February 14, 2001

The Economy

Mr. Speaker: Many government and Federal Reserve officials have repeatedly argued that we have no inflation to fear. Yet those who claim this, define inflation as rising consumer and producer prices. Although inflation frequently leads to price increases we must remember that the free market definition of inflation is the increase in the supply of money and credit. Monetary inflation is seductive in that it can cause great harm without significantly affecting government price indices. The excess credit may well go into stock market and real estate speculation with consumer price increases limited to such things as energy, repairs, medical care and other services. One should not conclude, as so many have in the past decade, that we have no inflation to worry about. Imbalances did develop with the 1990's monetary inflation but were ignored. They are now becoming readily apparent as sharp adjustments take place—such as we have seen in the past year in the NASDAQ.

When one is permitted to use "rising prices" as the definition for inflation it is followed by a nonsensical assumption that a robust economy is the cause for rising prices. Foolish conclusions of this sort lead our economic planners and Federal Reserve officials to attempt to "solve " the problem of price or labor-cost inflation by precipitating an economic slowdown. Such a deliberate policy is anathema to a free market economy. It's always hoped that the planned economic slowdown will never do serious harm, but this is never the case. The recession with rising prices still comes. And that's what we are seeing today.

Raising interest rates 6 times in 1999-2000 has had an effect and the central planners are now worried. Falsely, they believe that if only the money spigot is once again turned on, all will be well. That will prove to be a pipe dream.

It is now recognized that indeed the economy has sharply turned downward—which is what was intended. But can the downturn be controlled? Not likely! And "inflation" by even the planner's own definition is now raising its ugly head. For instance, in the fourth quarter of last year labor costs rose at an annualized rate of 6.6%, the biggest increase in 9 years.

And what's happening to employment conditions? They're deteriorating rapidly. Economist Ed Hyman, reported that 270,000 people lost their jobs in January, a 678% increase over a year ago. A growing number of economists are now doubtful that productivity growth will save us from the correction that many free market economists predicted would come as an inevitable consequence of the interest rate distortions that Federal Reserve policy causes.

Instead of blind faith in the Federal Reserve to run the economy, we should become more aware of Congress's responsibility for maintaining a sound dollar and removing the monopoly power of our central bank to create money and credit out of thin air and fix short term interest rates—which is the real cause of all our economic downturns.

Between 1995 and today, the Greenspan Fed increased the money supply as measured by (MZM) by $1.9 trillion or a 65% increase. There is no reason to look any further for the explanation of why the economy is slipping with labor costs rising, energy costs soaring, and medical and education costs skyrocketing, while the stock market is disintegrating. Until we look at the unconstitutional monopoly power the Federal Reserve has over money and credit we can expect a continuation of our problems. Demanding lower interest rates is merely insisting the Federal Reserve deliberately create even more credit, which caused the problem in the first place. We cannot restore soundness to the dollar by debasing the dollar—which is what lowering interest rates is all about—printing more money.

When control is lost in a sharp downturn, dealing with it by massive monetary inflation, may well cause something worse than the stagflation that we experienced in the 1970s; an inflationary recession or depression could result.

This need not happen and won't if we demand that our dollar not be casually and deliberately debased by our unaccountable Federal Reserve.