A Memo to Congress about Money

By Editor Test *Sun, Jul 31, 2011*

The donnybrook in Congress over debt and deficits stemmed partly from a mistaken belief that the government is like a player in a card game when it's actually more like a scorekeeper. Warren Mosler explains.

Imagine a card game, where every entity in the economy is a player, and you, Congress, are the scorekeeper. My message here is to clarify the difference between a scorekeeper and a player.

The problem is that, though you are the scorekeeper, you act as though you were one of the players. And you support your mistake with false analogies. The correct analogy is between a scorekeeper in a card game and your role as scorekeeper for the U.S. dollar.

A scorekeeper in a card game keeps track of how many points everyone has. He awards points to players with winning hands. He subtracts points from players with losing hands.

How many points does the scorekeeper have? Can he run out of points? When he awards points to players with winning hands, where do those points come from? When he subtracts points from players with losing hands, does he have more points?

Do you understand the difference between being a scorekeeper and being a player?

Congress, you are the scorekeeper for the U.S. dollar. You spend by marking up numbers in bank accounts at your Fed, just as Fed Chairman Ben Bernanke has testified before you. When you tax, the Fed marks numbers down in bank accounts. Yes, the Fed is also a scorekeeper. It accounts for what it does, but it doesn't actually get anything—just as the scorekeeper of a card game doesn't get any points himself when he subtracts points from the players.

When Congress spends more than it taxes, it's just like the scorekeeper of the card game awarding more points to the players' scores than he subtracts from their scores. What happens to the players' total score when that happens? It goes up by exactly that amount. What happens to dollar savings in the economy when Congress spends more than it taxes? It goes up by exactly that amount. To the penny.

The scorekeeper in a card game keeps track of everyone's score. The players' scores are accounted for by the scorekeeper. The scorekeeper keeps the books. Likewise, the Fed accounts for what it does. It keeps accounts for all the dollars that all its member banks and participating governments hold in their accounts at the Fed. That's what accounts are—record keeping entries.

So when the Chinese sell us goods and services and get paid in dollars, the Fed—a scorekeeper that works for and reports to Congress—marks up (credits) the number in their reserve account at the Fed. When the Chinese buy U.S. Treasury securities, the Fed marks down (debits) the number in their reserve account at the Fed and marks up (credits) the number in China's securities account. That is what 'government borrowing' and 'government debt' is—the shifting of dollars from reserve accounts to securities accounts at the Fed.

Yes, there is some $14 trillion in securities accounts at the Fed. This represents the dollars the economy has left after the Fed has added to our accounts (when the Treasury spent), and subtracted from our accounts (when the IRS taxed). And it also happens to be the economy's total net savings of dollars.

Paying back the debt is the reverse. It happens this way: The Fed, a scorekeeper, shifts dollars from securities accounts to reserve accounts. Again, all on its own books.

This is done for billions of dollars every month. There are no grandchildren involved.

The Fed can't 'run out of money,' as you've all presumed. The Fed spends by marking up numbers in accounts with its computer. This operation has nothing to with 'debt management,' which oversees the shifting of dollars between reserve accounts and securities accounts, or with the Internal Revenue Service, which oversees the subtraction of balances from bank reserve accounts.

And so, yes, the deficits of recent years have added that many dollars to global dollar income and savings, to the penny. Just ask anyone at the CBO. It is no coincidence that savings goes up every time the deficit goes up—it's the same dollars that you deficit-spend that necessarily become our dollar savings. To the penny.

A word about Greece. Greece is not a scorekeeper for the euro, any more than the U.S. states are scorekeepers for the dollar. The European Central Bank is the scorekeeper for the euro. Greece and the other euro member nations, like the U.S. states, are players. Players can run out of points and default, and they may look to the scorekeeper for a bailout.

What does this mean? There is no financial crisis for the U.S. government, the scorekeeper for the U.S. dollar. It can't run out of dollars, and it is not dependent on taxing or borrowing to be able to spend. The sky is not falling. Ever. Let me conclude that the risk of under-taxing and/or over-spending is inflation, not insolvency. And monetary inflation comes from trying to buy more than there is for sale, which drives up prices.

But, as they say, to get out of a hole first you have to stop digging. (I don't think Congress, or anyone else, believes acceptable price stability requires 16% unemployment.) Someday there may be excess demand from people with dollars to spend for labor, housing and all the other goods and services that are desperately looking for buyers with dollars to spend. But, today, excess capacity rules.

A more informed Congress, one that recognizes its role of scorekeeper, and recognizes the desperate shortage of consumer dollars for business to compete for, would be debating a compromise combination of tax cuts and spending increases. Instead, presuming itself to be a player rather than scorekeeper, Congress acts as though we could become the next Greece, thereby repressing the economy and helping to turn us into the next Japan.