Public Money Accounting Principles in the US

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1. Overview

This short essay is meant to clarify several issues which are repeatedly raised on the issue of public money, also often called sovereign money, or historically, US Notes. These have been used very successfully to build, maintain, and rehabilitate American infrastructure and so the relevant legislation in place today needs to be understood. Extensive material is available online at the link below[1]. Federal Reserve notes and Treasury debt are issued by the private banking system at interest (a public debt), but notes of public monies are issued by the Treasury (a public equity, as explained below) at no interest[2].

The logic used for this paper is as follows:

1. public money has been issued in the past by the US government, so how is that accounted for today, and
2. today the government is regularly issuing monetary value and treats that value as seigniorage (explained below), so how is that also accounted for today?

Described here are only two issues: (a) how the government accounts for income from other than the commonly understood sources of taxation, fees, fines and similar items–generally called "revenue" in government speak, and (b) how that non-revenue income is then handled in the government balance sheet. The balance sheet aspect especially tends to be misunderstood, as the common private and commercial balance sheets have three items, being assets, liabilities, and equity. It appears at first glance that the government does not have an equity category and this leads to confusion. We believe that this paper explains both issues and gives the needed clarity.

The United States is one of the few[3] countries of the OECD members in having issued public money during prior administrations. Part of our analysis will include a review of how these issues were handled in the US then.

3. Seigniorage

Seigniorage is simply the difference between the cost of producing money and its value. For instance, assuming that it costs 1 cent to print a dollar bill, then the seigniorage would be 99 cents. The cost of producing electronic money, which accounts for about 98% of all monies in circulation, is essentially zero, meaning that the seigniorage on it is about 100%. Further,

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[1] http://infrastructurewithoutdebt.org/how-will-this-work

[2] It is assumed that the reader is generally familiar with the tenets of the Chicago Plan also known as Fisherian Economics. Information sources on these general topics are listed in the Bibliography.

[3] At least the United Kingdom and Australia did as well

considering that there are trillions of US dollars in circulation, both in the US and internationally (for trade, reserve status, and even criminal intent) seigniorage, although not regularly discussed, is a huge issue.

Currently the federal government only collects "genuine"[4] seigniorage on the coins which the Mint, a division of the Treasury, produces. Each coin, on average and over time, is worth more than its cost of production and therefore brings in some seigniorage. The coins are bought with an account entry into the Treasury account (at the Fed) for the face value of the coins. This is not a major source of income for Treasury. For historical reasons, dollar bills do not accrue seigniorage to the Treasury. They are printed by the Bureau of Engraving and Printing (BEP), also a division of Treasury, but instead they are bought by the Federal Reserve System for the cost of production. The thinking behind this came from the gold standard era in that the Fed held the gold legally needed for backing and the BEP was solely a service organization for the Fed working at cost. When the US went off the gold standard internally in 1933 this arrangement was never changed.

The Federal Accounting Standards Advisory Board (FASAB) is quite clear on how seigniorage is to be handled as a source of income. In the latest edition of the *FASAB Handbook of Federal Accounting Standards and Other Pronouncements as Amended as of June 30, 2016* it states:

> **"Other financing sources from the public**
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> 305. Seigniorage.—Seigniorage is the face value of newly minted coins less the cost of production (which includes the cost of the metal, manufacturing, and transportation). It results from the sovereign power of the Government to directly create money and, although not an inflow of resources from the public, does increase the Government's net position in the same manner as an inflow of resources. Because it is not demanded, earned, or donated, it is an other financing source rather than revenue. It should be recognized as an other financing source when coins are delivered to the Federal Reserve Banks in return for deposits."[5] [highlight by authors]

The underlined words "net position" will be discussed in detail in the section on balance sheets. As seen above, the official technical term for the account item category within which seigniorage fits is "other financing source"

This language is repeated almost verbatim in the annual report of the Mint, as seen in the 2015 Annual Report, p. 35[6]

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[4] We are inserting this word only once, as occasionally the word seigniorage is also used to describe the transfers back to Treasury from the Fed's holdings and operations. The use of the word seigniorage in the Fed context is incorrect as per the FASAB handbook definition listed later in this paper.

[5] http://files.fasab.gov/pdffiles/2016_fasab_handbook.pdf at SFFAS 7 page 90 or perhaps easier to find, page 687 of the total 2369 pages in the complete pdf listed here.

[6] https://www.usmint.gov/downloads/about/annual_report/2015AnnualReport.pdf

> **"Other Financing Source (Seigniorage):** Seigniorage equals the face value of newly minted coins, less the cost of production (which includes the cost of metal, manufacturing, and transportation). Seigniorage adds to the government's cash balance, but unlike the payment of taxes or other receipts, it does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the government's sovereign power to create money and the public's desire to hold financial assets in the form of coins. Therefore, the President's budget excludes seigniorage from receipts and treats it as a means of financing." [highlight by authors]

Seigniorage, therefore, is well understood under government accounting as a source of income not involving "a transfer of assets from the public" (see above quote). The issuance of public money therefore by Treasury would procure 100% of the seigniorage to Treasury resulting in lower taxes, and/or better services, and lower deficits and accumulated debt. To minimize legislative change, dollar bills issued by the BEP would retain the same accounting rules as currently used as the effect is minimal.

The Administration of President Lincoln initiated this process and issued about $450 million in public monies, known as US Notes, equal proportionately under our current economy to about $5 trillion. This source of income was used to pay for the civil war and rebuild the infrastructure of the country, including the construction of the first transcontinental railway. In *A Monetary History of the United States, 1867-1960* (Princeton University Press 1963), considered the definitive work on the era, Milton Friedman and Anna Jacobson Schwarz explained in detail why the inflation of the time was not produced by the issuance of US Notes (also called greenbacks), but rather by distorted terms of trade with England resulting from the gold standard[7]. Furthermore, Friedman and Schwarz linked this issuance of public monies to a period of extraordinarily rapid growth.

4. Balance Sheet

a. Debt or Liabilities

The general thinking is that all American dollar notes (in paper or electronic form) are listed as outstanding and common debt to the federal government (the issue is different for Fed accounting). In the Congressional Research Service bulletin *The Debt Limit: History and Recent Increases*[8] it states that US Notes are not part of current debt limitation legislation. The same is reflected in the Treasury's regular Monthly Statement of the Public Debt (MSPD)[9], where every

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[7] That particular section of the book can be found here:
http://www.infrastructurewithoutdebt.org/files/Friedman_TheGreenbackPeriod.pdf

[8] http://infrastructurewithoutdebt.org/files/TheDebtLimitHistoryandRecentIncreases.pdf See page 1, Note 1 "Approximately 0.5% of total debt is excluded from debt limit coverage. The Treasury defines "Total Public Debt Subject to Limit" as "the Total Public Debt Outstanding less …and … United States Notes, as well as …" The debt limit is codified as 31 U.S.C. §3101.

[9] https://www.treasurydirect.gov/govt/reports/pd/mspd/mspd.htm

time on page 13 of the "Entire MSPD" it lists US Notes as "Other Debt: Not Subject to the Statutory Debt Limit".

US Notes, therefore, as being representative of public monies in general as these are issued by the Treasury and not the Fed, are uncommon or "other" debt as they incur no future obligation. One could call them "no-debt debt".

b. *Equity or Net Position*

Government accounting does not show "equity" in its balance sheets, but instead it does show "net position". Net position is government accounting-speak for equity on the balance sheet; i.e., the increase in monetary assets can be balanced by an increase in equity, instead of debt liabilities. This is mandated in the FASAB Handbook on page 39 of SFFAC 2[10]. In the quote in the Seigniorage Section 2 above from the FASAB, it states clearly: "Seigniorage … does increase the government's net position [read that as equity] in the same manner as an inflow of resources." This means that the current manner of treating the creation of Treasury coins as an increase in net position (equity) would apply to the creation of public money by the Treasury as well. No accounting methodological change is needed. The face value of this newly created money, as done today with coins, is then credited to the Treasury's account at the Fed.

Public/sovereign money could be likened to costless "digital gold" (or silver, or oil, or any other asset/resource), and that might help us see how the accounting for public/sovereign money works and makes sense, i.e., when oil is struck, it is booked as an asset, with no corresponding liability on the balance sheet, so it is a net asset, and thus increases the assets on one side of the balance sheet and the equity (or net position) on the other side, and the balance sheet is balanced that way. This is analogous, as public/sovereign money is unencumbered by real debt.

5. Conclusion

Accounting standards as currently used by the federal government cover all aspects needed for the issuance of public monies. The seigniorage gained by this at Treasury is not officially "revenue" but is listed as "other financing source" and is therefore not listed under "receipts" in the annual budget. This means, from the Mint quote above: "… the President's budget excludes seigniorage from receipts and treats it as a means of financing."

The accounting for the issuance of public money is therefore simply an extension, albeit a large one, of what is already being done on a regular basis at Treasury and the Fed. This funding methodology therefore clearly facilitates the vision of an America with a world class infrastructure. Everyone wants to see this happen and here is the way to finance that without any further borrowing or taxing.

[10] Or page 116 of 2369 in the pdf link given before

6. Bibliography

- All materials on the website Infrastructure Without Debt including historical documents, a Supreme Court decision, past congressional bills (both enacted and attempted), and a constitutional interpretation of the Coinage Clause from the Harvard Journal of Law & Public Policy, etc.
- Benes, Jaromir and Michael Kumhof, The Chicago Plan Revisited: Revised Draft of February 12, 2013 http://www.imf.org/external/pubs/cat/longres.aspx?sk=26178.0
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