

Statement before the Financial Services Committee

Full Committee Hearing

“The Future of Financial Services: Exploring Solutions for the Market Crisis”

September 24, 2008

Mr. Chairman,

It is truly a shame that, less than two decades after the fall of communism, the lessons of price control are completely lost on most Washington power-brokers. The Treasury proposal before Congress is nothing more than a form of price control, an attempt to keep asset prices artificially elevated. The root of our recent economic boom, as in any other business cycle, was government intervention into the market under the guise of lowering the interest rate, which is itself a price. The function that prices play in the market in equalizing supply and demand, and the distortions that necessarily accompany each government effort at price-fixing, are forgotten by too many in Washington.

One of the primary causes for the length and severity of the Great Depression in this country was the federal government's attempts at keeping prices artificially elevated. A typical example of getting causation backward, the federal government assumed that falling prices caused the depression, whereas in reality the falling prices were the result of the economic depression, and were necessary to bring the economy back into equilibrium. In its attempt to keep agricultural prices high, the federal government began to pay farmers to destroy their crops, while unemployed people lined up at soup kitchens around the country.

A similar situation exists today, where many mortgage-backed securities and other similar assets are horribly overvalued. The market response would be to allow these assets to be sold on the market at whatever price they would bring. This would result in a shakeout of bad debt and a shorter, sharper correction than would otherwise occur. Unfortunately, the political will to allow banks to take the responsibility for their lending actions is at times lacking.

Many here in Congress are asking where the money for this bailout will come from, and indeed it is a good question. \$700 billion does not just materialize out of the ether, but then again neither do the hundreds of billions of dollars that we spend every year to fund our imperial war machine. We must face the fact that our country is dead broke, and not just that, we are facing over \$10 trillion in debt, and tens of trillions more in unfunded liabilities. This \$700 billion bailout will only increase that debt, and increase the amount of money we pay merely to service the interest on that debt. The end result of this is higher taxes on our children and grandchildren, and the full-scale destruction of the dollar.

The only viable solution to this financial crisis is to keep the government from intervening any further. The Federal Reserve has already loaned hundreds of billions of dollars through its numerous lending facilities, and the Congress has passed legislation authorizing further hundreds of billions of dollars to bail out Fannie and Freddie, yet each successive crisis event seems to be advertised as larger and more severe than the previous one. It is time that this Congress put its foot down, reject the administration's proposal, and allow the bust to work itself out so that our economic hangover is not as severe as it might otherwise be.