United States House of Representatives
Committee on Financial Services
Hearing on “Monetary Policy and the State of the Economy”
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Congressman Ron Paul
Statement for the Record

Mr. Chairman, thank you for holding this hearing on monetary policy and the state of the economy. I believe that now, more than ever, the American people want to hold the Federal Reserve accountable for its loose monetary policy and want full transparency of the Fed's actions.

While the Fed has certainly released an unprecedented amount of information on its activities, there is still much that remains unknown. And every move towards transparency has been fought against tooth and nail by the Fed. It took disclosure requirements enacted within the Dodd-Frank Act to get the Fed to provide data on the its emergency lending facilities. It took lawsuits filed by Bloomberg and Fox News to provide data on discount window lending during the worst parts of the financial crisis. And it will take further concerted action on the part of Congress, the media, and the public to keep up pressure on the Fed to remain transparent.

Transparency is not a panacea, however, as a fully transparent organization is still capable of engaging in all sorts of mischief, as the Federal Reserve does on a regular basis. Ironically, one of the Fed's more egregious recent actions, adopting an explicit inflation target, was hailed by many as another wonderful example of transparency. Yet if you think about what this supposed 2% inflation target actually is, you realize that it is an explicit policy to devalue the dollar and reduce its purchasing power. Two percent annual price inflation means that prices rise 22% within a decade, and nearly 50% within two decades.

Indeed, if you look at the performance of the consumer price index (CPI) under Chairman Bernanke's tenure, prices have risen at a rate of 2.25% per year. Many, perhaps even most, economists would consider this a modest rise, an example of sober, cautious monetary policy. Some economists of Paul Krugman's persuasion might even argue that this is too tight a monetary policy. However, 2.25% is not too far off from the Fed's new 2% target.

Now look at the performance of the US economy since February 1, 2006, the date Chairman Bernanke took the mantle from Alan Greenspan. Trillions of dollars have been wasted on bailouts, stimulus packages, and other feckless spending. Millions of Americans have lost their jobs and have lost hope of ever regaining employment. The national debt has risen to more than 100% of GDP, as the federal government continues to rack up trillion-dollar deficits, aided and abetted by the Fed's policies of quantitative easing and zero percent interest rates. And we are supposed to believe that a 2% inflation rate, similar to what has prevailed during the worst economic crisis since the Great Depression, is the cure for what ails this economy.

This explicit 2% target also fails to take into account that whatever measure is used to determine price inflation, be it CPI, core CPI, PCE, etc., will always be chosen with an eye towards underreporting the true rate of inflation and price rises. Pressure will be exerted on those calculating the price indices, so as not to alarm the public when prices begin to accelerate. One need only look at what is taking place in Argentina today, where the government publishes an official CPI figure that is often less than half that reported by private sources.

A similar situation exists in this country, where economists calculating CPI according to the original basket of goods have determined that price inflation has increased 9.5% per year since 2006, rather than the 2.25% reported by the government. Even the government's own data reports price rises of nearly 7% per year since 2006 on such consumer goods as gasoline and eggs. Bread, rice, and ground beef have increased by nearly 6% per year, while bacon and potatoes have increased nearly 5% per year. This means that in a little over half a decade, prices on staple consumer goods have increased 30-50%, all while wages have stagnated and millions of Americans find themselves out of work and without a paycheck. Of course, government officials claim that price increases do not affect the average American because they can always buy hamburger instead of steak, or have cereal instead of bacon. But the American people can see how they are suffering because of the Federal Reserve. The government’s claims that the official statistics show no reason to be concerned about inflation is Marxist—as in Groucho, who famously said: “Who are you going to believe, me or your own eyes?”

The Federal Reserve continues to keep interest rates low in the hopes of boosting lending and consumption. But keeping interest rates at zero discourages saving, particularly as the rate of price inflation continues to rise. Why stick money in a savings account earning 0.05% if it is guaranteed to lose at least 2% of its value every year? And this is a guarantee, as the Fed has promised a 2% rate of increase in price inflation, while also guaranteeing a zero percent federal funds rate through 2014. Retirees living on fixed incomes, dependent on savings, or on interest income from investments will see their savings drawn down as they are forced to consume principal. Young people, hard hit by the recession and struggling to find jobs, will fail to see the virtue of thrift. Saving or investing is an exercise in futility, as parking money in the bank or in CDs will guarantee a loss, while investing in stocks, bonds, or mutual funds will net at best paltry gains, and at worst massive losses in this continuing weak economy.

The longer the Federal Reserve keeps interest rates low and discourages savings and investment, the more societal attitudes will change from being future oriented to present oriented. The Federal Reserve and its policies already served to stimulate and prioritize consumption over saving, creating the largest debt bubble the world has ever known. The extended zero interest rate policy only serves to promote more consumption and debt now, eviscerating thrift and savings—the true building blocks of prosperity. This present-oriented mindset has become pervasive especially among politicians, putting the government in dismal financial shape as Congressmen and Presidents over the years have taken to heart Louis XV's famous saying: “Après moi, le déluge.” If the American people follow the same path in their own lives, this country will be ruined. Capital will be depleted, infrastructure will fall into disrepair, and the United States will be a mere shadow of its former self. It is well past time to end the failed monetary policy that encourages this mistaken preference for cheap money now.