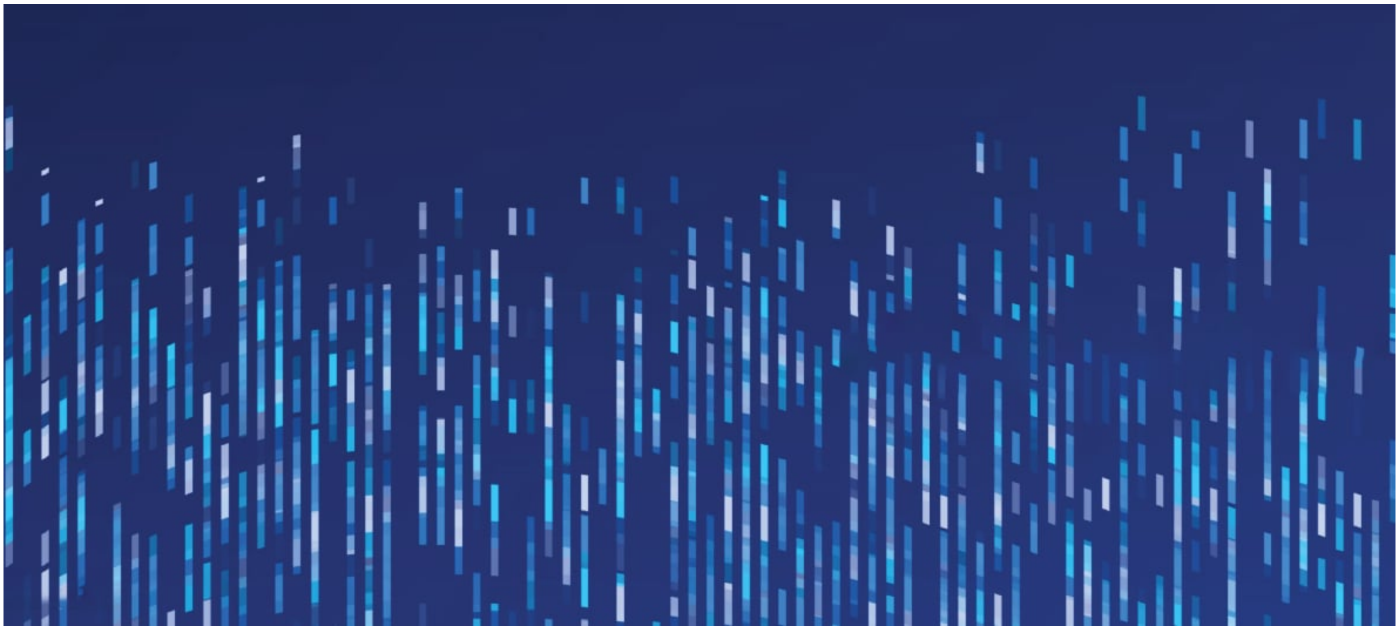

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Why the Trillion-Dollar Coin Is More Than a Gimmick

While the Senate recently passed a bill to once again raise the debt ceiling into early December, the latest wrangling over America's growing debt brought one novel solution to light: *minting a trillion-dollar coin.* In all fairness, the idea of producing a $1 trillion coin was first mentioned a decade ago during a similar debt-ceiling debate. While it was sort of a gimmick, the idea of producing a coin (or any currency for that matter), slapping a value on it, and then depositing either into the treasury or the economy at large is exactly what has been happening for some time now. And although these hyper-stimulative policies set in motion during the Great Recession and even more recently are less dramatic, the results may be the same.

As it stands now, Congress is spending way more (roughly $2.77 trillion) this year than it collects. To pay for these debts, the country obviously borrows money by selling bonds. Of course, the amount of debt we issue is debated daily by both sides of the aisle. Lopsided budget arguments aside, lawmakers must periodically agree to either reduce spending or continue to raise the debt ceiling in order to keep the lights on in Washington and all government-run entities operating. Printing more debt has been the answer for some time as its been 20 years since America had a budget surplus.

Creating money/debt to cover our rising costs through standard treasury sales is one thing, but injecting money via other creative financing means, such as forgivable "loans" and direct payments to consumers not only increases money supply, but also money velocity. And we all know that when the speed and amount of money supply exceeds real output, a little thing called inflation tends to rise.

During this last round of debate, the theoretical idea of minting a platinum coin with a stated value of $1 trillion to cover our debts was meant to demonstrate America's ability to pay its debts and cleverly avert a recession. Sure, the actual creation and usage of such a coin would quickly undermine the perceived stability of our monetary system and would most certainly create an inflationary response. But, in a sense, our country, and many others, have been doing it for years … just in a much more clever and methodical way. Since most developed nations have been employing these stimulative tactics skillfully (we will use that term lightly) over the last decade or so, the increases in supply and velocity have been controlled, allowing for moderate inflation. Earlier monetary tactics also kept some of these money supply increases contained within bank reserves, while being employed mostly during periods of the global recession.

Today, the picture is much different. A growing disparity among nations' economic health is triggering opposing central bank policy trajectories. The global pandemic has also disrupted typical supply chains and trade economics which have resulted in global price increases. One could also argue that the aggressive actions were taken by most nations to monetarily combat an anomaly like COVID-19 has triggered a massive increase in money velocity at a time when global output was flat. This is a great inflation recipe.

The question is how long these effects will linger and if America and the world "overspent" themselves during the pandemic. One thing is for certain, minting a $1 trillion coin or any overly stimulative action is likely not the best course of action given the current inflationary pressures and delicate supply chain restructuring that's taking place.

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