The U.S. DOLLAR AND THE WORLD ECONOMY

The SPEAKER pro tempore. Under the Speaker’s announced policy of January 3, 2001, the gentleman from Texas (Mr. PAUL) is recognized for 60 minutes as the designee of the majority leader. Mr. PAUL. Mr. Speaker, I have taken a Special Order today to address the subject of the U.S. dollar and the world economy, and in the words of James Madison, the pestilent effects of paper money.

Mr. Speaker, Congress has a constitutional responsibility to maintain the value of the dollar by making only gold and legal silver tender and not to emit bills of credit, that is, paper money. This responsibility was performed relatively well in the 19th century despite the abuse of the dollar suffered during the Civil War and despite repeated efforts to form a Central Bank.

This policy served to maintain relatively stable prices, and the short-comings came only when the rules of the gold standard were ignored or abused.

In the 20th century, however, we saw the systematic undermining of sound money with the establishment of the Federal Reserve System. This policy served to maintain relatively stable prices, and the shortcomings came only when the rules of the gold standard were ignored or abused.

Mr. Speaker, we now have the unique situation of a world economy, and the monetary inflation generated by the Federal Reserve has undermined the credibility of the dollar, both at home and abroad. As the world economy has become more integrated, the role of the dollar has become more critical. The U.S. dollar, with its reserve currency status, provides a much greater benefit to American citizens than that which occurs in other countries that follow a very similar monetary policy.

While the dollar is the dominant currency in the world economy, it is also the currency of the United States, and its value is determined by the actions of the Federal Reserve. The Federal Reserve has a dual mandate of price stability and full employment, and it has been successful in achieving these goals. However, the Federal Reserve’s actions have kept the financial bubble inflated. Of course, it is an easy choice in the short run.
Who would deliberately allow the market tendency to deflate back to stability? That would be politically unacceptable.

Talk of sound money and balanced budgets is just that. When the economy sinks, the rhetoric for sound policy and a strong dollar may continue, but all actions by the Congress and the Fed will be directed toward reflation and a congressional spending policy oblivious to all the promises regarding a balanced budget and the preservation of the Social Security and Medicare Trust Funds.

But if the Fed and its chairman, Alan Greenspan, have been able to guide us out of every potential crisis all the way back to the stock market crash of 1987, why should we not expect the same to happen once again? Mainly because there is a limit to how long the monetary elixir can be poured into the system, just as many others over the centuries believed they could plan domesticity, ignoring the fact that all efforts at socialism have failed.

Modern day globalization since gold's demise 30 years ago has been based on a purely fiat U.S. dollar with all other currencies tied to the dollar. International redistribution and management of wealth through the IMF, the World Bank, and the WTO have promoted this new version of globalization. This type of globalization depends on trusting central bankers to maintain currency values and the international institutions to manage trade equitably, while bailing out weak economies with dollar inflation. This, of course, has only been possible because the dollar's strength is perceived to be greater than it really is.

Modern day globalists would like us to believe they invented globalization. Yet all they are offering is an unprecedented plan for global power to be placed in the hands of a few powerful special interests.

Globalism has existed ever since international trade started thousands of years ago. Whether it was during the Byzantine Empire or the more recent British Empire, it worked rather well when the goal was honest trade and the currency was gold. Today, however, world government is the goal. Its tools are fiat money and the international agencies that believe they can plan globally, just as many others over the centuries believed they could plan domestically, ignoring the fact that all efforts at socialism have failed.

The day of reckoning for all this mischief is now at hand. The dollar is weakened in spite of all the arguments for its continued strength. Economic law is overruling political edicts. Just how long will the U.S. dollar and the U.S. taxpayers be able to bail out every failed third-world economy and pay the bills for propping up the world? U.S. troops are now in 40 nations around the world. The answer is certainly not forever and probably not much longer, since the world economies are readjusting to the dislocations of the past 30 years of mismanagement and misallocation of capital and charlatan fiat anchor that gold provided for thousands of years.

Let there be no doubt, we live in unprecedented times and we are just beginning to reap what has been sown the past 30 years. Our government and the Federal Reserve officials have grossly underestimated the danger.

Current commentators are depressed by worries about meeting the criteria for a government-declared recession and whether a weaker dollar would help. The first is merely academic, because if you are one of the many thousands who have been laid off, you are already in a recession.

The second does not make a lot of sense unless one asks, compared to what? The dollar has been on a steady course of devaluation for 30 years against most major currencies and against gold. Its purchasing power in general has been steadily eroded.

The fact that the dollar has been strong against Third World currencies and against most major currencies for the past decade does not cancel out the fact that the Federal Reserve has systematically eroded the dollar's value by steadily expanding the money supply. Recent reports of a weakening dollar on international exchange markets have investment implications, but do not reflect a new policy designed to weaken the dollar. This is merely the market adjusting to 30 years of systematic monetary inflation.

Regardless of whether the experts demand a weak dollar or a strong dollar, each inevitably demands lower interest rates, hoping to spur the economy and save the stock market from crashing. But one must remember that the only way the Federal Reserve can lower interest rates is to inflate the currency by increasing the money supply and by further debasing the currency.

In the long term, the dollar is always weakened even if the economy is occasionally stimulated on a short-run basis. Economic growth can hide the ill effects of monetary inflation by holding the price line in the face of impending overcapacity. Once the overcapacity is recognized by the market, these imbalances are destined to be wiped out.

Prolonging the correction phase with the Fed's effort to reflate by diligently working for a soft landing, or worse, prevent a recession only postpones the day the economy can return to sustained growth. This is a problem the United States had in the 1930s and one that Japan has experienced for more than a decade with no end in sight.

The next recession, from which I am sure we are already suffering, will be even more pervasive worldwide than the one in the 1930s due to the artificial nature of modern globalism with world economic policies run by agencies deeply involved in the economy of every nation. We have witnessed the current and recent bailouts of Mexico, Argentina, Brazil, Turkey, and countries in the Far East. While resisting the market's tendency for correction, faith in government deficits and belief in paper money inflation will surely prolong the coming worldwide crisis.

Alan Greenspan made a concerted effort to stave off the 1991–1992 recession with numerous reductions in the Fed funds rate, to no avail. The recession hit, and most people believe it led to George Bush's defeat in the 1992 election. It was not that Greenspan did not try. In many ways, the Bush people's criticism of Greenspan's effort is not justified. Greenspan, the politician, would have liked to please the elder Bush, but was unable to control events as he had wished.

This time around, however, he has been much more aggressive, with half-point cuts, along with seven cuts in just the last 8 months, for a total of 3 points cut in the Fed funds rate. But, guess what? So far, it has not helped; stocks continue to slide and the economy is still in the doldrums. It is now safe to say that Greenspan is pushing on a string.

In the year 2000, bank loans and commercial paper were growing at an annualized rate of 23 percent. In less than a year, in spite of this massive inflow of credit, along with seven cuts in just the last 8 months, these loans have crashed to a rate of minus 5 percent.

Where is the money going? Some of it probably has helped to prop up the staggering stock market, but that cannot last forever. Plenty went into conservative ventures, as the stock market continues to slide. Perhaps Greenspan, the politician, would have liked to please the elder Bush, but was unable to control events as he had wished.

The special nature of the dollar as the reserve currency of the world has permitted the bubble to last longer. That would have especially beneficial to American consumers. But in the last 30 years, both financial markets and political forces have steadily eroded our industrial base, while our service sector has thrived.
CONGRESSIONAL RECORD—HOUSE

Consumers enjoyed having even more funds to spend as the dollars left manufacturing. In a little over a year, 1 million industrial jobs were lost, while saving rates plummeted. Foreigners continue to grab our dollars, permitting us to raise our standard of living, but unfortunately, it is built on endless printing of fiat money and self-limiting personal savings.

The Federal Reserve credit created during the last 8 months has not stimulated economic growth in the technology or the industrial sector, but a lot of it ended up in the expanding real estate bubble, charmed by the $3.2 trillion of debt maintained by the GSEs, the Government Sponsored Enterprises. The GSEs, made up of Fannie Mae, Freddie Mac and the Federal Home Loan Bank, have managed to keep the housing market afloat in contrast to the more logical slowdowns in hotel and office construction. This spending through the GSEs has also served as a vehicle for consumption spending. This should be no surprise, considering the special status that the GSEs enjoy, since their implied line of credit to the U.S. Treasury keeps their interest rates artificially low.

The Clinton administration encouraged growth in housing loans that were financed through this system. In addition, the Federal Reserve treats GSE securities with special consideration. Ever since the fall of 1999, the Fed has monetized GSE securities just as if they were U.S. Treasury bills. This message has not been lost by foreign central banks, which took their cue from the Fed and now hold over $130 billion worth of United States GSE securities.

The Fed holds only $20 billion worth, but the implication is clear: Not only will the GSEs be able to borrow more than $300 billion, but the GSEs, if necessary, since the line of credit is already in place, but if necessary, Congress will surely accommodate with appropriations as well, just as they did during the savings and loan crisis of the 1970s.

But the Fed has indicated to the world that the GSEs are equivalent to U.S. Treasury bills, and foreign central banks have enthusiastically accommodated, sometimes by purchasing more than a third of the GSEs in 1 week alone. They are merely recycling the dollars we so generously print and spend overseas.

After the NASDAQ collapsed last year, the flow of funds into real estate accelerated, and home prices and home investments plummeted. Foreigners continue to grab our dollars, permitting us to raise our standard of living, but unfortunately, it is built on endless printing of fiat money and self-limiting personal savings.

Refinancing especially helped consumers, contributing to a slowing economy. It is not surprising for high credit card debt to be frequently rolled into second mortgages, since interest on mortgage debt has the additional advantage of being tax deductible.

When financial conditions warrant, leaving financial instruments such as paper assets and looking for hard assets such as houses is commonplace and is not a new phenomenon. Instead of the newly inflated money being directed toward the stock market, it now finds its way into the rapidly expanding real estate bubble. This, too, will burst, as all bubbles do. The Fed, the Congress or even foreign investors cannot prevent the collapse of this bubble, any more than the Japanese banks were able to keep the Japanese miracle of the 1980s going forever.

Concerned Federal Reserve economists are struggling to understand how the wealth effect of the stock market and real estate bubbles affect economic activity and consumer spending. There should be no mystery, but it would be too much to expect the Fed to look to itself and its monetary policy for an explanation and assume responsibility for engineering the entire financial mess we are in.

A major problem still remains. Ultimately, the market determines all values, including all currencies. With the current direction of the dollar, certainly downward, the day of reckoning is fast approaching. A weak dollar will prompt dumping of GSE securities before Treasuries, despite the Treasury’s and the Fed’s attempt to equate them with government securities. This will threaten the whole GSE system of finance, because the challenge to the dollar and the GSEs will hit just when the housing market turns down and defaults rise.

Also a major accident can occur in the derivatives market, where Fannie Mae and Freddie Mac are deeply involved. The GSEs’ second mortgages, if needed, will increase the capacity, excessive debt and speculation, measured by the money supply, is not prevent the collapse of this bubble, any more than the Japanese banks were able to keep the Japanese miracle of the 1980s going forever.

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money and credit, is a concoction of the 20th century Keynesian economics. These efforts are not authorized by the Constitution and are economically detrimental.

Economic adjustments would not be so bad, as many mild recessions have proven, except that wealth is inexorably and unfairly transferred from the middle class and the poor to the rich. Job losses and the rising cost of living hurt some more than others. If our course does not change, the entire middle class prosperity can be endangered, as has happened all too often in other societies that pursued a false belief that paper money could be satisfactorily managed.

Even the serious economic problems generated by a flawed monetary system could be tolerated, except for the inevitable loss of personal liberty that accompanies it, even if ill-advised government centrally plan the economy through a paper monetary system and ever-growing welfare state. Likewise, an imperialistic foreign policy can only be supported by inflation and high taxation.

This policy compounds the threat to liberty because, all too often, our leaders get us involved in overseas military adventurism in which we should have no part. Today, that danger is greater than ever as we send our dollars and our troops hither and yon to areas of the world most Americans have no knowledge or interest in. But the driving force behind our foreign policy comes from our oil corporations, international banking interests, and the military-industrial complex, which have high-stake interests in the places our troops and foreign aid are sent.

If, heaven forbid, the economy sinks as low and for as long as many free market economists believe, what policy changes must we consider? Certainly, one cannot change history to be to reject the ideas that created the crisis, but rejecting old ways that Congress and the people are addicted to is not easy. Many people believe that government programs are free. The clarion for low interest rates and, therefore, more monetary inflation, by virtually all public officials and prominent business and banking leaders is endless. And, the expectation for government to do something for every economic panacea government ill advice effort to recommit policy had created the problem in the first place, drives this seductive system of centralized planning that ultimately undermines prosperity. A realization that we cannot continue our old ways up until the point where the inflating, taxing, regulating, and the centralized planning programs of the last 30 years must come to an end.

Only reigning in the welfare-warfare state will suffice. This eliminates the need for the Fed to monetize the debt that politicians depend on to please their constituents and secure their reelection. We must reject our obsession with policing the world by our endless financial commitments and entanglements. This would reduce the need for greater expenditures, while enhancing our national security. It would also remove pressure on the Federal Reserve to continue a flawed monetary policy of monetizing endless government debt.

But we must also reject the notion that one man, Alan Greenspan, or any other chairman of the Federal Reserve, can know what the proper money supply and the proper interest rates ought to be. Only the market can determine that. This must happen if we ever expect to avoid continuous and deeper recessions and to get the economy growing in a healthy and sustainable fashion. It also must happen if we want to preserve free market capitalism and personal liberty.

The longer the delay in establishing a free market and commodity currency, even with interrupted blips of growth, the more unstable the economy and the more difficult the task becomes. Instead, it will result in what no one wants: more poverty and political turmoil.

There are no other options if we hope to remain a free and prosperous Nation. Economic and monetary meddling undermines its principles of a free society. A free society and sound money maximize production and minimize poverty. The responsibility of Congress is clear: avoid the meddling so ingrained in our system and assume the responsibility all but forgotten, to maintain a free society, while making the dollar, once again, as good as gold.

Now, I want to close with a quote from James Madison from The Federalist Papers, because the founders of this country faced the dilemma of running away inflation with the continental currency and that is where our slogan comes from: “It is not worth a continental.” This was a major reason why we had the constitutional convention because they knew and understood the evils and the disastrous effects of what paper money could do to a society. These are the words of James Madison. He says, “The extension of the prohibition to bills of credit must give pleasure to every citizen in proportion to his love of justice and his knowledge of the true springs of public prosperity. The loss which America has sustained since the peace, from the pestilent effects of paper money on the necessary confidence between man and man, on the necessary confidence in the public councils, on the industries and morals of the people, and on the character of republican government, constitutes an enormous debt against the States chargeable with this ill-advised measure.”

MARKING AN IMPORTANT MILESTONE FOR PARKINSON’S DISEASE RESEARCH, THE MORRIS K. UDALL RESEARCH ACT

The SPEAKER pro tempore (Mr. SIMPSON). Under a previous order of the House, the gentleman from New York (Mrs. MALONEY) is recognized for 5 minutes.

Mrs. MALONEY of New York. Mr. Speaker, I am proud to come to the floor this evening to mark the fourth anniversary of the passage of the Morris K. Udall Parkinson’s Research Act, an anniversary that occurred this week.

In 1999, along with my friends and colleagues, the gentleman from Michigan (Mr. UDALL), the gentleman from Illinois (Mr. EVANS); the gentleman from New Mexico (Mr. SKEEN); the gentleman from Colorado (Mr. MARK