

October 31, 2001

Mr. Speaker, the world's politicians, special interests, government bureaucrats, and financiers all love fiat money- because they all benefit from it. But freedom loving, hard working, ethical, and thrifty individuals suffer. Fiat money is paper money that gets its value from a government edict and compulsory legal tender laws. Honest money, something of real value, like a precious metal, gets its value from the market and through voluntary exchange.

The world today is awash in fiat money like never before. And we face a financial crisis like never before, conceived many decades before the 9/11 crisis hit.

Fiat money works as long as trust in the currency lasts. But eventually trust is always withdrawn from paper money. Fiat money evolves out of sound money, which always originates in the market. But paper money inevitably fails no matter how hard the beneficiaries try to perpetuate the fraud.

We are now witnessing the early stages of the demise of a world-wide financial system built on the fiction that wealth can come out of printing press or a computer at our central banks.

Japan, failing to understand this, has tried for more than a decade to stimulate its economy and boost its stock market by printing money and increasing government spending - and it hasn't worked.

Argentina, even with the hopes placed in its currency board is nevertheless facing default on its foreign debt and a crisis in confidence. More bailouts from the IMF and the US dollar may temper the crisis for a short time, but ultimately it will only hurt the dollar and US taxpayers.

We cannot expect to continually bail out others with expansion of the dollar money supply, as we have with the crises in Turkey, Argentina, and countries of southeast Asia. This policy has its limits and confidence in the dollar is the determining factor. Even though up until now confidence has reigned, encouraged by our political and economic strength, this era is coming to an end. Our homeland has been attacked, our enemies are not easily subdued, our commitments abroad are unsustainable, and our economy is fast slipping into chaos.

Printing money is not an answer. Yet that is all that is offered.

The clamor for low interest rates by all those who benefit from fiat money has prompted the Fed to create new money out of thin air like never before. Driving the federal funds rates down from 6 2 percent to 2 2 percent, a level below the price inflation rate, represents nothing short of panic- and has done nothing to recharge the economy. But as one would expect, confidence in the dollar is waning. I'm sure, due to the crisis, the faith in fiat, and a failure to understand the business cycle, the Fed will continue with the only thing it knows to do- credit creation and manipulation of interest rates. This policy reflects the central bank's complete ignorance as to the cause of the problem- credit creation and manipulation of interest rates.

Since the Federal Reserve first panicked in early January, it has created \$830 billion of fiat money out of thin air. The country is no richer, the economy is weaker, the stock market has continued downward, and unemployment has skyrocketed. Returning to deficit spending, as we already have, will not help us any more than it has helped Japan, which continues to sink into economic morass.

Nothing can correct the problems we face if we do not give up on the foolishness of fiat. Mr. Speaker, a dollar crisis is quickly approaching. We should prepare ourselves.