United States House of Representatives
Committee on Financial Services
Hearing to Receive the Testimony of the Secretary of the Treasury on the Annual Report of the Financial Stability Oversight Council
October 6, 2011

Congressman Ron Paul
Statement for the Record

Mr. Chairman, I thank you for holding this hearing with Secretary Geithner to receive the annual report of the Financial Stability Oversight Council (FSOC). FSOC has been given a mandate to identify threats to the American financial system. With all the major financial regulators as members of FSOC, this new organization is like the Plunge Protection Team on steroids, and there is no telling what kind of damage FSOC will end up doing to financial markets.

While our domestic economy continues to suffer as a result of the Federal Reserve's intervention into credit markets, the euro increasingly looks likely to collapse. Here too the federal government has intervened, with the Federal Reserve promising unlimited dollar liquidity support to European central banks, and Secretary Geithner traveling to Europe to castigate the Europeans for moving “too slowly” in addressing their financial crisis. Whether or not the euro's collapse leads to the introduction of a new international monetary regime remains an open question. There is also the newly revived issue of China's currency, in which it appears that Congress may attempt to punish China for the alleged artificial weakness of its currency. The irony of Congress dictating monetary policy to the People's Bank of China when they would not even dare audit, let alone dictate, the Federal Reserve's monetary policy seems to be lost on the neo-mercantilist supporters of the China currency bill.

What role FSOC plays in all of these recent developments needs to be ascertained. The design of the euro seems to have been flawed from the beginning, and the likelihood of a return to national currencies seems all the more certain every day. A collapse of the euro would undoubtedly have ramifications on the American financial system, but what those effects would be and what the Treasury and Federal Reserve's response would be is not certain. The Federal Reserve has already offered unlimited amounts of dollar liquidity to European central banks, at least according to the Europeans. The Fed has not yet deigned to provide anyone with the details of these arrangements, so we have no idea how much money was promised or how this money will be used. Considering that swap lines peaked during the financial crisis at $580 billion, it would not be surprising to see that number reached or exceeded in the event that Europe faces a currency meltdown. It is imperative that we find out how much the US government has involved itself in negotiations surrounding the European financial crisis.

With the dollar growing increasingly weak in the past few years, some had feared that a dollar currency crisis would provide a useful excuse to introduce a new international monetary regime, one that would replace the euro, national currencies, and supplant the dollar as the world's reserve currency. Now the possibility has been raised that the euro's instability might provide the impetus for such a scheme. This is a topic which has been neglected in recent years but which is especially important because of the work the G20 has undertaken on global currency reform since 2008. What role US representatives have played in these negotiations is unknown to Congress, nor do we know what global currency reform initiatives are being discussed. I fear that the G20 negotiations will result in a *fait accompli* that will be forced upon the American people with no opportunity for input or debate

Ever since the closing of the gold window by President Nixon in 1971, the unbacked US dollar has served as the world's reserve currency. No longer constrained by being required to exchange dollars for gold, the US government has been able to fund its fiscal profligacy with trillions of dollars of new money created out of thin air. The only constraint on government spending is the willingness of investors to continue to purchase the Treasury debt issued to fund the government's massive fiscal deficits.

Unhappiness at this current state of affairs has led to calls to replace the current global dollar standard with a new global currency system. Many of the proposals work from the assumption that national governments cannot be trusted to manage currencies in a responsible manner, and that only an international organization such as the International Monetary Fund (IMF) can provide a stable global reserve currency. These proposals dig back to the roots of the discredited Bretton Woods system, only instead of resurrecting the flawed gold-exchange standard they propose a version of John Maynard Keynes' “bancor”, an international fiat currency based on the IMF's current special drawing rights (SDR).

To return to sound money, we need to return to the monetary system our founders intended. Gold and silver were to be the only types of currency which the states could declare to be legal tender, the government was not given a monopoly on currency issuance, and foreign coin could circulate just as freely as American coin. Rather than further centralizing currency issuance in an unaccountable international organization such as the IMF, currency issuance needs to be decentralized. The free market can provide currency just as it provides every other good. All that is needed is for government to remove the restrictions on private mints. Gold is gold no matter who mints it, and unlike paper money it cannot be created out of thin air. Gold-backed currency serves as the ultimate check on government spending and debt creation. Only by returning to commodity-backed currency can we return to fiscal and monetary sanity and break the cycle of booms and busts brought upon us by the Federal Reserve.

In conclusion, Mr. Chairman, this Committee has a great role to play in overseeing the administration's activities in both international and domestic monetary policy. We need to keep watch over the actions of FSOC and its members with regard to the Eurozone bailout, bring to light the administration's negotiations with the G20, and vigorously oppose any efforts to force the United States into a new global currency, while simultaneously laying the groundwork for a return to sound money in this country.