

United States House of Representatives
Committee on Financial Services
Monetary Policy and the State of the Economy
March 2, 2011

Congressman Ron Paul
Statement for the Record

Mr. Chairman,

Every day we hear stories about rising prices. Whether it be food, gasoline, or clothing, the cost of living is going up, and not just for Americans, but for people around the globe. The Federal Reserve's program of quantitative easing has taken some of the blame for this, and rightly so in my opinion. This program, known as QE2, sought to purchase a total of \$900 billion in US Treasury debt over a period of 8 months. Roughly \$110 billion of newly created money is flooding into markets each month, markets which are still gun-shy after the events of the last few years. Banks still hold underperforming mortgage-backed securities on their books, and are hesitant to loan out further money, holding well over a trillion dollars on reserve with the Fed. Is it any wonder, then, that this new hot money is flowing into commodities around the world?

Cotton is up over 170% over the past year, oil is up over 40%, and certain categories of food staples are seeing double-digit price growth. Yet while the Fed takes credit for the increase in the stock market, it claims no responsibility for the increases in food and commodity prices. What is always lost on economists is that inflation is at root a monetary phenomenon. As the money supply increases, more money chases the same amount of goods, and prices rise. There may be other factors that contribute to price rises, such as famine, flooding, or global unrest, but these effects on prices are always short-term, not long-term. Consistently citing rising demand or bad weather while ignoring monetary policy is a cop-out. Governments throughout history have sought to blame price increases on bad weather, speculators, and a whole host of other factors, rather than acknowledging the effects of their inflationary monetary policies.

We must also remember that those policymakers who exercise the most power over the economy are also the least likely to understand the effects of their policies. Chairman Bernanke and the other members of the Federal Open Market Committee were convinced in mid-2008 that the economy would rebound and continue to grow through 2009, even though it was clear to many observers that we were in the midst of a severe economic crisis.

These policymakers are also the last to feel the effects of inflation, in fact, they benefit from it. Inflation, that is an increase in the money supply, results in a rise in prices, but those who use this new money first, such as government employees, contractors, and bankers are able to use this new money before prices begin to increase, while those further down the totem pole have already had to deal with price increases before they see any of this new money.

For too long the Federal Reserve's monetary policy has led to higher prices and a decreased purchasing power of the dollar. It is well overdue that this Committee exercise increased oversight and scrutiny of the Fed's actions, and I look forward to further Committee action to rein in the Fed.