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WARNING ABOUT FOREIGN POLICY AND MONETARY POLICY

Statement of HON. RON PAUL OF TEXAS

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Mr. Speaker, over the last 3 years to 4 years, I have come to the floor on numerous occasions trying to sound a warning about both our foreign policy and our monetary policy. Today our monetary policy and our foreign policy have clashed. We see now that we face serious problems, not only in the Middle East, but on our financial markets.

Yesterday, I talked a bit about what I see as a financial bubble that has developed over the past decade and made the point that a financial bubble can be financed through borrowing money, as well as inflation. A financial bubble is essentially a consequence of inflation. A lot of people talk about inflation being the mere rising of some prices, but that is not the case.

Most good economists recognize that inflation is a consequence of monetary policy; as one increases the supply of money, it inflates the currency. This distorts interest rates, and it distorts the markets. Sometimes this goes into goods and services, and other times these excessive funds will go into marketplaces and distort the value of stocks and bonds.

I believe this is what has happened for the past 10 years. Mr. Speaker, so in spite of the grand prosperity that we have had for this past decade, I believe it is an illusion in many ways, because we have not paid for it. In a true capitalist society, true wealth comes from hard work and savings.

Today, the American people have a negative savings rate, which means that we get our so-called capital from a printing press, because there are no savings and no funds to invest. The Federal Reserve creates these funds to be invested. On a short-term, this seems to benefit everyone.

The poor like it because they seem to get welfare benefits from it; and certainly the rich like it, because it motivates and stimulates their businesses; and politicians like it, because it takes care of deficits and it stimulates the economy.

The only problem with this is it always ends, and it always ends badly. And this is the reason that we have to meet up with a policy that seems ridiculous. The economy seems to be doing quite well, but the Federal Reserve comes along and says there is a problem with economic growth. Economic growth might cause prices to go up; so, therefore, what we have to do is cut off the economic growth. If you have slower growth, the prices will not go up any longer.

They are talking about a symptom and not the cause. The cause is the Federal Reserve. The problem is that the Federal Reserve has been granted authority that is unconstitutional to go and counterfeit money, and until we recognize that and deal with that, we will continue to have financial problems.

We have heard that the 1990s was a different decade, it was a new era, economy, exactly what we heard throughout the decade prior to the collapse of the markets in Japan. The markets have now been down more than 50 percent in Japan for more than 10 years, and there is no sign of significant recovery there.

Also there were other times in our history when they talked about a new era economy.

Let me read a quote: `With growing optimism, they gave birth to a foolish idea called the New Economic Era. That notion spread over the whole country. We were assured that we were in a new period where the old laws of economics no longer applied.' Herbert Hoover in his memoirs.

It is an illusion to believe that the new paradigm exists. Actually, the computer industry involves 5 percent of the economy; 95 percent is what they called the old economy. I ascribe to old economic laws, because the truth is, we cannot change economic laws. And if inflating a currency distorts the market and the boom leads to the bust, that cannot be repelled.

If we are looking towards bad times, it is not because of current policy, it is because of previous policy, the previous policy of the 10 years, the time when we live beyond our means. We say how did we live beyond our means? Where did the money come from? Are we not spending less than Washington? No, we are not spending less in Washington. Are not the deficits a lot less? They are less, but they are not gone.

Where did we borrow from? We borrowed from overseas. We have a current account deficit that requires over a billion dollars a day that we borrow from foreigners just to finance our current account deficit. We are now the greatest debtor in the world, and that is a problem. This is why the markets are shaky, and this is why the markets have been going down for 6 months, and this is why in a foreign policy crisis such as we are facing in the Middle East, we will accentuate these problems. Therefore, the foreign policy of military interventionism overseas is something that we should seriously question.