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

Mr. Chairman, today the Federal Reserve finds itself in an unprecedented position. It has boosted the monetary base by nearly $1.2 trillion since September of 2008. Excess bank reserves remain at historically high levels and the Fed's balance sheet has ballooned to over $2.3 trillion. If the Fed pulls this excess liquidity out of the system, it risks collapsing banks who rely on this newly created money to boost their balance sheets. However if the Fed fails to pull this excess liquidity out of the system we risk hyperinflation.

The Federal Reserve has never had such an inflated balance sheet, nor has it ever pumped up the monetary base by such a large amount. It has done so in order to prop up large banks and the housing bubble, keeping malinvested resources from liquidating. True recovery will require prices to drop to market-clearing levels in order to clear up surpluses, not propping up prices through the creation of new money out of thin air. I strongly suspect that much of the manipulation of the balance sheet and monetary base is due to the Fed's propping up of the market for mortgage-backed securities. By purchasing non-performing mortgage-backed securities from banks, the Fed freed banks from having to borrow money from the Fed, allowing them to shore up their financial position and purchase some of the trillions of dollars of new debt that the Treasury has recently issued to fund its spending.

Unlike the late French economist, Frederic Bastiat, the Fed only sees what is seen, the superficial results of its policies, and not what is unseen, the effects of its monetary intervention throughout the economy. Monetary inflation leads to malinvestment and causes the boom phase of the business cycle. Once the malinvestment is realized the bust phase occurs, and these malinvested resources need to be liquidated in order for the economy to recover. But the Fed actively works to prevent this liquidation and does everything in its power to continue inflating in order to prolong the boom. The real estate market in this country is in a state of constant confusion because of the Fed's intervention and will not recover until the government keeps its hands off.

The idea that a handful of brilliant minds can somehow steer the economy is fatal to economic growth and stability. The Soviet Union's economy failed because of its central planning, and the United States economy will suffer the same fate if we continue down the path toward more centralized control. We need to return to sound money, bring back free markets, and rein in the Fed.