

Treasury Doesn't Need the Fed to Finance Debt

The Fed has done nothing that the Treasury couldn't have done on its own.

Judy Shelton mischaracterizes the role of the Federal Reserve in “How the Fed Finances U.S. Debt” ([op-ed Oct. 14](#)). She argues that the Fed is financing U.S. debt by holding it as an asset, collecting coupon payments on it and then remitting those payments back to the Treasury—seeming to make that debt interest-free for the government. She notes that the Fed does have to pay near-zero short-term rates on the deposits on its balance sheet from the private sector, including excess reserves and reverse repurchase agreements, reducing the size of the remittance somewhat.

But Ms. Shelton is missing the meaning of the simple algebra implied by these two facts. Effectively, the Fed is remitting to the government the long-term government securities yield minus the short-term government securities yield.

Even if the Fed didn't exist, the Treasury could obtain the same dollar result by issuing very short-term securities in the first place, reducing its interest expense by the difference between long-term and short-term rates. In terms of financing the U.S. debt, the Fed has done nothing that the Treasury couldn't have done on its own. One may be left wondering why the Fed even bothers, but whatever the reason, it is not to finance U.S. debt.

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