

Congressman Ron Paul U.S. House of Representatives July 9, 2002

Has Capitalism Failed?

It is now commonplace and politically correct to blame what is referred to as *the excesses of capitalism* for the economic problems we face, and especially for the Wall Street fraud that dominates the business news. Politicians are having a field day with demagoguing the issue while, of course, failing to address the fraud and deceit found in the budgetary shenanigans of the federal government- for which they are directly responsible. Instead, it gives the Keynesian crowd that run the show a chance to attack free markets and ignore the issue of sound money.

So once again we hear the chant: "*Capitalism has failed; we need more government controls over the entire financial market.*" No one asks why the billions that have been spent and thousands of pages of regulations that have been written since the last major attack on capitalism in the 1930s didn't prevent the fraud and deception of Enron, WorldCom, and Global Crossings. That failure surely couldn't have come from a dearth of regulations.

What is distinctively absent is any mention that all financial bubbles are saturated with excesses in hype, speculation, debt, greed, fraud, gross errors in investment judgment, carelessness on the part of analysts and investors, huge paper profits, conviction that a new era economy has arrived and, above all else, pie-in-the-sky expectations.

When the bubble is inflating, there are no complaints. When it bursts, the blame game begins. This is especially true in the age of victimization, and is done on a grand scale. It quickly becomes a philosophic, partisan, class, generational, and even a racial issue. While avoiding the real cause, all the finger pointing makes it difficult to resolve the crisis and further undermines the principles upon which freedom and prosperity rest.

Nixon was right- once- when he declared "We're all Keynesians now." All of Washington is in sync in declaring that too much capitalism has brought us to where we are today. The only decision now before the central planners in Washington is whose special interests will continue to benefit from the coming pretense at reform. The various special interests will be lobbying heavily like the Wall Street investors, the corporations, the military-industrial complex, the banks, the workers, the unions, the farmers, the politicians, and everybody else.

But what is not discussed is the actual cause and perpetration of the excesses now unraveling at a frantic pace. This same response occurred in the 1930s in the United States as our policymakers responded to the very similar excesses that developed and collapsed in 1929. Because of the failure to understand the problem then, the depression was prolonged. These mistakes allowed our current problems to develop to a much greater degree. Consider the failure to come to grips with the cause of the 1980s bubble, as Japan's economy continues to linger at no-growth and recession level, with their stock market at approximately one-fourth of its peak 13 years ago. If we're not careful- and so far we've not been- we will make the same errors that will prevent the correction needed before economic growth can be resumed.

In the 1930s, it was quite popular to condemn the greed of capitalism, the gold standard, lack of regulation, and a lack government insurance on bank deposits for the disaster. Businessmen became the scapegoat. Changes were made as a result, and the welfare/warfare state was institutionalized. Easy credit became the holy grail of monetary policy, especially under Alan Greenspan, "the ultimate Maestro." Today, despite the presumed protection from these government programs built into the system, we find ourselves in a bigger mess than ever before. The bubble is bigger, the boom lasted longer, and the gold price has been deliberately undermined as an economic signal. Monetary inflation continues at a rate never seen before in a frantic effort to prop up stock prices and continue the housing bubble, while avoiding the consequences that inevitably come from easy credit. This is all done because we are unwilling to acknowledge that current policy is only setting the stage for a huge drop in the value of the dollar. Everyone fears it, but no one wants to deal with it.

Ignorance, as well as disapproval for the natural restraints placed on market excesses that capitalism and sound markets impose, cause our present leaders to reject capitalism and blame it for all the problems we face. If this fallacy is not corrected and capitalism is even further undermined, the prosperity that the free market generates will be destroyed.

Corruption and fraud in the accounting practices of many companies are coming to light. There are those who would have us believe this is an integral part of free-market capitalism. If we did have free-market capitalism, there would be no guarantees that some fraud wouldn't occur.

When it did, it would then be dealt with by local law-enforcement authority and not by the politicians in Congress, who had their chance to "prevent" such problems but chose instead to politicize the issue, while using the opportunity to promote more Keynesian useless regulations.

Capitalism should not be condemned, since we haven't had capitalism. A system of capitalism presumes sound money, not fiat money manipulated by a central bank. Capitalism cherishes voluntary contracts and interest rates that are determined by savings, not credit creation by a central bank. It's not capitalism when the system is plagued with incomprehensible rules regarding mergers, acquisitions, and stock sales, along with wage controls, price controls, protectionism, corporate subsidies, international management of trade, complex and punishing corporate taxes, privileged government contracts to the military- industrial complex, and a foreign policy controlled by corporate interests and overseas investments. Add to this centralized federal mismanagement of farming, education, medicine, insurance, banking and welfare. This is not capitalism!

To condemn free-market capitalism because of anything going on today makes no sense. There is no evidence that capitalism exists today. We are deeply involved in an interventionist-planned economy that allows major benefits to accrue to the politically connected of both political spectrums. One may condemn the fraud and the current system, but it must be called by its proper names- Keynesian inflationism, interventionism, and corporatism.

What is not discussed is that the current crop of bankruptcies reveals that the blatant distortions and lies emanating from years of speculative orgy were predictable.

First, Congress should be investigating the federal government's fraud and deception in accounting, especially in reporting future obligations such as Social Security, and how the monetary system destroys wealth. Those problems are bigger than anything in the corporate world and are the responsibility of Congress. Besides, it's the standard set by the government and the monetary system it operates that are major contributing causes to all that's wrong on Wall Street today. Where fraud does exist, it's a state rather than federal matter, and state authorities can enforce these laws without any help from Congress.

Second, we do know why financial bubbles occur, and we know from history that they are routinely associated with speculation, excessive debt, wild promises, greed, lying, and cheating. These problems were described by quite a few observers as the problems were developing throughout the 90s, but the warnings were ignored for one reason. Everybody was making a

killing and no one cared, and those who were reminded of history were reassured by the Fed Chairman that "this time" a new economic era had arrived and not to worry. Productivity increases, it was said, could explain it all.

But now we know that's just not so. Speculative bubbles and all that we've been witnessing are a consequence of huge amounts of easy credit, created out of thin air by the Federal Reserve. We've had essentially no savings, which is one of the most significant driving forces in capitalism. The illusion created by low interest rates perpetuates the bubble and all the bad stuff that goes along with it. And that's not a fault of capitalism. We are dealing with a system of inflationism and interventionism that always produces a bubble economy that must end badly.

So far the assessment made by the administration, Congress, and the Fed bodes badly for our economic future. All they offer is more of the same, which can't possibly help. All it will do is drive us closer to national bankruptcy, a sharply lower dollar, and a lower standard of living for most Americans, as well as less freedom for everyone.

This is a bad scenario that need not happen. But preserving our system is impossible if the critics are allowed to blame capitalism and sound monetary policy is rejected. More spending, more debt, more easy credit, more distortion of interest rates, more regulations on everything, and more foreign meddling will soon force us into the very uncomfortable position of deciding the fate of our entire political system.

If we were to choose freedom and capitalism, we would restore our dollar to a commodity or a gold standard. Federal spending would be reduced, income taxes would be lowered, and no taxes would be levied upon savings, dividends, and capital gains. Regulations would be reduced, special-interest subsidies would be stopped, and no protectionist measures would be permitted. Our foreign policy would change, and we would bring our troops home.

We cannot depend on government to restore trust to the markets; only trustworthy people can do that. Actually, the lack of trust in Wall Street executives is healthy because it's deserved and prompts caution. The same lack of trust in politicians, the budgetary process, and the monetary system would serve as a healthy incentive for the reform in government we need.

Markets regulate better than governments can. Depending on government regulations to protect

us significantly contributes to the bubble mentality.

These moves would produce the climate for releasing the creative energy necessary to simply serve consumers, which is what capitalism is all about. The system that inevitably breeds the corporate-government cronyism that created our current ongoing disaster would end.

Capitalism didn't give us this crisis of confidence now existing in the corporate world. The lack of free markets and sound money did. Congress does have a role to play, but it's not proactive. Congress' job is to get out of the way.