

Reducing the National Debt: Why the Federal Reserve Bank Should Refuse Receipt of \$4.26 Trillion in Bond Interest and Principal Payments from the U.S. Treasury and Government Sponsored Enterprises (GSEs)

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The national debt of the United States stands at \$19.7 trillion. Prospects are poor for federal tax revenues reaching a point where this debt can ever be repaid or successfully managed. Because of extended wars and the financial crisis of 2008, extraordinary measures were taken to fund governmental entities, inject liquidity into the economy, and drive down interest rates to stimulate the economy. The semi-independent Federal Reserve Bank (?the Fed?), operating as the central bank of the United States, purchased approximately \$4.26 trillion of United States Treasury bonds and government sponsored enterprises (GSEs) obligations to help in this effort in what is known as ?quantitative easing.? These securities were purchased in the private or secondary marketplace through primary dealers. The Fed did not pay for these Large Scale Asset Purchases (LSAPs) with paper money, but instead credited each bond seller's bank ?using newly created electronic funds.? The banks then added those funds to the bond sellers' accounts, and these sellers elected to spend those funds or leave them in the bank. If the funds stayed in the banks, then the banks could increase lending, purchase more assets or build up reserves on deposit at the Fed.

More broadly, the Fed's securities' purchases increased the total amount of reserves that the banking system keeps at the Fed. The Federal Reserve Act provided for these indirect purchases of U.S. Treasury securities to implement monetary policy. However, the extent of these purchases after 2008 was unprecedented. The Fed's balance sheet has exponentially expanded, leaving the Fed the owner of a ladder of bonds of differing maturities at no cost. To date, the Federal Reserve has been returning interest it earns on these securities to the Department of Treasury, thus allowing the federal government to earn interest on its own deficit generating bonds. Also, as payment of principal on these bonds becomes due, the Federal Reserve has up until now taken this money and rolled it over into more treasury obligations. At a future date, this practice will stop, and the Fed will either sell these bonds back to private parties to drain excess liquidity from the economy or force the U.S Treasury to repay the principal on these bonds to the Fed.

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