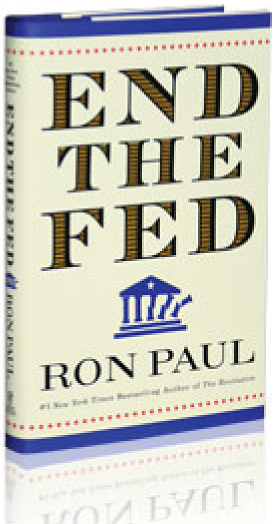
A Review of “End the Fed” by Ron Paul



“The entire federal government,” laments Congressman Ron Paul in his newest book, End the Fed, “is one giant toxic asset at the moment. It certainly has no business telling the private sector how to run its affairs. It is in worse financial shape than all the companies in the private sector put together.”

Hard words, but Congressman Paul knows whereof he speaks. It was Ron Paul, unique among congressmen for his understanding of how a free-market economy is supposed to work, who warned repeatedly of the coming economic calamity. It was Ron Paul, too, who warned both the Bush and Obama administrations that attempts by the government to bail out failing corporations with taxpayer dollars and passing massive stimulus packages would only make things worse. And it has been Ron Paul who has warned of disastrous long-term consequences of the inflationary activities of the Ben Bernanke-led Federal Reserve.

Congressman Paul’s concerns about the Federal Reserve are nothing new. The gynecologist-turned-eleven-term congressman from Texas has spent a long political career promoting liberty and limited constitutional government as the American Founders understood them and exposing the mischief at the Federal Reserve. With the unexpected success of his presidential campaign and his recent best-selling manifesto on liberty, Dr. Paul’s uncompromising, consistent, and thoroughly principled stances on limited, constitutionally legitimate government are well known around the world. Now, thanks to *End the Fed*, his views on paper money, fractional-reserve banking, and the Federal Reserve and its manipulation of the money supply are summarized for a mass readership. Under a single cover and on just 212 readable pages are assembled philosophical, economic, and constitutional arguments for abolishing the Federal Reserve, a succinct history of banking, and a number of fascinating recollections and snippets of telling dialogue between Dr. Paul and various chairmen of the Fed as far back as Paul Volcker.

Finances and Freedoms

For Dr. Paul, an understanding of economics and finance is absolutely crucial to understanding liberty fully; one cannot embrace liberty while rejecting free-market economics in any degree. Yet it has become characteristic of many on the right — otherwise eloquent partisans of liberty and free-market economics, like the late Milton Friedman — to set aside certain free-market principles where money and banking are concerned. Laissez faire for factories, mines, retailers, and agriculture, indeed, say apologists for the Fed, but for banking, money, and finance, we must have regulation, currency manipulation, the fixing of interest rates, and other characteristics of a command economy.

Unfortunately, many people have allowed themselves to be persuaded that economics, banking, and finance are numinous, abstract disciplines best left to the experts. But we ignore these topics to our considerable detriment. Dr. Paul writes: “Everyone should have an intense interest in what money is and how it’s manipulated by the few at the expense of the many. Money is crucial for survival. It is necessary for maintaining a free society. A healthy economy depends on it. Limiting political power is impossible without it. Sound money is essential for preventing unnecessary wars. Prosperity and peace in the long run are impossible without it. To understand money, one absolutely must understand what a central bank is all about.”

America’s central bank, the Federal Reserve or “Fed,” was established in 1913, and according to Dr. Paul, has been complicit in — indeed, has been the driving engine for — the supersizing of the federal government that has transformed America since the First World War, and not for the better. This is because the Federal Reserve, with its ability to artificially increase the money supply (especially after the gold standard was abandoned), has largely emancipated Washington decision makers from the risky politics of raising revenue via direct taxation.

Heavy, direct taxation we certainly have, but the income tax and other federal taxes, obnoxious though they are, pale beside the Fed’s ability to raise money for the federal government simply by printing it (or, which amounts to the same thing, making a computer entry). Only thus has the federal government been able to finance hugely unpopular projects, like international wars, that Americans would never consent to if the monies were extracted up front via direct taxation. Thanks to the inflationary magic of so-called fiat money, the Federal Reserve (and other central banks like it around the world) can print money as needed, and the bill will come later, in the form of reduced purchasing power resulting from inflation. Inflation, by the way, is also a kind of tax, but one so subtly (and dishonestly) administered that few are able to diagnose its origin.

Those “in the Know”

The various Fed chairmen of Congressman Paul’s acquaintance have all been well aware of what the Fed does. Paul Volcker, the most forthcoming of the lot, assured the congressman at a private breakfast that he would never use the Fed’s powers to inflate recklessly, although he acknowledged that such actions lay within the Fed’s purview. “As we were leaving,” Paul recalls, “I said that, although I didn’t expect that he [Volcker] would use these extreme powers, who knew if in the future we might just have someone who would.”

Congressman Paul’s relationship with Volcker’s successor, Alan Greenspan, was long and tempestuous. In his youth, Greenspan himself favored the gold standard, not paper money, a position he made clear in a 1966 article, “Gold and Economic Freedom.” In that piece, Greenspan pointed out that “in the absence of a gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold [in the 1930s through the 1970s]…. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.”

So how did a one-time champion of the gold standard and free-market economics come to preside over the largest experiment in fiat currency and monetary manipulation the world has ever seen? According to Ron Paul, Greenspan came to believe that “central bankers essentially had become smart enough to achieve all the benefits of the gold standard without its limitations” — those being limitations that the gold standard imposes on governments, not private citizens. In June 2000, Greenspan told Congressman

Paul:

> What we find over the generations is that the underlying forces which engender economic change themselves are changing all the time, human nature being the sole apparent constant throughout the whole process. I think it is safe to say that economists generally continuously struggle to understand which particular structure is essentially defining what make[s] the economy likely to move in one direction or another in the period immediately ahead, and I will venture to say that the view continuously changes from one decade to the next…. The general elements which contribute to stability in a market economy change from period to period as we observe that certain hypotheses about how the system works do not square with reality.

In other words, somewhere along the line, Greenspan the theorist and moral philosopher yielded to Greenspan the pragmatist, whose highest aim as Fed chairman was not to safeguard the liberties of Americans, but to promote "stability" — stability for the elites, at least, who, having reaped the benefits of free-market profits, are unwilling to hazard the instability associated with losses.

Sadly, Greenspan also seems to have rejected any notion of permanent economic laws, preferring instead to believe that economic constants change over time. But in admitting human nature to be "the sole apparent constant," Greenspan betrays his lack of understanding. According to the ideology of Ludwig von Mises and the rest of the so-called Austrian economists who have always been the most vigorous and ideologically consistent foes of central banking, economics, as evaluated by the methods of "praxeology," or the study of human action, is human nature. The laws of economics are nothing more than universal, apodictic axioms of praxeology applied to economic behavior. As such they defy quantitative but not qualitative analysis.

But this is not what the Alan Greenspans of the world want to believe. For central bankers and their apologists, the money supply, optimal interest rates, price indexes, unemployment forecasts, and economic cycles all ought to submit to the statistician's tools of trade. There must be a way, they fervently believe, to predict quantitatively what the economy is going to do (or else the entire notion of monetary manipulation is without intellectual foundation). The fact that such calculations are impossible for would-be economic planners has unfortunately failed to deter the Greenspans and Bernankes of the world from continuing to act as though the economy can be reduced to a mathematical formula or computer program.

Alan Greenspan was succeeded in February 2006 by the sphinx-like Ben Bernanke, whose periodic verbal sparring with Congressman Ron Paul has become the stuff of YouTube legend. On March 24 of this year, for example, Congressman Paul asked Bernanke whether he laid the blame for the crisis on the markets or on "crony capitalism." Bernanke replied that he did not think the meltdown was "a failure of capitalism per se," and that the free markets should remain "the primary mechanism for allocating capital." But not surprisingly, the Fed chairman went on to defend the need for "mechanisms like deposit insurance and lender of last resort" to avert panics, bank runs, and the like. Asked whether such mechanisms are the source of moral hazard — the tendency of people to act irresponsibly when they know they will be shielded from the full consequences of their actions — Bernanke merely added that the Fed was created to avert financial panics and make for more orderly markets.

So End the Fed

Now, with Congressman Paul's bill H.R.1207 calling for a congressional audit of the Federal Reserve gaining traction in the House with more than 284 cosponsors, Ben Bernanke is beginning to feel real political heat. For the first time in the Fed's nearly century-long history, large numbers of Americans and not a few political leaders, led by Ron Paul, are waking up to the realities of central banking and the Fed's role in causing the value of the dollar to depreciate and the economy to oscillate between boom and bust.

But why take so drastic a measure as to end the Fed, after so long? Is it not better, as so many of Paul's detractors have argued, to merely reform the institution? No, declares Paul, since the Fed, with its power to destroy the dollar and fund the operations of government by other means than up-front taxation, is, like all modern central banks, a fundamentally dishonest and immoral institution. The Founding Fathers understood very well the evils of paper money, and while granting Congress the authority in the Constitution to "coin [not print!] money," forbade the states from making "anything but gold and silver coin a tender in payment of debts." Entries in the journals of the Continental Congress observed that "paper currency … is multiplied beyond the rules of good policy. No truth being more evident, than that where the quantity of money … exceeds what is useful as a medium of commerce, its comparative value must be proportionately reduced."

Unfortunately, Congressman Paul notes with rare cynicism, "the two weakest arguments for any issue on the House floor are moral and constitutional." The immorality of the Fed should be evident to everyone, since "the moral principles that would guarantee sound money, and our not needing a central bank to manage it, are honesty, which would reject fraud, and keeping one's word. Contracts [meaning monetary contracts, whose integrity depends on a sound dollar] should be protected, not undermined by government."

Nor does Paul mince words about his congressional colleagues: "Members of Congress, when they knowingly endorse this system of fraud because of the benefits they receive, commit an immoral act. Financing spending in an irresponsible manner, through Fed action or future debt burdens, provides immediate political benefits to politicians."

But all of this would come to an end if the people themselves held their political leadership to a higher moral standard. Americans have become accustomed to a government that promises them security and benefits instead of merely protecting their freedoms and enforcing their contracts. *End the Fed* is a plea to Americans to educate themselves about money and free-market economics — and then demand an end to the system that has systematically devalued the dollar and held ordinary Americans in thrall for several generations. If we do not soon abolish the Federal Reserve and return to sound money, we will likely experience national insolvency and an end to our dwindling political liberties. *End the Fed* is, simply put, a must-read for every American who can spell his name.

End the Fed, by Ron Paul, New York: Grand Central Publishing, 2009, 212 pages, hard cover. (To order, click here.)