



How The Fed Makes Money For The Government - Government Structure

The Federal Reserve acts as a separate and individual entity from the U.S. government. It has the ability to create and manage its policies for the benefit of the U.S. financial system. Large banks throughout the country, also known as money center banks, deposit their excess cash with the Federal Reserve. The Fed in turn pays interest to banks on those deposits. When interest rates fall, the Fed pays out much less in interest expenses. After the Fed pays all of its operating expenses, it then sends the rest to the U.S. Treasury. The U.S. Treasury uses the funds to help cover U.S. government expenses and bills.

This past year in 2020, the Federal Reserve sent \$88.5 billion in profits to the U.S. Treasury, nearly a 66% increase from the previous year. Payments to the Treasury by the Fed has actually fallen for the past few years as rates have risen. The onset of the pandemic and the dramatic reduction in interest rates by the Federal Reserve in 2020 sharply reduced interest payments paid to banks on excess reserves.

Sources: Federal Reserve, U.S. Treasury

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