Transcript of

#MintTheCoin! - Interview with Former Mint Director Philip N. Diehl

by

Rohan Grey[1]

Grey: Well thank you so much for joining me. My name is Rohan Grey, and I'm an Assistant Professor of Law at Willamette University in Oregon. I'm also a Director of Public Money Action, a 501(c)(4) that promotes public education and tries to improve our public policymaking process around money and financial issues.

And I'm joined today for this very special one-on-one interview with Philip Diehl, the former Director of the United States Mint, appointed by President Clinton, and currently President of U.S. Money Reserve, to talk about this idea that's been taking the world by storm, and getting into the press, about how we could potentially resolve the ongoing and recurring debt ceiling crises that we've been experiencing through a provision of the Coinage Act, that authorizes the minting and issuing of platinum proof and bullion coins of whatever denomination the Treasury Secretary determines to be appropriate.

So we're going to go into some detail about the history of that law, and some of the sort-of edges and boundaries of it. But before I get into that, I'd like to let everybody get to know you a bit more, because you're the sort-of architect behind this in many respects, and have had a pretty incredible and unusual career. So would you mind telling us a little about what got you to be the Director of the U.S. Mint, where you were beforehand, and what that journey was like?

Diehl: Well, I went to Washington D.C. when I was thirty-nine years old, so I had a long career before that in government, some in politics, but mostly in government and the private sector. I went to Washington to be Legislative Director to Senator Lloyd Bentsen (D) of Texas. And I served in that role for almost two years, until he appointed me to be Majority Staff Director of the Senate Finance Committee. And I was probably the shortest-lived Director of Senate Finance, because within three months Bill Clinton was elected, and a few weeks later Bentsen was chosen as Secretary of the Treasury, and then I went in as his Chief of Staff at the Treasury Department on the first day of the Clinton Administration.

I was in that job – a thankless job, my kids never saw me, I had young kids at home – and after about six to nine months, I felt like I had helped the Senator, and now Secretary, transition into the job. And so I decided that I was ready to go home back to Austin, Texas. And he said, well, why don't you go look at the United States Mint, that's a turnaround situation, I know you want to run a company.

And I was never a collector. I knew hardly anything about the U.S. Mint. But you don't tell the Secretary of the Treasury, "No." So I went over there, and I was very fortunate because a fellow by the name of David Rider was Director at the time, and he was a Bush Administration – H.W. Bush Administration – holdover. And he and I really made a connection. He gave me a great orientation to the U.S. Mint.

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So I went back to the Secretary after three weeks and told him, "Yeah, I am interested. This looks like a real good opportunity." And that's a very unusual move for someone who came to Washington because of his policy interests. And this really isn't a policy foundation, it's a manufacturing and marketing operation. But I saw it as a diamond in the rough, and I thought, "I could do something with it." And one of the things that really animated me, and animated the team around me at the U.S. Mint, is we had, and have, a very strong commitment to demonstrating what government – well-led government agencies – can do for the American people. That there's a real role for an active government.

And I really liked this particular audience that I was playing to - the U.S. Mint customers on the bullion and numismatic side of the business – who are, I used to say, white, male, and over fifty, conservative, Republican. And I said the white male over fifty thing was something I aspired to – now I'm well into that demographic – and I think we really had an impact on them, surprising them in what we were able to accomplish in a whole lot of areas.

Grey: Yeah, it's incredible, you would think that sometimes people come up through the ranks of the Mint, or they come in thinking that their job is just to keep the lights on, and not make waves. But as you said, you came in thinking of it as almost a turnaround, and you had had experience both on the hill, and in the heart of the Treasury, and seen a sort-of bird's eye view, and saw what this agency could do and what it could become. And not only a vision for active government, but a vision for how to take an agency and to make it bigger than what it might have been. And history is full of people who've really kind of had a vision for making something bigger than what it was when they came into government, and to be creative about that.

So do you mind going into a bit more detail about what your sort of vision was for the Mint, what your agenda was? I know you were there for quite a while, but sort of looking back, what would you say your kind of priorities were, or how do you feel your legacy of what you left the Mint, what shape you left it in versus where it started?

Diehl: I started well, what I thought was small, and ended up being pretty big, and with three priorities that I, in my confirmation hearing, I called those out. And one of them was the financial situation at the Mint – both performance and in terms of the whole financial structure – was a terrible mess. And we were one of the first agencies – because we had private sector-like functions – we were one of the first agencies subject to a new federal law that subject government agencies to outside audits. And eventually that spread to every agency. And our first audit, the U.S. Mint failed. And for any number of reasons. So I said we need to fix that.

The second thing was we had a real problem with customer service to our numismatic customers. Really all three of our customers: bullion, numismatic, and then circulating coins, where the Federal Reserve is the U.S. Mint's customer. And I said we needed to fix that, that was a big problem with just performance, morale at the agency, the tremendous criticism from outside the organization because of that failure of performance.

And then the third thing was there was – there is – this commemorative coin program, in which the U.S. Mint produces, upon a mandate of Congress, a series of commemorative coins. And Congress mandates every one of those programs. And this is a way of raising funds for organizations that have access to very powerful members of Congress, and it's a way of circumventing the appropriations process. So there grew to be a feeding frenzy for these programs, and as a result, by the time I became Director, the market for these coins had collapsed because of abuse, really, by Congress. And so getting that program under control was my third priority. And I could only do that with the help of Members of Congress, especially a couple of committee chairs, to reign in that program.

So that's really where I started. But as we built our capabilities and our confidence in our capabilities, and there's a psychological element to that, there's a personnel element to it, there's a structural element to it, there's a financial element to it—

Grey: There's a precedential element, yeah.

Diehl: Yes, yeah. So we grew in confidence and capability in what we could do. Which ultimately led to a series of highly innovative, entrepreneurial programs, that we had Congress enact, and that we built on to build our credibility and our capabilities. And the first one of those programs was the Platinum Eagle program. And I wanted to—first of all, I'd begun to build a relationship with the new Republican Chairman of our Banking Committee, Financial Services Committee, Oversight Sub-Committee, Michael Castle from Delaware. And so I went to him and said we have this idea for a brand new platinum coin, that allows us to – will allow us, if we structure it correctly – to compete in international markets. And we had never competed in international bullion markets before.

And so I asked for a blank slate. Completely unprecedented in U.S. Mint and U.S. coinage - two hundred years of U.S. coinage – history. Where in the past, Congress mandated every little detail, and the Mint could not deviate from those details, had no discretion. And I asked for virtually total discretion to design a coin, based on market research and building a relationship with the person, the company, and the patriarch of the company in Japan – which along with North America are the two big international platinum bullion markets. And so that included everything from design to denomination.

And that's what we were granted. I drafted that bill, he got behind it and carried it to fruition. It got embedded in a much larger Coinage Act that was designed to fulfill one of my promises, and that was to get the commemorative coin program under control. To limit it. So that's relevant to the issue of the platinum coin, because it has been described as our intent, and Congress's intent, to create another collectible. And that was not the intent. The intent was to authorize a bullion coin. And as I sidelight of that, it also allowed us to produce a proof coin, which is a collectible coin. It was never intended to be a commemorative coin of any kind.

So that's sort of how we got started. And that program was immensely successful. Within six months of launching the bullion version of this coin, we had taken sixty, sixty-five percent of the Japanese market away from another competitor. And we'd also, of course, taken the American market away. And that success laid the groundwork for Congress to pass the Fifty State Quarters Program. We demonstrated our ability to perform on an entrepreneurial project.

Grey: So I want to just take a step back – I want to get into the platinum coin provision in particular, but two things that you mentioned were interesting to me. One is you were talking about the idea that Congress had previously micromanaged all of these different coin programs, and you wanted more discretion. One of the things that I traced out in my research on this issue was that if you look at the debt ceiling – before the debt ceiling existed, Congress would micro-manage the issuance of Treasury debt. You have to issue this amount of this kind of duration for this spending program, and this amount for this program, et cetera.

And in the earlier twentieth century that became increasingly unwieldy as the government got bigger. And one of the goals of the original debt ceiling, if not the primary goal, was to give more discretion to the Treasury to choose how to finance, right? You tell us how much to spend, and we will work out how to do it. In fact, I think it was Secretary Mellon in the thirties that said we [the Treasury] should have complete discretion – using similar words to you – in what kinds of securities we issue, in what denominations, to meet our needs. Get Congress out of it entirely.

And it seems like there's that trend in general, as the government gets bigger and more complicated, to put more discretion on the executive branch. Not to make the important political decisions, but to execute on the sort-of priorities and commitments. And it seems to me that's kind of consistent with – that there's a sort of parallel there – with you getting more of that discretion within the Mint's sort of authority, the way that the Bureau of Debt Management, or Office of Debt Management would have done with Treasury securities.

Diehl: Yes. Yeah, that's exactly right. And there's another element to this, and that is that Congress has delegated more authority to the executive branch as it has become more politicized over decades. And a great example of that is the Base Closure Commissions, in which – because it is so politicized, in terms of who are the winners and losers – that Congress in the past was paralyzed in its ability to make the Defense Department more efficient by closing down bases that had outlived their usefulness. And so what did it do? It turned over to the executive branch a process by which it presented a package of bases to be closed and consolidated, and then that package went to Congress, and they could vote it up or down. They could not amend that package whatsoever. So basically what Congress did was said "put these handcuffs on us, and then, you know, just give us a simple option."

That's also what they did with that whole Commemorative Coin Program. I basically put together a Base Closure Commission for these coins, so that there was a committee that was formed that would make recommendations to Congress. And Congressmen would make recommendations to us, but they didn't have to say no. They could say, "Oh, the executive branch committee over here, they said no. Sorry."

Grey: Mhm. And you can see a clear parallel with the debt ceiling today, where everybody knows it needs to be increased or abolished, but nobody wants to take political responsibility.

Diehl: Yes.

Grey: And so, for the executive branch to step into the breach and say: look, we're going to do what everybody knows needs to be done–

Diehl: Yes.

Grey: ...but may be politically unpalatable, and that might be to use authority that you've clearly given us, you know–

Diehl: Yes.

Grey: ...in ways that maybe you want to be able to say, hey, you didn't want this–

Diehl: Yes.

Grey: ...and that's useful political theater, because you can distance yourself a little bit, but it allows us to keep doing what needs to be done.

Diehl: And that is part of the magic of the trillion dollar coin, is it takes – it depoliticizes the whole issue. After you bite the bullet – or bite the coin – and do it, it takes that issue out of the hands of Congress. Everybody is off the hook, except the Secretary of Treasury and the President. And actually, I think what happens – right now what's happening – is the trillion dollar coin, and also the Fourteenth Amendment, serve as a failsafe–

Grey: Yes.

Diehl: ...on the coin. So everybody can play games with the politics of this, knowing that in the end that there are outs to this. And to sort of settle markets down as they pretend to approach this disaster of the economic collapse of default. And I, you know, I think that's part of what's happened this week, when all of a sudden, you know, Senator McConnell decides that, well, let's put this off. Because there were escape hatches.

There were other things that were going on too, like, you know, the Department of Defense intervened, and said–

Grey: We need to keep the lights on, this is a national security issue.

Diehl: Yeah, we need to pay our people. And so there were other things at play too. But the timing of the article that was written by Felix Salmon, that said, you know, that quoted me, saying, Oh, the Treasury Department could–

Grey: could be done in hours.

Diehl: Yeah, can produce this coin overnight, virtually, if they set up a couple of ducks in order. And that's the first time, I don't think that had ever been said.

Grey: No, it hadn't.

Diehl: And so – and it got tremendous play. As you know, Drudge put it at the top of their page, and then gave a spin to the title that suggested it was already–

Grey: They're going to do it, yeah.

Diehl: ...They're doing it right now. So–

Grey: The hyperbole helped bring it further into reality.

Diehl: Yes, yeah, yeah. It certainly blew up the whole story.

Grey: Yeah, and I want to just go and take a step back also. Because you were just talking about taking this out of – about depoliticizing this. But of course, this isn't about depoliticizing the budget itself. This isn't about depoliticizing spending itself.

Diehl: Exactly, yeah.

Grey: That's still an incredibly political process. In fact, maybe the most central political process for Congress. This is just about honoring that spending once it's already been committed, and not saying we're going to ignore Congress, or go back on our debts and things. And I just to sort of connect that, because one of the things that you haven't mentioned about your legacy – and correct me if I'm wrong about when this, the timing of this – but my understanding is that you were also the Mint Director when the Mint really sort of separated its own budget from the rest of Treasury, and became a non-appropriated fund instrumentality, which means essentially that it funds itself through its own operations. You know, the CFPB [Consumer Finance Protection Bureau] does this with fines, other agencies do this with fines, the Fed does it with its own money creation powers.

But you essentially sort of elevated the Mint back up to an equal status with the Fed in terms of being, kind of, off balance sheet from the rest of the government. Which, when you combine that with the Mint's sort of, internal powers, makes it a very very, you know, powerful institution. As you said, the Mint has been around for two hundred years, it's the oldest monetary institution in the U.S. government. But that seems to have been a pretty key moment in making the modern Mint what it is today. Do you have any thoughts?

Diehl: Yes, it absolutely was. And when I proposed this to Treasury I got laughed at. They said, how are you going to get Congress to let go of the purse strings on your agency. And I said, I'm going to do it through the Appropriations Committee. Which made them laugh harder, because of course the Appropriations Committee is where that power is exercised. But I already know at the time that the Chairman of my Appropriations Sub-Committee was going to back it, because he and I had talked about it, and he really–

Grey: You worked on the hill, you know how this works.

Diehl: Well, yes, exactly. But also I was very fortunate, because the new Republican Chairman of the Committee – this was in '95, so right after the Gingrich revolution – the new Republican Chairman of the Appropriations Sub-Committee was a conservative – very conservative – Republican. But he and I hit it off on a personal level. And he really liked the idea of what I was doing at the United States Mint, of turning it into an entrepreneurial, you know, business-like agency.

Grey: Believing the government can do something, ironically.

Diehl: Yes, yes. This was before there was this commitment in the party – his party – that the best way of showing the government could not perform was to sabotage it. And so he was not like this at all, a guy by the name of Jim Lightfoot from Iowa. And so he said yes, you know, and I explained that all these things that we need to do, I need to have this flexibility. And so I need to operate off my own profits. The U.S. Mint is a profit-making enterprise for the U.S. government. Our profits go directly into the general fund of the Treasury. And I told him, you give me this flexibility, and I'm going to send a lot more money into the General Fund.

Grey: Which means less government debt, right? Less borrowing.

Diehl: Exactly. I mean, that's exactly right. The money from the United States Mint, part of it, is exactly the same as tax revenue. And the other part of it, which gets to the trillion dollar coin, is very much like the issuance of interest-free loans, uh, bonds. So the combination of that, you know, really was compelling to him. He carried the legislation. Not only did we get completely off the appropriations process, but we also got the FAR, the federal procurement regulations, were lifted from us. So we took a document that was like *this* thick, and turned it into a pamphlet, to describe to outsiders what our acquisition process was.

Grey: So once again, it's the story of more flexibility, more discretion.

Diehl: Yes. And I will say this: later on, we went to OMB [Office of Management and Budget] and asked for flexibility around the personnel rules. And I had such a good relationship with our unions that I actually had the endorsement of our unions to lift the personnel rules from us. And when my Deputy Director and I went in, we explained what we wanted to do, and pointed to our success on the procurement and on funding. He said, "you don't understand. It's not failure we fear, it's success." So we realized, okay, we're at that point of hitting the Catch-22.

And the concern was, and he said – we said, what's that mean? - and he said well, if you achieve this kind of flexibility, every other government agency is going to want it. And we said, our response was, "well, if they earned it, why wouldn't you give it to them?", knowing that is a very high bar to reach, and not very many government agencies are going to do that. One of the reasons they wont do it is because the professional risk – and therefore the financial risk – that leadership in Washington D.C. takes if it wants to make a significant change in how things work in Washington, and in the performance of an agency.

So there were a lot of things that, sort of came – and we got really lucky. We had friendly Republicans in key positions. But it is, yeah, it is hard to get that kind of flexibility.

Grey: It's just incredible to hear this story in detail like this, I mean I feel like it needs to be a book or a movie, or something. I've spent a fair bit of time studying the origins of the Federal Reserve, and it's incredible to hear this story – that you sort of almost did single-handedly – when you think about the Federal Reserve's origins as this sort of confluence of massive banking interests in the heart of a crisis. And you're just behind the scenes, sort of quietly doing something that ends up creating a level of budgetary and legal autonomy that's sort of comparable within its own space.

But a couple of things were sticking out to me. One is the Federal Reserve also has budgetary independence, but doesn't have the same kind of independence with its employees, for maybe a similar reason. So there are court cases and things where they say, look, in one sense the Federal Reserve System is clearly a government agency, but it's got its own separate budget process, but in certain circumstances employees will be considered government employees.

But your point about the seigniorage revenue being a source of income similar to interest-free loans: at the Fed, of course, they create Federal Reserve Notes; they create reserves, which banks use as money. And the profits that the Fed returns from the assets that it buys by creating those dollars, when it returns it to the Fed, at least very recently, it was booked in accounting terms as Interest on Federal Reserve Notes. So the whole thing was, we can create this one kind of currency, and anything we do within our agency will be sent back as the sort of seigniorage profit, or the charge that we pay on what we earn on creating these instruments.

And so it's sort of interesting to me that we have this moment where, you know, when the Federal Reserve returns eighty billion dollars a year in this revenue, we say this is great, you know, this reduces the need to borrow, thank you so much. This isn't against Federal Reserve independence, this is good for, you know, statutory agency independence. But nobody kind of notices that the Mint's also been doing that, often because the numbers are maybe an order of magnitude smaller. But as you noted, in your tenure they went up. And they could have kept going up. And there's never been a limit historically on the upper limit. It's only been, sort of, how visionary the Mint Director has been, it seems like.

Diehl: Yes, yeah, those are good points. And it gets to one of the points I like to make, [which] is: the trillion dollar coin is nothing novel. I mean, it has been made out to be this gimmick. And as you say, you know, it's [an] everyday occurrence at the Fed, and at the United States Mint. Creating seigniorage – seigniorage being the difference between the face value of a coin, in this case, and the cost of production. And that represents sort of a profit, but really it represents more of a loan in this case, because the U.S. Mint sends a coin – a quarter, let's say – to the Federal Reserve. The Federal Reserve purchases it for the face value – twenty-five cents. Let's say the Mint produces it at a cost of eight cents. So that's seventeen cents, margin, that the Mint makes on that coin. Well, you add up all of that in the course of the year, and that acts as – the U.S. Mint moves it over to the Treasury Department – and that seigniorage acts as a means of funding the government, just like a bond does.

And so the only difference a trillion dollar coin represents, is it has more zeroes on the end of it. And, yeah, that's a huge thing. But it's not a different process. It's not a different concept. In fact, this is a concept – seigniorage goes back, you know, I don't know–

Grey: Yeah, Founding Fathers.

Diehl: …two hundred years.

Grey: Pointy hats–

Diehl: Yeah.

Grey: ...and tin whistles, and, you know, the HBO mini-series.

Diehl: Yeah.

Grey: It's as American as apple pie.

Diehl: [Chuckling] Yes. Yeah, yeah. And it's because governments have used seigniorage to fund their operations – the King's operations – for hundreds and hundreds of years. And Mint Directors in the past, if they shaved too much – if they shorted the amount of metal that was in a coin beyond what the Crown had authorized – they were hung, you know.

Grey: It was a big deal.

Diehl: It was a really big deal, yeah.

Grey: Isaac Newton was the Mint Director in the U.K, took his job very seriously. Yeah, I mean, two things on that. One is, you know, you say it's sort of like issuing government debt. But it's important, and this is where, again, being very clear about statutory language – as a law professor I love this whole moment because it's forcing people to learn how statutes work – but the public debt limit is quite narrow. It's for things that have interest and principle, and it includes only a certain group of instruments. So for example, Federal Reserve Notes and coins have never been counted in the national debt. If they did, then we'd have probably accidentally violated the debt ceiling a number of times already.

Diehl: Yes.

Grey: But not only that, there's actually been instruments that the Federal Reserve issues – interest-earning term deposits, which they started issuing in 2009 – that pay interest, are a legal obligation of the government, but are not included in the debt ceiling. And so there's a lot of instruments out there – including the Greenbacks that Lincoln authorized, that are still legal on the books at the Bureau of Engraving and Printing – that are not included in the debt ceiling. We could call them debt, we could call them a means of financing, but they are no "Debt Subject to Limit" in the same way. And this coin would be very clearly in that category, not in the category of debt subject to the debt ceiling, because that's a very narrow category. And that's sort of one of the other confusions. People say, "oh well this is basically violating the spirit of the debt ceiling law." Well, no more than issuing a quarter is, right?

Diehl: Yes, that's exactly right.

Grey: And you mentioned, you know, that this was a sort of bullion coin program initially. And I think this is one other confusion – we were just talking about this earlier – people often think, well, bullion coins have to represent the underlying metal value and nothing more. And the reality – correct me if I'm wrong – is that a lot of bullion coins are sold, you know, over their face value because the metal is more expensive.

But there's nothing that says the face value couldn't be more than the metal, and we certainly aren't on a gold standard, or a metal standard in general. And it's the face value of the coin that matters. In fact, I pulled up a couple of statutes – 31 U.S.C. § 5112(q)(4), which concerns the sale of $50 denominated gold bullion coins, says that the bullion coins shall be sold for an amount the Secretary determines to be appropriate, but not less than the sum of the market value of the bullion, and the cost of designing the coins, including labor, materials, machinery, et cetera.

So even with regular bullion coins – and there's another one for § 5112(o)(4)(A), which governs the sale of $10 denominated commemorative gold coins, that says that bullion coins shall be sold at a price that is equal to or greater than the sum of the face value and the cost of designing the coins. So even when we think of bullion coins, we're not thinking of something that can only ever be the value of the metal. That might be a floor, but it's not necessarily a ceiling. Does that sound correct to you?

Diehl: Yes, that's exactly right. And it's only by practice, and sort of practicality, that the U.S. Mint sells bullion coins at a small premium over the spot price of gold, that represents those costs of production, of marketing, sales, and all that. And that's because the purpose of the coin is to compete in marketplace with other bullion coins. And so those sorts of price constraints apply because of the intent, and the intent of the product, and the circumstances in which the product enters the marketplace. None of that applies to a trillion dollar coin. Its purpose is very different. And so it wouldn't make sense for it to follow that model, because it is so different.

The other thing that's important is there is no language in that provision of law that authorizes the platinum coin that says anything about pricing.

Grey: That's right – other than that the Treasury Secretary has absolute discretion, right?

Diehl: Yes, yes. So the restraints that are in the statute, that apply to gold and silver bullion coins, aren't there for platinum.

Grey: And I believe it was Harvard Law Professor Lawrence Tribe that talked about this. He said, you know, if you look at all the other statutes, and they have constraints. And then you look at one that doesn't. And it was intentionally written to not have the same constraints as the others. Then you have to take that seriously as a matter of statutory interpretation. You can't say, "oh, they meant it to have similar constraints, they just forgot." You wrote it! You didn't forget. You made it.

Diehl: [Chuckling] Yeah, no, it's a feature not a bug.

Grey: That's right, that's right. That's exactly right. And you mentioned also, you know, there was also this other language for "proof" coins in the statute as well. And there's been some sort of debate around this. People say well, proof coins means they have to only be entered into as collectibles. And obviously, most proof coins *are* collectibles. But my understanding – correct me if I'm wrong – is that the word "proof" there refers to the method of production. Can you describe that for people that aren't that very familiar with the minting process, what proofing is?

Diehl: Yeah, so proof coins are produced in a very different way from circulating coins and bullion coins. And they are produced to much higher standard. Also, they look different. They have a frosted image, typically, and a marred background. They are sort of a fine art of coin production. And so those coins are typically sold to collectors. But there's no restriction. They could be sold as bullion coins. They could be produced and put into the Fed as circulating coins.

Grey: You wouldn't do it because it would be a waste of money and high production grade, but you could if you wanted to, right?

Diehl: Exactly. I mean, you could do it – and we actually talked about doing something like this – to put a very small portion of, like, a State Quarter into circulation through these huge ballistic bags that we send to the Federal Reserve, and they put into rolls and they ship to banks. And we decided that there was enough interest in the 50 State Quarters when we launched it without doing something like that, there was–

Grey: Sort of like Charlie and the Chocolate Factory and the golden tickets.

Diehl: [Chuckling] Yes, yeah exactly, yes. And so, yes, we completely had the authority to do it. The economics of it does not work if you're doing all the coins like that. If you took a very small, you know, percentage and did it like that, then the accelerant would easily pay for itself, because all these other coins would be collected hoping to get those. And you get all the seigniorage profit on that.

Grey: In fact, I believe it was Andrew Jackson who issued a Gobrecht Dollar that was a proof circulating coin. And you might know the history better than me, but my understanding was that it was the sort of reintroduction of a dollar coin. And so it was a sort of, as you say, an attempt to drum up interest, and to make a big show of it. And so the reason that you used this higher production grade quality was precisely to get the marketing and the attention, more than you might for a regular coin. And that was a proof coin that happened to circulate. So there's no kind of inconsistency there.

Diehl: Yes. There's a similar situation that as far as I know was an accident. I was not aware it was happening, I don't at all know it was intentional. But when the Sacagawea coin was launched, there were some of them that were produced on a more highly refined blank, and those coins became especially valuable collector items once they were discovered, and–

Grey: Semi-proof, huh? Quasi-proof?

Diehl: Yeah, but it had a better strike to it. And as a result we had a similar kind of effect that you're describing.

Grey: And the idea of, kind of, having a high – you know, you call it the [high] art of of coins – seems to be pretty appropriate for a trillion dollar coin. You know, I've always said, people say "what happens if it gets stolen?" or something, and its sort of a funny joke. And yeah, we all get to laugh about it. Of course, if you steal a trillion dollar coin and then try to use it, there's going to be a pretty strong legal presumption you didn't get it legally, right? But I've always thought it would be great to have some ritual and symbolism around this, especially if it was to save the government from itself and this insanity of the debt ceiling.

When you think about the Federal Reserve and its announcements – you know, the ritual of these Federal Reserve pronouncements – when you think of courts and them wearing robes, when you think of military service and the, you know, the music they play, and the folding of the flag, ritual is very important to our government. And if we were to going to mint a trillion dollar coin, having it to be beautiful quality, and then, you know, having a child walk it from the Mint to the Fed–

Diehl: Yep.

Grey: ...and say, you know, here we are, I'd like to hand this over, and then "I accept this on behalf of the American people," you know.

Diehl: Yes.

Grey: And then maybe on the other side it ends up at the Smithsonian, and everyone can tour it in schools as part of their, you know, American history education. It seems like proof coin, there, is sort of the appropriate one. Even if the law had said "bullion, proof, or circulating coins," if you were going to create a trillion dollar coin, you'd probably want it to be proof.

Diehl: Yes, yes. Well, not only would you stand out if you carried a trillion dollar coin and tried to use it in commerce, but hard to make change for it to. But yes, sitting at the Smithsonian, obviously you'd have to have it well guarded, but the–

Grey: Alongside the Declaration of Independence, or something.

Diehl: Exactly, yes. But the key to this – and to address another knock that we hear that is fallacious on the coin – the key is that the coin does not, and of course, can not go into circulation. It has no impact on the money supply. And that is the wrap, is that all of a sudden, it's going to be like Venezuela. All of a sudden, you're increasing the money supply by a trillion dollars, and you're going to have all of these disasters and consequences. You know, it never goes into commerce. It's not like other coins, or currency, or QE [Quantitative Easing] for that matter, in which money is being inserted into the economy. This coin is produced at the United States Mint, goes to the Federal Reserve, stays in a vault. There will be, when sanity prevails and the debt limit is increased, that trillion dollar coin can come back to the U.S. Mint, just like any other coin. That seigniorage is taken off the books, and the coin is destroyed.

Grey: Right. The only spending that would happen is the spending that Congress has already said needs to happen, that should be happening anyway, and in fact is constitutionally required under the Fourteenth Amendment.

Diehl: That's exactly right.

Grey: The money going out of the Treasury's account into people's pockets should have kept going anyway, but for the insanity in Congress, and these misunderstandings that the debt ceiling is supposed to stop us from being able to continue honoring those obligations.

Diehl: Yes, yeah, exactly.

Grey: So, one question – you mentioned there, you said the coin doesn't need to go into circulation. Usually, my understanding – and correct me if I'm wrong – is that coins are sold to the Fed, and that the Fed sells them on to banks, who then, you know, get it out into the public. But the Fed isn't the only actor that has bought coins directly from the Mint, apart from collectors and bullion investors, right? There are other ways that coins do get into circulation. Do you want to tell us a little bit about some of that history?

Diehl: [Chuckling] Okay, yes. It's sort of notorious. So we were given a mandate by Congress to produce a new dollar coin to replace the Susan B. Anthony, which was an utter failure for a number of reasons. And this is something that Congressman Castle and I worked together on as well. And we were given discretion in this case too, but only over the design of the coin. And it was through a design competition that the United States Mint executed, that the image of Sacagawea and her infant Jean Baptiste on her back, during the Lewis and Clark expedition, was chosen for that coin.

And so we did a lot of market research – part of the entrepreneurial basis. The United States Mint hadn't done that before to any significant degree; certainly hadn't with the Susan B. Anthony. And part of the market research was to go the banks and the Fed, and say, you know, to make a pitch: you should get this coin, it's going to be much more popular than the Susan B. Anthony, and they won't be in the vaults forever. Here's the market research of consumers that shows there will be this demand. And the response from the banks and the Federal Reserve was, "well, you have to demonstrate to us – actually demonstrate to us – that there will be demand for this cause."

Well [it was] the ultimate Catch-22, because if we can't get through the Federal Reserve into the banks, how do you demonstrate the public is going to want it.

Grey: It's almost like they just didn't want it.

Diehl: They didn't want it, yeah. The coins and the Federal Reserve – I mean, the banks and the Federal Reserve, they don't like coins. And for–

Grey: It's an unpleasant reminder that there's other monetary traditions other than theirs, right?

Diehl: Yes. And coins are more expensive for the Federal Reserve: they're heavier, they're–

Grey: They have to pay face value, not the paper cost if they buy paper notes.

Diehl: Exactly, yes. And a dollar coin that was highly popular, the banks in particular didn't like. Because what happens if you have a really popular coin? Customers come into the bank, they ask for it, they come to the drive-through. That imposes a cost on the banks they don't want to incur. So no way, they weren't going to do it, we couldn't persuade them. It wasn't a big enough issue for the Secretary of the Treasury or certainly the Chairman of the Fed to get involved in–

Grey: Small change for them.

Diehl: Yeah, exactly. Doesn't matter. Penny-ante. And, so–

Grey: In fact, I believe I've read some Government Accountability Office reports saying, you know, it would be much better for costs and things to have less dollar paper notes and more dollar coins, but it's very hard to get people to use it, and it would certainly be hard if the banks are not actually on board with helping people use it, and actively resist.

Diehl: Yes, yes. So, being entrepreneurial, we decided we'd go around the Fed and the banks. And I had a lunch with the brand new lobbyist for Walmart, who'd never done any lobbying before. He didn't know this kind of entrepreneurial stuff wasn't smart in Washington, D.C. So I said, what I want to do is I want to launch this coin on the same date in three thousand locations, Walmart locations across the country. And we will direct ship, you know – and it was, my recollection was it was two hundred million coins over the period of those two months – to all those locations. A huge number. They wanted as much as we could produce, well we couldn't produce more than that. And so none of the banks ordered it, Walmart ordered it, and we did a marketing campaign, and at the end of January 2000, that coin was launched.

People lined up. People think the Sacagawea coin was a failure. And it ended up being a failure for a couple of reasons – one is hostility in the banks and the Federal Reserve. But when we launched it, people lined up at the stores. They were out of the coins by the end of the first day. They wanted to order more, we were on a production schedule. But when people couldn't get the coin that they wanted at Walmart, they went to their banks, and the banks didn't have them. And so they were embarrassed.

And so what did they do? They don't say, "oh, you know, we made a mistake." They call their contact at the Federal Reserve. And the complaints all come in to Greenspan, Greenspan calls the Secretary of the Treasury, I get a telephone call, and I explained why we had done it this way, and it faded the heat. But what we ended up doing was, we went back to Walmart and said, "we're not going to be able to provide the second one hundred million coins." It's a government contract, and also they had achieved their objective.

So we took that hundred million coins, and direct shipped them to the banks based on orders they made online.

Grey: On the day.

Diehl: Huh?

Grey: On the day.

Diehl: Yes, yeah. And we direct shipped it because the process of getting coins from the Mint through the Federal Reserve to the banks was so slow that we, you know, it frustrated the demand. So we bit the bullet and direct shipped it to them, and so it kind of ended the controversy.

Grey: It's an interesting story on two levels, because on one level it's showing that – you know, people often say well the Fed wouldn't accept the coin – well, maybe there are other people that would accept, maybe not a trillion, you know, not everyone's looking for a trillion in cash, but there are certain investors and things that are looking for, you know, a billion dollars in liquid cash and things. And if you could say, "hey, you know, we can't sell any more T-Bills this month, but we can sell some coins that you can store, and they're legal tender, and they will satisfy your fiduciary responsibilities to invest in safe assets, you know, I think there could be people that'd be interested.

But the other part of that story is that, you know, we often think that, "oh the Fed said it can't be done, so it can't be done." But the reality is that's just one opinion of one agency within the government, and there's other agencies with other opinions, and who ends up winning that battle when there's a difference is often about who's more creative in putting pressure in the right way. And the story you just told is about precisely putting the pressure. And you mentioned a similar story in the past about the 50 State Quarters, where the antagonist was the Treasury in that situation, if you want to share a little about that story.

Diehl: Well, opinions are a dime a dozen. And so of course, you have to look behind the opinions at the facts. And on all of these monetary issues, they're very complex. So it's hard to sort through, and usually you have to rely on somebody whose judgment and independence you trust. But the other thing is it's crucial to look at what is the motive behind – the economic motive, the emotional motive, whatever–

Grey: The partisan, the political motive.

Diehl: …the power motive behind an opinion. And also, what is the strategic situation. For example, we are hearing from the Treasury Department and the White House that "no, no, we won't do the dollar coin, I mean the trillion dollar coin. It's a gimmick." Well, okay, that may be a sincere expression of their intent, or their adamant commitment not to do it. But also it's very clear that the White House and the Treasury Department wanted a particular outcome, which they got by standing firm. And to say, "yeah, you know, the trillion dollar coin is an option" releases the pressure, the negotiating pressure, to get the outcome they really wanted. And–

Grey: It was Margaret Thatcher that famously popularized "There Is No Alternative" as a justification–

Diehl: Yes.

Grey: ...for doing anything. And often there was. But–

Diehl: Yup.

Grey: ...it was a useful line. In fact, I remember speaking to some senior Treasury officials back – about the situation in 2011, and they said that. They said, "we didn't want there to be another option," because–

Diehl: Yes.

Grey: ...we wanted to force the Republicans to come to the table.

Diehl: Yep.

Grey: And so anything that showed that this could be resolved on our side–

Diehl: Yeah.

Grey: ...was inconvenient for us.

Diehl: And it's easy to frame that in partisan terms. That, okay, the Democrats were smarter, tougher, stood hard this time, as opposed to last time; they prevailed. But it's crucial to rise above that partisan – you know, it's really a partisan dismissal of what's really at stake.

Grey: That's right.

Diehl: What's at stake here is using the debt limit as a cudgel by threatening the country with default. And now it's happened three times. The first two times, the Democrats compromised. They were the responsible party. And what did that do?

Grey: Yep.

Diehl: That just laid the foundation for the next time that–

Grey: Yep.

Diehl: ...you know, that their opponents would push them to the wall. And this time, they took a stand and they prevailed.

Grey: And, you know, Mitch McConnell managed to get, what? Ten Senators, or something, on board with this, or to vote to change the rules to extend it for another two months? But–

Diehl: Very difficult.

Grey: ...all you need–

Diehl: Very hard.

Grey: ...all you need is a slightly more radical, you know, opposition party, or maybe not three branches, where there's enough, you know, members on one side or the other. And yeah, I've described it as putting a gun to the head of the American economy–

Diehl: Yes.

Grey: ...and saying, "we'll pull the trigger if they don't come to the table." And, you know, even if they're being unreasonable by not coming to the table, the fact that you're putting a gun to the head of the American economy is its own form of, kind of, degradation of the process, and what the public understands, because you're telling them something that isn't true–

Diehl: Yes.

Grey: …to achieve an outcome–

Diehl: Yes.

Grey: ...and in doing so eroding that trust in government, and in the fact that you can, that your politicians are actually telling you what is going on. And they're doing so in a way that is playing with fire. And if it gets burned will affect everybody. And–

Diehl: Yes.

Grey: ...we'll go, "I can't believe this happened," you know?

Diehl: Yes, yeah. And in – I think in the past, when it came up in 2011, 2013, this became increasingly difficult to believe. But, there are some who believed – and some very smart people, savvy people, who believed – that this was only traditional politics: using leverage to – in a negotiating situation – to get an advantage over your opponents. I think we've increasingly come to realize – not just because of previous debt limit fights, but from other political situations – that there are people in the country who believe that they benefit, in terms of power and–

Grey: Disruption.

Diehl: ...political organization by damaging the economy of the country when the opposing party will be held accountable for it. And it's a form of economic sabotage. And there is still a group of people who would benefit from that. Or who could sustain their position for a period of time in those circumstances. But the vast majority of us would be losers.

Grey: And we saw that, almost, with some of the – some of the people motivated behind Brexit, for example.

Diehl: That's right.

Grey: Now they might have been quite aware of how damaging it could be to their economy, but they didn't care.

Diehl: Yeah.

Grey: So I don't know if you don't want to talk about the 50 State Quarter Program and the Treasury experience there, if you – we can move on on that one. But the other thing was, you know, people have been saying, "well, the Fed could just refuse to accept the coin, and it wouldn't be booked as legal tender until it was sold. And so it'd have to be sold to someone first, and if the Fed refused to accept it then that would be that." And you were telling me earlier about, sort of, the difference in the legal rules around when something gets counted as, you know, legal tender – when it leaves the Mint, versus when it gets to the Fed.

Diehl: Yes.

Grey: And it reminded me a little bit of when I teach in Contracts. You know, people talk about the Mailbox Rule, you know, when you accept a contract. You send it in the mail versus when the other person receives it; it's a question of, kind of, when was it accepted. But can you tell us a little bit about that rule, and how it's changed, and, sort of, what you think about it?

Diehl: You bet. First of all, I think this is a highly unlikely–

Grey: Right.

Diehl: … theoretical scenario, where–

Grey: ...the Federal Reserve would have to be refusing to go along with the Treasury, and saying, "we prefer default in this eleventh-hour moment"–

Diehl: Yes.

Grey: ...we will be the ones putting our hand up, saying–

Diehl: Yes.

Grey: …'we're willing to cause this default–

Diehl: [Chuckling] yes.

Grey: ...in the name of Federal Reserve independence, which, by the way, we hope will still be around tomorrow–

Diehl: That's right.

Grey: ...if we do this."

Diehl: [Chuckling] Yes, yes. That's one half of the equation that makes it virtually impossible to happen. The other half of it is just politically, the President, and the Secretary of Treasury, and the Chairman of the Federal Reserve are going to have to agree on doing this beforehand. It's just, it's inconceivable that the White House would try to jam this into the Fed. But, I mean, there are scenarios you can conjure up where something like that may happen. So–

Grey: I had a colleague remind me that it's still on the books that the Treasury Secretary can remove the Fed Chairman for cause, and–

Diehl: Yes.

Grey: ...maybe this would be moment–

Diehl: Yes, yes.

Grey: ...that unthinkable moment where you might actually be able to remove the Fed Chairman for cause, because they're standing in the way of preventing unconstitutional default.

Diehl: [Laughing] Yes. I definitely think that would be cause.

Grey: As far as stakes go, you would hope–

Diehl: Yeah, that would be cause.

Grey: ...that would be high enough. If the President said, "it's my sincere belief that–

Diehl: Yeah.

Grey: ...this Fed Chair is standing in the way of us, you know, preventing default, I can't imagine the Supreme Court getting in the way and reversing it. So, you know [shrugs].

Diehl: Yes, yes. And I can think of at least three members of the Senate who you could move into the Chairmanship of the Federal Reserve [clicks fingers] that would accept a trillion dollar coin that fast.

Grey: I won't ask you to name their names right now.

Diehl: Yes, I'm not gonna name them. But they – and not just because it avoids default, but because there are a whole set of other policy issues that come together in the trillion dollar coin that people don't talk about because they're complex. Very complex. And they are downstream from what we are talking about here today.

So this caveat here, to answer your question – this is my recollection of what happened twenty-plus years ago at the United States Mint, and why it happened. And I do not know whether it has changed since then or not. I'd be very surprised if it changed because of the reason why it changed.

So during my term and before my term – during most of my term – seigniorage was booked when coins left the Mint loading dock, on its way to the Fed. So in the case of the trillion dollar coin, we, you know – the U.S. Mint strikes it, they send it to the loading dock, a truck takes it over to a helicopter, which flies it over to the Federal Reserve in New York City in an hour. So under that scenario, boom. The seigniorage would be booked immediately.

There was a point late in my term, when it was the OMB (the Office of Management and Budget), I believe – it could have been Treasury, but I think it was OMB – that changed that booking procedure. And changed it so that the seigniorage wasn't booked until the Fed had accepted the coin. And – a quarter, whatever coin. And the reason – and it might have happened during the Fifty State Quarters Program (that would make sense) which was launched in 1999 – [was] because we were shipping so many coins to the Federal Reserve, that OMB looked at that and said, "oh, we need to change the incentives for the shipment of coins to the Federal Reserve."

Grey: You're too successful. You're getting to many out the door.

Diehl: Well, it was just the concern that some time in the future the U.S. Mint would produce a whole bunch of coins, send them over to the Federal Reserve – or the Administration would order it to happen – and then inappropriately book – "inappropriately" [inverted fingers] book – all the seigniorage.

So – and this is ironic, because – when I got to the [Mint], there was this boom and bust cycle of the production of coins. And as you can imagine, the demand for coinage depends on the economic activity in the economy. More coins are needed when there's more economic activity.

Grey: We had a coin shortage last year. I think it's still enduring, because–

Diehl: Exactly.

Grey: ...of the pandemic.

Diehl: Yes. And so – and this was magnified by the Fed's terrible model for projecting coin demand. And so I had a very smart young economist, who I brought in and said, "uh, we gotta fix this." Because what happens is we fall way behind in production when all of the sudden all of this demand comes in. And then so we're so slow in cutting off production, the Federal Reserve vaults fill up with coins. Then those back up into – we had them not in vaults, but in hallways back in those days.

And then when demand comes back up, all that flows out; we have to crank up production. And so the irony of this is that we [the Mint] were responsible for changing the model that the Fed used in cutting down this shipment of excess coins and seigniorage and everything.

But – so, that change occurred. And that would obviously affect the trillion dollar coin, because if the Fed refused to accept it, then the seigniorage wouldn't be booked. But as we were saying, that's a highly unlikely situation for all kinds of reasons. It, you know, it would only be done as a failsafe measure. And –

Grey: And the rule that the OMB set could just be changed, right?

Diehl: Well that's the other thing. Yeah.

Grey: It's not legislative, it's not statutory. It wasn't Congressional intent. This is all within the executive branch, this is all internal baseball between different agencies and internal politics, right?

Diehl: [Nodding] It wasn't even a regulatory rule change–

Grey: Right, so it wouldn't need to go through the–

Diehl: ...that required public notice and all that stuff. It was just [snaps fingers] you know, they're just done.

Grey: So if Biden needed to change that rule five minutes before that coin got struck, he could, potentially.

Diehl: Yeah. Absolutely, yeah.

Grey: So I know we've been going – we're [at] the end of time, but I've got one last question, sort of. You mentioned all of these downstream, second-order implications of the coin. One of the things that I was writing – and found this, you know, whole issue so fascinating – is because, you know, I was an elementary school teacher. I like social myths and public narratives – about how our government works, that provide the basis for us to understand the world we live in – that are accessible to people.

A colleague of mine – a sociologist named Jakob Feinig – talks about this term “monetary silencing:” where average people are taught to, you know, “you don’t need to know about this stuff. It’s very complicated. There’s people in the room – you know, who wear suits, who have finance backgrounds – they understand all of this stuff. You shouldn’t try to understand it at all, you know?

Diehl: Yes.
Grey: We need economic literacy and monetary/financial literacy in schools, but what we really mean is you,you know, you should balance your checkbook. You shouldn’t learn how the government actually works, and how this sort of ‘veil of money’ works.

And even, you know, very respected scholars who I otherwise respect, you know – there was an op-ed in the New York Times by Peter Coy, just recently, about this – they would say, “look, yes, it’s a Noble Lie that we can’t make money out of thin air, and things like that. But, you know, even if Noble Lies aren’t great in some situations, we shouldn’t probably be drawing attention to this too much right now.” And at least to me, if you look at the alternative, it’s this catastrophic debt ceiling that we keep coming back at. It’s politicians saying we can’t afford to deal with climate change, we can’t afford to deal with poverty, because we don’t have enough money.

And as you said before, it’s a useful political kind of rhetoric, to say, “oh, there’s no alternative to austerity. There’s no alternative.” But if there is an alternative, then these myths are not just things that keep the lights on – they are things that actively harm us. And maybe we could be looking to a new set of myths. Something that meets our new moment and our new needs.

And if we’re in a world now where – you know, bitcoin, and dog[e]coin, and all these things – people have embraced the idea that you can coin an asset out of thin air. It could literally be made of zeros and ones on a computer.

Diehl: [Chuckles] Yes.

Grey: And the value is: how people accept it, how people use it, what’s backing it, has it got the force of law behind it, et cetera. That, if we think about coins, there’s actually maybe a time for a renaissance of coins as a sort of symbol of the money power–

Diehl: [Nodding] Yeah.

Grey: ...and going back to that two hundred year history. And one last little point on that before I get your thoughts is: I know that we’re in now this world of government digital currencies – we’ve been talking about, you know, they say a “central bank” digital currency.

Diehl: Yes.

Grey: And I’ve testified to Congress, saying “why don’t we talk about coinage? Why don’t we talk about digital coinage?” Because if you think about a bank account, there’s a third party in the middle. There’s not as much privacy. In fact, there’s a whole third-party legal doctrine that says you don’t have privacy if you put your money with the bank. But even paper currency has a barcode. Coins are the original, anonymous money. If it’s in your pocket, it’s yours.

And one of the earliest forms of digital currency that was tested by a government was Canada, and it was the Royal Mint. They created the "Mint Chip" program–

Diehl: Yes.

Grey: ...and it was an attempt to create a digital coin. So maybe, you know, I'd be curious to your thoughts – as we're entering a digital world, as we're discussing how to create a whole new form of currency, that maybe the Mint should be in the room. Maybe we should be thinking about this beyond just the Federal Reserve. Beyond just a better bank account. And what lessons we can learn from the history of coinage – and from the design of coinage – even if it will be, you know, a digital equivalent.

Diehl: Well Mike Castle – Representative Mike Castle – back in, probably, '96, '97, had a Congressional hearing on the future of money. And I testified at that. And all these issues sort of came up in a primitive form.

Grey: You were talking about stored value cards at the time, if I remember that correctly.

Diehl: Yes, yeah, that's exactly right. Stored value coins. And this is one of the things that I was – you raised one of the issues I was really intent on at the time – was that coinage is the ultimate private exchange. Cannot be traced.

And that – in those days, people weren't concerned about privacy. I mean, it was amazing to me how nonchalant people were about privacy. And then we saw all that take off with social media. Where people told their life stories, and said things online that inevitably would come back to haunt them. And people just sort of didn't care about it.

Well now, especially after 9/11 and the surveillance act–

Grey: The Patriot Act.

Diehl: Yeah, Patriot Act. People woke up to what that meant. And so, you know, it's begun to sink into the culture. And I think you're absolutely right.

You know, coinage is the physical embodiment of that set of privacy values, which are being expressed in what I believe is a highly-dangerous-to-individuals-form in crypt[o]currency. And also, you know, has the potential of destabilizing the larger economic system. So–

Grey: If the only kind of privacy we get is these volatile crypto private-currencies–

Diehl: Yes.

Grey: ...then it will be a very bad day for privacy, because–

Diehl: Well, if we–

Grey: ...it doesn't have the full faith and credit of the United States. It doesn't have that whole infrastructure. You can't use it at a store, necessarily. All those kinds of things.

Diehl: Well we've lived through that before too. Leading into the Civil War, when before there was the American Greenback.

Grey: Greenback, yeah.

Diehl: And so you had all these banks issuing their own currency. And yeah, you know, if you were using it locally you knew something about the stability and reputation of that bank. But the further you got away from that bank, that note would still be used, and people didn't know, you know, what was the providence behind this note. And–

Grey: I remember someone saying it used to be better to get a counterfeit note on a good bank–

Diehl: [Chuckling] Yes.

Grey: ...than a good note on a bad bank.

Diehl: Exactly right, yes. And the U.S. could put up with that, economically. And there wasn't the political will to do anything about it until the Civil War. And then the U.S. federal government – number one – had the ability to do it because half the nation who opposed doing anything about that left Congress. And the other was: we need to finance, you know, the war.

So necessity bred a change. And unfortunately that's how the government works; our government works. It reacts. So there will have to be some disaster that occurs around cryptocurrency that will drive Congress, the Federal Reserve, the regulators, to do something about it. Hopefully that occurs somewhere else, not in the U.S., and we learn the lesson from somebody else.

But let me address the assumption that underlies this question. And that is that people don't really understand fiat currency. I think that may have been true in the past. Probably was true in the past. But people have driven into their minds, over and over again – certainly since 2009, with the QE, and the, you know, and the opening, basically, of the flood of the money supply into the economy to save the economy (not just the U.S. economy, but the world economy) – people came to understand that what fiat currency means.

And they don't necessarily understand what it means: the "full faith and credit of the United States Government." What that means. But – especially when you're threatening to default on your, you know–

Grey: Especially when it doesn't mean as much as it used to, maybe.

Diehl: Yes, yes. So I think people are getting that. The other thing, why people are being educated on that, is that a conservative mantra has been against fiat currency [and] for the gold standard. And, you know, that's been the case since, you know, '33? Since FDR got us off the gold standard. And – well, informally–

Grey: They've been predicting the–

Diehl: ...and then Nixon took us off. But – so I think the predicate has been laid for the trillion dollar coin. People just don't – it looks like a gimmick. And when you think about it, this is a branding problem.

Grey: Yep.

Diehl: Because "QE" (Quantitative Easing), it hides what it does. Those words, it sounds really complex. Beyond our comprehension. Whereas a trillion dollar coin sounds ludicrous, you know?

Grey: Yep. What we're doing is we're easing, quantitatively–

Diehl: Yeah.

Grey: ...with a trillion dollar coin. Let's just, Mint Quantitative Easing. Yeah. And you're absolutely right. You know, there were newspaper headlines: "oh trillions of dollars have been created." If that was going to cause a panic in the streets, where was it? Where was it the last ten years? When the last debt ceiling crisis happened, even Standard & Poors downgraded the U.S. credit rating. And what happened? People flooded into Treasuries, not out of them.

And I remember Neel Kashkari, last year – the President of the Minneapolis Fed – said, "we have an infinite amount of dollars that we can use to save us from this crisis." I'd never heard a Federal Reserve person use the word –

Diehl: [Chuckling] No, that is pretty good.

Grey: …"infinite" in public before. Maybe in private, but not in public. And the New York Times had an op-ed headline saying, "the Coronavirus money is being pulled out of thin air." And if that's not going to cause a crisis, you know, I think you're right. The idea that the public can't handle this truth - that it's too big, it's too scary – even if that had some credibility in 2006, it doesn't have the same credibility in 2021.

But maybe you're right. Maybe it does take necessity to breed government action. And maybe we do need to get even closer to that debt ceiling cliff, you know, before we will entertain the unthinkable.

Diehl: If I could–

Grey: Sorry.

Diehl: If I could make one other point, that has really been impressing on me under these current circumstances. There will come a day when it's inevitable: what comes down must also go up. And I'm talking about the inflation rate. And all know this in the back of our minds, that once the inflation rate goes up, and the federal government is no longer paying what is essentially zero-interest on an inflation-adjusted basis for, you know, on its bonds. When inflation goes up and we have to pay more, and we have thirty trillion dollars in debt, then we are going to see interest payments – the financing of that debt – devouring larger and larger sections of the federal budget.

Grey: Yeah.

Diehl: And coinage – and seigniorage – is one of the ways to think conceptually about how to deal with that. And this is particularly relevant in terms of the whole starve the beast strategy, [which] is that we will build all these deficits, at some point the government will have to face reality, and will have to start cutting social security, and killing all the old New Deal and Great Society programs. And Obamacare, now. All that will have to die, and there won't be any choice.

Well, there are choices. And we just need to be aware that that day *is* gonna come.

Grey: And we need to be preparing pre-emptively to do that marketing work, and do that public education, and building the institutions. And I know I speak to people, and they say well, you know, even if the Treasury issued zero-interest financing, the Fed would pay interest on reserves if it wanted to raise the interest rate. So it doesn't matter, which way.

And I say to them, "but you know it's very different in the public mindset if this is the cost of 'borrowing' or the cost of government spending on one hand, or if it's the Federal Reserve choosing to pay money – for free – to people because it wants a higher interest rate. If the Fed wants to do that – if it wants to take responsibility for paying, you know, hundreds of billions of dollars of interest as part of its monetary policy – it can take responsibility for doing that, and see whether or not that's the best way to actually limit inflation.

There were debates in the '70's, in the '50's, about using other forms of qualitative and quantitative credit regulation, and other ways to limit, you know, investment in the economy – to cool the economy down – that didn't require raising interest rates through the roof like Paul Volcker did. And my guess is when it's easy to blame the Treasury for those interest payments, then it's a lot easier for the Fed to raise rates. If the Fed had to own the politics of raising rates like that – and giving free money to interest-earning, you know, people who hold interest-earning reserves, or other assets issued by the Fed – and had to take responsibility for that on their balance sheet, my guess is they would be a little more creative about finding other ways to manage inflation.

Diehl: Yes, yeah. Yes.

Grey: Well thank you so much. It's been an absolute pleasure, Director Diehl. I honestly feel like this is the kind of conversation that will hopefully go into the history books. Because I've never heard these kinds of stories from within the government before. So thank you so much for taking the time with me, and for your voice and for your courage in speaking out. And I hope I don't have to see you again because we don't have this problem recurring, but–

Diehl: [Chuckles] Yes.

Grey: ...maybe we will, and I look forward to connecting again in the future. Thank you very much.

Diehl: My pleasure. Thank you.

End of Transcript