

HONORABLE RON PAUL OF TEXAS

Opening Statement Committee on Financial Services Paulson Hearing

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A strong case can be made that our economy is not nearly as robust as our government statistics claim.

Unemployment numbers, inflation rates, tax revenues, and GDP growth all indicate there is little to worry about.

Yet underemployment and a lower standard of living for many Americans hit with significant price inflation leave them fearful of their economic future.

The shake up in the sub prime mortgage market which is now spreading, as the housing bubble deflates, has a long way to go. The same problem exists in the high-yield corporate debt market and will surely add to the economic uncertainty we now face. It's deceptive to merely blame "abusive lending practices" for these problems.

The recent sharp rise in interest rates may well be signaling the end to the painless easy money decade that has allowed us to finance our extravagant welfare/warfare spending with minimal

productive effort and no savings. Monetary inflation and foreign borrowing have allowed us to live far beyond our means – a type of monetary arrangement that always comes to a painful end.

As our problems worsen, the blame game will certainly accelerate. Claiming it is all due to China's manipulation of its currency and demanding protectionist measures will unfortunately continue to gain considerable attention. Unfortunately, there is little or no concern for how our own policies - monetary, tax, and regulatory- have contributed to the problems we face.

Too often officials ignore and even distort important economic information that could be beneficial in making market decisions.

Accurate money supply growth rates are vital in anticipating future price levels, the degree of malinvestment, and chances for financial bubbles to form. Since March of 2006 M3 reports have been discontinued. Private sources now report that M3 is increasing at a significantly high 13% rate.

It is said that the CPI is now increasing at the rate of 2.5%, yet if we use the original method of calculation we find that the CPI is growing at a rate of over 10%.

Since money growth statistics are key to calculating currency depreciation it is interesting to note, in this era of global financial markets, in a world engulfed with only fiat currencies, what total world wide money supply is doing.

Since 1997 the world money supply has doubled. And money growth IS inflation which is the enemy of the poor and the middle class but a friend to the banks and Wall Street.

Monetary depreciation is clearly a sinister tax placed on the unsuspecting poor. Too many well meaning individuals falsely believe that deficit financed assistance programs can help the poor, while instead the results are opposite.

Welfare and warfare – guns and butter philosophy always leads to harmful inflation. We had severe problems in the 60's and 70's and we are doing the same thing once again. We have only started to pay for the extravagance of financing the current war and rapidly expanding the entitlement system by foreign borrowing and creating money and credit out of thin air. There are reasons to believe that the conditions we have created will be much worse than they were in 1979 when interest rates of 21% were required to settle the markets and reverse the stagflation process.

Congress, and especially the Financial Services Committee, must insist on total transparency and accuracy of all government financial statistics. Any market interference by government agencies must be done in full public view.

All meetings and decision and actions by the Presidents Working Group on Financial Markets must be fully open to public scrutiny. If our government is artificially propping up the dollar by directly manipulating gold prices, or colluding with other central banks, it is information that belongs in the public domain. The same is true about any interference in the stock, bond, or commodity markets.

A free market economy requires that government keeps its hands off and allows the consumers to exert their rightful control over the economy.