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## The Other Side of the (Platinum) Coin

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The U.S. government is getting closer to the point when its ability to continue financing its spending comes into question. With negotiations still underway, some unconventional ideas are being suggested in case a deal can't be made. Today, we'll look at one such suggestion: minting a high-dollar platinum coin.

At the heart of the issue is the debt ceiling, which is the legislative limit on how much debt the Treasury can issue to finance its spending as mandated by Congress. As the economy has grown, the ceiling has been raised periodically, which is accomplished by a simple majority vote in Congress.

Yet, things are never simple. The current ceiling of \$31.381 trillion (or about 120 percent of U.S. GDP) was reached earlier this year. Thus, absent higher tax receipts, the Treasury can no longer borrow. It consequently would have to either default on outstanding debt or reduce spending, such as on Social Security payments.

The Treasury maintains what amounts to a checking account with the Federal Reserve called the "Treasury General Account (TGA)." All payments the Treasury makes — as well as the tax payments households and businesses make to it — flow in and out of it. To [some commentators](#), this arrangement opens a door to circumvent the debt ceiling: The Treasury could order the minting of a \$1 trillion platinum coin and deposit it at the Fed. In exchange, the Fed would credit the TGA with the \$1 trillion so that the Treasury again has funds to pay its bills.

To its proponents, this proposal uses a wrinkle in how the United States issues coins as opposed to currency. The Fed creates money (currency and electronic money held by banks, or "reserves"), while coins (which are also legal tender) are created by the U.S. Mint. The mint has historically played a passive role in filling coin orders from Reserve Banks, which are charged with satisfying the public's demand for coins (versus holding currency or deposit accounts).

But in principle, the mint could create a platinum coin of any denomination and metal content as stipulated in the [U.S. Code](#) governing coin issuance: "The Secretary may mint and issue platinum bullion coins and proof platinum coins in accordance with such specifications, designs, varieties, quantities, denominations, and inscriptions as the Secretary, in the Secretary's discretion, may prescribe from time to time." Moreover, the coin could be tiny, with the amount of platinum itself being negligible.<sup>[1](#) [2](#)</sup>

The Fed would be under no obligation to accept the coin, but if it chose to, the TGA would again have funds available, at least temporarily. The interesting question is: What would happen next? From the Fed's perspective, the increase in the size of its balance sheet may conflict with its policy aims of returning the inflation rate to its 2 percent target level. The Federal Open Market Committee (FOMC) may therefore

decide to "sterilize" (or offset) the increase in reserves by selling parts of its portfolio of Treasury securities and mortgage-backed securities (acquired during the quantitative easing period) as a form of quantitative tightening.

Assuming the Fed accepted the coin in the first place, this course of action would seem unlikely. The FOMC has shown reluctance to reduce the size of its balance sheet at the rate it increased, presumably to avoid financial market disruption. If the FOMC went ahead with the sterilization, Treasury rates would likely rise, increasing the cost of debt service and, thus, expenditures.

From the Treasury's perspective, the \$1 trillion infusion would enable it to continue paying for its expenditures, regardless of whether they were discretionary or mandated. In that sense, the coin is just an alternative method for financing government spending. Federal spending in 2022 stood at \$6.4 trillion with a fiscal year deficit of \$1.4 trillion. Given that we are halfway through the year, at unchanged spending and tax-receipt levels, minting the coin could carry the U.S. government only through this year and next.

But what then? As the economy grows, so do spending and tax receipts, and so does the deficit if there are no changes to Congress' chosen fiscal path. Eventually the debt ceiling would be reached again, and we would be back to the same dilemma. The platinum coin would thus just be a stopgap measure.

For the Fed, this path seems fraught. Once the idea takes hold that Congress could (albeit in a roundabout way) just ask the Fed to print money, this method for financing spending may prove too tempting. This is the scenario that Nobel laureate Thomas Sargent so vividly describes in his 1982 paper "[The Ends of Four Big Inflations](#)." All four *started* with the central bank becoming subordinate to the fiscal authority in a way similar to the institutional boundaries (established in the 1951 Treasury-Fed Accord) being breached by the minting of the \$1 trillion coin.

In sum, the platinum coin is an interesting thought experiment for students of fiscal and monetary economics and policy. Its practical implementation in the real world would — even if "workable" and a short-term fix — perhaps fundamentally alter the relationship between the monetary and the fiscal authority. The historical experience suggests serious risks to central bank independence, which has by most accounts proved to be a key guarantor of general price stability.

1

A bit of detail for accounting fans and aficionados of semantics: The transfer of funds is accomplished by the creation of electronic entries in the TGA, which become reserves (or central bank money) when the Treasury makes payments. In other words, this is a bookkeeping entry on the liabilities side of the Fed's balance sheet matched by an increase in assets (namely the coin) of the same nominal value. The balance sheet would therefore increase by \$1 trillion from its current level of about \$8.5 trillion, and the monetary base — that is, the sum of reserve balances and currency in circulation — would increase \$1 trillion from about \$5.5 trillion. While this increase is still sizable in the historic context, it is dwarfed by the doubling of the monetary base during the Great Recession and the pandemic, which saw prolonged asset purchases as part of the Fed's quantitative easing policy.

2

The wrinkle in how the United States issues coins as opposed to paper currency lies in the distinction between production cost and face value in creating "money." The U.S. Treasury *manufactures* both paper money (at its Bureau of Engraving and Printing) and coin (at its mints). In both cases, the Treasury plays a passive role in filling orders from the Fed. What's different about paper

money versus coin is that the Fed purchases paper money from the Treasury at cost of production, whereas the Fed purchases coin from the Treasury at face value. A \$1 trillion note would not benefit the Treasury, because the Fed would only pay the Treasury the cost of production, whereas a \$1 trillion coin would bring the Treasury \$1 trillion. The fact that the coin is made of platinum is only relevant to the extent that the U.S. code explicitly mentions platinum as a metal that can be used in minting.