

Congressman Ron Paul
House Financial Services committee, February 6 2002
Statement on the Argentine crisis

Mr. Chairman, the recent economic difficulties in Argentina provide many valuable lessons for policy makers, both in America and the rest of the world. Unfortunately, early signals indicate that many are drawing the wrong lesson from this crisis.

In the last several months, too many commentators and policy makers have pointed the finger of blame for Argentina's economic crisis at deregulation, free markets, and free trade. The logical conclusion of this analysis is that Argentina should embrace protectionism, increased welfare spending, regulation, and maybe even return to the days when all major industry in the country was nationalized. However, those familiar with the economic history of the twentieth century will find this analysis shocking- after all, if state control of the economy was the path to prosperity, then Cuba and North Korea would be the world's richest countries and leading economies!

In fact, Mr. Chairman, Argentina does not represent an exception to the laws of economics. Rather, Argentina's economic collapse is but one more example of the folly of government intervention in the economy done to benefit powerful special interests at the expense of the Argentine people and the American taxpayer. The primary means by which the federal government forces American taxpayers to underwrite the destruction of the Argentine economy is the International Monetary Fund (IMF), which enjoys a \$37 billion line of credit provided with U.S. Treasury funds.

Despite clear signs over the past several years that the Argentine economy was in serious trouble, the IMF continued pouring taxpayer-subsidized loans with an incredibly low interest rate of 2.6% into the country. In 2001, as Argentina's fiscal position steadily deteriorated, the IMF funneled over 8 billion dollars to the Argentine government!

According to our colleague, Congressman Jim Saxton, Chairman of the Joint Economic Committee, this "Continued lending over many years sustained and subsidized a bankrupt Argentine economic policy, whose collapse is now all the more serious. The IMF's generous subsidized bailouts lead to moral hazard problems, and enable shaky governments to pressure the IMF for even more funding or risk disaster."

Argentina is just the latest example of the folly of IMF policies. Only three years ago the world economy was rocked by an IMF-created disaster in Asia. The IMF regularly puts taxpayers on the hook for the mistakes of the big banks. Oftentimes, Mr. Chairman, IMF funds end up in the hands of corrupt dictators who use the taxpayer-provided largesse to prop up their regimes by rewarding their supporters and depriving their opponents access to capital.

Even if they are not corrupt, most IMF borrowers are governments of countries with little economic productivity. Either way, most recipient nations end up with huge debts that they cannot service, which only adds to their poverty and instability. IMF money ultimately corrupts those countries it purports to help, by keeping afloat reckless political institutions that destroy their own economies.

IMF policies ultimately are based on a flawed philosophy that says the best means of creating economic prosperity is government-to-government transfers. Such programs cannot produce growth, because they take capital out of private hands, where it can be allocated to its most productive use as determined by the choices of consumers in the market, and place it in the hands of politicians. Placing economic resources in the hands of politicians and bureaucrats inevitably results in inefficiencies, shortages, and an economic crisis, as even the best intentioned politicians cannot know the most efficient use of resources.

In addition, Mr. Chairman, the IMF violates basic constitutional and moral principles. The federal government has no constitutional authority to fund international institutions such as the IMF, and it is simply immoral to take money from hard-working Americans to support the economic schemes of politically-powerful special interests and third-world dictators.

The only constituency for the IMF are the huge multinational banks and corporations. Big banks used IMF funds- taxpayer funds- to bail themselves out from billions in losses after the Asian financial crisis. Big corporations obtain lucrative contracts for a wide variety of construction projects funded with IMF loans. It's a familiar game in Washington, with corporate welfare disguised as compassion for the poor.

Mr. Chairman, the damage inflicted by the IMF on Argentina is immense and inexcusable. This is yet further proof that the IMF was a bad idea from the very beginning- economically, constitutionally, and morally. However, perhaps some good can come out of this debacle if it causes Congress to at last rethink America's foolish participation in the IMF. This is why I will soon be introducing legislation to withdraw America from the IMF. I hope my colleagues will join

me in working to protect the American taxpayer from underwriting the destruction of countries like Argentina, by working with me to end America's support for the IMF.