Congressman Ron Paul U.S. House of Representatives September 10, 2002 ABOLISH THE FEDERAL RESERVE

Mr. Speaker, I rise to introduce legislation to restore financial stability to America's economy by abolishing the Federal Reserve. I also ask unanimous consent to insert the attached article by Lew Rockwell, president of the Ludwig Von Mises Institute, which explains the benefits of abolishing the Fed and restoring the gold standard, into the record. Since the creation of the Federal Reserve, middle and working-class Americans have been victimized by a boom-and-bust monetary policy. In addition, most Americans have suffered a steadily eroding purchasing power because of the Federal Reserve's inflationary policies. This represents a real, if hidden, tax imposed on the American people. From the Great Depression, to the stagflation of the seventies, to the burst of the dotcom bubble last year, every economic downturn suffered by the country over the last 80 years can be traced to Federal Reserve policy. The Fed has followed a consistent policy of flooding the economy with easy money, leading to a misallocation of resources and an artificial "boom" followed by a recession or depression when the Fed-created bubble bursts. With a stable currency, American exporters will no longer be held hostage to an erratic monetary policy. Stabilizing the currency will also give Americans new incentives to save as they will no longer have to fear inflation eroding their savings. Those members concerned about increasing America's exports or the low rate of savings should be enthusiastic supporters of this legislation. Though the Federal Reserve policy harms the average American, it benefits those in a position to take advantage of the cycles in monetary policy. The main beneficiaries are those who receive access to artificially inflated money and/or credit before the inflationary effects of the policy impact the entire economy. Federal Reserve policies also benefit big spending politicians who use the inflated currency created by the Fed to hide the true costs of the welfare-warfare state. It is time for Congress to put the interests of the American people ahead of the special interests and their own appetite for big government. Abolishing the Federal Reserve will allow Congress to reassert its constitutional authority over monetary policy. The United States Constitution grants to Congress the authority to coin money and regulate the value of the currency. The Constitution does not give Congress the authority to delegate control over monetary policy to a central bank. Furthermore, the Constitution certainly does not empower the federal government to erode the American standard of living via an inflationary monetary policy. In fact, Congress' constitutional mandate regarding monetary policy should only permit currency backed by stable commodities such as silver and gold to be used as legal tender. Therefore, abolishing the Federal Reserve and returning to a constitutional system will enable America to return to the type of monetary system envisioned by our nation's founders: one where the value of money is consistent because it is tied to a commodity such as gold. Such a monetary system is the basis of a true free-market economy. In conclusion, Mr. Speaker, I urge my colleagues to stand up for working Americans by putting an end to the manipulation of the money supply which erodes Americans' standard of living, enlarges big government, and enriches well-connected elites, by cosponsoring my legislation to abolish the Federal Reserve.

WHY GOLD? By Llewellyn H. Rockwell, Jr. As with all matters of investment, everything is clear in hindsight. Had you bought gold mutual funds earlier this year, they might have appreciated more than 100 percent. Gold has risen $60 since March 2001 to the latest spot price of $326. Why wasn't it obvious? The Fed has been inflating the dollar as never before, driving interest rates down to absurdly low levels, even as the federal government has been pushing a mercantile trade policy, and New York City, the hub of the world economy, continues to be threatened by terrorism. The government is failing to prevent more successful attacks by not backing down from foreign policy disasters and by not allowing planes to arm themselves. These are all conditions that make gold particularly attractive. Or perhaps it is not so obvious why this is true. It's been three decades since the dollar's tie to gold was completely severed, to the hosannas of mainstream economists. There is no stash of gold held by the Fed or the Treasury that backs our currency system. The government owns gold but not as a monetary asset. It owns it the same way it owns national parks and fighter planes. It's just another asset the government keeps to itself. The dollar, and all our money, is nothing more and nothing less than what it looks like: a cut piece of linen paper with fancy printing on it. You can exchange it for other currency at a fixed rate and for any good or service at a flexible rate. But there is no established exchange rate between the dollar and gold, either at home or internationally. The supply of money is not limited by the amount of gold. Gold is just another good for which the dollar can be exchanged, and in that sense is legally no different from a gallon of milk, a tank of gas, or an hour of babysitting services. Why, then, do people turn to gold in times like these? What is gold used for? Yes, there are industrial uses and there are consumer uses in jewelry and the like. But recessions and inflations don't cause people to want to wear more jewelry or stock up on industrial metal. The investor demand ultimately reflects consumer demand for gold. But that still leaves us with the question of why the consumer demand exists in the first place. Why gold and not sugar or wheat or something else? There is no getting away from it: investor markets have memories of the days when gold was money. In fact, in the whole history of civilization, gold has served as the basic money of all people wherever it's been available. Other precious metals have been valued and coined, but gold always emerged on top in the great competition for what constitutes the most valuable commodity of all. There is nothing intrinsic about gold that makes it money. It has certain properties that lend itself to monetary use, like portability, divisibility, scarcity, durability, and uniformity. But these are just descriptors of certain qualities of the metal, not explanations as to why it became money. Gold became money for only one reason: because that's what the markets chose. Why isn't gold money now? Because governments destroyed the gold standard. Why? Because they regarded it as too inflexible. To be sure, monetary inflexibility is the friend of free markets. Without the ability to create money out of nothing, governments tend to run tight financial ships. Banks are more careful about the lending when they can't rely on a lender of last resort with access to a money-creation machine like the Fed. A fixed money stock means that overall prices are generally more stable. The problems of inflation and business cycles disappear entirely. Under the gold standard, in fact, increased market productivity causes prices to generally decline over time as the purchasing power of money increases. In 1967, Alan Greenspan once wrote an article called Gold and Economic Freedom. He wrote that: "An almost hysterical antagonism toward the gold standard is one issue which unites statists of all persuasions. They seem to sense--perhaps more clearly and subtly than many consistent defenders of laissez-faire--that gold and economic freedom are inseparable, that the gold standard is an instrument of laissez-faire and that each implies and requires the other. . . . This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights." He was right. Gold and freedom go together. Gold money is both the result of freedom and its leading protector. When money is as good as gold, the government cannot manipulate the supply for its own purposes. Just as the rule of law puts limits on the despotic use of police power, a gold standard puts extreme limits on the government's ability to spend, borrow, and otherwise create crazy unworkable programs. It is forced to raise its revenue through taxation, not inflation, and generally keep its house in order. Without the gold standard, government is free to work with the Fed to inflate the currency without limit. Even in our own times, we've seen governments do that and thereby spread mass misery.   Now, all governments are stupid but not all are so stupid as to pull stunts like this. Most of the time, governments are pleased to inflate their currencies so long as they don't have to pay the price in the form of mass bankruptcies, falling exchange rates, and inflation. In the real world, of course, there is a lag time between cause and effect. The Fed has been inflating the currency at very high levels for longer than a year. The consequences of this disastrous policy are showing up only recently in the form of a falling dollar and higher gold prices. And so what does the Fed do? It is pulling back now. For the first time in nearly ten years, some measures of money (M2 and MZM) are showing a falling money stock, which is likely to prompt a second dip in the continuing recession. Greenspan now finds himself on the horns of a very serious dilemma. If he continues to pull back on money, the economy could tip into a serious recession. This is especially a danger given rising protectionism, which mirrors the events of the early 1930s. On the other hand, a continuation of the loose policy he has pursued for a year endangers the value of the dollar overseas. How much easier matters were when we didn't have to rely on the wisdom of exalted monetary central planners like Greenspan. Under the gold standard, the supply of money regulated itself. The government kept within limits. Banks were more cautious. Savings were high because credit was tight and saving was rewarded. This approach to economics is the foundation of a sustainable prosperity. We don't have that system now for the country or the world, but individuals are showing their preferences once again. By driving up the price of gold, prompting gold producers to become profitable again, the people are expressing their lack of confidence in their leaders. They have decided to protect themselves and not trust the state. That is the hidden message behind the new luster of gold. Is a gold standard feasible again? Of course. The dollar could be redefined in terms of gold. Interest rates would reflect the real supply and demand for credit. We could shut down the Fed and we would never need to worry again what the chairman of the Fed wanted. There was a time when Greenspan was nostalgic for such a system. Investors of the world have come to embrace this view even as Greenspan has completely abandoned it.   What keeps the gold standard from becoming a reality again is the love of big government and war. If we ever fall in love with freedom again, the gold standard will once more become a hot issue in public debate.