

backgrounds, children who are loved; unfortunately, some who are not loved like they should be. Some who are well advanced and others who are not. But teachers try not to differentiate; they love and care for all of them and try to ignite that flame of learning in each child. They can only do it if we give them the help and support they need.

We do need a national commitment to the notion that parents in America have the right to expect that their children will have the best teacher in the world in that classroom. There are places in this country where they absolutely do not have the money; they do not have the resources to do it. They cannot build the buildings, and they cannot hire the teachers. Dagburnit, we ought to be about helping them. That is what America is about. We need to provide support for teachers as they do this difficult, difficult task.

It is a critically important job. It is the most important job we are about in rearing children early. We have had enough teacher-bashing in this body the last few years; and an awful lot of it, I am sorry to say, has come from my Republican colleagues on the other side of the aisle, and that must end and it must end now. We have to come together and help. We are in this thing together. Our children deserve no less. We must make every neighborhood school in this country work, and work as they should.

That is why we are working to help pass H.R. 4094, and that is a bipartisan piece of legislation. I am thankful that we have finally gotten there. It does provide \$25 billion for school construction money across the country. A lot of money? Yes. Not nearly enough to get the job done, but enough to get started and say we do have a commitment at the national level; and yes, we are going to be a partner. Unfortunately, this Congress has failed to act, and the leadership has not brought it to the floor to provide our local communities with the assistance they need.

Mr. Speaker, our schools are bursting at the seams. In communities throughout my district and across this country, the flood of student enrollments keep coming, and at the public school level, there will not be and cannot be a sign on the door that says, no vacancy. We can do that in a lot of other schools. Private schools can say, we cannot take anyone else. Colleges and universities can find a way not to accept, but when school opens in September and August and they keep coming as they transfer, they take them, and classes get overcrowded. We must continue to take them and help them. We have to help our schools meet this challenge.

This Congress must take action to help these communities cope with this urgent problem, and we must act this year. We cannot wait another year. For many of these children who will be

stuck in trailers, shoved in closets, crammed in the bathrooms and in converted other rooms, gymnasiums, substandard facilities, that is not acceptable in a country that has the resources we have. This country needs to help schools where better order and discipline can foster better learning for all of our children.

Mr. Speaker, I urge this Congress to stop playing partisan games, to lay down our swords and pick up the language of working together and put our Nation's children first. Pass school construction legislation without further delay.

Mr. Speaker, I have written a letter to the President with the gentleman from New York (Mr. RANGEL) and a number of my colleagues insisting that school construction, in any final budget compromise with the congressional Republicans, be the highest priority. More than 150 of my colleagues have joined me; and I trust before early next week, we will have over 200 names, as we have on the bill.

The American people consider this their highest priority. They want to improve education by building new schools, hiring new teachers, reducing class sizes and improving order and discipline in the classrooms so that our children can get the attention they need and learn as they should learn.

Mr. Speaker, again, I want to thank my Democratic colleagues for joining me this evening in this very important Special Order. There are a lot of things we deal with in this body that are important, no question about it. This is the people's House, one of the greatest Nations in the world. But I am here to tell my colleagues that there is no issue that we face on the threshold of the 21st century that is more important to the security of this Nation, to the prosperity that we hope to have in the 21st century, than that we have the resolve and the commitment to do what needs to be done for the children of America.

Mr. HINOJOSA. Mr. Speaker, back in July this body unfortunately rejected a motion to instruct conferees on the FY 2001 Labor/HHS/Education appropriations bill—a motion that insisted on more education funding and dedicated funding for class size reduction and school renovation. Personally, I couldn't believe this motion to instruct failed. I say this because as parents all across America know, our nation's schools are overcrowded.

Children in Texas returned to school in August, and I can tell you that over the past several weeks I have heard again and again from parents talking about the need to address the challenge of overcrowded schools.

Total public and private elementary and secondary school enrollment has continued to rise, from 52.8 million in 1999 to a projected all-time record of 53.0 million this fall. These numbers are projected to rise for most of the century.

The point I simply want to make today is that as the United States embraces these new

generations and new arrivals to our schools, we must be prepared to be able to provide a quality education to all students. We must help communities nationwide modernize their schools and we must support class size reduction so that America's children are in an environment where they can realize their full potential. These are smart investments—investments that merit broad bipartisan support.

INTEREST AMERICANS PAY FOR CURRENCY

The SPEAKER pro tempore (Mr. VITTER). Under the Speaker's announced policy of January 6, 1999, the gentleman from Washington (Mr. METCALF) is recognized for 60 minutes as the designee of the majority leader.

Mr. METCALF. Mr. Speaker, I would like to speak on the topic, Interested in the Interest that Americans Pay for Their Own Currency, and I hope we are. I think we should be.

The interest owed on our national debt to the Federal Reserve System is a disgrace. One day it will be the single largest budget item in our national budget. It ranks number two presently, but not by much. And Americans pay interest also on their currency. I will repeat that. Americans pay interest also on their currency; indirectly, of course, but it is still true.

Currency is borrowed into circulation. Actually, we pay interest on the bonds that needlessly back our currency. The U.S. Treasury could issue our cash without debt or interest as we issue our coins today. Member banks must put up collateral, U.S. interest-bearing bonds, when they place each request for Federal Reserve notes, according to the Federal Reserve Act, section 16, paragraph 2, in the amount equal to that request. The cost to each American is about \$100 each year to pay interest on these bonds, or really the cost of renting our cash from the Federal Reserve. So we actually pay a tax on, or a rental fee, to use the Federal Reserve's money. To repeat, our Treasury could issue our currency debt- and interest-free just like we issue our coins debt- and interest-free.

We understand all of this, I think, in that we use Federal Reserve notes to pay most of our bills and taxes. In the Federal Reserve Act, it originally stated in section 16 that these Federal Reserve notes shall be redeemed in lawful money on demand at the Treasury Department of the United States, or at any Federal Reserve Bank. I am quoting from the act itself. An interesting question is, What is the lawful money mentioned in the original Federal Reserve Act that we will get when we redeem the Federal Reserve notes? That question is never answered.

But here is where the "money muddle," as James Warburg once called it, begins to get really muddy. When we redeem Federal Reserve notes, we get Federal Reserve notes in exchange.

That is interesting. When we borrow from our bank, any bank, we do not get Federal Reserve notes in hand; we do not get cash. We open an account at the bank we are borrowing from and receive a bank draft to deposit in the new account that we were made to open when we borrowed the money. Well, not money, per se, but the notes. Today, this is all done through ETF, or electronic funds transfer.

Here is the point to all of this. There are no Federal Reserve notes on hand for us to borrow. According to the Federal Reserve Bank of Chicago, in their publication, *Modern Money Mechanics*, they state, and I quote: "Changes in the quantity of money may originate with the actions of the Federal Reserve System, the Central Bank, the commercial banks, or the public, but the major control rests with the Central Bank. The actual process of money creation takes place in the commercial banks. As noted earlier, demand liabilities of commercial banks are money. These liabilities are customers' accounts. They increase when the customers deposit currency and checks, and when the proceeds of loans made by the banks are credited to borrowers' accounts. Banks can build up deposits by increasing loans and investments, so long as they keep enough currency on hand to redeem whatever amounts the holders of deposits want to convert into currency."

The Federal Reserve Board of Governors sets our interest rates, which then determine the price of money; not the quantity or the amount of money, but the price of money. The quantity of money I will discuss presently. The money aggregates, or the money supply indicators, like M-1 and M-2 used to be utilized in that determination. Interest rates went up; the money supply shrank. Interest rates were lowered, more money or credit really was released to the banks to lend. The money supply went up.

The Federal Reserve Board and its chairman have repeatedly stated that the M-1 and M-2 indicators are out of control and are no longer used in determining Fed policy. What is Fed policy, in capital letters. Well, Fed policy has always been to fight inflation and keep the overall economy going, prosperously going. But inflation, while still a minor concern of the Fed, though I do not agree, is of less concern.

Price stability is the clarion call for Fed policy today. The corporation's price stability, presumably, although one may argue that this would be good for everyone, including consumers; but price stability as the goal only informs us of what the Fed seeks, not how it intends to achieve it.

□ 1915

If not money supply aggregates, M-1 and M-2, then what are the new indica-

tors? It was announced several years ago in the business journals mostly, that the one new indicator, of the many used, is today what is called wage inflation. I shall return to that momentarily, but first we must look at the quantity of money again, not the price of money.

Businessmen, for example, and consumers as well, consider the price of money when they borrow. If interest rates are 7 percent rather than 6, the businessman will make the deal, rather than wait. Consumers often buy at the higher rates, rather than waiting for the price to go down some.

But even with interest rates on the rise, even if with just quarter point increases, the money supply used to shrink. Yet, that is not the case any longer. The Fed now places money in the hands of member banks in what are called repurchase agreements, or repos. It may be placed with the banks overnight, or for 7 days, or for whatever time the board wants. They can roll it over at will. They can reclaim it at will.

The member banks do not have the option to take or not take the funds and they pay interest on these new funds, but as a noted financial adviser stated, the banks only have the right to say, "Thank you very much, sir;" in other words, they have no choice in the matter.

Where does this new money go? That is the real point, here. The new money goes almost immediately into the financial markets; the stock market, primarily. It depends on the quantity the Fed pumps into the banks' hands.

Here is a fine example. During the 6-months period just prior to year end, that is, Y2K, Chairman Greenspan expanded the adjusted monetary base dramatically. It is a spike almost vertical on the chart supplied by the St. Louis Federal Reserve Bank.

At certain points, the annual growth rate for a given month was as high as 50 percent. During the entire 6 months it was running at about 25 percent annual growth. This was far outstripping growth in productivity. Billions of dollars were pumped into the banking system, some \$70 billion.

Where did the money go? It had to go into the financial markets. No other area of the economy could absorb such an enormous increase so suddenly.

The banks called upon everyone, from brokerage houses to money managers. They were having to give the new money away at ridiculously low rates of return. Most of the new money was loaned into the financial markets, the stock market, and most in the high-tech industry.

Most was pure speculation on margin; that is, much of it by folks who today believe there is no risk any longer in investing in the stock market. This was the real cause for our much acclaimed boom in the market run-up prior to the year end 1999.

Many market participants understood that this was a false boom, an anomaly created out of thin air by Chairman Greenspan's governors. They immediately took their winnings, the profits on the run-up. They paid dearly in capital gains taxes levied, about \$70 billion in capital gains taxes.

Curiously, that windfall for the administration matches pristinely with the acclaimed surplus President Clinton immediately took credit for in his wise oversight of the economy.

But if this surplus was real, why did the national debt continue to rise? There is no surplus, is the answer. There was just a sudden windfall in capital gains taxes some argue was orchestrated by Chairman Greenspan.

I would ask the chairman if I were given more time, what did he think would happen when he expanded the adjusted monetary base upwards in such a dramatic fashion? Does he no longer believe Milton Friedman's axiom regarding the reckless increase in the supply of money? Is it not supposed to cause dislocations any longer because of this new economy?

If that is true, then what of the actions of the Fed the week after Y2K? Within 7 days, the Fed policy reversed itself just as dramatically downwards. The Fed repurchased the funds by nearly the same amount over the next several months, beginning with the year 2000.

The dramatic decline in the adjusted monetary base corresponds directly with the violent corrections in the stock market, and especially NASDAQ. Those with less savvy, like so many speculators, gamblers, really, were wiped out. This is no coincidence, but correspondence. This is not just convoluted, but consequences. What did Chairman Greenspan think was going to happen?

Let me quote the chairman from a speech this July 12, 2000, the year 2000, at the appropriately titled "Financial Crisis Conference at the Council on Foreign Relations."

"Despite the increased sophistication and complexity of financial instruments, it is not possible to take account in today's market transactions of all possible future outcomes. Markets operate under uncertainty. It is therefore crucial to market performance that participants manage their risks properly. It is no doubt more effective to have mechanisms that allow losses to show through regularly and predictably than to have them allocated by some official entity in the wake of default."

If that statement were not sufficient to rile a risk-taker as market participant Greenspan goes on to dryly add, "Private market processes have served this country and the world economy well to date, and we should rely on them as much as possible as we go forward."

This is how the Fed managed price stability? Now, let me return to wage inflation. Is wage inflation inflation inflation? As I pointed out above, wage inflation is the newest indicator the Fed looks at in determining fed policy on interest rates.

Members will read in the business pages that the Fed determined that there was no real wage inflation concern, so interest rates remained as they are. Or should there be some indicator that wage inflation is a factor, interest rates may have to be increased.

If Members can understand the relationships, they should be as outraged as I am. Everybody knows that labor is almost always, and everywhere in industry, the number one and always at least number two cost of operations figure for every company, especially the largest monopoly multinationals, and it is the largest multinationals' bottom line that the Fed protects when it talks about price stability. That is a frightening thought.

Price stability is achieved by keeping wage inflation under control. This means nothing short of this: If wages of workers begin to rise, should workers begin to see the benefits of this booming economy, the Fed will raise interest rates, slowing the economy and driving wages down. More workers will lose their jobs, thus driving down wages.

We do this for the corporations' stability in pricing the goods these workers help to produce. And we call this free enterprise, the hidden hand working through our free system?

Let me quote Adam Smith, father of the so-called free enterprise: "Masters are always and everywhere in a sort of tacit, but constant and uniform, combination, not to raise the wages of labor above their actual rate. To violate this combination is everywhere a most unpopular action, and a sort of reproach to a master among his neighbors and equals. We seldom, indeed, hear of this combination because it is usual, and one may say the natural state of things. . . . Masters, too, sometimes enter into particular combinations to sink wages of labor even below this rate. These are always conducted with the utmost silence and secrecy, 'til the moment of execution."

There shall be no more silence on these efforts by our masters. It may be, but it was never intended to be, "the natural state of things" to sink wages of labor below their actual rate, not in the United States of America; not where the people, mostly wage-earners, are the sovereigns. This statement is surely a reproach to a master, the Fed master, among his equals, if not his neighbors.

But there is more, much more. Congress has found that Federal reserve notes circulate as our legitimate currency, otherwise called money, issued

by the Federal Reserve in response to interest-bearing debt instruments, usually the United States bonds. I already pointed out above that member banks must put out an equal amount of collateral when they request any amount of Federal reserve notes. They pay interest on this amount, too. That is to say, we indirectly pay interest on our paper money in circulation. Whether bonds, loans, et cetera, we pay interest.

The total cost of the interest is roughly \$25 billion annually, or about \$100 per person in the United States. Over \$500 billion in just United States bonds are held by the Federal Reserve as backing for the notes. The Federal Reserve collects interest on these bonds from the U.S. Government, returning most of it to the U.S. Treasury.

The Federal Reserve is paid sufficiently well for all of the services it provides: regulatory, check-clearing, Fedwire, automation, compliance, and so forth. There is no rational, logical reason why Americans must pay interest on their circulating medium of exchange.

Why are we paying interest to the Fed for renting the Federal Reserve notes that we use? Why do we not issue United States Treasury currency that can be issued like our coins are issued, debt-free and without interest?

Donald F. Kettle in his book, one of the better books on the Fed, actually, "Leadership at the Fed," stated, "Members of Congress were far more likely to tell Federal officials what they disliked than what policy approaches they approved."

As an understatement of all time, given wage inflation as indicator, John M. Berry in the journal *Central Banking* stated that FED officials are not all that forthcoming in their policy announcements because they "prefer to be seen as acting essentially as controllers of inflation, not employment maximizers."

I do not wish to be seen as one of those Members of Congress that only expresses his displeasure at the Fed policies. I shall therefore propose some solutions as a starting point. It is but one place to begin.

Congress must pass a law declaring Federal Reserve notes to be official U.S. Treasury currency, which would continue to circulate as it does today. The Federal Reserve system, then freed of the \$500 billion in liabilities, which the Federal Reserve notes are now considered to be liabilities, but if we freed them from that liability, they would then simply return the U.S. Treasury bonds which backed the Federal Reserve notes to the U.S. Treasury.

That is, if they are holding the notes to back our currency and we declare they are United States Treasury currency, no longer Federal Reserve currency, then they no longer need the backing, and could return some \$500

billion in liabilities or in U.S. Treasury bonds back to the Federal Reserve, back to the U.S. Treasury.

This reduces the national debt by over \$500 billion, and reduces interest payments by over \$25 billion annually, with no real loss to anyone.

Let me repeat that. If we did this, merely declared that the money we use is officially United States Treasury currency, then the Fed could return the \$500 billion in bonds that they hold and reduce the national debt by \$500 billion, reduce our annual payments by about \$25 billion, with no real loss to anyone. We do this while protecting the member banks' collateral they each put up when they requested the notes originally. This is not a complicated proposal, and the rationale behind it is seen by many financial minds of note as logical and doable.

□ 1930

Then the Fed officials that have devised the monetary indicator called wage inflation should reconsider just exactly who is paying the real price for price stability and report to the Banking Committees of both Houses what indicators they might utilize rather than this horrendous approach, an approach that even Adam Smith denounced over 200 years ago.

Finally, the Fed must restrain the drastic monetary expansions and retractions using the methods described above. For whatever reasoning the Adjusted Monetary Base was inflated, causing the wild speculation in the financial markets just prior to Y2K and the subsequent disaster for so many when the base was suddenly deflated like a child's balloon, this should be subject to the most minute scrutiny.

My intent here was not just to demonstrate my dislike for some of the Fed's policies. I could write a discourse on the area that the Fed has done well. But so many of my colleagues prefer that course, I should seem redundant. In any case, the Federal Reserve Board has more than enough congratulatory praise from various corners that my praise would fall upon deaf ears.

I hope my unapologetic approach may serve to give some pause to these most important issues for all Americans, investors, owners, and workers alike. Clearly the Fed Board and the Fed Chairman especially are the single most powerful individuals ever granted, delegated the most important enumerated powers guaranteed to this Congress by the Constitution. It should be little to ask that they take heed in how they wield that power. If they are going to act like Masters, Fed Masters, then I strongly urge those individuals to rethink some of the policies they put forward and rethink in whose interests they serve.

LEAVE OF ABSENCE

By unanimous consent, leave of absence was granted to: