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Just Use 'the Computer' at the Fed to Give People More Money

Congress has all the firepower it needs. It just needs to send spending instructions to the Federal Reserve, as it always does.

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To stem the tide of coronavirus transmission — or "flatten the curve" — Americans have been encouraged to "socially distance" or shelter in place. As a result, our service-based economy, which relies on consumer spending, has seen demand dwindle and commerce grind to a halt.

Job losses are quickly mounting. Millions of people are starting to fear the worst for their families. Treasury Secretary Steven Mnuchin and Mayor Bill de Blasio of New York both recently warned of the potential for unemployment numbers on par with those in the Great Depression.

That doesn't have to be our fate. But it will require policymakers to manage the fallout effectively — and that will mean not falling prey to the austerity fallacies that arose in the wake of the 2008 economic meltdown and the recession that followed.

With the Covid-19 pandemic now threatening to last for up to 18 months, Congress this week passed, and Mr. Trump signed, a bipartisan emergency relief bill worth billions of dollars. The White House is pushing another bill with $1 trillion in new expenditures; that package would almost certainly push the federal deficit above $2 trillion. And, if history is any lesson, deficit hawks will try to pull back on the fiscal reins if it becomes law — to, largely, call it a day.

We got a preview of this when Senator Elizabeth Warren, told Chris Hayes of MSNBC, "Let's learn what we should have learned from the 2008 crash." She warned, "When we do a stimulus package, it needs to be big enough to meet the moment."

“If we fail to do that,” Senator Warren worried, “We’re not going to get a second bite at it, politically.” She offered $750 billion as an appropriate number for a stimulus package. The Senate minority leader, Chuck Schumer, reportedly agreed.

Senator Warren deserves a lot of respect on economic issues, but she and the Democratic leadership have let their experience during the Obama era constrain their needed ambition; that the White House has subsequently called for more spending than Democratic leadership is a visible indication of that.

But the larger problem looming here is a baked-in hesitance to push for more Main Street assistance. The $787 billion stimulus package Barack Obama signed into law in February 2009 turned out to be woefully inadequate. But there was no sure way of knowing. The deeper mistake was that when it became obvious that more stimulus was badly needed, Congress refused to take a second bite at legislative action. This was a costly mistake brought on by unnecessary panic over a spike in budget deficits.

The question before us, then, is how to avoid a repeat. A better civic understanding of how Congress can be just as ambitious in its fiscal spending for people as the Federal Reserve is for the banking and credit system may help.

When this public health crisis first morphed into a financial one as well, the Federal Reserve sprang into action, pouring trillions of dollars into the financial system in less than a week; providing short-term loans to banks; slashing a key interest rate virtually to zero; announcing that the Fed would begin buying $700 billion worth of U.S. government bonds and mortgage-backed securities. Then, after all of that, the Fed gave itself the authority to purchase up to $1 trillion in commercial paper to support the flow of credit. (Additional measures will surely follow.)

After one of these announcements, I tweeted an eight-second video from 2009 showing Ben Bernanke, the Fed chair at the time, explaining how the central bank comes up with the money to pull off these trillion-dollar maneuvers. “It’s not tax money,” Mr. Bernanke explained on “60 Minutes.”

“We simply use the computer to mark up the size of the account.” Heads exploded.

The clip drew over a million views and thousands of comments. Many people replying to the tweet complained that we’re repeating the mistakes of 2008-09, coming to the rescue of Wall Street instead of Main Street. “If the Fed can do this for the banks,” they wondered, “why can’t we find the money to pay for programs that would improve life for everyday Americans?”

Reading through the comments, from public intellectuals and everyday people alike, taught me two lessons. One: Most people simply aren't aware that the Fed doles out money using nothing more than a computer. To buy financial assets, or lend to a bank, the Fed simply keystrokes "digital dollars," formally known as bank reserves, into existence. It does this not just in an emergency but each and every day.

Two: People are worried about how they will pay the bills if their incomes fall off a cliff; they see trillions of dollars popping into existence to help Wall Street (and yes, to stabilize markets in general), but they don't see the Fed doing anything to directly support Main Street. A lot of people said some version of "I sure wish the Fed would mark up the size of *my* bank account."

What they are missing is that the Federal Reserve doesn't have the authority to procure ventilators, to declare a moratorium on mortgage and tax payments, or to send checks to every American. Only Congress can direct those actions.

Still, an often muddled (even politically hidden) truth is that, when called upon, the same computer that works for large banks is there for Main Street as well. But the Federal Reserve needs specific instructions before typing up dollars for the rest of us.

Those instructions come in the form of legislation: When a bill becomes a law, the government is, in essence, telling the Fed how many dollars it is ordering up to cover health care expenses, child care costs or replace lost wages, and so on. And — this is crucial — all spending, whether or not it is offset by tax increases, is covered by the Federal Reserve.

The most fiscally responsible way for Congress to support the economy now is with higher deficit spending until it is no longer needed. Why? Because private demand could be weak for the next 18 months or more. In such a case, it's crucial to prevent premature attempts to make deficits smaller. As the economy recovers and consumers and businesses get back in the game, Congress can safely withdraw support, handing the reins back to the private sector.

The degree to which Congress' relief efforts actually reach working families depends upon how effectively lawmakers of good will can fend off the various industry interest groups that will attempt to eat up as much of the allotments as they can. Congress shouldn't just settle for short-term band-aids to patch holes in our health care infrastructure and our social safety nets. It can and should use this opportunity to make ambitious, lasting improvements.

The large deficits in the likely oncoming recession — and they will be large whether the result of government action or inaction — should be calmly accepted. There is no risk of a Greek-style debt crisis because, unlike the Greeks, whose currency is the euro, the U.S.

government maintains control of a sovereign currency, the most powerful one on earth. We are not going to "run out of money," as President Obama once declared during the Great Recession.

This is as good a moment as any for the American people to learn where money comes from and why the federal government, and only the federal government, has the means to step up and save the economy. Congress has all the firepower it needs. It just needs to send instructions to the Fed — and the money will go out.

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