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ONE SOLUTION TO THE BUDGET DEFICIT

When the Federal Reserve Board brings out its 70th Annual Report on April 16, it will show the country once again what a lucrative business it is to be the creator of our nation's money supply.

Last year, the Fed's 69th report -- covering 1982, the year when Paul Volcker and the Fed's Board of Governors imposed a tight money policy on our economy -- showed that the 12 privately-owned regional Federal Reserve banks had a total income of $16.5 billion. This was earned on the $130 billion of U.S. Government securities owned by the Federal Reserve banks.

Where did the 12 regional Fed banks get the money to buy the securities on which they earn such a handsome income? The Fed banks didn't get that money from anywhere; they simply created the money with which they bought those government securities.

Here is how one of the Fed's own publications explained the process: "When you or I write a check there must be sufficient funds in our account to cover that check, but when the Federal Reserve writes a check there is no bank deposit on which that check is drawn. When the Federal Reserve writes a check, it is creating money." (From "Putting It Simply" published by the Boston Federal Reserve Bank, 1980)

The Federal Reserve banks have never received any government appropriated funds. They have never borrowed. They have never had any debt since the day they started up in business in 1914.

That's an amazing record when you contrast it with the U.S. Treasury, now in debt to the tune of $1.4 trillion. The interest alone on this national debt is staggering. In the time it takes you to poach your morning egg, the interest on the national debt goes up $1,000,000.

The Federal Reserve Act of 1913 set up the 12 Federal Reserve banks. Congress didn't foresee what a powerful and wealthy institution the Fed would become, nor did Congress foresee that the U.S. Treasury would become a perpetual debtor to the Fed.

The reason that the U.S. Treasury has become the Fed's servant is that the Fed

managed to assume the power to create money -- despite the fact that Article 1, Section 8, Clause 5 of the U.S. Constitution specifically gives Congress the power to "regulate the value" of money.

It is becoming clearer every day that the U.S. Government cannot borrow its way out of debt. Nor can the government tax its way out of a $1.4 trillion national debt. The interest alone on this debt ($127 billion this year) is the fastest growing item in the the Federal budget.

The Government's most immediate problem is how to get enough money in 1984 merely to keep operating. The Treasury needs about $180 billion within 12 months just to make up the shortfall between its tax income and the government's expenses.

When you look at the speed at which interest payments are accumulating and the deficit is growing, the problem seems to defy solution. Government officials seem to be able to offer us only a dismal combination of raising taxes, going deeper into debt by borrowing, and making deeper cuts in spending (including defense).

We can no longer muddle along with a defeatist mentality about such horrendous Federal deficits. We must come up with some "can do" economic thinking.

Why can't we appeal to the Federal Reserve to help us solve our deficit crisis? We could completely eliminate our $180 billion deficit -- and we could do it <u>debt-free</u> -- by assessing the Federal Reserve banks (possibly in proportion to their size and payable in 12 monthly installments).

How would the Federal Reserve banks get the money to pay such a large assessment? They would get the money by doing what they do all the time; they would create the money to pay this tax and then pay it to the U.S. Treasury.

Although they are private institutions, the 12 Federal Reserve banks are today exempt from Federal, state and local taxes (except real estate taxes). Congress could amend the law to eliminate the Federal tax exemption. The privately-owned Federal Reserve banks could then share their money-creating power with the U.S. Treasury.

Congress should ask the Fed to demonstrate cooperation with the American people in solving our deficit dilemma. The Fed could help us do this without either additional debt creation or higher taxes.