

Monetary Policy and the State of the Economy

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Transparency in monetary policy is a goal we should all support. I've often wondered why Congress so willingly has given up its prerogative over monetary policy. Astonishingly, Congress in essence has ceded total control over the value of our money to a secretive central bank.

Congress created the Federal Reserve, yet it had no constitutional authority to do so. We forget that those powers not explicitly granted to Congress by the Constitution are inherently denied to Congress – and thus the authority to establish a central bank never was given. Of course Jefferson and Hamilton had that debate early on, a debate seemingly settled in 1913.

But transparency and oversight are something else, and they're worth considering. Congress, although not by law, essentially has given up all its oversight responsibility over the Federal Reserve. There are no true audits, and Congress knows nothing of the conversations, plans, and actions taken in concert with other central banks. We get less and less information regarding the money supply each year, especially now that M3 is no longer reported.

The role the Fed plays in the President's secretive Working Group on Financial Markets goes unnoticed by members of Congress. The Federal Reserve shows no willingness to inform Congress voluntarily

about how often the Working Group meets, what actions it takes that affect the financial markets, or why it takes those actions.

But these actions, directed by the Federal Reserve, alter the purchasing power of our money. And that purchasing power is always reduced. The dollar today is worth only four cents compared to the dollar in 1913, when the Federal Reserve started. This has profound consequences for our economy and our political stability. All paper currencies are vulnerable to collapse, and history is replete with examples of great suffering caused by such collapses, especially to a nation's poor and middle class. This leads to political turmoil.

Even before a currency collapse occurs, the damage done by a fiat system is significant. Our monetary system insidiously transfers wealth from the poor and middle class to the privileged rich. Wages never keep up with the profits of Wall Street and the banks, thus sowing the seeds of class discontent. When economic trouble hits, free markets and free trade often are blamed, while the harmful effects of a fiat monetary system are ignored. We deceive ourselves that all is well with the economy, and ignore the fundamental flaws that are a source of growing discontent among those who have not shared in the abundance of recent years.

Few understand that our consumption and apparent wealth is dependent on a current account deficit of \$800 billion per year. This deficit shows that much of our prosperity is based on borrowing rather than a true increase in production. Statistics show year after year that our productive manufacturing jobs continue to go overseas. This phenomenon is not seen as a consequence of the international fiat monetary system, where the United States government benefits as the issuer of the world's reserve currency.

Government officials consistently claim that inflation is in check at barely 2%, but middle class Americans know that their purchasing power – especially when it comes to housing, energy, medical care, and school tuition – is shrinking much faster than 2% each year.

Even if prices were held in check, in spite of our monetary inflation, concentrating on CPI distracts from the real issue. We must address the important consequences of Fed manipulation of interest rates. When interest rates are artificially low, below market rates, insidious malinvestment and excessive indebtedness inevitably bring about the

economic downturn that everyone dreads.

We look at GDP numbers to reassure ourselves that all is well, yet a growing number of Americans still do not enjoy the higher standard of living that monetary inflation brings to the privileged few. Those few have access to the newly created money first, before its value is diluted.

For example: Before the breakdown of the Bretton Woods system, CEO income was about 30 times the average worker's pay. Today, it's closer to 500 times. It's hard to explain this simply by market forces and increases in productivity. One Wall Street firm last year gave out bonuses totaling \$16.5 billion. There's little evidence that this represents free market capitalism.

In 2006 dollars, the minimum wage was \$9.50 before the 1971 breakdown of Bretton Woods. Today that dollar is worth \$5.15. Congress congratulates itself for raising the minimum wage by mandate, but in reality it has lowered the minimum wage by allowing the Fed to devalue the dollar. We must consider how the growing inequalities created by our monetary system will lead to social discord.

GDP purportedly is now growing at 3.5%, and everyone seems pleased. What we fail to understand is how much government entitlement spending contributes to the increase in the GDP. Rebuilding infrastructure destroyed by hurricanes, which simply gets us back to even, is considered part of GDP growth. Wall Street profits and salaries, pumped up by the Fed's increase in money, also contribute to GDP statistical growth. Just buying military weapons that contribute nothing to the well being of our citizens, sending money down a rat hole, contributes to GDP growth! Simple price increases caused by Fed monetary inflation contribute to nominal GDP growth. None of these factors represent any kind of real increases in economic output. So we should not carelessly cite misleading GDP figures which don't truly reflect what is happening in the economy. Bogus GDP figures explain in part why so many people are feeling squeezed despite our supposedly booming economy.

But since our fiat dollar system is not going away anytime soon, it would benefit Congress and the American people to bring more transparency to how and why Fed monetary policy functions.

For starters, the Federal Reserve should:

- Begin publishing the M3 statistics again. Let us see the numbers that most accurately reveal how much new money the Fed is pumping into the world economy.
- Tell us exactly what the President's Working Group on Financial Markets does and why.
- Explain how interest rates are set. Conservatives profess to support free markets, without wage and price controls. Yet the most important price of all, the price of money as determined by interest rates, is set arbitrarily in secret by the Fed rather than by markets! Why is this policy written in stone? Why is there no congressional input at least?
- Change legal tender laws to allow constitutional legal tender (commodity money) to compete domestically with the dollar.

How can a policy of steadily debasing our currency be defended morally, knowing what harm it causes to those who still believe in saving money and assuming responsibility for themselves in their retirement years? Is it any wonder we are a nation of debtors rather than savers?

We need more transparency in how the Federal Reserve carries out monetary policy, and we need it soon.

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