

U.S. House of Representatives
Committee on Financial Services
Unwinding Emergency Federal Reserve Liquidity Programs and Implications for Economic Recovery
February 24, 2010

Statement for the Record
Congressman Ron Paul

Mr. Chairman, the present economic situation underscores the danger of moral hazard in our financial system. Whether it exists in the form of FDIC coverage, lines of credit to Fannie Mae and Freddie Mac, or outright bailouts, moral hazard is present every time the government attempts to intervene in the financial sector and circumvent the market process.

Since going off commodity-based currency standards, modern economies are completely reliant on trust for their operation. Consumers trust that the dollars they earn will be accepted in exchange, not just today, but decades into the future. They trust that the Federal Reserve will maintain the value of the dollar. They trust that the money in their bank accounts will be there when they need it.

Because of our banking system, however, this trust is misplaced. The dollar is no longer defined as a unit of gold or silver, in fact, it has no definition in US Code at all. A dollar is merely a piece of paper issued by the Federal Reserve with the title "dollar" stamped on it. Since 1913, the Federal Reserve has presided over a 96 percent decline in the dollars value. And FDIC insurance of bank accounts has caused people to become too complacent about their money, oblivious to the fact that the FDIC cannot insure all the money in people's accounts. In the event of a series of major bank failures, the only way to make accountholders whole would be to resort to massive printing of money. This is the problem with a fiat monetary system and fractional reserve banking.

But rather than take our lumps, allow the financial mess to unravel, and return to sound money and sound banking, the Federal Reserve perpetuates the danger by stabilizing our increasingly shaky system through the back door. Far from the prying eyes of auditors, elected representatives, and the American people, the Fed pushes billions and trillions of dollars into the financial system. There is no transparency, no accountability, and worst of all there is the perpetuation of a broken financial system.

Major Wall Street firms will never have any incentive to clean up their acts if they are constantly being bailed out by the government, whether through the Treasury or the Fed. The Fed's actions in shoring up the major banks have given them carte blanche to continue to operate as they did during the boom times, as though nothing is wrong. When the next crisis of confidence rears its head, the financial system will find itself in even worse shape than it was in 2008.