50. Charles Steiner
51. Michael Swain
52. Joseph Tantillo
53. Abbey Thiel
54. Elijah Umek
55. Ryan Van Antwerp
56. Jordan Villa
57. Kagan S. Walsh
58. Andrew Warner
59. Daa'iyah White
60. Olivia Wisecup
61. Bethany Woodley
62. Jacob Young
63. Sara Zimmerman

IS THAT ALL THERE IS TO A RECESSION?

HON. RON PAUL

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Wednesday, January 20, 2010

Mr. PAUL. Madam Speaker, as we start the new year 2010, the establishment politicians, economists and Wall Street are trying to convince themselves that we have turned the corner and economic growth has once again begun. The predictions that conditions are getting back to normal come from those who never saw the crisis coming and don't have the vaguest notion what caused it. Some of them concede that it could be a jobless recovery. That will establish a new definition for a recovery.

Official unemployment is at 10 percent but even the government knows that if everyone is counted, including those individuals that are too discouraged to even be looking for work, the unemployment rate is 17 percent. Free-market economists claim the actual unemployment rate is closer to 22 percent.

There's reason to believe that the correction is just barely started and has a long way to run. If the financial bubble came from excess credit created by the Federal Reserve, doubling the money supply can hardly be a solution. It wouldn't make much sense for a doctor taking care of a very sick patient from severe infection to deliberately give the patient another infection. Yet that's what the PhD doctors are doing to our very sick economy. It can't work. It will make the economy much sicker. If our leaders don't wake up soon, the economy will be brought to its knees. Great danger lies ahead.

In foreign policy, it's always crucial that the motives of those who would do us harm are understood. Denial of the truth and accepting more politically palatable excuses will guarantee that threats to our safety will continue as we pursue a seriously flawed involvement overseas.

It's the same in economic policy. If there's denial or ignorance of the real cause of financial bubbles and the inevitable corrections that must follow, the economy cannot be reenergized.

We should have learned the lesson from the Depression of the 1930s that it was a predictable result from the Federal Reserves orchestrated excesses of the 1920s. Instead, the new-born Keynesian economists who took charge made certain that the correction would not be a one or two year affair as were the previous corrections in our history. The aggressive intervention by Hoover and Roosevelt, the Republicans and the Democrats, turned a short recession into the Great Depression, which lasted until the end of World War II.

The real tragedy was that the interpretation of the 1930s institutionalized bad economic theories. Unfortunately, and erroneously, the Depression was blamed on the gold standard, free markets and a lack of regulations. Though monetary policy was analyzed, its importance was 100 percent misinterpreted. The low interest rates and excess credit of the 1920s, driven by Federal Reserve policy, was not considered a factor in producing the stock market bubble and the mal-investment.

Instead, the 1930s analysts and even later analysis by Milton Freidman and the monetarists, along with academic "scholars" like Bernanke, came to an opposite conclusion: the Fed was at fault but only because it was too tight, arguing that massive monetary inflation was the only answer to the slumping economy.

And now we are witnessing a grand experiment by the very person who for years claimed special knowledge regarding the Depression. Chairman Bernanke is in the midst of trying to solve the problem of massive monetary inflation and excessively low interest rates instituted by his predecessor, Alan Greenspan, by implementing even more inflation at historic rates. The sad part is the answer to his very risky experiment with the wealth of our country and the health of our economy will take years to analyze. The conclusions will be just as flawed as they were in the aftermath of the Great Depression by an intellectual and political community that had totally rejected commodity money and the principle of free market with the current understanding in Washington.

One hope, though, is that free-market thinking and Austrian economic theories will have greater influence in the next decade or two, since their influence is now on a dramatic upswing. But there are a lot of hurdles to overcome.

In the 1930s, in an effort to find the true cause of the crisis, Congress ordered an official investigation. It became known as the "Pecora Investigation" named after Ferdinand Pecora, the aggressive chief council of the hearings. It received a lot of public attention and brought about many major changes but, tragically, every conclusion made and new policies implemented caused the depression to worsen and legitimized bad economic theories that continue to haunt us to this day.

The Federal Reserve was not blamed except for not printing enough money fast enough. Artificially low interest rates and mal-investment, the main source of the grossly distorted economy and bubble of the 1920s were exonerated. Not enough regulations were blamed, thus the Glass-Stiegall Act and the Securities Act of 1933 were passed and deepened the depression. Separating commercial and investment banking and the newly created SEC were to have solved all future problems—as long as the Fed was free from any restraint in its money creation operation to serve big-government spenders and members of the banking cartel.

Since the flaws in the monetary and economic system were not corrected but made worse after the Depression, it was to be expected that periodic booms and busts would persist. The longer these cycles could be papered over with new money and credit, the greater would be the distortions and debt that would one day have to undergo a major correction.

That correction is now in its early stages. Since the dollar was the reserve currency of the world and totally fiat since 1971, without any linkage to gold, the financial bubble became worldwide. This bubble that burst in 2008 was the largest in history. During the formation of the bubble, the U.S. as the issuer of the world currency received undeserved benefits. We essentially became the counterfeiter of the world and no one called us on it. Even today, the trust in the dollar that persists has buffeted the pain of the correction for us. This unique setup was a prime cause for our balance of payment deficits and the huge foreign debt we owe—the largest in the history of the world. The discord in the world financial system is telling us that it's time for us to pay for our profligate spending and massive foreign indebtedness. We have lived, as a nation, far beyond our means and the message is, for the foreseeable future, that we will be forced to live beneath our means as this debt is paid.

The inflation optimists are excited about current signs of economic growth and have even announced the end of the recession. It is conceivable that a reprieve can be achieved and the penalty that our economy must endure delayed. A reprieve must not be confused with a pardon; one is a temporary delay, the other an exemption. The payback for our excesses is certain to come.

Massively increasing debt and monetary inflation can slow the crash and change some government statistics encouraging the optimists. But real job growth and return of prosperity will remain elusive. The odds of us once again becoming an exporter of manufactured goods, like steel, cars, and textiles, are remote.

Ironically, a reprieve may well restore some confidence and motivate some spending and investment. But instead of restoring long-term growth, it may well act perversely by precipitating price inflation and higher interest rates. Since today's interest rates are artificially set, much of our investing is unproductively misdirected.

Current enthusiasm in the stock market is once again a reflection of the message that low interest rates send. Thus too, the government's stimulus package has helped to sustain the bond bubble, which in time must be deflated in order to get back to sound economic growth. All of this activity poses a threat to the dollar.

Governments are very powerful, and when in partnership with the monetary authorities that can inflate the currency at will, big government thrives. Welfare demands and senseless wars can be financed for long period of time through inflation, as long as trust in the currency lasts. Trust, though ultimately controlled by facts, can be misleading, since currency values can gain benefit from a country that has a strong military and wealth and a reasonably healthy economy. Eventually, markets and reality overwhelm, and illusions about a currency's worth become a reality.

Today, reality is setting in and the first of three major events has begun. The worldwide financial system, built on a foundation of paper, has received the shock waves of an impending collapse.

The wild speculation and the derivatives market, the stock market bubble, the insurmountable debt—public and private—and the massive mal-investments have been shattered.

The only solution so far offered worldwide, but led by the United States has been to ''print money'' faster, keep interest rates low at practically zero percent, and remove all stops for controlling deficits. These are the very policies that caused the disequilibrium, and doing more of the same, but only faster, can hardly help our economy. The addiction to easy credit and deficit defies a wise political solution. Politicians are incapable of delivering the message of frugality, common sense, and sound money.

We can expect that the course we are on to continue and accelerate, since the first event, the collapse of the financial system, is still in its early stage.

The housing crisis is far from over; the commercial property crisis has not yet gotten much attention, and the financial obligations of the government are growing exponentially. And none of this forces the slightest pause in the expanding of welfare growth. The number of regulations, which are indeed a tax, are exploding though the market was already suffering from regulatory excesses. There's a consensus in Washington that ''wise'' regulations can compensate for all the mistakes made by the Federal Reserve, the Executive Branch, and Congress. This fallacy has been around a long time and will be difficult to overcome.

The pessimism of the middle class continues to get worse despite the prognostication of Wall Street and the Administration. Most Americans know that the standard of living and real wages have not gone up for the past 10 years. If you're not a shrewd stock trader and instead invested in stocks 10 years ago and held on, in real terms you would have lost 20 percent of your savings. The middle class is poorer also because house prices have crashed and many have lost their homes. On top of this, all we hear about is the trillions of dollars of debt and entitlement obligations that have been racked up for future taxpayers to pay. When it is revealed that the insider friends of the Fed and Congress get billions of dollars in bailout at the expense of the middle class, it's no wonder the people are taking to the streets and directing their hostilities toward both Republicans and Democrats in Washington. Many would agree it's well-earned anger and properly directed.

This anger and frustration will certainly grow as the consequences of the collapse of the financial system become more severe. The concerted effort to prevent the correction the market demands, guarantees a prolonged agonizing crisis. Every effort to reverse the tide will depend on spending, higher deficits, increased taxes and money creation. This effort is now providing another grand bubble: the dollar/bond bubble.

The next event will be a dollar crisis. A full-blown dollar crisis will be worse than our current financial crisis. The extent of a dollar crisis depends on whether or not the Washington politicians wake up and change their ways—a dubious hope.

More likely, the insanity will continue until some not yet known event will undermine the confidence of the dollar worldwide. Signs of less desire by foreigners to hold our dollars are already present. I'm certain our Treasury and Federal Reserve are pulling out all stops to prevent a massive run on the dollar. At present the ''orderly'' retreat from the dollar is working. But it won't last.

China is quite active in investing in national resources around the world, and including in Iran. While we live in the dark ages and believe only our military presence and military threats can protect our access to oil, China is actually spending some of their savings investing in their future access to energy and other precious metals and minerals.

But the orderly retreat from the dollar won't last forever. Since 1973, shortly after the breakdown of the Bretton Woods Agreement, the dollar has lost 32 percent of its value against a Federal Reserve basket of currencies. But that doesn't tell the real story, since that is a measurement against all other currencies, and they are fiat currencies as well. This gave the dollar an artificial benefit from its position of power in great wealth and military prowess. The dollar in relationship to gold, however, is down 97 percent since 1971, and 82 percent as measured by the CPI. The dollar, mismanaged by the Fed, has not been a benefit to the savers who sought to responsibly take care of themselves. They've been cheated by a rotten system and are just beginning to understand exactly how the Federal Reserve has been responsible for the swindle.

It is impossible to predict the time when confidence will be lost, but it can come quickly. Resorting to buying other paper currencies will not be of much help. When the dollar crashes, most likely the purchasing power of all currencies—since all countries hold dollars as a reserve—will go down as well.

This means that dollars and other currencies will go into buying consumer items, precious metals and other physical properties. Consumer prices will soar, as well as interest rates. The central bank will lose control; and the more they inflate, the worse the confidence becomes. The interest rates will respond to these efforts by rising sharply.

If the Fed tries to reverse the run on the dollar, interest rates will also soar, and the pain on the American citizens will be of such proportion that political chaos will result. Either scenario leads to political and social chaos—the third event, and the most dangerous.

With no ability of the federal government to fund its commitments, international or domestic, major changes will occur in our system. The social unrest will elicit cries for government to exert unusual force to head off a complete breakdown of law and order. The ultimate trap will be set for a system of government claiming to protect a free society. If more power and police authority are not given to the federal government, it will be argued that only anarchy will result. If more government policing power is given, it will mean a lethal threat to civil liberties. Already we have permitted the notion that a single person, the Attorney General or President, can decide who is an ''enemy combatant'', thus denying that individual the right to habeas corpus, permitting indefinite detentions without charges made. This attitude toward civil liberties has changed significantly since the fear built around 9/11.

Yes, I know declaring one an ''enemy combatant'' is reserved for the radical Muslims engaged in terrorism against the United States. To be reassured by this reasoning is quite dangerous and naive. Logic should not lead us to equate suspects with terrorists, and include American citizens, and yet this has already been set by precedent. Under difficult circumstances, our political leaders will not be hesitant to use these powers to maintain order. Tragically, the people may even demand it.

We are rapidly moving toward a dangerous time in our history. Society as we know it is vulnerable to political and social chaos.

This impending crisis comes as a consequence of our flawed foreign and domestic economic policies, a silly notion about money, ignorance about Central Banking, ignoring the onerous power and mischief of our out-of-control intelligence agencies, our unsustainable welfare state, and a willingness to sacrifice privacy and civil liberties in an attempt to achieve safety and security from an inept government. Dangerous times indeed!

What can be done about it? Must we wait for the inevitable and expect to restore our liberties in a street fight against the overwhelming power of the state? Not a good option!

The only way that we can prevent blood from running in the streets is to offer a better idea of the proper role of government in a society that desires first and foremost—liberty.

And that is impossible without a firm commitment by our thought leaders to the ideas of freedom, the source of all creative energy and prosperity. An all-powerful state is the threat to that ideal.

The prevailing attitude of the people—as it once was in early America—must be that of liberty and self reliance, rather than the nanny state and dependency relying on government force to mold all private choices.

If this is understood, a smooth—although not painless—transition to a free society is achievable. Ignoring this option will be very destructive to everything that is dear to the hearts of most Americans.

What is it that we must do? We must immediately embark on:

Balance the budget by reducing spending;

Change our foreign policy to that of non-intervention;

A full audit and more supervision of the Federal Reserve leading to abolishing the Federal Reserve;

Legalize competition to the Federal Reserve with competing currencies;

Regain respect for civil liberties and privacy while reigning in the CIA;

Wean ourselves off the dependence of wealth transfers by government;

Abolish crony capitalism—no subsidies, no bailouts, no regulatory or tax privileges to protect the powerful elite especially the military industrial complex; and

Eliminate the income tax, inheritance tax and taxes on savings and dividends.

None of this can happen without the restoration of Congress to its dominant position of the three Branches of Government as was originally intended by the Constitution. The Executive and Judicial must be reined in, and Congress must assert its prerogatives over all legislation curtailing all unconstitutional agendae through budgetary controls.

Signs abound that angry Americans are now more ready than ever before for a change in direction that is indeed real. If this program were improvised—even suddenly and dramatically—the adjustment, though significant and to a degree somewhat painful, would be much shorter and of minor consequence compared to the chaos and poverty that will result if we refuse to change our gluttonous appetite for a free lunch.

PERSONAL EXPLANATION

HON. BRIAN HIGGINS

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Wednesday, January 20, 2010

Mr. HIGGINS. Madam Speaker, I missed several roll call votes on January 19, 2010. Had I been present I would have voted:

On #6, on passage of H. Res. 1004, Congratulating the Northwestern University Feinberg School of Medicine for its 150 years of commitment to advancing science and improving health, I would have voted "yea."

On #7, on passage of H. Res. 1015, Congratulating the Penn State women's volleyball team on winning the 2009 NCAA Division I national championship, I would have voted "yea."

On #8, on passage of H. Res. 991, Commending the University of Virginia men's soccer team for winning the 2009 Division I NCAA National Championship, I would have voted "yea."