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<http://www.wsj.com/articles/treasury-and-the-feds-cash-flow-letters-to-the-editor-1421695241>

LETTERS

Treasury and the Fed's Cash Flow

Your editorial "The Fed Cash Machine" is wrong in implying that the Fed has been a "huge money maker for the Treasury."

Jan. 19, 2015 2:20 p.m. ET

Your editorial "The Fed Cash Machine" (Jan. 12) is wrong in implying that the Fed has been a "huge money-maker for the Treasury." The Federal Reserve Board of Governors is a federal government agency and Federal Reserve debt is guaranteed by the government. As such, the proper way to treat its balance sheet and intragovernmental transfers of funds to the Treasury is as part of the consolidated federal balance sheet and not as a private-sector entity. Because Treasury debt is now owned by the government, it has effectively been retired, and Federal Reserve debt has been substituted for it in the hands of the public. In terms of intragovernmental fund flows, Treasury interest payments simply advance money to the Fed, which covers the Fed's operating costs, and in turn the Fed returns the difference to the Treasury. If those two transactions were netted the way interest-rate swaps are settled, there would always be a net flow of funds from the Treasury to the Fed. In short, viewed properly, the Fed can never make a profit on such transactions, and it is totally wrong to view Fed remittances as a profit to the taxpayers.

It is only a quirk of government accounting conventions that permits the Treasury to score Fed remittances as revenue for budget and deficit computation purposes. If my wife writes me a check for \$100, and I spend \$10 on gas and give the rest back to her, we are not \$90 richer as a family. We have simply spent \$10. Phony accounting can't change the true substance of the transaction.

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