HON. RON PAUL OF TEXAS Before the Committee on Financial Services

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Statement on Chinese Currency

The imbalances in international trade, and in particular trade between China and the United States, have prompted many to demand a realignment of the Chinese yuan and the American dollar. Since we are running a huge trade deficit with China the call now is for a stronger yuan and a weaker dollar. This trade imbalance problem will not be solved so easily.

If a stronger yuan is implemented, increased exports to China from the US may or may not result. The weaker dollar will lead to higher US prices and crowd out the hoped-for benefits of a realignment of the two currencies.

One thing certain is that the immediate impact would be higher prices for consumer goods for middle class Americans. In many ways a weaker dollar would act as an import tax just as if it were a tariff. Both are considered protectionist in nature.

The fact that the Chinese keep their currency artificially weak is a benefit to American consumers and long term is inflationary for the Chinese.

This deep and legitimate concern for the trade imbalance between China and the US will fall short if the issue of fluctuating, world-wide fiat currencies, is not addressed.

The fact that the US dollar is the principal reserve currency of the world gives us a benefit that others do not enjoy. It allows us to export paper dollars and import goods manufactured in countries with cheap labor. It also allows us to finance the welfare/warfare state with cheap loans from China and Japan. It's a good deal for us but according to economic law must come to an end, and the end will be messy for the US consumer and for world trade.

The current system can only last as long as the trust in the dollar is maintained and foreigners are willing to accept them as if they had real value.

Ironically, the most serious problem we face is a sharply weakening dollar, in danger of collapse, and yet many are now asking for a policy, dealing with the Chinese, that would accelerate the dollar's decline. And yet we're told that we maintain a strong dollar policy.

Financing deficits with monetary inflation is in itself a weak dollar policy in the long term. Trust in our currency due to our economic and military strength artificially props up the dollar on international exchange markets. Since these benefits come not from production or sound money policies, they only contribute to the instability and imbalances in international trade.

Neither tariffs nor forced devaluations can solve the problem.

Our current account deficit and huge foreign indebtedness is a reflection of the world monetary system of fiat money. The longer the trade imbalances last, the more difficult the adjustment will be. The market will eventually force these adjustments on us.

Eventually it will be necessary to consider commodity-based money to solve the trade imbalances that concern so many here in the Congress.