Who Prints Money in the United States?

The Federal Reserve is America's central bank. As such, it has the responsibility for deciding how much money is in the economy. For that reason, many people say the Fed prints money. But that doesn't mean the Fed has a printing press that cranks out dollars. Only the Treasury Department does that.
How the Fed "Prints Money"

To understand how the Fed "prints money," remember that most of the money in use today is not cash. It's credit that's added to banks' deposits. It's similar to the kind of credit you receive when your employer deposits your paycheck directly into your bank account. When people say the Federal Reserve "prints money," they mean it's adding credit to its member banks' deposits.

People also say the Fed is printing money whenever it engages in expansive monetary policy. That's how the Fed manages the money supply available to spend or invest. The availability of that supply is called liquidity. The Fed manages liquidity with monetary policy.
Those three things all help end a recession.

Federal Funds Rate

The Fed has two tools it relies upon to affect monetary policy. One is the federal (fed) funds rate. The Federal Open Market Committee (FOMC) is the Fed's operational arm. It guides monetary policy. When it wants to print money, it lowers the target for the fed funds rate. Fed funds are what banks are required to hold in reserve each night. If needed, a bank will borrow fed funds from another bank to meet the requirement. The interest rate it pays is called the fed funds rate.
Important: When the FOMC lowers the target for the fed funds rate, it allows banks to pay less for borrowed fed funds. Since they are paying less in interest, they have more money to lend.

A bank would like to lend every dollar it doesn’t have to hold in reserve. So, as soon as the FOMC lowers the fed funds rate target, banks comply. They then reduce all other interest rates.

That makes capital more affordable, so businesses and investors are more likely to borrow. If the return on investment is expected to be higher than the interest rate, the investment will look like a good idea. In this way, high liquidity spurs economic growth. That’s just like adding money to the money supply.

The Fed’s other tool is open market operations. The Fed buys Treasurys and other securities from banks and replaces them with credit. All central banks have this unique ability to create credit out of thin air. That’s just like printing money.

Between December 2008 and October 2014, the Fed launched quantitative easing. That was a massive expansion of open market operations. The nation’s central bank added $4 trillion to the money supply. It did this by buying Treasurys from its member banks. It paid them by adding the same amount to their credit on their books. It had the same impact on the economy as printing 40 billion $100 bills and mailing them to banks to lend.

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If overdone, expansive monetary policy can create inflation. As cheap capital chases fewer and fewer solid ventures, the prices of those assets increase. That's true whether the investments are in real estate, gold, barrels of oil, or high-tech companies.

The most commonly-used measure of inflation, the Consumer Price Index, doesn't record all of these price increases. It captures oil prices, but not gold or stock prices. It measures housing, but uses a statistic that measures rental rates, not houses for sale. That's why the Fed's actions can easily create asset bubbles as well as inflation.

People worry about the Fed printing money because they don't understand that the Fed can "unprint" it just as quickly. It uses contractionary monetary policy to dry up liquidity. It has the same effect as taking money out of circulation.

To reduce the amount of capital in the money supply, the Fed raises the fed funds rate. When that happens, banks have less money to lend. They've got to pay each other more to keep fed funds in the overnight account to fulfill the Fed's reserve requirement.

Raising the fed funds rate causes all interest rates to increase. That makes it more expensive to borrow for business expansion, automobiles, and homes. It slows economic growth, drying up the demand that drives inflation.

The Fed can also reverse the effects of quantitative easing. It does this by selling Treasurys and mortgage-backed securities to its banks. People worry that the banks won't buy these securities, but they don't have a choice. The Fed removes dollars from the banks' balance sheets and replaces them with these securities.

What happens to the dollars? They vanish. In other words, they go back into thin air where the Fed got them in the first place.

How the Treasury Prints Money

The Bureau of Engraving and Printing (BEP) designs and manufactures U.S. currency and securities. Its goal is to prevent counterfeiting. The design also conveys dignity, the power of the U.S. economy, and familiar markings that distinguish it as American currency.

The BEP does this with distinct designs, paper, and ink. In 2003, it added subtle background colors to improve security. Unlike most paper, U.S. currencies are made of 75%
After a final inspection, the BEP sends completed currency to the nation's central bank, the Federal Reserve.

The Fed Decides How Much Money Is Created

The Fed decides how much money gets made. That's true for both credit and paper currency. Paper currency is called Federal Reserve notes. In 2018, there was $1.7 trillion of these notes in circulation. The Fed spends almost $700 million a year to manage the currency. It pays for printing, transportation, and destruction of the mutilated currency.

The Federal Reserve Board estimates how much demand there is for paper currency. Most of it goes to replace mutilated or outdated bills.

Another Way the Fed Creates Money

The Fed's ability to create and destroy money gives it another power. It's able to monetize the U.S. debt. When the U.S. government auctions Treasurys, it's selling U.S. debt to Treasury buyers. The Fed is one of these buyers. It keeps the Treasurys on its balance sheet. Technically, the Treasury must pay the Fed back one day. Until then, the Fed has given the federal government more money to spend.

How does the Fed do this? It removes those Treasurys from circulation. Decreasing the supply of Treasurys makes the remaining bonds more valuable. These higher-value Treasurys don't have to pay as much in interest to get buyers. The lower yield drives down interest rates on the U.S. debt. Lower interest rates mean the government doesn't have to spend as much to pay off its loans. That's money it can use for other programs.