

## **Paul Krugman - New York Times Blog**

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### **Debt in a Time of Zero**

I've had communications from a number of people asking an interesting question relating to the debt ceiling and other issues: why does the Federal government have to borrow at all? Why can't it just print money to pay its bills? After all, haven't people like me been saying that this isn't actually inflationary?

Now, it turns out that there really is a problem, or actually two problems — but they're a bit subtle.

First, as a legal matter the Federal government can't just print money to pay its bills, with one peculiar exception. Instead, money has to be created by the Federal Reserve, which then puts it into circulation by buying Federal debt. You may say that this is an artificial distinction, because the Fed is effectively part of the government; but legally, the distinction matters, and the debt bought by the Fed counts against the debt ceiling.

The peculiar exception is that clause allowing the Treasury to mint platinum coins in any denomination it chooses. Of course this was intended as a way to issue commemorative coins and stuff, not as a fiscal measure; but at least as I understand it, the letter of the law would allow Treasury to stamp out a platinum coin, say it's worth a trillion dollars, and deposit it at the Fed — thereby avoiding the need to issue debt.

In reality, to pursue the thought further, the coin really would be as much a Federal debt as the T-bills the Fed owns, since eventually Treasury would want to buy it back. So this is all a gimmick — but since the debt ceiling itself is crazy, allowing Congress to tell the president to spend money then tell him that he can't raise the money he's supposed to spend, there's a pretty good case for using whatever gimmicks come to hand.

But leaving the debt ceiling on one side, isn't it true that since spending can currently be financed by Fed money printing, we shouldn't care at all about the notional debt owed to the Fed? Alas, no.

It's true that printing money isn't at all inflationary under current conditions — that is, with the economy depressed and interest rates up against the zero lower bound. But eventually these conditions will end. At that point, to prevent a sharp rise in inflation the Fed will want to pull back much of the monetary base it created in response to the crisis, which means selling off the Federal debt it bought. So even though right now that debt is just a claim by one more or less governmental agency on another governmental agency, it will eventually turn into debt held by the public.

We are living in weird economic times, where many of the usual rules don't apply and there are big free lunches to be had. But not everything is a free lunch, even now. Sorry.