



Written by [Denise Behreandt](#) on September 24, 2008

## Henry Paulson to Become Overseer of U.S. Economy?

In truth, the impending legislation merely formalizes powers already usurped by Paulson and Ben Bernanke over the past few months. With the growing financial turbulence, both the Federal Reserve and the Treasury Department have been exercising unconstitutional, quasi-dictatorial powers, including the bailouts of AIG and Bear Stearns and the nationalization of Fannie Mae and Freddie Mac — all this in addition to the Fed's arrogation of authority to issue credit lines to investment banks and a whole range of new "tools" to pump money into the economy (read: inflate and devalue the U.S. dollar).



As the *Monitor* article noted, Paulson is only the most public of three individuals colluding to expand the powers of Treasury and the Fed independent of congressional (much less public) oversight. The other two are Ben Bernanke, the Chairman of the Federal Reserve; and Timothy Geithner, chief of the New York Federal Reserve Bank.

To be sure, the new powers the bailout will confer on these three men are both historic and unprecedented. Although the news media have been focusing on the outrageous and unaffordable \$700 billion price tag, the real story is the violence that such an act will perpetrate against our whole system of government. The destructive impact this new legislation will have on the balance of powers established by the U.S. Constitution will be nothing less than devastating.

For one thing, the U.S. Constitution assigns the purse strings to Congress; all bills for raising revenue must originate in the House of Representatives, according to Article I, Section 7. In other words, no money shall be spent without congressional approval. Yet the seizure of Fannie Mae and Freddie Mac, which could cost the federal government trillions of dollars, was done with no congressional authorization whatsoever. So were the bailouts of Bear Stearns and AIG. The latest bill, while undergoing the formality of a bipartisan imprimatur in Congress, will give enormous powers to the Treasury Department and the Fed (in effect, the executive branch) that either Congress has no constitutional authority to delegate, or that cannot be legitimately exercised by any branch of government, including Congress.

One of the greatest strengths of the U.S. Constitution is that it grants no power to the executive branch to raise revenue. America's presidents, unlike Old World sovereigns, have never been able to levy taxes with the stroke of a pen or to accumulate assets in sovereign wealth funds. However, since the creation of the Federal Reserve, the executive branch has been able to rely on inflation (the creation of money not backed by any precious metal) to fund projects that Congress is reluctant to authorize. Congress, for its part, offers only tepid resistance because most of its members understand that inflationary spending is not well understood by the voting public, and lawmakers will seldom be held accountable for the follies of the Federal Reserve System and the Treasury Department.



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The bailout under discussion will, like all the other bailouts, be financed up front not by the dizzying tax increases that a \$700 billion dollar price tag would ordinarily require, but by the creation of more money. It will be done under the allegedly benign overseership of Paulson and Bernanke, and Congress will once again have abrogated its responsibility to control the government purse strings.

Even if the impending mega-bailout were constitutionally legitimate, it cannot work in the long run. The financial turbulence and declines in stock values are the markets' attempt to clear out bad debt and overvalued assets. Allowed to run its natural course, the turmoil will certainly claim more corporations and bring about further declines. But all of this is a consequence of decades of reckless inflation, resulting in a global market that is grotesquely overvalued and in trillions of dollars of easy money malinvested in feckless enterprises like subprime mortgages. Lulled by years of assurances that government will not permit the largest corporations to suffer the consequences of greed and reckless behavior, the global economy has been on a decades-long bender, drunk on easy money and credit brought about by artificially depressed interest rates. What the powers that be are now proposing is to prolong this unnatural state of affairs, postponing the inevitable hangover until the entire system collapses under mountains of bad debt.

No one really knows how much bad debt is out there, thanks to the intricacy of secondary investments called derivatives. The \$700 billion figure, though large, is likely to fall far short of the total, and this bailout may ultimately saddle the government (i.e., taxpayers) with trillions in new debt.

Without any doubt, allowing events to run their natural course will have severe consequences, as human folly always does. But trying to prolong the high by spending the U.S. government into bankruptcy and saddling U.S. taxpayers with the bill is worse still — morally reprehensible in the short run, and economically disastrous in the long. One way or the other, the piper will have to be paid. It is better by far, both on economic and constitutional grounds, that it be sooner rather than later, and that, after the crisis has run its course (as it will), Americans decide to return to the wiser financial system — money based on a precious metal standard — that both the Founders and the Constitution countenance.

Readers are encouraged to send a letter to Congress opposing the \$700 billion bailout. To send your letter online, [click here](#).



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