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Congressman Ron Paul

Statement before the Joint Economic Committee

Hearing on "The Economic Outlook"

April 2, 2008

Mr. Chairman,

I have never been opposed to regulation, although my idea of regulation differs from that of many people in Washington. The free market and its forces of supply and demand are the most effective regulator of the private sector, and have never been known to fail absent government intervention. But piling more public sector regulation on the private sector will have a detrimental effect on the health of our financial system and sow the seeds for the next financial meltdown.

What we in Washington should be discussing is increased regulation and scrutiny of public sector regulatory and oversight agencies such as the Federal Reserve Board, the SEC, and others. The Federal Reserve's actions got us into at least one depression in the last century, and have led to continued cyclical difficulties, including the current economic slowdown.

Back in the 1970s, government-caused inflation reached levels high enough that the Nixon administration decided to implement wage and price controls. Placing blame on greedy speculators, unscrupulous mortgage originators, or panicky investors, is a common reaction on the part of government.

The solution called for, despite the numerous documented failures of government regulation, is always more regulation, more government involvement in and control over the economy, and less free enterprise. Never is the blame placed squarely where it belongs, which is on the shoulders of legislators and regulators whose actions distort the market, prohibiting legitimate market activities and encouraging the development of labyrinthine and opaque financial schemes.

The latest regulatory plan from the Treasury Department, with the potential to turn the Federal Reserve into a super-regulator overseeing state-chartered banks, bank holding companies, and acting as a guarantor of market stability, is another in a long line of half-baked government responses to financial difficulty. Recession after recession has not impressed upon government leaders the reality that the Federal Reserve's monetary policy activities are what lead to market instability.

The business cycle, contrary to what Secretary Paulson and others seem to believe, is not endemic to the free market. It is always and everywhere the result of monetary inflation and subsequent malinvestment, which when it is discovered must of necessity be liquidated in order for a true recovery to occur. Delaying the liquidation will only prolong the crisis and ensure that the next crisis will be more severe.

Every government intervention will result in a distortion of the market and a subsequent shock somewhere down the line in the future. It is about time that we recognize the failure of government intervention, get our hands out of the private sector, and for once allow the market to function.