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REMARKS

"THE PURCHASING POWER OF THE DOLLAR"

ON THE OCCASION OF THE RE-RELEASE OF

THOMAS JEFFERSON'S "NOTES ON THE MONETARY UNIT"

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INTRODUCTION

Good evening. I am pleased to join you this evening as we celebrate the re-release of Thomas Jefferson's "*Notes on the Establishment of a Money Unit and of a Coinage for the United States,*" in which he expounded on the desirable qualities in a currency. Rather than analyzing his text, I will focus my remarks on a topic that is as relevant for us tonight as was for Jefferson in 1784: the need to secure and preserve the purchasing power of the U.S. Dollar.

THE FOUNDING FATHERS

Our Founding Fathers grappled with the issue of establishing and maintaining a currency. Jefferson, with his agrarian background, focused on the practicality of the money unit. It had to be defined by a precise weight of a precious metal to maintain its purchasing power not only from state to state, but also through time. It had to be decimally based to be accessible to common men, schooled in basic arithmetic.

Alexander Hamilton, Jefferson's rival, approached the question from a different angle. Jefferson was intensely concerned with the micro—the practicality and uniform value of the fledgling nation's money—while Hamilton was keenly interested in the macro—honoring the nation's debts from the War of Independence.

Hamilton vigorously insisted on the moral obligation of the federal government to pay its debts in order to preserve a "just or regular Government."[1] Hamilton rightly recognized that the very legitimacy of the government—in the eyes of the American public and the world—rested upon whether it would honor its financial commitments.

Hamilton wisely rejected both currency devaluation and monetizing debt, which are two sides of the same coin. Devaluing the currency involves the government formally reducing the value of its currency, while monetization involves a government creating new money to finance its debt. Both result in a currency that is worth less and punishes the hardworking and frugal.

The thrust from both of these Founding Fathers was the same: The government must strive to maintain the purchasing power of the dollar. How else will the American public, and ultimately the world, respect the legitimacy of the federal government? This was true in the late eighteenth century; and it remains equally true today.

THE 2008 FINANCIAL CRISIS & QUANTITATIVE EASING

President Richard Nixon closed the "gold window" on August 15, 1971, causing the Bretton Woods gold exchange standard to collapse. Since then, the purchasing power of the dollar has declined by 83 percent.

I fear that the Federal Reserve through current policies of Quantitative Easing and maintaining extraordinary low interest rates may be providing the fuel for igniting high inflation. As monetary economist Mickey Levy observed in a paper for the Shadow Open Market Committee:

> *"The Fed has kept the funds rate below inflation since 2008, the longest period in recent history. The last period of such a long sustained negative real funds rate was in 1974-1977, and it resulted in double digit inflation."*

Inflation is a wealth-destroying, market-distorting phenomenon, which undermines hard work, savings, and productive investment, while rewarding financial speculation. Though the Federal Open Market Committee still does not see inflation on the horizon,[2] the question remains as to how quickly and effectively the Fed would respond if inflation were to take hold.

Since the financial crisis of 2008, the Fed has tripled the size of its balance sheet, turning Wall Street into a monetary morphine addict. Since the recovery began, the real return on the S&P 500 has soared by 80.8 percent, while on Main Street, real disposable income per capita has edged up by only 3.2 percent. Now, I'm certainly not against Wall Street doing well; but I am against policies that distort markets to favor one group of Americans over another.

The rounds of QE have left more than $2.2 trillion in "excess reserves" on the Fed's balance sheet. These reserves are the fuel for inflation. Because business investment and lending have been subdued, these reserves have remained untapped, keeping inflation in check so far. Can the Fed accurately foresee when lending activities begin to accelerate and then take timely action to reduce these excess reserves before inflation increases and inflationary expectations become entrenched? Chairman Bernanke is supremely confident, but I, based on the Fed's history, remain skeptical.

CURRENT POLITICS & THE DEBT CEILING

This brings us to the current political situation. Americans are rightly upset at the massive expansion of government under Presidents George W. Bush and Barack Obama. And Americans are frustrated that divided government has not been able to do more to reverse course.

This frustration spills over into debates over government funding and the debt ceiling. Increases in the debt ceiling have traditionally been the vehicle used in divided government to reach a bipartisan compromise on fiscal issues. The White House typically makes concessions to the opposite party in Congress to win passage of an increase the debt ceiling. In 1990, President George H. W. Bush agreed to tax increases in exchange for sequestration relief and a debt ceiling increase from a Democratic Congress. And the *Budget Control Act of 2011* came about through negotiations between President Obama and Republican House leaders.

Now, we must raise the debt ceiling. President Obama says he won't negotiate. However, history teaches that the White House will need to make fiscal concessions to win passage of an increase in the debt ceiling. Congressional Republicans would be negligent if we did not press for concessions. However, we must also be reasonable.

The United States cannot and will not default on its debt. Doing so would greatly undermine the value of the dollar and harm all Americans as default would increase borrowing costs not only for the government, but also for all Americans families and businesses.

As both Jefferson and Hamilton understood, default and monetization would undermine the value of the dollar and inflict suffering on the middle class. However, this is simply unacceptable; both the President and the Congress must come together on the debt ceiling in the coming week.

PRESERVING THE PURCHASING POWER OF THE DOLLAR

What can Congress do to stem the tide of the decline in the purchasing power of the dollar? As a senior member of the House Ways and Means Committee, I have spent much of my legislative career focusing on fiscal policy—taxes, trade, and health care. Yet once I became chairman of the Joint Economic Committee, I've had the opportunity to examine the foundational role of monetary policy in the health of our economy.

Some advocate a return to the classical gold standard. I do not believe that objective is achievable in the near term. I advocate the concepts in my *Sound Dollar Act*, which would reform the Fed's mandate to focus on the one thing it can actually achieve: price stability. The surest way to achieve maximum employment is for the Fed to return to a rules-based system, with a primary objective of price stability, and in achieving price stability, look at a broader category of assets, including gold. It also seeks to restore a proper balance in monetary policy decision making between Wall Street and Main Street.

I recognize that it may be a bit ambitious to hope for the Senate to pass and the current President to sign the *Sound Dollar Act* into law; but there is another concept, which could move forward in the current environment—the *Centennial Monetary Commission Act*.

The foundation for monetary reform can be prepared now by establishing a Centennial Monetary Commission as embodied in this bipartisan legislation that I have introduced with 25 House cosponsors. The Commission would be modeled after the successful 9/11 Commission and the original National Monetary Commission created after the Panic of 1907. The Commission would be brutally bipartisan, which is essential for a major reform to have the necessary credibility before Congress and the public. The Commission would: (a) Review the past century of monetary policy; (b) Evaluate the various credible approaches to monetary policy; and (c) Recommend a course going forward, which the Congress would consider.

The time to begin the reform is now; let's have a fair hearing with every credible approach on the table.

CONCLUSION

Although Jefferson and Hamilton were bitter political rivals, they shared a conviction in the importance of maintaining the purchasing power of the dollar. A sound dollar is the foundation for a stronger economy. Republicans need a stronger economy to generate the revenue that will help us to pay down the mountain of debt. Democrats need a stronger economy to generate the revenue that would help them to pay for all of the additional federal spending that they desire. We can fight over the spoils of victory later; but for now both sides should join together to adopt a monetary policy that will give the United States' its best economic footing going forward.

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[1] Hamilton, *Defense of the Funding System*, July 1795.

[2] July FOMC Minutes, http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20130731.pdf; September FOMC Statement, http://www.federalreserve.gov/newsevents/press/monetary/20130918a.htm.