

HON. RON PAUL OF TEXAS BEFORE THE US HOUSE OF REPRESENTATIVES September 15, 2005 The Coming Category 5 Financial Hurricane The tragic scenes of abject poverty in New Orleans revealed on national TV by Katrina's destruction were real eye-openers for many. These scenes prompted two emotional reactions. One side claims Katrina proved there was not enough government welfare, and its distribution was based on race. The other side claims we need to pump billions of new dollars into the very federal agency that failed (FEMA), while giving it extraordinary new police powers. Both sides support more authoritarianism, more centralization, and even the imposition of martial law in times of natural disasters.

There is no hint that we will resort to reason now that the failed welfare policies of the past 60 years have been laid bare. Certainly no one has connected the tragedy of poverty in New Orleans to the flawed monetary system that has significantly contributed to the impoverishment of a huge segment of American society.

Congress reacted to Katrina in the expected irresponsible manner. It immediately appropriated over \$60 billion with little planning or debate. Taxes won't be raised to pay the bill-- fortunately. There will be no offsets or spending reductions to pay the bill. Welfare and entitlement spending is sacrosanct. Spending for the war in Iraq and the military-industrial complex is sacrosanct. There is no guarantee that gracious foreign lenders will step forward, especially without raising interest rates. This means the Federal Reserve and Treasury will print the money needed to pay the bills. The sad truth is that monetary debasement hurts poor people the most-- the very people we saw on TV after Katrina. Inflating our currency hurts the poor and destroys the middle class, while transferring wealth to the ruling class. This occurs in spite of good intentions and misplaced compassion.

We face a coming financial crisis. Our current account deficit is more than \$600 billion annually. Our foreign debt is more than \$3 trillion. Foreigners now own over \$1.4 trillion of our Treasury and mortgage debt. We must borrow \$3 billion from foreigners every business day to maintain our extravagant spending. Our national debt now is increasing \$600 billion per year, and guess what, we print over \$600 billion per year to keep the charade going. But there is a limit and I'm fearful we're fast approaching it.

Runaway inflation is a well-known phenomenon. It leads to political and economic chaos of the kind we witnessed in New Orleans. Hopefully we'll come to our senses and not allow that to happen. But we're vulnerable and we have only ourselves to blame. The flawed paper money system in existence since 1971 has allowed for the irresponsible spending of the past 30 years.

Without a linkage to gold, Washington politicians and the Federal Reserve have no restraints placed on their power to devalue our money by merely printing more to pay the bills run up by the welfare-warfare state.

This system of money is a big contributing factor in the exporting of American jobs, especially in the manufacturing industries.

Since the last link to gold was severed in 1971, the dollar has lost 92% of its value relative to gold, with gold going from \$35 to \$450 per ounce.

Major adjustment of the dollar and the current account deficit can come any time, and the longer the delay the greater the distortions will be in terms of a correction.

In the meantime we give leverage to our economic competitors and our political adversaries, especially China.

The current system is held together by a false confidence in the U.S. dollar that is vulnerable to sudden changes in the economy and political events.

My suggestion to my colleagues: Any new expenditures must have offsets greater in amount than the new programs. Foreign military and foreign aid expenditures must be the first target. The Federal Reserve must stop inflating the currency merely for the purpose of artificially lowering interest rates to perpetuate a financial bubble. This policy allows government and consumer debt to grow beyond sustainable levels, while undermining incentives to save. This in turn undermines capital investment while exaggerating consumption. If this policy doesn't change, the dollar must fall and the current account deficit will play havoc until the house of cards collapses.

Our spending habits, in combination with our flawed monetary system, if not changed will bring us a financial whirlwind that will make Katrina look like a minor storm. Loss of confidence in the dollar and the international financial system is a frightening possibility-- but it need not happen if Congress can curb its appetite for buying the people's support through unrestrained spending.

If Congress does not show some sense of financial restraint soon, we can expect the poor to become poorer; the middle class to become smaller; and the government to get bigger and more authoritarian-- while the liberty of the people is diminished. The illusion that deficits, printing money, and expanding the welfare and warfare states serves the people must come to an end.