The Democratization of Money: The Trillion Dollar Coin, Joke or Game-changer?

By Ellen Brown
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The trillion dollar coin actually represents one of the most important principles of popular prosperity ever conceived: the creation of money by sovereign governments, debt-free.

Last week on "The Daily Show," Jon Stewart characterized the proposal that the White House circumvent the debt ceiling by minting a trillion dollar coin as an attempt to "just make shit up."

Economist and NY Times columnist Paul Krugman responded with a critical blog post accusing Stuart of a "lack of professionalism" for not taking the trillion dollar coin seriously. However, Krugman himself had called the idea "silly." He thought it was just less silly — and less dangerous — than playing with the debt ceiling, which was itself an unconstitutional shackle on the Treasury's ability to pay debts already incurred by Congress.

Stewart responded on January 15 that he stood by his "ignorant conclusion that a trillion dollar coin minted to allow the president to circumvent the debt ceiling, however arbitrary that may be, is a stupid f*cking idea."

It's all good fun – or is it? Most commentators have missed the real significance of the trillion dollar coin. It is not just about political gamesmanship. For centuries, a secret battle has raged over who should create the nation's money supply – governments or banks. Today, all that is left of the US Treasury's money-creating power is the ability to mint coins. If we the people want to reclaim that power so that we can pay our obligations when due, the Treasury will need to mint more than nickels and dimes. It will need to create some coins with very large numbers on them.

To bail out the banks, the Federal Reserve, as head of the private banking system, issued over $2 trillion as "quantitative easing," simply by creating the money on a computer screen. Congress, the White House, and the Treasury all rolled over and acquiesced. When it was proposed that the government bail itself out of its budget woes by minting a $1 trillion coin, the Federal Reserve said it would not accept the Treasury's legal tender. And the White House again acquiesced, evidently embarrassed to have entertained this "ludicrous" alternative.

Somehow we have come to accept that it is less silly for the central bank to create money out of thin air and lend it at near zero interest to private commercial banks, to be re-lent to the public and the government at market interest rates, than for the government to simply create the money itself, debt- and interest-free.

The banks obviously have the upper hand in this game; and they've had it for the last 2-1/2 centuries, making us forget that any other option exists. We have forgotten our historical roots. The American colonists did not think it was silly when they escaped a grinding debt to British bankers and a chronically short money supply by printing their own paper scrip, an innovative solution that allowed the colonies to thrive.

In fact, the trillion dollar coin represents one of the most important principles of popular prosperity ever conceived: national debt-free money creation. Some of our greatest leaders, including Benjamin Franklin, Thomas Jefferson, and Abraham Lincoln, promoted the essential strategy behind it: that debt-free money offers a way to break the shackles of debt and free the nation to realize its full potential.

We have lost not only the power to create our own money but the memory that we once had that power. With the help of such campaigns as Occupy Wall Street, Strike Debt, and the Free University, however, we are starting to re-learn the great secret of money: that how it gets created determines who has the power in society — we the people, or they the bankers.

It is no secret who has that power today. In the great bailout of 2008, banks were rewarded for making irresponsible and fraudulent gambles in the subprime mortgage scandal, with no one serving time in jail. Then there was the robosigning scandal, in which banks committed criminal fraud and came away with a slap on the wrist. Now we are seeing the LIBOR scandal unfold. While a commoner might get 10-20 years for robbing a bank, *bank executives get huge bonuses for robbing us*.

We may rail against the banks and demand change, but nothing will change until we grasp their fundamental secret, the foundation of their power: that those who create the nation's money control the nation. By mechanisms explained elsewhere, *nearly the entire money supply today is created by banks*.

Remembering Our Roots: A Refresher Course

Benjamin Franklin was called called "the Father of Paper Money." He argued before the British Parliament that government-issued money had allowed the colonies to escape the yoke of debt, to thrive and grow. The king, urged by the Bank of England, responded by forbidding all new issues of paper scrip. The colonial economy then sank into a depression, and the colonists rebelled. They won the revolution, but the power to create money was lost to a private banking oligarchy modeled on the one dominated by the Bank of England.

Fourscore and six years later, President Abraham Lincoln boldly took back the money power during the Civil War. To avoid exorbitant interest rates of 24% to 36%, he decided to print money directly from the US Treasury as US Notes or "greenbacks." The issuance of $450 million in greenbacks was key to funding not only the North's victory in the war but an array of pivotal infrastructure projects, including a transcontinental railway system.

Lincoln was assassinated, however and,the greenback program was quickly discontinued. Repeated popular attempts to revive it failed. In 1872, according to Lynn Wheeler in Triumphant Plutocracy: The Story of American Public Life from 1870 to 1920, New York bankers sent a letter to every bank in the United States, urging them to fund newspapers that opposed government-issued money. The letter read in part:

Dear Sir: It is advisable to do all in your power to sustain such prominent daily and weekly newspapers . . . as will oppose the issuing of greenback paper money, and that you also withhold patronage or favors from all applicants who are not willing to oppose the Government issue of money. *Let the Government issue the coin and the banks issue the paper money* of the country. . . . *[T]o restore to circulation the Government issue of money, will be to provide the people with money, and will therefore seriously affect your individual profit as bankers and lenders*.

Bank-created money (which now includes electronic money) could be rented at a profit to the people. The "people's money" was limited to coin, which today composes less than one ten-thousandth of M3, the broadest measure of the money supply.

Lincoln's assassination and the abandonment of debt-free greenbacks effectively marked the exchange of one type of slavery (race-based) for another (wage- and debt-based). As a result, the American government and American people are so heavily mired in debt today that only a radical overhaul of the monetary system can free us.

Gimmick or Game-Changer?

That is the real context and backstory of the trillion dollar coin. The stakes are much higher today than just fending off the debt ceiling. We the people need to take back the power to issue our own money, and coins are the only means left to us to do it.

The idea of minting large denomination coins to solve economic problems was evidently first suggested by a chairman of the Coinage Subcommittee of the U.S. House of Representatives in the early 1980s. He pointed out that the government could pay off its entire debt with some billion-dollar coins. The Constitution gives Congress the power to coin money and regulate its value, and no limit is put on the value of the coins it creates. In *Web of Debt* (2007), I suggested that to solve the government's debt problems today these would need to be trillion dollar coins.

In legislation initiated in 1982, however, Congress chose to impose limits on the amounts and denominations of most coins. The one exception was the platinum coin, which a special provision allowed to be minted in any amount for commemorative purposes.

An attorney named Carlos Mucha, blogging under the pseudonym Beowulf, proposed issuing a platinum coin to capitalize on this loophole, after hearing me mention the trillion dollar coin in a Thom Hartmann interview. At first it was just an amusing exercise. But with the endless gridlock in Congress over the debt ceiling, it got picked up by serious economists as a way to checkmate the deficit hawks.

Philip Diehl, former head of the US Mint and co-author of the platinum coin law, confirmed that the coin would be legal tender:

In minting the $1 trillion platinum coin, the Treasury Secretary would be exercising authority which Congress has granted routinely for more than 220 years . . . under power expressly granted to Congress in the Constitution (Article 1, Section 8).

Warren Mosler, one of the founders of Modern Monetary Theory, reviewed the idea and concluded it would work operationally. The funds would simply be new reserve balances at the Fed rather than new Treasury securities.

Joe Firestone pointed out that the trillion dollar coin could solve the government's debt problems once and for all, putting was in its grasp the power to replace austerity with the abundance enjoyed by our forefathers.

The trillion dollar coin can raise cries of "hyperinflation!" It evokes images of million-mark notes filling wheelbarrows. But as economist Michael Hudson observes:

Every hyperinflation in history has been caused by foreign debt service collapsing the exchange rate. The problem almost always has resulted from wartime foreign currency strains, not domestic spending.

Prof. Randall Wray explains that the coin would not circulate but would be deposited in the government's account at the Fed, so it could not inflate the circulating money supply. The budget would still need Congressional approval. To keep a lid on spending, Congress would just need to abide by some basic rules of economics. *It could spend on goods and services up to full employment without creating price inflation* (since supply an d demand would rise together). After that, it would need to tax — not to fund the budget, but to shrink the circulating money supply and avoid driving up prices with excess demand.

Time to Take Back the Money Power

The current economic crisis cannot be solved with the thinking that created it. There is simply not enough money in the system to fund the services we desperately need, pay down the debt, and keep taxes affordable. The money supply has shrunk by $4 trillion since 2008, according to the Fed's own website. The only solution is to add more money to the real, producing economy; And that means some congressionally-mandated entity needs to create it, either the Fed or the Treasury.

The Fed has declined. In flatly rejecting the Treasury's legal tender, the Fed as representative of the banks is asserting itself as outranking the elected representatives of the people. If the Fed won't acknowledge the coins created by the government, perhaps the government needs to charter a publicly-owned bank that will.

We have a chance today to end the charade of big money gridlock politics, as well as the reign of the big banks. We have the power to choose prosperity over austerity. But to do it, we must first restore the power to create money to the people.

Ellen Brown is an attorney and president of the Public Banking Institute. In Web of Debt, her latest of eleven books, she shows how a private banking oligarchy has usurped the power to create money from the people themselves, and how we the people can get it back. Her book The Buck Starts Here: Restoring Prosperity with Publicly-owned Banks will be released this spring. Her websites are http://WebofDebt.com, http://EllenBrown.com, and http://PublicBankingInstitute.org.

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