

October 2, 2008

Dear Congressman Brady:

We disagree on the bailout. You won the congressional election 2 years ago and so get the right to a vote in congress. I on the other hand, as a taxpayer, have the right to write. So I do. We are both reasonable, articulate, well-traveled people who both want what is good for the American economy and liberty. Why are we seeing this from such opposite viewpoints?

We are being told this is a confidence crisis (See for example Thomas Friedman in *Rescue to the Rescue*, NY Times, September 30, 2008, where he says: "This is a credit crisis. It's all about confidence. What you can't see is how bank A will no longer lend to good company B or mortgage company C. Because no one is sure the other guy's assets and collateral are worth anything, which is why the government needs to come in and put a floor under them. Otherwise, the system will be choked of credit, like a body being choked of oxygen and turning blue.") and I agree.

Maybe we disagree on whether this liquidity crisis and loss of confidence is a good or bad thing. You may be assuming a loss of confidence and liquidity is a bad thing. But I think this loss of confidence is a good thing because you can't fix a problem until you recognize that you have a problem. This loss of confidence is the first step in recognizing that "Houston, we have a problem."

I have no particular desire to see the "fat cats" of Wall Street turn blue. But I do have a desire to see the Main Street economy put on the right footing. The question thinking people should be asking is "Where did the Federal Reserve get the \$85 billion for the last bailout?" and "Where are they planning to get the \$700 billion for this bailout?" According to the Federal Reserve Board of Governors they had \$905.7 billion in assets as of September 3, 2008. By the end of the month it had increased by \$308.2 billion dollars. That's an increase of 34% in less than a month! Where did that capital come from if there is a liquidity crisis and capital is not readily available? Even if there was no liquidity crisis, that is more than the market capitalization of all but the largest Fortune 500 company. How could it be raised in only 1 month in a frozen capital market?

Obviously, they don't raise it by capital campaigns, as do other companies. They create it from nothing. Every dollar they create is debt - debt on which US taxpayers will have to pay interest. At least this is what Mr. Eccles of the Federal Reserve told Congressman Wright Patman according to the Congressional Record, 77th Congress, House Committee on Banking and Currency, September 24, 1941, page 1338, 1342. There are many other Federal Reserve publications, e.g. "Two Faces of Debt" or "Modern Money Mechanics," one could cite which say similar things. This isn't just theory. The \$308 billion dollars the Federal Reserve created out of nothing last month will cause real harm to our economy. It provides the capital on which all these derivatives that everyone is talking about are based. The Federal Reserve, with their ability to create dollars out of nothing through the creation of debt, created the excess funds that made the housing bubble possible in the first place.

According to the Bank for International Settlements, the estimated face value of derivatives floating around the world is 1.144 Quadrillion dollars (BIS Newsletter Released June 8 - I added the \$548 Trillion notational value of listed derivatives to the \$596 Trillion OTC as of Dec 2007 ). The combined GDP of the world's economies is just under \$70 Trillion. With all that extra money swirling around, no wonder property values were rising so fast.

America is high on Federal Reserve Notes. Allowing the Federal Reserve to inject \$700 billion of new money (or debt, depending on your perspective) into our economy to prevent pain from the collapse of the housing bubble is like giving massive doses of cocaine to a crack addict to prevent withdrawal symptoms. Federal Reserve Notes are not the solution to the problem; they are not oxygen to a choking patient. Federal Reserve Notes themselves are the problem. They are like

cocaine to a crack addict. To fix the problem we need to remove them from the economy just as one would remove cocaine from the addict.

Yes, it is and will be painful. No doubt about it. I'll suffer from the losses like everyone else. But I'd rather be "addiction free" than high on the Federal Reserve's notes - and so would all the other thinking, liberty-loving Americans who have been pouring their letters and calls into Washington.

Please join the true leaders in the House from both sides of the aisle who, despite intense arm twisting from party leadership, voted in the best interests of main street and just said, "NO!"

I think they deserve a standing ovation.

Sincerely,  
Peter Allison  
Houston, TX