The Quadrillion Dollar Helium Coin

Readers may be familiar with the "platinum coin proposal"[1].

The basics are simple.

The US Mint fabricates a platinum coin at a cost of perhaps $ 1,000 dollars.

It stamps a nominal value of $ 1 trillion on the coin and sells it to the Fed at that price. This is standard practice for Mint sales to the Fed.

Treasury receives an increase of $ 1 trillion in its Treasury General Account at the New York Fed.

The New York Fed gets a coin whose melt value is approximately $ 1,000 dollars.

The Treasury records this transaction, "coin seigniorage" as miscellaneous revenue, after subtracting the trivial cost of minting the physical coin.

Everything else constant, the US fiscal deficit falls by $ 1 trillion.

So far, nothing has really happened. But, of course, this is just phase 1.

Phase 2 involves the Treasury using its new account balances for spending not already contemplated in the budget. Let this be called C19 for short. Naturally, C19 would have to be approved by Congress and appropriated to the relevant spending agencies.

Once the funds are spent, the Treasury TGA will fall by $ 1 trillion and bank reserves and currency will increase by an equivalent amount. Those liabilities would show up on the Fed balance sheet.

The consolidated Fed balance sheet would show an increase in assets representing the coin and an increase in liabilities equal to $ 1 trillion.

Now it is a legitimate question, but an easy one to answer, "What value should Fed accountants place on the 'coin'?" Without getting into the accounting weeds, it depends on whether it is reasonable to expect the Treasury will reverse the original transaction, i.e. provide the Fed with $ 1 trillion in "cash" to buy back the coin at the original price.

Is that likely? We might suppose it somewhat improbable, but not inconceivable, were the Treasury to have used the coin as collateral for a *loan*, that one day it might repay that *loan*. But since the original transaction is recorded as a revenue item, not a borrowing item, Congress would—if you follow the symmetry—need to authorize a $ 1 trillion *expenditure* in the budget at some future time to allow Treasury to make the payment. I'm thinking "bill to fortify the Fed" sounds a bit better than "bill to authorize the Treasury to pay $ 1 trillion for a platinum coin". Nevertheless, I hardly think either would be a big vote getter.

During my 25 years at the IMF I saw very many cases like this where the treasury had allowed its central bank to operate with negative equity. That is a statement of fact. As a matter of policy, it may be perfectly fine to do so for a time. When I wrote "Do Central Banks Need Capital", a 1997 IMF Working Paper, I made precisely the point that central banks do not necessarily require positive capital as

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[1] See George Selgin for a great discussion of it here. https://www.alt-m.org/2020/03/24/that-darn-coin-again/

conventionally defined. It really depends on the circumstances. I expanded on that thought over the years in various published papers.

I have also advised quite a few sovereign treasuries and central banks how to restructure their respective balance sheets. But it usually takes a couple of decades after the event to get serious about sorting everything out in a sensible way. Maybe it takes that long, sometimes, to realize cooperation is a positive sum game.

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For any "coin" proposal to work as its advocates intend, it is essential that the coin, or other asset provided to the central bank, be completely illiquid, i.e. cannot be sold. You see, if the Treasury provided the Fed $1 trillion in regular treasury bonds for its deposits[2], the Fed could eventually absorb the money created by Treasury spending by selling those bonds. That would simply put us in the same position as if the Treasury sold the bonds to the market in the first place. They would have played the "three card monty" for nothing. That the coin be unusable is essential.

From a bird's eye perspective, there exists a possible "war of attrition" between the Treasury, using coins to get funds to spend and the Fed selling Treasury bonds into the market to reduce reserves. So it is important the Fed get something like a coin it *cannot sell*. So that it cannot win the war of attrition.

Let us propose then, to avoid the war of attrition, that the Treasury create a $ 1 quadrillion coin from helium. A quadrillion is one thousand trillion. It sells the coin to the NY Fed in exchange for an increase in the TGA of $1 quadrillion. The Fed's holdings of securities are large, but not *that* large.

Helium is a curious element. It is thought it might become a solid under a pressure of between 20-30 atmospheres at a very cold temperature[3]. Thus, it would not only be virtually impossible to sell but quite costly to keep in the "vault". Sort of perfect for the purpose.

The New York Fed would probably figure it would be too expensive to store, and worthless anyway, so it would simply let it transform into a gas and use it to fill up a balloon. Knowing all that, to avoid the senseless expense of making the coin, Treasury might just as well give the Fed a piece of aluminum foil in the shape of a coin and inscribe on it "we owe you $ 1 quadrillion".

Moving on with our thought experiment, the Treasury would have $1 quadrillion dollars in its account ready to go. So what? Congress would still have to appropriate the spending and decide how to spend it.

Should Congress spend $1 quadrillion just because there is no technical obstacle to doing so? I think not. And I doubt anyone would propose it.

After all, several countries have probably had the capacity for several decades to destroy the planet in a nuclear holocaust, but they have not, yet. No reason to do something just because you can.

What is needed now is not a fruitless excursion down obscure paths to discover a weird way of doing what we already know how to do very well—finance government expenditure.

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[2] It would also require the Treasury to recognize the transaction as borrowing not revenue.

[3] https://arstechnica.com/science/2018/12/researchers-find-super-solid-by-looking-at-a-normal-solid/

What is needed is hard thinking and discussion about what is needed to alleviate the economic and social consequences of COVID 19 as well as to fund the medical response to the emergency. How much, to whom, when and how? Whatever it takes, it will be financed. No question in my mind about that.

The success of the response in the United States and around the world will depend on the ingenuity, courage, resourcefulness, and tenacity of all of us, as well as the ability of our respective institutions to devise coherent cooperative policies. It will not depend on an ephemeral coin trick.

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