risky scheme, a close analysis of the historical record, Mr. Speaker, will prove otherwise. Both Senator BOB GRAHAM of Florida and Alan Greenspan agree that the Bush tax cut is average by historical standards.

Consider, for example, this chart, prepared by the nonpartisan National Taxpayers Union. The Bush tax cut and the tax cut proposal we support in the Economic Recovery and Growth Act of 2001 are considerably smaller than either the Kennedy tax cut of the 1960s or significantly smaller than the Reagan tax cut of 1981 as a percentage of gross national product. So too, Mr. Speaker, the Bush tax cut and the Economic Recovery and Growth Act proposal represent a smaller portion of Federal revenues in constant 2000 dollars than either of the earlier tax reduction proposals.

In fact, even Democrat Speaker Tip O'Neill, not exactly legendary for his support of big tax cuts, Democrat Speaker Tip O'Neill's alternative tax initiative in 1981 was larger than the plan that many of us conservatives in the Congress propose today. The Economic Recovery and Growth Act proposal is a well-reasoned and sensible alternative to plans that call for keeping more money in Washington, D.C.

As the preceding comparisons demonstrate, Mr. Speaker, the Bush and our own Bush-plus tax cut are anything but dangerous or irresponsible. They are, instead, measured actions, taken to alleviate two serious challenges facing the American people today.

First, by reducing rates and thus increasing the incentive for work and investment, both plans can help reinvigorate an economy that is finally beginning to collapse under the weight of 8 years of ever-increasing tax and regulatory burdens. Secondly, the proposals will finally offer relief to American families who are currently taxed at a rate not seen since the world was at war.

Hard-working Americans deserve to keep more of their wages, Mr. Speaker, so that they may provide for their families, not for bigger government bureaucracies.

CHALLENGE TO AMERICA: A CURRENT ASSESSMENT OF OUR REPUBLIC

The SPEAKER pro tempore (Mr. REHBERG). Under the Speaker's announced policy of January 3, 2001, the gentleman from Texas (Mr. PAUL) is recognized for 60 minutes.

Mr. PAUL. Mr. Speaker, I have asked for this time to spend a little bit of time talking about the assessment of our American Republic.

Mr. Speaker, the beginning of the 21st century lends itself to a reassessment of our history and gives us an opportunity to redirect our country's future course, if deemed prudent. The main question before the new Congress and the administration is, are we to have gridlock, or cooperation?

Today we refer to cooperation as bipartisanship. Some argue that bipartisanship is absolutely necessary for the American democracy to survive. The media never mentions a concern for the survival of the Republic, but there are those who argue that left-wing interventionism should give no ground to right-wing interventionism, that too much is at stake.

The media are demanding the Bush administration and the Republican Congress immediately yield to those insisting on higher taxes and more Federal Government intervention for the sake of national unity because our government is neatly split between two concise philosophic views. But if one looks closely, one is more likely to find only a variation of a single system of authoritarianism, in contrast to the rarely mentioned constitutional non-authoritarian approach to government. The big debate between the two factions in Washington boils down to nothing more than a contest over power and political cronyism, rather than any deep philosophic differences.

The feared gridlock anticipated for the 107th Congress will differ little from the other legislative battles in recent Congresses. Yes, there will be heated arguments regarding the size of budgets, local versus Federal control, private versus government solutions; but a serious debate over the precise role for government is unlikely to occur.

I do not expect any serious challenge to the 20th century consensus of both major parties that the Federal Government has a significant responsibility to deal with education, health care, retirement programs, or managing the distribution of the welfare-state benefits. Both parties are in general agreement on monetary management, environmental protection, safety and risk, both natural and man-made. Both participate in telling others around the world how they must adopt a democratic process similar to ours as we police our worldwide financial interests.

We can expect most of the media-directed propaganda to be designed to speed up and broaden the role of the Federal Government in our lives and in the economy. Unfortunately, the token opposition will not present a principled challenge to big government, only an argument that we must move more slowly and make an effort to allow greater local decision-making.

Without presenting a specific philosophic alternative to authoritarian intervention from the left, the opposition concedes that the principle of government involvement per se is proper, practical, and constitutional.

The cliche ''the third way'' has been used to define the so-called compromise between the conventional wisdom of the conservative and liberal firebrands. This nice-sounding compromise refers not only to the noisy rhetoric we hear in the United States Congress, but also in Britain, Germany, and other nations as well.

The question, though, remains, is there really anything new being offered? The demand for bipartisanship is nothing more than a continuation of the third-way movement of the last several decades. The effort always is to soften the image of the authoritarians who see a need to run the economy and regulate people's lives, while pretending not to give up any of the advantages of the free market or the supposed benefits that come from compassionate welfare or a socialist government.

□ 1145

It is nothing more than political, have-your-cake-and-eat-it-too, deception.

Many insecure and wanting citizens cling to the notion that they can be taken care of through government benevolence without sacrificing the free market and personal liberty. Those who anxiously await next month's government check prefer not to deal with the question of how goods and services are produced and under what political circumstances they are most efficiently provided. Sadly, whether personal freedom is sacrificed in the process is a serious concern for only a small number of Americans.

The third way, a bipartisan compromise that sounds less confrontational and circumvents the issue of individual liberty, free markets and production is an alluring, but dangerous, alternative. The harsh reality is that it is difficult to sell the principles of liberty to those who are dependent on government programs, and this includes both the poor beneficiaries as well as the self-serving, wealthy elites who know how to benefit from government policies. The authoritarian demagogues are always anxious to play on the needs of people made dependent by a defective political system of government intervention, while perpetuating their own power. Anything that can help the people to avoid facing the reality of the shortcomings of the welfare-warfare state is welcomed. Thus, our system is destined to perpetuate itself until the immutable laws of economics bring it to a halt at the expense of liberty and prosperity.

The third-way compromise or bipartisan cooperation can never reconcile the differences between those who produce and those who live off others. It will only make it worse. Theft is theft, and forced redistribution of wealth is just that. The third way, though, can deceive and perpetuate an unworkable system when both major factions endorse the principle.

In the last session of the Congress, the majority party, with bipartisan agreement, increased the Labor, Health and Human Services and Education appropriation by 26 percent over the previous year, nine times the rate of inflation. The Education Department alone received $44 billion, nearly double Clinton's first educational budget of 1993.

The Labor, HHS and Education appropriation was $34 billion more than the Republican budget had authorized. Already, the spirit of bipartisanship has prompted a new administration to request another $10 billion along with more mandates on public schools. This is a far cry from the clear constitutional mandate that neither the Congress nor the Federal courts have any authority to be involved in public education. The argument that this bipartisan approach is a reasonable compromise between the total free market of local government or local government approach, and that of a huge activist centralized government approach may appeal to some, but it is fraught with great danger. Big government clearly wins. Limited government and the free market lose. Any talk of the third way is nothing more than propaganda for big government. It is no compromise at all.

The principle of Federal Government control is fully endorsed by both sides, and the argument that the third way might slow growth of big government falls flat. Actually, with bipartisan cooperation, government growth may well accelerate.

How true bipartisanship works in Washington is best illustrated by the way a number of former Members of Congress make a living after leaving Congress. They find it quite convenient to associate with other former members of the opposing party and start a lobbying firm. What might have appeared to be contentious differences when in office are easily put aside to lobby their respective party members. Essentially, no philosophic differences of importance exist; it is only a matter of degree and favors sought, since both parties must be won over. The differences they might have had while they were voting Members of Congress existed only for the purpose of appealing to their different constituencies, not serious differences of opinion as to what the role of government ought to be. This is the reality of bipartisanship.

Sadly, our system handsomely rewards those who lobby well and in a bipartisan fashion. Congressional service too often is a training ground or a farm system for the ultimate government service: lobbying Congress for the benefit of powerful and wealthy special interests. It should be clearly evident, however, that all the campaign finance reform and lobbying controls conceivable will not help the situation. Limiting the right to petition Congress or restricting people's right to spend their own money will always fail and is not morally acceptable and misses the point. As long as government has so much to offer, public officials will be tempted to accept the generous offers of support from special interests. Those who can benefit have too much at stake not to be in the business of influencing government.

Eliminating the power of government to pass out favors is the only real solution. Short of that, the only other reasonable solution must come from Members' refusal to be influenced by the pressure the special interest money can exert. This requires moral restraint by our leaders. Since this has not happened, special interest favoritism has continued to grow.

The bipartisanship of the last 50 years has allowed our government to gain control over half of the income of most Americans. Being enslaved half the time is hardly a good compromise, but supporters of the political status quo point out that in spite of the loss of personal freedom, the country continues to thrive in many ways. But there are some serious questions that we as a people must answer. Is this prosperity real? Will it be long-lasting? What is the true cost in economic terms? Have we sacrificed our liberties for government security? Have we undermined the very system that has allowed productive effort to provide a high standard of living for so many? Has this system in recent years excluded some from the benefits that Wall Street and others have enjoyed? Has it led to needless and dangerous U.S. interventions overseas and created problems that we are not yet fully aware of? Is it morally permissible in a country that professes to respect individual liberty to routinely give handouts to the poor and provide benefits to the privileged and rich by stealing the fruits of labor from hard-working Americans?

As we move into the next Congress, some worry that gridlock will make it impossible to get needed legislation passed. This seems highly unlikely. If big government supporters found ways to enlarge the government in the past, the current evenly-split Congress will hardly impede this trend and may even accelerate it. With a recession on the horizon, both sides will be more eager than ever to cooperate on expanding Federal spending to stimulate the economy, whether the fictitious budget surplus shrinks or not. In this frantic effort to take care of the economy, promote education, save Social Security, and provide for the medical needs of all Americans, no serious discussion will take place on the political conditions required for a free people to thrive. If not, all efforts to patch the current system together will be at the expense of personal liberty, private property, and sound money.

If we are truly taking a more dangerous course, the biggest question is, how long will it be before a major political economic crisis engulfs our land? That, of course, is not known, and certainly not necessary, if we as a people and especially the Congress understand the nature of the crisis and do something to prevent the crisis from undermining our liberties. We should, instead, encourage prosperity by avoiding any international conflict that threatens our safety or wastefully consumes our needed resources.

Congressional leaders do have a responsibility to work together for the good of the country, but working together to promote a giant interventionist state dangerous to us all is far different from working together to preserve constitutionally protected liberties.

Many argue that the compromise of bipartisanship is needed to get even a little of what the limited government advocates want, but this is a fallacious argument. More freedom can never be gained by giving up freedom, no matter the rationale. If liberals want $46 billion for the Department of Education and conservatives argue for $42 billion, a compromise of $44 billion is a total victory for the advocates of Federal Government control of public education. Saving $2 billion means nothing in the scheme of things, especially since the case for the constitutional position of zero funding was never even entertained. When the budget and government controls are expanding each year, a token compromise in the proposed increase means nothing. And those who claim it to be a legitimate victory do great harm to the cause of liberty by condoning the process. Instead of it being a third-way alternative to the two sides arguing over minor details of how to use government force, the three options instead are philosophically the same. A true alternative must be offered if the growth of the state is to be contained. Third-way bipartisanship is not the answer.

However, if, in the future, the constitutionalists argue for zero funding for the Education Department and the liberals argue to increase it to $50 billion and finally $25 billion is accepted as a compromise, progress will have been made. But this is not what is being talked about in D.C. When an effort is made to find a third way, both sides are talking about expanding government and neither side questions the legitimacy of the particular program involved. Unless the moral and Constitutional debate changes, there can be no hope that the trend toward bigger government with a sustained attack on personal liberty will be reversed. It must become a moral and constitutional issue.

Budgetary tokenism hides the real issue. Even if someone claims to have just saved the taxpayer a couple billion dollars, the deception does great harm in the long run by failure to emphasize the importance of the Constitution and the moral principles of liberty. It instead helps to deceive the people into believing something productive is being done, but it is really worse than that, because neither party makes an effort to cut the budget. The American people must prepare themselves for ever more spending and taxes.

A different approach is needed if we want to protect the freedoms of all Americans, to perpetuate prosperity, and to avoid a major military confrontation. All three options in reality represents only a variation of the one based on authoritarian and interventionist principles. Nothing should be taken for granted, neither our liberties, nor our material well-being. Understanding the nature of a free society and favorably deciding on its merits are required before true reform can be expected. If, however, satisfaction and complacency with the current trend toward bigger and more centralized government remain the dominant view, those who love liberty more than promised security must be prepared for an unpleasant future.

□ 1200

Those alternative plans will surely vary from one to another. Tragically, for some it will contribute to the violence that will surely come when promises of government security are not forthcoming. We can expect further violations of civil liberties by a government determined to maintain order when difficult economic and political conditions develop.

But none of this needs occur if the principles that underpin our Republic, as designed by the Founders, can be resurrected and reinstituted. Current problems that we now confront are government-created and can be much more easily dealt with when government is limited to its proper role of protecting liberty, instead of promoting a welfare-fascist state.

There are reasons to be optimistic that the principles of the Republic, the free market, and respect for private property can be restored. However, there remains good reason, as well, to be concerned that we must confront the serious political and economic firestorm seen on the horizon before that happens.

My concerns are threefold: the health of the economy, the potential for war, and the coming social discord. If our problems are ignored, they will further undermine the civil liberties of all Americans. The next decade will be a great challenge to all Americans.

The booming economy of the last 6 years has come to an end. The only question remaining is how bad the slump will be. Although many economists express surprise at the sudden and serious shift in sentiment, others have been warning of its inevitability. Boom times built on central bank credit creation always end in recession or depression. But central planners, being extremely optimistic, hope that this time it will be different, that a new era has arrived.

For several years we have heard the endless nostrum of a technology and productivity-driven paradigm that would make the excesses of the 1990s permanent and real. Arguments that productivity increases made the grand prosperity of the last 6 years possible were accepted as conventional wisdom, although sound free-market analysts warned otherwise.

We are now witnessing an economic downturn that will, in all likelihood, be quite serious. If our economic planners pursue the wrong course, they will make it much worse and prolong the recovery.

Although computer technology has been quite beneficial to the economy, in some ways these benefits have been misleading by hiding the ill effects of central bank manipulation of interest rates and by causing many to believe that the usual business-cycle correction could be averted. Instead, delaying a correction that is destined to come only contributes to greater distortions in the economy, thus requiring an even greater adjustment.

It seems obvious that we are dealing with a financial bubble now deflating. Certainly, most observers recognize that the NASDAQ was grossly overpriced. The question remains, though, as to what is needed for the entire economy to reach equilibrium and allow sound growth to resume.

Western leaders for most of the 20th century have come to accept a type of central planning they believe is not burdened by the shortcomings of true socialist-type central planning. Instead of outright government ownership of the means of production, the economy was to be fine-tuned by fixing interest rates, that is, Fed funds rates, subsidizing credit, government-sponsored enterprises, stimulating sluggish segments of the economy, farming and the weapons industry, aiding the sick, Medicaid and Medicare, federally managing education, the Department of Education, and many other welfare schemes.

The majority of Americans have not yet accepted the harsh reality that this less threatening, friendlier type of economic planning is minimally more efficient than that of the socialist planners with their 5-year economic plans.

We must face the fact that the business cycle, with its recurring recessions, wage controls, wealth transfers, and social discord, is still with us, and will get worse unless there is a fundamental change in economic and monetary policy. Regardless of the type, central economic planning is a dangerous notion.

In an economic downturn, a large majority of our political leaders believe that recession's ill effects can be greatly minimized by monetary and fiscal policy. Although cutting taxes is always beneficial, spending one's way out of a recession is no panacea. Even if some help is gained by cutting taxes, or temporary relief given by an increase in government spending, they distract from the real cause of the downturn: previously pursued faulty monetary policy.

The consequences of interest rate manipulation in a recession, along with tax-and-spending changes, are unpredictable and do not always produce the same results each time they are used. This is why interest rates of less than 1 percent and massive spending programs have not revitalized Japan's economy or her stock market.

We may well be witnessing the beginning of a major worldwide economic downturn, making even more unpredictable the consequence of conventional western-style central banking tinkering.

There is good reason to believe that Congress and the American people ought to be concerned and start preparing for a slump that could play havoc with our Federal budget and the value of the American dollar. Certainly the Congress has a profound responsibility in this area. If we ignore the problems or continue to endorse the economic myths of past generations, our prosperity will be threatened. But our liberties could be lost as well if expanding the government's role in the economy is pursued as the only solution to the crisis.

It is important to understand how we got ourselves into this mess. The blind faith that wealth and capital can be created by the central bank's creating money and credit out of thin air, using government debt as its collateral, along with fixing short-term interest rates, is a myth that must one day be dispelled. All the hopes of productivity increases in a dreamed-about new era economy cannot repeal eternal economic laws.

The big shift in sentiment of the past several months has come with a loss of confidence in the status of the new paradigm. If we are not careful, the likely weakening of the U.S. dollar could lead to a loss of confidence in America and all her institutions.

U.S. political and economic power has propped up the world economy for years. Trust in the dollar has given us license to borrow and spend way beyond our means. But just because world conditions have allowed us greater leverage to borrow and inflate the currency than otherwise might have been permitted, the economic limitations of such a policy still exist. This trust, however, did allow for a greater financial bubble to develop and dislocations to last longer, compared to similar excesses in less powerful nations.

There is one remnant of the Bretton Woods gold exchange standard that has aided U.S. dominance over the past 30 years. Gold was once the reserve all central banks held to back up their currencies. After World War II, the world central banks were satisfied to hold dollars, still considered to be as good as gold, since internationally the dollar could still be exchanged for gold at $35 an ounce.

When the system broke down in 1971 and we defaulted on our promises to pay in gold, chaos broke out. By default, the dollar maintained its status as the reserve currency of the world. This is true even to this day. The dollar still represents approximately 77 percent of all world central bank reserves.

This means that the United States has a license to steal. We print the money and spend it overseas, while world trust continues because of our dominant economic and military power. This results in a current account and trade deficit so large that almost all economists agree that it cannot last. The longer and more extensive the distortions in the international market, the greater will be the crisis when the market dictates a correction. That is what we are starting to see.

When the recession hits full force, even the extraordinary power and influence of Alan Greenspan and the Federal Reserve, along with all other central banks of the world, will not be enough to stop the powerful natural economic forces that demand equilibrium. Liquidation of unreasonable debt and the elimination of the overcapacity built into the system and a return to trustworthy money and trustworthy government will be necessary. Quite an undertaking.

Instead of looking at the real cost and actual reasons for the recent good years, politicians and many Americans have been all too eager to accept the newfound wealth as permanent and deserved, as part of a grand new era. Even with a national debt that continued to grow, all the talk in Washington was about how to handle the magnificent budget surpluses.

Since 1998, when it was announced that we had a budgetary surplus to deal with, the national debt has nevertheless grown by more than $230 billion, albeit at a rate less than in the past, but certainly a sum that should not be ignored. But the really big borrowing has been what the U.S. as a whole has borrowed from foreigners to pay for the huge deficit we have in our current account. We are now by far the largest foreign debtor in the world and in all of history.

The convenient arrangement has allowed us to live beyond our means, and according to long-understood economic laws must end. A declining dollar confirms that our ability to painlessly borrow huge sums will no longer be cheap or wise. During the past 30 years, in the post-Bretton Woods era, worldwide sentiment has permitted us to inflate our money supply and get others to accept the dollar as if it were as good as gold. This convenient arrangement has discouraged savings, which are now at an historic low.

Savings in a capitalist economy are crucial for furnishing capital and establishing market interest rates. With negative savings and with the Fed fixing rates by creating credit out of thin air and calling it capital, we have abandoned a necessary part of free market capitalism, without which a smooth and growing economy is not sustainable.

No one should be surprised when recessions hit, or bewildered as to their cause or danger. The greater surprise would be the endurance of an economy fine-tuned by a manipulative central bank and a compulsively interventionist Congress.

But the full payment for our last economic sins may now be required. Let us hope we can keep the pain and suffering to a minimum.

The most recent new era of the 1990s appeared to be an answer to all politicians' dreams: a good economy, low unemployment, minimal price inflation, a skyrocketing stock market, with capital gains tax revenues flooding the Treasury, thus providing money to accommodate every special-interest demand.

But it was too good to be true. It was based on an inflated currency and massive corporate, personal and government borrowing. A recession was inevitable to pay for the extravagance that many knew was an inherent part of the new era, understanding that abundance without a commensurate amount of work was not achievable.

The mantra now is for the Fed to quickly lower short-term interest rates to stimulate the economy and alleviate a liquidity crisis. This policy may stimulate a boom and may help in a mild downturn, but it does not always work in a bad recession. It actually could do great harm since it could weaken the dollar, which in turn would allow market forces instead to push long-term interest rates higher. Deliberately lowering interest rates is not even necessary for the dollar to drop, since our policy has led to a current account deficit of a magnitude that demands the dollar eventually readjust and weaken.

A slumping stock market will also cause the dollar to decline and interest rates to rise. Federal Reserve Board central planning, though, through interest rate control, is not a panacea. It is, instead, the culprit that produces the business cycle. Government and Fed officials have been reassuring the public that no structural problems exist, citing no inflation and a gold price that reassures the world that the dollar is indeed still king.

The Fed can create excess credit, but it cannot control where it goes as it circulates throughout the economy, nor can it dictate value. Claiming that a subdued government-rigged CPI and PPI proves that no inflation exists is pure nonsense. It is well established that, under certain circumstances, new credit inflation can find its way into the stock or real estate market, as it did in the 1920s, while consumer prices remained relatively stable. This does not negate the distortions inherent in a system charged with artificially low interest rates. Instead, it allows the distortion to last longer and become more serious, leading to a bigger correction.

If gold prices reflected the true extent of the inflated dollar, confidence in the dollar specifically and in paper more generally would be undermined. It is a high priority of the Fed and all central banks of the world for this not to happen. Revealing to the public the fraud associated with all paper money would cause loss of credibility of all central banks. This knowledge would jeopardize the central bank's ability to perform the role of lender of last resort, and to finance and monetize government debt. It is for this reason that the price of gold, in their eyes, must be held in check.

From 1945 to 1971, the United States literally dumped nearly 500 million ounces of gold at $35 an ounce in an effort to do the same thing by continuing the policy of printing money at will, with the hopes that there would be no consequences to the value of the dollar. That all ended in 1971, when the markets overwhelmed the world central bankers.

A similar effort continues today, with central banks selling and loaning gold to keep the price in check. It is working and does convey false confidence, but it cannot last. Most Americans are wise to the government statistics regarding prices and the no-inflation-exists rhetoric. Everyone is aware that the prices of oil, gasoline, natural gas, medical care, repairs, houses, and entertainment have all been rapidly rising.

The artificially low gold price has aided the government's charade, but it has also allowed a bigger bubble to develop.

□ 1215

This policy cannot continue. Economic law dictates a correction that most Americans will find distasteful and painful. Duration and severity of the liquidation phase of the business cycle can be limited by proper responses, but it cannot be avoided and could be made worse if the wrong course is chosen.

Recent deterioration of the junk bond market indicates how serious the situation is. Junk bonds are now paying 9 to 10 percent more than short-term government securities. The quality of business loans is suffering, while more and more corporate bonds are qualifying for junk status. The Fed tries to reassure us by attempting to stimulate the economy with low, short-term Fed fund rates at the same time interest rates for businesses and consumers are rising. There comes a time when Fed policy is ineffective, much to everyone's chagrin.

Micromanaging an economy effectively for a long period of time, even with the power a central bank wields, is an impossible task. The good times are ephemeral and eventually must be paid for by contraction and renewed real savings.

There is much more to inflation than rising prices. Inflation is defined as the increase in the supply of money and credit. Obsessively sticking to the "rising prices" definition conveniently ignores placing the blame on the responsible party: The Federal Reserve. The last thing central banks, or the politicians who need a backup for all their spending mischief, want is for the government to lose its power for creating money out of thin air, which serves political and privileged financial interests.

When the people are forced to think only about rising prices, government-doctored price indexes can dampen concerns for inflation. Blame then can be laid at the doorstep of corporate profiteers, price gougers, labor unions, oil sheiks, or greedy doctors. But it is never placed at the feet of the highly paid athletes or entertainers. It would be economically incorrect to do so, but it is political correctness that does not allow some groups to be vilified.

Much else related to artificially low interest rates goes unnoticed. An overpriced stock market, overcapacity in certain industries, excesses in real estate markets, artificially high bond prices, general mal-investments, excessive debt and speculation all result from the generous and artificial credit the Federal Reserve pumps into the financial system. These distortions are every bit, if not more, harmful than rising prices. As the economy soars from the stimulus effect of low interest rates, growth and distortions compound themselves. In a slump, the reverse is true and the pain and suffering is magnified as the adjustment back to reality occurs.

The extra credit in the 1990s has found its way especially into the housing market like never before. Government Sponsored Enterprises, in particular Freddie Mac and Fannie Mae, have gobbled up huge sums to finance a booming housing market. GSE securities enjoy implicit government guarantees that have allowed for a generous discount on most housing loans. They have also been the vehicles used by consumers to refinance and borrow against their home equity to use these funds for other purposes, such as investment in the stock market. This has further undermined savings by using the equity that builds with price inflation that homeowners enjoy when money is debased.

In addition, the Federal Reserve now buys and holds GSE securities as collateral in their monetary operations. These securities are then literally used as collateral for printing Federal Reserve notes. This is a dangerous precedent.

If monetary inflation merely raised prices and all prices and labor costs moved up at the same rate and it did not cause disequilibrium in the market, it would be of little consequence. But inflation is far more than rising prices. Creating money out of thin air is morally equivalent to counterfeiting. It is fraud and theft, because it steals purchasing power from the savers and those on fixed incomes. That in itself should compel all nations to prohibit it, as did the authors of our Constitution.

Inflation is socially disruptive in that the management of fiat money, as all today's currencies are, causes great hardships. Unemployment is a direct consequence of the constantly recurring recessions. Persistent rising costs impoverish many as the standard of living of unfortunate groups erodes. Because the pain and suffering that comes from monetary debasement is never evenly distributed, certain segments of society actually benefit.

In the 1990s, Wall Streeters thrived while some low-income, non-welfare, non-homeowners suffered with rising costs for fuel, rent, repairs, and medical care. Generally, one should expect the middle class to suffer and to literally be wiped out in severe inflation. When this happens, as it did in many countries throughout the 20th century, social and political conflicts become paramount when finger-pointing becomes commonplace by those who suffer, looking for scapegoats. Almost always, the hostility is inaccurately directed.

There is a greater threat from the monetary mischief than just the economic harm it does. The threat to liberty resulting when economic strife hits and finger-pointing increases should concern us most. We should never be complacent about monetary policy.

We must reassess the responsibility Congress has in maintaining a sound monetary system. In the 19th century, the constitutionality of a central bank was questioned and challenged. Not until 1913 were the advocates of a strong federalist system able to foist a powerful central bank on us, while destroying the gold standard. This banking system, which now serves as the financial arm of Congress, has chosen to pursue massive welfare spending and a foreign policy that has caused us to be at war for much of the 20th century.

Without the central bank creating money out of thin air, our welfare state and worldwide imperialism would have been impossible to finance. Attempts at economic fine-tuning by monetary authorities would have been impossible without a powerful central bank. Propping up the stock market as it falters would be impossible as well.

But the day will come when we will have no choice but to question the current system. Yes, the Fed does help to finance the welfare state. Yes, the Fed does come to the rescue when funds are needed to fight wars and for us to pay the cost of maintaining our empire. Yes, the Fed is able to stimulate the economy and help create what appears to be good times. But it is all built on an illusion. Wealth cannot come from a printing press. Empires crumble and a price is eventually paid for arrogance toward others. And booms inevitably turn into busts.

Talk of a new era these past 5 years has had many believing, including Greenspan, that this time it really would be different. And it may indeed be different this time. The correction could be an especially big one, since the Fed-driven distortion of the past 10 years, plus the lingering distortion of the past decades, have been massive. The correction could be made big enough to challenge all of our institutions, the entire welfare state, Social Security, foreign intervention, and our national defense.

This will only happen if the dollar is knocked off its pedestal. No one knows if that is going to happen sooner or later. But when it does, our constitutional system of government will be challenged to the core.

Ultimately, the solution will require a recommitment to the principles of liberty, including a belief in sound money, when money once again will be something of value rather than pieces of paper or mere blips from a Federal Reserve computer. In spite of the grand technological revolution, we are still having trouble with a few simple, basic tasks: counting votes, keeping the lights on, or even understanding the sinister nature of paper money.

Mr. Speaker, I will continue this special order tomorrow.

GENERAL LEAVE

Mr. PAUL. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks and include extraneous material on the subject of the special order by the gentleman from Indiana (Mr. PENCE) today.

The SPEAKER pro tempore (Mr. SIMPSON). Is there objection to the request of the gentleman from Texas?

There was no objection.

LEAVE OF ABSENCE

By unanimous consent, leave of absence was granted to:

Mr. CALVERT (at the request of Mr. ARMEY) for today on account of official business.

SPECIAL ORDERS GRANTED

By unanimous consent, permission to address the House, following the legislative program and any special orders heretofore entered, was granted to:

(The following Members (at the request of Mr. ABERCROMBIE) to revise and extend their remarks and include extraneous material:)

Mr. BROWN of Ohio, for 5 minutes, today.

Mr. DAVIS of Illinois, for 5 minutes, today.

Mr. UNDERWOOD, for 5 minutes, today.

Mrs. MINK of Hawaii, for 5 minutes, today.

Mrs. JONES of Ohio, for 5 minutes, today.

Mr. GREEN of Texas, for 5 minutes, today.

Ms. JACKSON-LEE of Texas, for 5 minutes, today.

Mrs. CLAYTON, for 5 minutes, today.

The following Members (at the request of Mr. PENCE) to revise and extend their remarks and include extraneous material:

Mr. SMITH of Michigan, for 5 minutes, today.

ADJOURNMENT

Mr. PAUL. Mr. Speaker, I move that the House do now adjourn.