

to discourage demand and investment, instead of increasing interest rates it would notify the commission, which would levy a tax on credit at the same rate. The effect on the demand is the same, but to the Treasury there is a big difference. The revenue would accrue to the U.S. government and the revenue is large. In 1981 it would have amounted to over \$300 billion! With this extra income, the debt would be paid off at a rapid rate.

Sounds far fetched? This is what the Federal Reserve Board has been doing for years. As a government bureau, it has levied a tax on all credit transactions, but the banks collect and keep the tax — over a trillion dollars in the last decade. What would your reaction be if the government allowed merchants to keep the sales tax they charge?

Controlling our national debt is a difficult, almost impossible task. It brings up the question: Why do we have a national debt? The government could pay its bills each year simply by issuing currency. There would be no debt, and there would be no interest to pay on the debt. But the monetary experts reasoned that it would put too much money in circulation, and government must be penalized for its capricious spending by paying interest on its deficits. Instead of issuing cash, the government issues government bonds. In reality, the government has issued currency, but a special kind of currency called "Government Securities" that bear interest.

The creation of government debt is simple. When the United States Treasury needs 1 billion in dollars, a billion dollars of U.S. bonds are printed and the Federal Reserve Bank is notified, who in turn advises the Bureau of Engraving to print \$1 billion Federal Reserve notes (dollar bills). The Treasury delivers the United States bonds to the Federal Reserve, which then issues the Federal Reserve notes to the Treasury. By this simple process, the Federal Reserve Board has created \$1 billion in Government Securities for its portfolio, and a \$1 billion debt for the American people on which they must pay interest. If you analyze this sequence carefully, you will realize that the same amount of money is printed, but the government ends up owing the Federal Reserve Bank and its assignees \$1 billion, plus interest.

This exchange between Congressman Wright Patman (Democrat-Texas) and Marriner S. Eccles (Chairman of the Federal Reserve Board) may shed some light on the process.

Mr. Patman: "How did you get the money to buy these \$2 billion of government bonds?"

Mr. Eccles: "We created it."

Mr. Patman: "Out of what?"

Mr. Eccles: "Out of the *right* to create credit money."

The point should be made that high deficits are not exclusively from Democratic administrations. The Republicans are contributing more than their share. Senator Goldwater noted, "During the six years of Nixon, the increase in the Federal debt was more than twice what it had been in the eight Kennedy-