

What if the national debt is just money?

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The [St Louis Fed](#) is one of the state central banks of the USA, serving the state of Missouri. That might, to many, make it seem insignificant. To the economics data geek this central bank is invaluable. Its web site is an absolute treasure trove of data, especially when it comes to reliable statistics presented in usable formats.

I am mentioning this right now because the St Louis Fed lets its staff also think and say the unthinkable in central banking terms. An article by [David Andolfatto](#) published [in the last few days is evidence of that](#). I am not saying the article is a perfect explanation of money and banking: there are very definitely points I do not agree with in it. It is, however, well worth reading.

Two nuggets:

Unlike personal debt, the national debt consists mainly of marketable securities issued by the U.S. Treasury as bonds. It is of some interest to note that the Treasury Department issued some of its securities in the form of small-denomination bills, called United States Notes, from 1862-1971 that are largely indistinguishable from the currency issued by the Federal Reserve today.

I was not aware of that. I think it is an enormously important point to note, not least in the context of my recent discussion on limiting the interest rate on debt, albeit that I am aware that this dates from the gold standard era.

More important is this:

To the extent that the national debt is held domestically, it constitutes domestic private sector wealth. The extent to which it constitutes net wealth can be debated, but there's not much doubt that at least some of it is viewed in this manner.⁴ The implication of this is that increasing the national debt makes individuals feel wealthier.

When this "wealth effect" is generated by a deficit-financed tax cut (or transfers) in a depression, it can help stimulate private spending, making everyone better off. When the economy is at or near full employment, however, such a policy is instead more

likely to increase the price level, which can lead to a redistribution of wealth.

Together, these considerations suggest that we might want to look at the national debt from a different perspective. In particular, it seems more accurate to view the national debt less as form of debt and more as a form of money in circulation.

Investors value the securities making up the national debt in the same way individuals value money—as a medium of exchange and a safe store of wealth. The idea of having to pay back money already in circulation makes little sense, in this context. Of course, not having to worry about paying back the national debt does not mean there is nothing to be concerned about. But if the national debt is a form of money, wherein lies the concern?

The answer is not easy. The paper only hints at some of the answers. I am trying to think about more in my forthcoming paper on the UK national debt - which I sincerely hope will be out soon.

But this point is key:

If the national debt is a form of money, wherein lies the concern?

It's question that has to be constantly recalled.