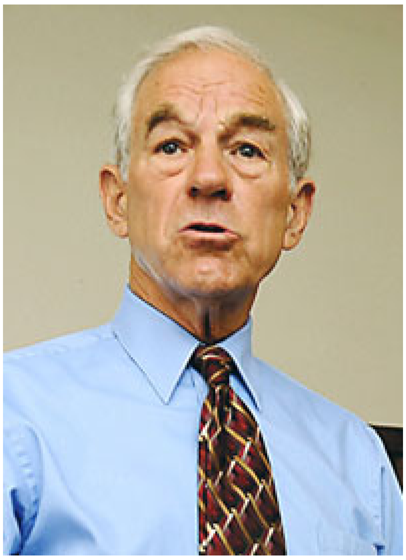
Written by **Steven Yates** on September 8, 2009

Ron Paul Has the Council on Foreign Relations Worried



Near the start of this year Ron Paul (R-Texas) introduced H.R. 1207, the Federal Reserve Transparency Act of 2009. The bill was referred to the House Committee on Financial Services. As of this writing, H.R. 1207 has 282 cosponsors.

A Senate equivalent, S.604, the Federal Reserve Sunshine Act of 2009, has been introduced by Bernie Sanders (I-Vt.). It has 23 cosponsors. Both bills have received a tremendous groundswell of grass-roots support. Much of the support is coming from ordinary people who have become aware of the fact that the Federal Reserve has created trillions of dollars literally out of nothing during the past calendar year in its effort to micromanage its way out of the worst economic crisis since the Great Depression.

If such a measure were passed by both houses of Congress and signed into law by President Obama, the resulting bill would allow the Government Accounting Office to conduct audits of Federal Reserve System monetary policy. The bill proposes to scrutinize the Fed's dealings not just on domestic monetary policy but on dealings with foreign central banks and foreign governments.

The power elite is worried. Evidence for this can be found in a short article "The Fed's Political Problem" appearing on the website of *Foreign Affairs*, flagship journal for the Council on Foreign Relations (CFR). The article's author, Alan S. Blinder, is a senior-level economics professor at Princeton University who also directs Princeton's Center for Economic Policy Studies. From 1994 to 1996 he served as vice chairman of the Board of Governors of the Federal Reserve System.

Blinder first argues a thesis he proposed back in 1997, that some areas of government are properly political and others are properly technocratic. He places monetary policy in the latter, where it can operate independently of political oversight. The drawback of Ron Paul's bill is that it would transfer Fed oversight to the political realm and end its independence.

Blinder describes Dr. Paul as "an extreme libertarian and longtime foe of the Fed. He has, incredibly, persuaded almost two-thirds of the House of Representatives to co-sponsor a bill that would jeopardize the Fed's independence." According to Blinder, the Fed "gets plenty of critical evaluations" of its policies and decisions. He maintains that Dr. Paul's bill "could easily develop into something quite dangerous." He imagines this scenario:

> Sometime in 2010, the Fed, wanting to avoid inflation, will likely begin to abandon the hyper-expansionary monetary policy it adopted during the recent crisis as a way to stave off a depression. As it does so, interest rates will start rising even as unemployment remains high.

> Predictably, Congress, being more closely attuned to public opinion, will be unhappy with this situation. Until now, the Fed's independence has ensured that it can afford to ignore public opinion and take such necessary but unpopular economic measures. That is precisely why we want an independent monetary policy. But if the Paul bill passes, angry members of Congress could ask for a GAO audit. And, if the report is critical, they could use it to browbeat members of the Federal Open Market Committee, the Fed's interest-rate-setting body, for killing the country's economic recovery.

This misses the key argument Ron Paul has been making, which follows those of members of the Austrian school of economics (e.g., Ludwig von Mises). What Blinder euphemistically calls hyper-expansionary monetary policy actually is inflationary, if we understand inflation to be not merely rising prices but an increase in the amount of fiat currency in circulation. Mainstream economics has long preferred the public to see inflation almost exclusively in terms of visibly rising prices. If prices aren't rising, economists can maintain that inflation is low even though the money creation spigot is going full blast — as it has been since the economic crisis began a year ago.

If we understand inflation as an increase in the money supply, however, we see immediately that the Fed, far from being a controller of inflation, is actually an engine of inflation. Rising prices in this case are just one possible effect of monetary inflation. The Fed is responsible for the long-term decline in purchasing power of our dollars, which have been backed literally by nothing except legal tender laws and the willingness of the public to accept them since 1971, the year President Richard Nixon severed the last ties between the dollar and gold. Fed monetary policy is the reason a hamburger costs you several dollars when your grandfather could buy one for thirty-five cents. The dollar has lost slightly over 96 percent of its value since the Federal Reserve System was created in 1913. The national debt has soared during the period since 1971 from a few hundred million to its present $11.8 trillion. Millions will be added to the debt during the brief time it takes to read this article!

The dollar's value will drop considerably more should it lose its status as the world's reserve currency. The Chinese are getting very nervous about the money-creation spigot in Washington, D.C. Perhaps these are the kinds of developments that elites such as Blinder don't want the public to know about. Clearly the elites are uncomfortable with the amount of attention the Fed has received — the public being aware of the trillions having been created literally out of thin air during the past year. "What will this do to the long-term purchasing power of my money?" is a perfectly valid question many ordinary Americans are asking.

What are the prospects for H.R. 1207 and S. 604? Even if these bills pass and a compromise bill reaches President Barack Obama's desk, it is difficult to imagine him even considering signing it. The effort to bring more of the Fed's activities into the light of day may receive a new ally in the Senate late next year, however, as Ron Paul's son Rand Paul has announced his candidacy for one of Kentucky's two slots and raised $815,000 as of this writing. Like father, like son: Rand Paul is also highly critical of the lack of transparency that characterizes crucial decisions made by the Federal Reserve and has vowed, if elected to the Senate, to work to "shed light on this secretive organization." He reminds us of the trillions the Fed has created out of thin air and adds, "The American people have a right to know to whom this money was given. For all its talk of transparency the current administration has done nothing to tear the shroud off the Fed."

— Photo: AP Images