Debt

We sometimes forget the simple rules of double-entry bookkeeping:

- For every debit, there is an offsetting credit
- For every liability, an offsetting asset
- This means that every dollar of our national debt also exists as an asset on someone's balance sheet
- The national debt clock is just keeping track of all those safe assets
- Paying off the debt would deprive savers of an important investment vehicle—Treasuries!

Issuers vs. Users of Currency

You and I aren't like the U.S. government. We don't get to issue the money we use to pay our bills. Neither does Greece.

- Because the U.S. is a currency issuer with its own central bank, it can never lose control of its interest rate or be forced to default on its debt
- Households and businesses, on the other hand, can and sometimes do run out of money. They're currency users, and they really can go broke!

U.S.
Currency Issuer

≠

Greece
Currency User

- Europe's problems began when some countries gave up their sovereign currencies
- Now Italy is like Idaho, and Greece is more like Georgia. Big trouble!

Lessons

Our fears about debt and deficits are driven by an outdated gold standard ideology. We could use our modern monetary system to achieve:

- An end to economic stagnation
- A fully employed economy
- More stable financial markets
- Protection against the harmful effects of high inflation
- Greater security in retirement
- Safe and efficient public infrastructure
- A sustainable planet on which to thrive

Want to learn more?

Government Has Always
Had The Power to Pay Its Bills
by **Stephanie Kelton**

Seven Deadly Innocent Frauds
of Economics Policy
by **Warren Mosler**

What Happens When the
Government Tightens its Belt?
by **Stephanie Kelton**

Debt, Deficits, and Modern Monetary
Theory—Interview of **Bill Mitchell**

Understanding Sectoral Balances
for the UK by **Martin Wolf**

The Challenge to Status Quo Economics
Everyone is Talking About
by **Lynn Parramore**

Available at:
www.stephaniekelton.com

Understanding Modern Money, Deficits and Debt

Don't Get Left In the Dark

- **Where does money come from, and why is it so hard for the Federal Reserve to fix the economy?**
- **How can U.S. interest rates stay low even as government deficits rise?**
- **Why does the U.S. continue to avoid a European-style debt crisis?**

These and other questions continue to befuddle many economists, veteran policymakers and savvy investors.

With a better understanding of how our monetary system works, you'll be able to see what they're all missing.

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Money

Where Does Money Come From?

A famous economist once said, "Anyone can create money. The trick is to get it accepted."
*~ **Hyman P. Minsky***

- With little more than a computer keyboard, private banks create most of the money we use today
- They can help fuel a speculative bubble by creating too much money or promote stagnation by creating too little
- The U.S. government also creates money—much of it out of thin air—using only a keyboard at the Federal Reserve
- Whereas private banks can and do go broke, the U.S. can never be forced into bankruptcy

This Literally Can't Happen!

"As the sole manufacturer of dollars, whose debt is denominated in dollars, the U.S. government can never become insolvent, i.e. unable to pay its bills."

~Federal Reserve Bank of St. Louis

- This doesn't mean Congress will always do the right thing
- But it does mean that Congress can never be forced to miss a payment to bondholders, seniors or anyone else
- It also means we aren't dependent on the Chinese or the bond markets to remain operational

Deficits

Capitalism Runs on Sales

Our economy relies on lots of spending to create jobs, generate profits and support income

- When people close their wallets and start saving more of their money, it can cause big problems as sales fall
- Sometimes, sales fall because we buy from foreign businesses instead of domestic ones
- This, too, can mean lower profits and slower growth at home

How Is This Related To The Deficit?

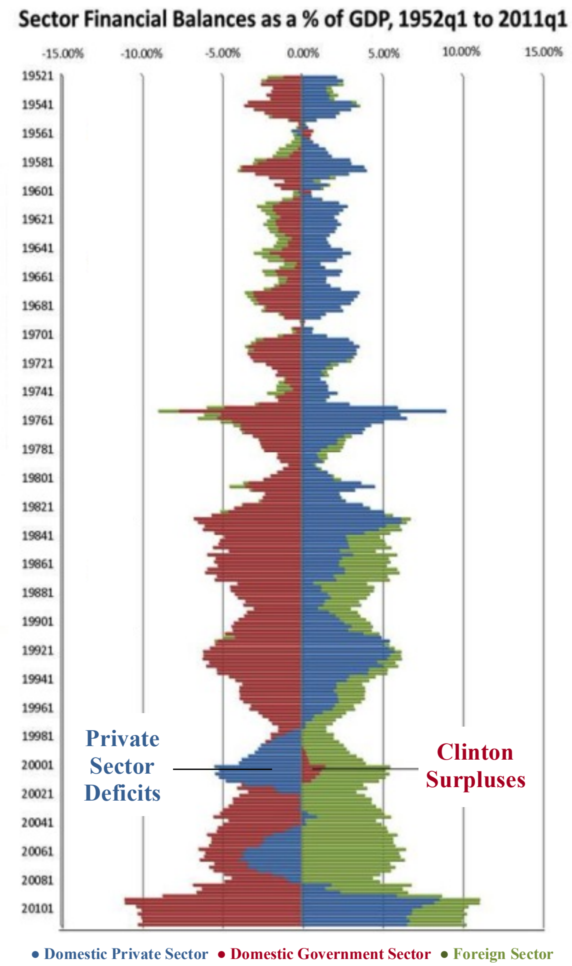
- The government's decisions about how much to tax/spend can have a big impact on the economy
- By adding more dollars than it takes away, a government deficit helps to support profits, incomes and employment
- When businesses are struggling to find customers, it makes sense for the government to cut taxes or spend more

Where Would We Be Without the Deficit?

- The image on the right reminds us that the government's deficit shows up as a surplus in some other part(s) of the economy
- The economy can be divided into three parts:

    1. **Domestic Private Sector (Households/Firms)**
    2. **Domestic Government Sector**
    3. **Foreign Sector**

Financial Balances



Several Things Stand Out:

- The government sector is almost always in deficit (red on left)
- When the government's budget moved into surplus under Clinton (red on right), the private sector was left with large deficits (blue on left) and record levels of debt
- The Great Recession of 2007-2009 forced the government to run big deficits, which helped return the private sector to its surplus position