

United States House of Representatives
Committee on Financial Services
Hearing to Receive the Annual Testimony of the Secretary of the Treasury on the State of the
International Financial System
March 20, 2012

Congressman Ron Paul
Statement for the Record

Mr. Chairman, I thank you for holding this hearing on the state of the international financial system. The Treasury Secretary has neglected to appear to testify on this topic for several years, so I hope the committee will treat this topic with the importance it deserves during this Congress. It 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.

The federal government's fiscal profligacy has caused the national debt to skyrocket to well over \$15 trillion. Even with nearly a trillion dollars of daylight under the current debt ceiling, it is highly likely that the federal government will reach this limit before the November elections. Foreign nations, especially our major creditors such as China, are watching keenly to see if Congress is serious about getting spending under control. Foreign creditors hold \$5 trillion of Treasury debt, debt which is becoming increasingly devalued as the federal government runs trillion-dollar deficits and the Federal Reserve continues its trillion-dollar quantitative easing programs. Another increase in the debt ceiling would signal that Congress is not serious about reining in spending and would foreshadow a further decrease in the value of the dollar.

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 John Maynard Keynes' "bancor", an international fiat currency based on the IMF's current special drawing rights (SDR).

Rooted in discredited economic thinking and a complete disregard for fundamental constitutional principles, the IMF over the years has forced American taxpayers to subsidize large, multinational corporations and underwrite economic destruction around the globe. IMF policies are based on a flawed philosophy that says the best means of creating economic prosperity is through government-to-government transfers. Such programs cannot produce growth because they take capital out of private hands, where it can be allocated to its most productive use as determined by the choices of consumers in the market, and place it in the hands of politicians. Placing economic resources in the hands of politicians and bureaucrats inevitably results in inefficiencies, shortages, and economic crises, as even the best intentioned politicians cannot know the most efficient use of resources. IMF assistance to foreign countries also has a history of funding graft and corruption among repressive

regimes that leave their countries with massive debt to Western banks, with no economic progress having been achieved. As bad as the Federal Reserve has been in managing the dollar, I cannot imagine how much worse our monetary system would be with a single global currency issued and managed by the IMF.

Monetary problems come about because of the government monopoly on money issuance. Like any monopolist, government abuses its position and debases the currency it issues. Even inflating the currency supply by a seemingly paltry 2% a year results in a systematic debasement which severely penalizes savers and benefits debtors, including the greatest debtor of them all, the United States government. The ability to issue the currency in which its debt is denominated, combined with the ability to debase that currency so that the debt can be paid off with increasingly worthless money, gives rise to a temptation which no government official can resist.

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 Fed.

In conclusion, Mr. Chairman, this Committee has a great role to play in the future of our monetary system. We need to keep watch over 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.