Dr. Paul's Written Statement – 7/17/07
Humphrey Hawkins Prequel Hearing

During the 30th year of the Humphrey-Hawkins hearings, it would be helpful for Congress to reassess the usefulness of the Humphrey-Hawkins mandate. The dual mandate calls for full employment and stable prices. Humphrey-Hawkins assumes that the Federal Reserve has unique insights into the United States economy that no one else possesses, that the Federal Reserve knows what prices should be and how much unemployment there should be. Full employment which is brought about through rising inflation will eventually lead to a stagnant economy which will lead to more unemployment. 30+ years after the stagflation era, I would hope that Phillips curves are one of those barbarous relics of the past that have been sent to their graves, along with wage and price controls and bans on the private ownership of gold.

But what I wish to highlight the most is the most pernicious part of the Humphrey-Hawkins mandate is the mandate for price stability. This objective overlooks the natural tendency of prices to fall over time. As new production technologies are brought on line, factories gear up, economies of scale are reached, and the prices of goods will decrease.

Goods which originally are affordable only by the very rich, over the course of time and because of the fall in prices will become available to the poor and the middle class, raising the standard of living of all Americans. 100 years ago a rich person might have driven a car and a poor person would have walked barefoot. Today a rich person might drive a Lexus, while a poor person drives a Kia, but they both have cars, and shoes.

Price stability attempts to disadvantage consumers by keeping prices stable, rather than allowing them to take their natural course of decline. This policy comes from two misguided notions: that lower prices lead to lower profits, and that lower prices lead to deflation. In its effort to ensure price stability, the Federal Reserve resorts to inflation targeting, using the federal funds rate and open market operations to increase the money supply at an ostensible low rate, introducing a subtle but pernicious inflation into the monetary system. Inflation benefits the government and the well-off, the first users of the new money, but harms those who receive the new money last, those who are predominantly poor and middle class.

But prices do not just apply to goods, they also apply to the price of labor, or wages. Wage raises are often indexed to government CPI figures, which are notoriously prone to manipulation. While official government figures show a CPI under 3%, according to the methods used when CPI was first calculated the current rate of inflation is over 10%. What this means is that while wages will remain stable in real terms, the price of goods and services will increase at a faster rate, leading to a decrease in the real standard of living. The Fed's loose money policy then leads to the lure of easy credit, which will hook more and more families, who will find themselves falling deeper and deeper into debt to finance their lifestyles.

Until the Congress realizes that the economy cannot be managed by a group of economists, no matter how large or how brilliant the group may be, the result will be the same. Inflation will continue to rise, and the American people will continue to grow poorer. We would be far better off if the Congress were to reassert its Constitutional authority over the monetary system, establish a sound currency, and eliminate its meddling in the free market.