

FEDERAL RESERVE HAS MONOPOLY OVER MONEY AND CREDIT IN UNITED STATES

The SPEAKER pro tempore. Under the Speaker's announced policy of January 7, 1997, the gentleman from Texas [Mr. PAUL] is recognized for 60 minutes as the designee of the majority leader.

Mr. PAUL. Mr. Speaker, today I would like to talk about the subject of monopolies. The American people historically have been very much opposed to all monopolies. The one thing that generally is not known is that monopolies only occur with government support. There is no such thing as a free market monopoly. As long as there is free entry into the market, a true monopoly cannot exist.

The particular monopoly I am interested in talking about today is the monopoly over money and credit, and that is our Federal Reserve System.

The Federal Reserve System did not evolve out of the market, it evolved out of many, many pieces of legislation that were passed over the many years by this Congress. Our Founders debated the issue of a central bank and they were opposed to a central bank, but immediately after the Constitutional Convention there was an attempt to have a central bank, and the First Bank of the United States was established. This was repealed as soon as Jefferson was able to do it.

Not too long thereafter the Second National Bank of the United States was established, another attempt at centralized banking, and it was Jackson, who abhorred the powers given to a single bank, that abolished the Second National Bank.

Throughout the 19th century there were attempts made to reestablish the principle of central banking, but it was not until 1913 that our current Federal Reserve System was established. Since that time it has evolved tremendously, to the point now where it is literally a dictatorship over money and credit.

It works in collaboration with the banking system, where not only can the Federal Reserve create money and credit out of thin air and manipulate interest rates, it also works closely with the banks through the fractional reserve banking system that allows the money supply to expand. This is the source of a lot of mischief and a lot of problems, and if we in the Congress could ever get around to understanding this issue, we might be able to do something about the lowering standard of living which many Americans are now suffering from. If we are concerned about repealing the business cycle, we would have to finally understand the Federal Reserve and how they contribute to the business cycle.

Recently it has been in the news that Alan Greenspan had raised interest rates, and he has received a lot of criticism. There were some recent letters written to Greenspan saying that he should not be raising interest rates. That may well be true, but I think the more important thing is, why does he

have the power? Why does he have the authority to even be able to manipulate interest rates? That is something that should be left to the market.

Not only is this a monopoly control over money and credit, unfortunately it is a very secret monopoly. Mr. Speaker, I serve on the Committee on Banking and Financial Services and I am on the Subcommittee on Domestic and International Monetary Policy, and I myself cannot attend the open market committee meetings. I have no access to what really goes on. I have no authority to do any oversight. There is no appropriation made for the Federal Reserve.

The recent news revealed that the chief of the janitorial services over at the Federal Reserve makes \$163,000 a year, and yet we have no authority over the Federal Reserve because it is a quasi-private organization that is not responding to anything the Congress says. Yes, they come and give us some reports about what they are doing, but because Congress has reneged, they no longer have much to say about what the Federal Reserve does.

This, to me, is pretty important when we think how important money is. If they have the authority to manipulate interest rates, which is the cost of borrowing, which is the price as well as the supply of money, this is an ominous power because we use the money in every single transaction. It is 50 percent of every transaction. Whether it is the purchase of a good or whether it is the selling of our labor, it is denominated in terms of what we call the dollar, which does not have much of a definition anymore, and yet we have reneged on our responsibility to monitor the Fed to determine whether or not this dollar will maintain value.

Things have not always been this bad, and it did not happen automatically in 1913 when the Federal Reserve was established. It took a while. But it is worse now than it has ever been. Matter of fact, a well-known former Chairman of the Federal Reserve, William McChesney Martin, had interesting comments to make about this very issue in 1953. Mr. Martin said this: "Dictated money rates breeds dictated prices all across the board."

Well, it is abhorrent to those who believe in free enterprise and the marketplace. He goes on to say, "This is characteristic of dictatorship. It is regimentation. It is not compatible with our institutions."

So here we have a former Chairman of the Federal Reserve System coming down very hard on the concept of control of money and credit, and yet today it is assumed that the Federal Reserve has this authority. And so often it gravitates into the hands of one individual.

So those who are levying criticism toward the Federal Reserve today are justified, but if it is only to modify policy and not go to the source of the problem, which means why do they have the power in the first place, it is

not going to do much good. So we will have to someday restore the integrity of the monetary system, and we have to have more respect for the free market if we ever expect to undertake a reform of a monetary system which has given us a great deal of trouble, and it is bound to give us a lot more trouble as time goes on.

How will this be done? Some argue that the Federal Reserve is private and out of our control. That is not exactly true. It is secret, but it is a creature of Congress. Congress created the Federal Reserve System and Congress has the authority to do oversight, but it refuses and has ignored the responsibility of really monitoring the value of our currency and monitoring this very, very powerful central bank.

There is no doubt in my mind and in the minds of many others that this has to be done. To say that we must just badger a little bit to the Fed and to Mr. Greenspan, and say that interest rates should be lowered or raised or whatever, and tinker with policy, I think that would fall quite short of what needs to be done.

What is the motivation behind a Federal Reserve System and a central bank? Indeed, there is some very interesting motivation because it does not happen accidentally. There is a good reason to have a central bank that has this power to just with a computer create billions of dollars. It is not an accident that Congress more or less closes their eyes to it.

Between 1913 and 1971 there were a lot more restrictions on the Federal Reserve to do what they are doing today, because at that time we were still making a feeble attempt to follow the Constitution. The dollar was defined as the weight of gold. There were restrictions in the amount of new money and credit one could create because of the gold backing of the currency.

Although Americans were not allowed to own gold from the 1930's to 1971, foreigners could. Foreigners could come in and deliver their dollars back onto the United States and say, "Give us \$35 an ounce." But that was a fiction, too, because by that time we had created so many new dollars that the market knew that it took more dollars to get one ounce of gold. In the process, we gave up a large portion of our gold that was present in our Treasury.

Why would the Congress allow this and why would they permit it? I think the reason is Congress likes to spend money, and many here like to tax, and they have been taxing. But currently, today, the average American works more than half the time for the Government. If we add up the cost of all the taxes and the cost of regulations, we all work into July just to support our Government, and most Americans are not that satisfied with what they are getting from the Government.

The taxes cannot be raised much more, so they can go out and borrow money. The Congress will spend too

much because there is tremendous pressure to spend on all these good things we do; all the welfare programs, and all the military expenditures to police the world and build bases around the world. It takes a lot of money and there is a lot of interest behind that to spend this money.

So, then, they go and spend the money and, lo and behold, there is not enough money to borrow and not enough tax money to go around, so they have to have one more vehicle, and that is the creation of money out of thin air, and this is what they do. They send the Treasury bills or the bonds to the Federal Reserve, and with a computer they can turn a switch and create a billion or \$10 billion in a single day and that debases the currency. It diminishes the value of the money and alters interest rates and causes so much mischief that, if people are concerned about the economy or their standard of living or rising costs of living, this is the source of the problem.

So it is not only with the Federal Reserve manipulating the money and the interest rates, but the responsibility falls on the Congress as well because the Federal Reserve serves the interests of the Congress in accommodating the Congress as we here in the Congress spend more than we should.

Before 1971, when there were still restraints on the Federal Reserve, there was not as much deficit spending. Since that time, since the breakdown of the final vestiges of the gold standard in 1971, we have not balanced the budget one single time. So there is definitely a relationship. Now we have a national debt built up to \$5.3 trillion, and we keep borrowing more and more.

We have a future obligation to future generations of \$17 trillion, and this obligation is developed in conjunction with this idea that money is something we can create out of thin air. Now, if it were only the accommodation for the excess spending that was the problem, and we just had to pay interest to the Federal Reserve, that would be a problem in itself but it would not be the entire problem that we face today and that we face in the future.

As the Federal Reserve manipulates the economy by first lowering interest rates below what they should be and then raising interest rates above what they think they should be, this causes the business cycle. This is the source of the business cycle. So anybody who is concerned about unemployment and downturns in the economy and rising costs of living must eventually address the subject of monetary policy.

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As a member of the Committee on Banking and Financial Services, I am determined that we will once again have a serious discussion about what money is all about and why it is so important and why we in the Congress here cannot continue to ignore it and believe that we can endlessly accommodate deficits with the creation of

new money. There is no doubt that it hurts the working man more so than the wealthy man. The working man who has a more difficult time adjusting to the rising cost of living is now suffering from a diminished standard of living because real wages are going down.

There are many, many statistics now available to show that the real wage is down. Between 1973 and 1997, the wages of the working man has gone down approximately 20 percent. This has to do with the changes in the economy, but it also has to do with changes in the value of the currency and the wages do not keep up with the cost of living.

The increase in the supply of money is called inflation, even though there are not very many people in the news world or here in the Congress would accept that as a definition, because everybody wants to say that inflation is that which we measure by the Consumer Price Index.

The Consumer Price Index is merely a technique or a vehicle in a feeble attempt to measure the depreciation of our money. It is impossible to measure the money's value by some index like the Consumer Price Index. There are way too many variables because the individual who is in a \$20,000 tax bracket buys different things than the individual who is in a \$200,000 tax bracket. Wages are variable and the amount of money we borrow, the amount of money we spend on education as well as medicine varies from one individual to another. So this Consumer Price Index which we hang so much on is nothing more than a fiction about what we are trying to do in evaluating and accommodating and adjusting to the depreciating value of the dollar.

The critics of the Fed are numerous, as I said. The recent criticism has erupted because a few weeks ago, after warning of about 3 or 4 months by the Chairman of the Federal Reserve that interest rates were going to go up and, lo and behold, he did. The overnight interest rates that banks pay to borrow money just to adjust their books went up one-fourth of 1 percent. This is very disturbing to the markets. But Alan Greenspan mentioned this for 3 or 4 months. He started talking about the threat to the marketplace and the threat to the stock market back in December. But instead of him being entirely in control as he would pretend to be, actually market interest rates were already rising. Because if we look carefully at the monetary statistics from December up until the time he raised interest rates, he actually was doubling the growth of the money supply.

What does this mean? This means that there were pressures already on rising interest rates, and the way to keep interest rates down is to create more and more money. It is the supply-and-demand effect. So if you have more money, make it more available, interest rates come down. So this was his attempt to keep interest rates down rather than him saying, today we have to have higher interest rates.

But the real problem is why does the Federal Reserve have this much power over interest rates? In a free market, interest rates would be determined by savings. People would be encouraged to work, spend what they want, save the rest. If savings are high, interest rates go down, people then are encouraged to borrow and invest and build businesses. But today we have created an environment that there is no encouragement for savings, for tax reasons and for psychological reasons, very, very little savings in this country. Our country saves less money than probably any country in the world. But that does not eliminate the access to credit. Because if the banks and the businesses need money, the Federal Reserve comes along and they crank out the credit and they lower the interest rates artificially, which then encourages businesspeople and consumers to do things that they would not otherwise do.

This is the expansion or the bubble part of the business cycle, which then sets the stage for the next recession. So people can talk about how to get out of the next recession when the next recession hits and they can talk about what caused it, but the next recession has already been scheduled. It has been scheduled by the expansion of the money supply and the spending and the borrowing and the deficits that we have accumulated here over the last 6 to 8 years. And so, therefore, we can anticipate, and we in the Congress will have to deal with it, we anticipate for the next recession.

But unfortunately, because we do not look at the fundamentals of what we have done and the spending and the deficits, the next stage will be what we have done before. That is, if unemployment is going up, the government has to spend more money, there has to be more unemployment insurance. We cannot let people suffer. So the deficits will go up, revenues will go down and as we spend more money to try to bail ourselves out of the next recession, we will obviously just compound the problems because that is what we have been doing for the past 50 years. We have not solved these problems.

As a matter of fact, what has happened, because we eventually get the economy going again, what we do is we continue to build this huge financial bubble which exists today. It is a much bigger bubble than ever existed in the 1920's, it is international in scope and it is something never experienced in the history of mankind. Yet we have to face up to this, because when that time comes, we have to do the right things.

The 64 Members of Congress recently that signed the letter to Alan Greenspan said, Mr. Greenspan, you should not raise interest rates. Of course I just mentioned that maybe interest rates were rising, anyway, maybe he was accommodating the market pressures. But when 64 Members of Congress write to Greenspan and say do not let interest rates rise, or lower interest rates,

what they are really saying is crank out more money, because if there is a greater supply of money, then interest rates will be lower and everybody is going to be happy. That is true, for the short run. On the long run, it causes very serious problems.

Stiglitz, who used to be the chairman of the council of economic advisers, is a very strong critic of Alan Greenspan right now. He said that there are no problems, there is no cliff we are about to go over, do not worry about the future. I do not fault Mr. Greenspan's concern, believe me. I think he knows what is coming and why adjustments have to be made. But his critics are saying, when they talk about do not raise interest rates, what we have to remember is what they are saying to him is make sure there is more inflation, more money, lower interest rates and, of course, that will add to our problems in the future.

Not only do we have Members of Congress telling the Fed what to do, and the former Chairman of the Council of Economic Advisers telling them, many others all have an opinion on what to do, but nobody really asks the question, why are they doing all this in secret and where did they get all this power and why do we tolerate this system of money?

Even the IMF, something I am very much concerned about is the internationalization of our credit system, the IMF now has issued a recent report, but they do not agree with the 64 Members of Congress and they do not agree with the critics who say lower interest rates, create more money. They are saying to our Federal Reserve, you are creating too much money and you are having too much growth. Who ever heard of anything like too much growth? What is wrong with too much growth? Some people think that too much growth causes inflation, which is an absolute fallacy. If there is a lot of growth and a lot of production, prices would come down. Prices go up when the value of the money goes down. But the IMF is saying that should not even be involved in our domestic policy, and they are more involved than ever before, they are telling our Fed, this is good, what you are doing is good, keep raising your interest rates, turn off the economy, have a little slump here.

We do not need that kind of advice from somebody. We have enough problems taking advice from our own people and our own Congress about what has to happen, but we certainly do not need the advice from the IMF telling us that we ought to have more inflation, that we should involve overheating and that for some reason growth is bad. In a free market, sound monetary system, growth is good. If you have sound money and you have economic growth of 6 or 7 or 8 percent a year, you do not have inflation. That does not cause the inflation. It is only the debasement of the money that causes prices to rise.

Why do we hear so much concern about interest rates and price? Well,

there is a specific reason for this according to some very sound economic thinkers, and, that is they would like for us here in the Congress to think only about prices, either the price of money, which is the interest rate, or other prices, because so often it leads to the conclusion that, well, maybe what we ought to do is have price controls, which they tried in the early 1970's and it was a total disaster, but this is essentially what we have in medicine today.

We create new credit, the money goes in certain areas, the Government takes this money and channels it into education in medicine, so you have more price inflation. So what do you do? You have price controls. That is what is going on. That is what we are having today in medicine, rationing of health care. That is what managed care is all about. Patients suffer from this because they have less choices, and they do not have as much decisionmaking on what care they are going to get. This is a consequence of Government manipulation of money and credit.

Those who want to perpetuate this system do not want us to think of the real cause, and that is, the real cause is the monetary system. They would like us to think about the symptoms and not the cause, because it is not in the interest of a lot of people, not only in the interest of the big spenders here in the Congress who love the idea that the Federal Reserve is able to accommodate them on deficits, but there are business and banking interests and international interests and even some military production interests who like the idea that the credit is readily available and that they will be accommodated. The little guy never benefits. The little guy pays the taxes, he suffers from the inflation, he suffers from the unemployment, but there is a special group of people in an inflationary environment that benefits. Today of course there are a lot of people on Wall Street benefiting from this environment.

If this type of system were real good, we would all be very, very prosperous, and if we listened to the Government statistics, we would say there are no problems in this country. But I know differently. A lot of people I talk to, they tell me they are having a lot of problems making ends meet. Sometimes they work two and three jobs to get their bills paid. It is not all feminism that makes women go to work. A lot of women go to work because they have to do it to make ends meet and take care of their families. So there are a lot of problems.

But one key point that I think is important and, that is economic growth. If we have no economic growth and there is no productivity growth, we cannot maintain the standard of living, we cannot have increasing wages. If you do not produce more, you cannot have wages going up.

Unfortunately, that is where we are really hurting in this country. We are

living prosperously because we borrow a lot of money, by individuals, by corporations, and our Government borrows a lot from overseas. But we are not producing. Productivity growth in the last 5 years has averaged 0.3 percent. This is very, very low. It is equivalent to what happened before the Industrial Revolution, and it is going to lead to major problems in this country unless we understand why we are not producing as we had in the past. We need to address this if we have any concern about the people who suffer from these consequences.

The economic growth is slow. Predictions are that they, according to the Government statistics, are going to slow even more in time, whether it is the end of this year or next. We will have a recession. Even by some Government statistics now, we are seeing signs that there is a rising price level in some of our commodities. There is belief that these prices will go up and we will be suffering more so, even measured by the Consumer Price Index. This story that is being passed out here in the Halls of Congress and in other places in Washington that we do not have to worry about the Consumer Price Index, it overstates inflation, therefore we can make the adjustment, I do not think that is correct at all. I think the Consumer Price Index probably way underestimates inflation. If you have private sources, there are many people who suffer the cost of living much higher than the 3 or 4 percent that the Government reports. But there are some commodity indices that in the past 2 years have gone up over 50 percent. This is a sign of the consequence of the inflating of the money supply and it is starting to hit, or will hit some of our consumer products, because it is already hitting our commodities.

This idea that if there is a sign that prices are increasing, what we have to do is take it under control and we have to suppress economic growth and raise interest rates, this says something about our policy that shows the lack of understanding. Because if we look at all the recessions that we have had since World War II, in spite of the seriousness of many of these recessions, prices still go up.

The one that we remember most clearly is in the 1970's, where they even coined the word "stagflation." This is not an unheard of economic phenomenon. It is very frequent in many other nations, where you have a lot of inflation and poor economic growth. We have not had a serious problem with that, but it is very likely that that is eventually what we will get, because we have absolutely no backing and no restraint on our monetary system.

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When we have an economic and monetary system as we have today, I mention how it encourages Congress to spend beyond its means. It spends too much, it borrows too much, it inflates

too much, and it leads to serious long-term problems, that as long as you can borrow again and borrow again, you sort of hide the problems, delay the consequences of the problem and prevent the major correction that eventually comes.

But what have the American people been doing? Well, they have been encouraged by this. They see the credit is available out there. They keep borrowing, living beyond their means. Government lives beyond their means, and individuals live way beyond their means.

But some of the statistics are not very good about what is happening with our consumers, the American citizens. In 1996 personal bankruptcies were up 27 percent. It is at record high; well over a million bankruptcies were filed in 1996. This is a reflection of loose credit policies, but it also is a reflection of a moral attitude.

There was a time in our history where bankruptcy was looked down upon, that we had a moral obligation to do our very best. If we have a bad turn in our businesses, what we did was we notified everybody, we went back to work, and we systematically did our very best to pay off all our debts. There is no incentive for that today. So it is very easy today to see the bankruptcies filed, and they are increasing rapidly. I suspect that they are going to continue to increase even more dramatically.

Credit card delinquencies are at an all time high. They were at 3.72 percent in 1996, and those who are late payments, they are also a historic high, well over 5 percent. So the credit conditions of this country are not very good.

Now what do we see as the signs of things changing to sort of take care of this problem? So far, not too many good things happening. In 1995, the latest year we have measurements for, we find out that credit card issuers, credit card companies, issued 2.7 billion credit cards, preapproved. Preapproved credit cards, 2.7 billion, and it was equivalent to sending every single American between the ages of 18 and 64, 17 preapproved credit cards. Nothing like throwing out the temptation there, and many Americans fall into the temptations. Congress does it. They keep borrowing, and they exist. So the individual keeps borrowing, takes another credit card, rolls them over.

Eventually, though, the banker will call. The banker will call the individual. Who calls the Congress? Who calls a country when it spends beyond its means and it is way past the time when they should be cutting back? The problem that develops then is not so much that the Government, our Government, quits taxing and quits paying the bills. We will always do that. We have control over that because we now have this authority by Federal Reserve to create the money. The checks will always come.

The one thing that we do not have in the Congress and we do not have in the

Federal Reserve, and the President does not have, is to guarantee the value of the money, and that is the problem. Today all we hear about is the strength of the dollar, but if you look at the dollar from 1945 on, the dollar is on a downward spiral, and we are on a slight upward blip right now. Ultimately the dollar will be attacked by the marketplace, and it will be more powerful than any of the policy changes that our Federal Reserve might institute.

There is a couple other things that have happened in our financial system that is different than in the other ones. Some would argue with me and say you are concerned about the supply of money and credit. Well, I can show you a statistic measured by M-1, M-2 and M-3, and the money supply is not going up all that rapidly. And this is the case compared to other times, that money supply as measured by the more conventional methods are not—those measurements are not going up as rapidly as they have in the past. But there are other things that can accommodate the lack of expansion of money as measured by, say, M-2 and M-3.

First, if an individual has an incentive not to hold the money and save the money, but spend their money the day they get it, that is called the velocity or the propensity to spend the money, and if you use it more often, it is like having more dollars, and that is one statistic that has gone up dramatically. Between 1993 and 1996 it has gone up 45 percent, so there is more desire to take the money and spend it, and it acts as if there is a lot more money, and we will also put pressure on the marketplace and cause the distortions that can be harmful.

The other thing that we have going that is different than ever before is that because there is no definition of the money, the dollars, no definition of the dollar, we have introduced the notion of all kinds of hedges and all kinds of speculation, and some serve financial and economic interests to do hedging, but because there is no soundness to the currency there is a greater need all the time to hedge and to try to protect against sudden changes. Some of that would be economically driven, but other activity of that sort is driven by speculation.

So in an age when you have tremendous excessive credit, money and credit, you have more speculation. Consumers speculate they spend too much money, a businessman speculates, invests in things he probably should not, but also governments do the same thing. They spend money that they should not have.

But in this area of derivatives, we have things like swaps and futures and options, repos, and the foreign currency market. Right now there is \$20, \$21 trillion worth of these derivatives floating around out there outside of the measurement by our conventional money supply, which means that this participates in this huge financial bubble that exists around the world.

There is also a measurement that we make on a daily basis which is called through the clearinghouse interbank payment system, and this is all the electronic money that is traded throughout the world every single day, and this again reflects how quickly we are spending our money and how fast we are circulating and how quickly it moves among and through our computers. Today it is estimated that \$1.4 trillion is transferred over the wire service.

Now, if there were a sound dollar and it was created only with a proper procedure rather than out of thin air, this would not be as bad, but the fact that this is contributing toward a financial bubble I think is a very, very dangerous condition.

We live in an age called the Information Age; we live in a computer age, and this technology is all very, very helpful to us. As a matter of fact, it has served us in many ways to accommodate this age of the paper money systems of the world. No money is sound today in history in the entire world. So there is what we call the fluctuating currency rates. Every single day, every single minute, the value of the dollar versus the yen, versus the mark, versus the pound is changing instantly.

Now in the old days each currency was defined by a weight of gold. There was less speculation even though under those conditions governments manipulating, and there were periodic times when certain countries would have to devalue. But now the computer system has really been a free market answer to those individuals who like the system, and it does work, it does work to a large degree for a time. But it also allows the system to last longer, and it allows us to create more of this financial bubble.

This is why we have been able to go along with the system of government where we have made commitments to our future generations of \$17 trillion; otherwise we could not have made these commitments that would have had to be a correction. We would have had to cut back and live within our means, just as individuals do; they have to live within their means, and they have to live probably less high than they were when they were borrowing all the money. A country will have to do that, too, that has lived way beyond its means, and this is why what we are doing is so dangerous.

The fact that we had these floating exchange rates for years has permitted many of our paper currencies to last a lot longer than they otherwise would have. We in the United States have a dollar which is considered the reserve currency in the world which lends itself to even more problems because the dollar is held in higher esteem and it is considered the reserve that other countries are more willing to hold, and this came out of the World War II because we had essentially all the gold, the dollar was strong, our economy was

strong, so the dollar was good as gold. So people took dollars and they would hold them, and they still do that to a large degree today.

So what does that encourage us to do? It encourages here in the Congress and elsewhere to create this debt, and then as the money circulates, we go and we say, oh, we have a lot of credit, we can borrow this money, we will buy foreign products, and that is what we do. We buy a lot of foreign products, and everybody is decrying, you know, this foreign deficit. We owe more money to foreigners and we have a greater foreign deficit than any other country in the world, and it is encouraged because they are willing to take our dollars, and we are willing to spend the money and we are willing to run up these deficits and not worry about the future.

But where do these dollars go? They go into the central banks, they buy our Treasury bills, and they are quite satisfied at the moment. But when they get unsatisfied and dissatisfied with it, they are going to dump these dollars, and they will come back. But the trade deficit is running more than a hundred billion dollars a year, which means we buy more products from overseas than we sell to the tune of a hundred billion dollars.

This in many ways has allowed our Federal Reserve to get off the hook a bit because if we had a \$100 billion that nobody wants to loan us and they had to create that new money, that would be very, very damaging to the psychology of our market, and it would be very, very inflationary. So it is still inflationary, but it is delayed. So as long as foreigners will take our dollars and let us buy their goods and we live beyond our means and hold our dollars and we keep creating new money and paying the interest, this thing could go on for a while. But eventually though in all monetary systems which are based on fiat, the creation of money out of thin air, eventually comes to an end, and when it comes to an end, there is the rejection of the dollar, and then the dollars come home, interest rates will go up, inflation will be back with a vengeance, and there will come a time, and nobody knows when that time will come, it will not be because of us in the Congress being very deliberate and very wise to all of a sudden live within our means, but we will be forced to live within our means because those who want to loan the money to us and the value of the money will change, that there will just not be enough wealth.

What promotes all this? Well, what is the grand illusion that allows us to get ourselves into such a situation? Well, the grand illusion of the 20th century, especially in the latter half of the 20th century, has been that prosperity can come from the creation of credit. Now if you think about it, it does not make any sense if you take a Monopoly game and you create more Monopoly money and pass it out, everybody knows it has

no value. But we have literally endorsed the concept that if we just print money and pass it out, everybody is going to be wealthy, and because it is government and because it was related to a gold standard and because foreigners will take money, this system continues to work because there is still trust in the money.

But eventually this trust will be lost. The wealth cannot be created by creating new money. Yes, if the Federal Reserve prints more money today and hands it to me, I can go spend it and I can feel wealthier. But in the grand scheme of things, you do not create wealth that way, and that is also the reason why productivity growth is down. We do not create it. We have to have incentives, we have to encourage work and effort. That is the only place you can get wealth.

So our taxes are too high, the regulations are too high, we borrow too much money, interest rates are too high, and we discourage savings all because of this monetary system. So eventually we are going to be required to do something about that to restore trust in the money so we do save money so we work harder. But we have to lower taxes, we have to get rid of regulations, we have to get rid of taxes on capital gains and get rid of taxes on savings and interest and get rid of taxes on inheritance. Then people will have more of an incentive to work rather than just to borrow. So the illusion of wealth today is that which comes from a fiat or paper monetary system.

We need today a very serious debate on what the monetary system ought to be all about. It cannot be a debate which is isolated from the role of government. If we have a role of government which is to run the welfare state, to give anything to anybody who needs something or wants something or claims it is an entitlement or claims it is a right, if that is a system of government that we want to perpetuate, it is going to be very difficult to have any reform. If we continue to believe that this country is the policeman of the world, that we must police the world and build bases overseas at the same time we neglect our own national defense, our own borders, our own bases here at home, but we continue to spend money on places, on Bosnia and Africa, and pay for the defense of Japan and Europe; as long as we accept those ideas, there is no way we can restore any sanity to our budget.

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So I am suggesting to my colleagues here in the Congress that what we must do is address the subject of what the role of government ought to be. There should be a precise role for government. That is what the whole idea and issue was of the Constitutional Convention as well as our Revolution. We did not like the role of government that the English and the British had given us, and we here in the United States decided that the role of govern-

ment ought to be there for the preservation of liberty.

The role of government ought not to be to redistribute wealth, it ought not to be the counterfeiter of the world, to create money out of thin air. It is illegal for you or I to counterfeit money. Why do we allow the Government to counterfeit the money and make it worthless all the time?

As long as we accept that, we are going to have big problems. But there will be a time coming, and I suggest to all of my colleagues that we be ready for it, because it is so serious. Not only is it a serious threat to our physical and economic well-being, the greater threat is the threat to our individual liberty. As conditions worsen, and when we have to face up to our problems, so often the response is, all we need is another government program. And that is still an attitude that I see all the time around here: if we just have a little more tax money.

Already in this very early Congress, we have had tax increases in spite of the rhetoric against taxes. We have been raising taxes. We have increased the amount of regulations. We have done nothing to really address the subject.

That comes from the fact that we never really ask the right questions. What should the role of government be? The Founders, as they concluded after the Revolution, as they wrote the Constitution, it very clearly was stated that the role of government, especially at the Federal level, ought to be there to protect the individual liberties of all individuals, no matter what. But today, we have lost that as a goal and as a target. We concentrate, whether it is a businessman or the person that is receiving welfare benefits, the concentration is on the material benefits that usually come from a free society in a voluntary way. But today, if anybody wants something or they need something or they think they have a right to it, what do they do; they order a political action committee and come to Washington.

I was gone for a few years. I was here in the Congress in 1976, and, after returning, there is one dramatic difference. There are more lobbyists than ever, more commands, more people coming and more people wanting things. I have more demand from the business community than I do from those who are from the poor end of the spectrum. There is a vicious maldistribution of wealth in a society that destroys its money. Inevitably, if a country destroys its money, it destroys its middle class.

This is what is happening in this country already. The poor, middle class individual who is still proud enough not to go on the dole and not to take welfare, that is the individual who suffers the very most; and he is the one that is most threatened by the loss of a job in the next downturn.

Currently right now, Wall Street, are they suffering from this financial bubble that I see? No. If you are in the

stock market or the bond market or borrowing overseas, they are doing quite well. People say: You worry too much. There is no inflation. No matter what you say about the money supply and all of these things you talk about, there is no inflation, do not worry about it. Inflation deals with money, not prices.

So as I said earlier, I believe prices are going up much faster than people will admit; but at the same time, the supply of money and credit continues to expand. So we will have to eventually address these problems. I think it will be up to us as Members of Congress to at least make some plans. Because if we do not, if we do not make the plans, I see this as a serious, serious threat to our personal liberties.

Mr. Speaker, it will not be a simple reform that we need. We have to do something more than that. We have to start thinking about what do we need to do to really change the course. Is there anything wrong with addressing the subject of individual liberty? Is there anything wrong with talking about the value and the importance of sound money? I claim there is nothing wrong with that, but there is very little debate. There is very little debate among our committee members and in our committees to address this. It is usually, how do we tide ourselves over? How do we modify this so slight a degree?

But the time will come, the time will come, because we will go bankrupt, because no country has ever done this before. No country can live beyond its means endlessly. No country can spend and inflate and destroy its money. There will be this transfer of wealth. It happened in many, many countries in this century. Of course, one example of the 20th century was the German inflation, and then there has to always be a scapegoat. The middle class suffers the most. Somebody has to be blamed.

Currently today, I see a trend toward those of us who advocate limited government, those who detest big government as becoming the scapegoat saying, oh, you individuals who are against big government, you are the people who cause trouble, you cause unhappiness. That is not the case. People are unhappy. I meet them all the time because they are having a difficult time making it in this day and age. Who knows who the next scapegoat will be, but there will be one.

Mr. Speaker, the middle class in America will have to eventually join in the reforms that we need. The reforms can be all positive. There is nothing wrong with advocating limited government. There is nothing wrong in the American spirit to advocate the Constitution. There is nothing wrong with the American tradition that says work is good. And there is something wrong with a system that endorses and encourages and pushes the idea that we have the right to somebody else's life and somebody else's earnings. I do not believe that is the case. I think that is

morally wrong. I do not believe it has been permitted under the Constitution, and it also leads to trouble. If it led to prosperity, it would be a harder argument for me. But if it leads to trouble and it leads to people being undermined in their financial security and in their economic security, then we have to do something else.

I would like to invite those who expressed deep concern about the poor and those who advocate more programs, more welfare programs, I would like to suggest they need to look at monetary policy. They need to look at deficits, and they need to realize that wealth has to be created. And if we truly do care about the poor people in this country, and if we do care about the people trying to build homes, public housing obviously has not worked. We have been doing public houses now and spent nearly \$600 billion, and there is no sign that we have done much for the people that we have given public housing to.

We have spent \$5 trillion on welfare. There are more homeless than ever. The educational system is worse than ever. Yet we do not really say, well, what should we do differently? Sometimes we will say, well, let us take the management and change the management. Let us take the bureaucrats from Washington and put them in the States. Let us do block grants. Let us make a few minor adjustments and everything is going to be OK, and it will not be.

We will not make it OK until we address the subject of what kind of a society we want to live in. I want to live in a free society. Fortunately for me, as a Member of Congress, and as one who has sworn to uphold the Constitution, this is an easy argument. It should be an easy argument for all of my colleagues who would say, yes, I have sworn to uphold the Constitution, I believe in America, I believe in hard work. But why do you vote for all of these other programs? Why do you vote for all of the deficits? Why are we getting ready to vote for more taxes soon? Why are we voting a supplemental appropriation? Why are we doing these things if we really are serious? I have not yet seen any serious attempt to cut back on spending and cut back on taxes.

Mr. Speaker, someday we will have to do it. The sooner, the better. If we do it in a graceful manner, there is no pain and suffering. The American people will not suffer if we cut their taxes. The American people will not suffer if we lower the amount of regulations. The American people will not suffer if we get out of their lives and not give them 100,000 regulations to follow day in and day out. The American people will not suffer if the Federal Government gets out of the management of education and medicine. That is the day I am waiting for and the day I am working for. Hopefully, I will get other Members of Congress here to join me in this effort to support the concepts and the principles of individual freedom.

#### SPECIAL ORDERS GRANTED

By unanimous consent, permission to address the House, following the legislative program and any special orders heretofore entered, was granted to:

(The following Member (at his own request) to revise and extend his remarks and include extraneous material:)

Mr. JONES, for 5 minutes, today.

#### EXTENSION OF REMARKS

By unanimous consent, permission to revise and extend remarks was granted to:

(The following Members (at the request of Mr. JONES) and to include extraneous matter:)

Mr. FRANK of Massachusetts.

Mr. CLEMENT.

Mr. STOKES.

(The following Members (at the request of Mr. PAUL) and to include extraneous matter:)

Mr. GREENWOOD.

Mr. EHRlich.

Mr. THOMAS.

Mr. STOKES.

Mr. COYNE.

Mr. CLEMENT in two instances.

Mr. ETHERIDGE.

Mr. FORD.

#### SENATE BILL REFERRED

A bill of the Senate of the following title as taken from the Speaker's table and, under the rule, referred as follows:

S. 562. An act to amend section 255 of the National Housing Act to prevent the funding of unnecessary or excessive costs for obtaining a home equity conversion mortgage; to the Committee on Banking and Financial Services.

#### ENROLLED BILL SIGNED

Mr. THOMAS, from the Committee on House Oversight, reported that that committee had examined and found truly enrolled a bill of the House of the following title, which was thereupon signed by the Speaker:

H.R. 1225. An act to make a technical correction to title 28, United States Code, relating to jurisdiction for lawsuits against terrorist states.

#### BILL PRESENTED TO THE PRESIDENT

Mr. THOMAS, from the Committee on House Oversight, reported that that committee did on the following date present to the President, for his approval, a bill of the House of the following title:

On April 25, 1997:

H.R. 1225. An act to make a technical correction to title 28, United States Code, relating to jurisdiction for lawsuits against terrorist states.

#### ADJOURNMENT

Mr. PAUL. Mr. Speaker, I move that the House do now adjourn.