

Ron Paul's FREEDOM REPORT

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Ron Paul's TEXAS STRAIGHT TALK

April 9, 2007

The Federal Reserve Monopoly over Money

Recently I had the opportunity to question Federal Reserve Chairman Ben Bernanke when he appeared before the congressional Joint Economic Committee. The topic that morning was the state of the American economy, and many of my colleagues raised questions about how the Fed might better “regulate” things to ease fears of an economic downturn. The tenor of my colleagues’ questions suggested that Mr. Bernanke’s job is nothing less than to run the U.S. economy, like some kind of Soviet central planner.

Certainly it’s true that Mr. Bernanke can drastically affect the economy at the drop of a hat, simply by making decisions about the money supply and interest rates. But why do members of Congress assume this is good? Why do we accept without objection that a small group of people on the Federal Reserve Board wields so much power over our economic well-being? Is centralized, monopoly control over our money even compatible with a supposedly free-market economy?

Few Americans give much thought to the Federal Reserve System or monetary policy in general. But even as they strive to earn a living, and hopefully save or invest for the future, Congress and the Federal Reserve

Bank are working insidiously against them. Day by day, every dollar you have is being devalued.

The greatest threat facing America today is not terrorism, or foreign economic competition, or illegal immigration. The greatest threat facing America today is the disastrous fiscal policies of our own government, marked by shameless deficit spending and Federal Reserve currency devaluation. It is this one-two punch—Congress spending more than it can tax or borrow, and the Fed printing money to make up the difference—that threatens to impoverish us by further destroying the value of our dollars.

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The Fed’s inflationary policies hurt older people the most. Older people generally rely on fixed incomes from pensions and Social Security, along with their savings. Inflation destroys the buying power of their fixed incomes, while low interest rates reduce any income from savings. So while Fed policies encourage younger people to overborrow because interest rates are so low, they also punish thrifty older people who saved for retirement.

The financial press sometimes criticizes Federal Reserve policy, but the validity of the fiat system itself is never challenged. Both political parties want the Fed to print more money, either to support social spending or military adventurism. Politicians want the printing presses to run

faster and create more credit, so that the economy will be healed like magic—or so they believe.

Fiat dollars allow us to live beyond our means, but only for so long. History shows that when the destruction of monetary value becomes rampant, nearly everyone suffers and the economic and political structure becomes

unstable. Spendthrift politicians may love a system that generates more and more money for their special interest projects, but the rest of us have good reason to be concerned about our monetary system and the future value of our dollars.

**Ron Paul's
TEXAS STRAIGHT TALK**

April 2, 2007

The 2008 Federal Budget

The fiscal year 2008 budget, passed in the House of Representatives last week, is a monument to irresponsibility and profligacy. It shows that Congress remains oblivious to the economic troubles facing the nation, and that political expediency trumps all common sense in Washington. To the extent that proponents and supporters of these unsustainable budget increases continue to win reelection, it also shows that many Americans unfortunately continue to believe government can provide them with a free lunch.

To summarize, Congress proposes spending roughly \$3 trillion in 2008. When I first came to Congress in 1976, the federal government spent only about \$300 billion. So spending has increased tenfold in thirty years, and tripled just since 1990.

About one-third of this \$3 trillion is so-called discretionary spending; the remaining two-thirds is deemed "mandatory" entitlement spending, which means mostly Social Security and Medicare. I'm sure many American voters would be shocked to know their elected representatives essentially have no say over two-thirds of the federal budget, but that is indeed the case. In fact the most disturbing problem with the budget is the utter lack of concern for the coming entitlement meltdown.

For those who thought a Democratic congress would end the war in Iraq, think again: their new budget proposes supplemental funds totaling about \$150 billion in 2008 and \$50 billion in 2009 for Iraq. This is in addition to the ordinary Department of Defense budget

of more than \$500 billion, which the Democrats propose increasing each year just like the Republicans.

The substitute Republican budget is not much better: while it does call for freezing some discretionary spending next year, it increases military spending to make up the difference. *The bottom line is that both the Democratic and Republican budget proposals call for more total spending in 2008 than 2007.*

My message to my colleagues is simple: If you claim to support smaller government, don't introduce budgets that increase spending over the previous year. Can any fiscal conservative in Congress honestly believe that overall federal spending cannot be cut 25%? We could cut spending by two-thirds and still have a federal government as large as it was in 1990.

Congressional budgets essentially are meaningless documents, with no force of law beyond the coming fiscal year. Thus budget projections are nothing more than political posturing, designed to justify deficit spending in the near term by promising fiscal restraint in the future. But the time for thrift never seems to arrive: there is always some new domestic or foreign emergency that requires more spending than projected.

The only certainty when it comes to federal budgets is that Congress will spend every penny budgeted and more during the fiscal year in question. All projections about revenues, tax rates, and spending in the future are nothing more than empty promises. Congress will pay no attention whatsoever to the 2008

budget in coming years.

**Ron Paul's
TEXAS STRAIGHT TALK**

March 19, 2007

Don't Blame the Market for Housing Bubble

The U.S. housing market, long considered vulnerable by many economists, is now on the verge of suffering a serious collapse in many regions. Commodities guru and hedge fund manager Jim Rogers warns that real estate in expensive bubble areas will

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drop 40 or 50%. Mainstream media outlets like the *New York Times* are reporting breathlessly about the possibility of widespread defaults on subprime mortgages.

When the bubble finally bursts completely, millions of Americans will be looking for someone to blame. Look for Congress to hold hearings into subprime lending practices and “predatory” mortgages. We’ll hear a lot of grandstanding about how unscrupulous lenders took advantage of poor people, and how rampant speculation caused real estate markets around the country to overheat. It will be reminiscent of the Enron hearings, and the message will be explicitly or implicitly the same: free-market capitalism, left unchecked, leads to greed, fraud, and unethical if not illegal business practices.

But capitalism is not to blame for the housing bubble, the Federal Reserve is. Specifically, Fed intervention in the economy—through the manipulation of interest rates and the creation of money—caused the artificial boom in mortgage lending.

The Fed has roughly tripled the amount of dollars and credit in circulation just since 1990. Housing prices have risen dramatically not because of simple supply and demand, but because the Fed literally created demand by making the cost of borrowing money artificially cheap.

When credit is cheap, individuals tend to borrow too much and spend recklessly.

This is not to say that all banks, lenders, and Wall Street firms are blameless. Many of them are politically connected, and benefit directly from the Fed’s easy money policies. And some lenders did make fraudulent or unethical loans. But every cent they loaned was first created by the Fed.

The actions of lenders are directly attributable to the policies of the Fed: when credit is cheap, why not loan money more recklessly to individuals who normally would not qualify? Even with higher default rates, lenders could make huge profits simply through volume. Subprime lending is a symptom of the housing bubble, not the cause of it.

Fed credit also distorts mortgage lending through Fannie Mae and Freddie Mac, two government schemes created by Congress supposedly to help poor people.

Fannie and Freddie enjoy an implicit guarantee of a bailout by the federal government if their loans default, and thus are insulated from market forces. This insulation spurred investors to make funds available to Fannie and Freddie that otherwise would have been invested in other securities or more productive endeavors, thereby fueling the housing boom.

The Federal Reserve provides the mother’s milk for the booms and busts wrongly associated with a mythical “business cycle.” Imagine a Brinks truck driving down a busy street with the doors wide open, and money flying out everywhere, and you’ll have a pretty good analogy for Fed policies over the last two decades. Unless and until we get the Federal Reserve out of the business of creating money at will and setting interest rates, we will remain vulnerable to market bubbles and painful corrections. If housing prices plummet and millions of Americans find themselves owing more than their homes are worth, the blame lies squarely with Alan Greenspan and Ben Bernanke.

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**Ron Paul’s
TEXAS STRAIGHT TALK**

March 5, 2007

The Coming Entitlement Meltdown

David Walker, Comptroller General at the Government Accountability Office, appeared on the show “60 Minutes” last evening to discuss the federal budget outlook. If you saw the show, you know that he painted a very sobering picture regarding the federal government’s ability to meet its future obligations.

If you didn’t see the show, Mr. Walker’s theme was simple: government entitlement spending is like a runaway freight train headed straight at American taxpayers. He singled out the Medicare prescription drug bill, passed by Congress at the end of 2003, as “probably the most fiscally irresponsible piece of legislation since the 1960s.”

When it comes to Social Security and Medicare, the federal government simply won’t be able to keep its promises in the future. That is the reality every American should get used to, despite the grand promises of Washington reformers. Our entitlement system can’t be

reformed—it's too late. And the Medicare prescription drug bill is the final nail in the coffin.

The financial impact of the drug bill cannot be overstated. Government projections that the program would cost \$400 billion over the next decade were a joke, as everyone in Congress knew even as they voted for the bill. The real cost will be at least \$1 trillion in the first decade alone, and much more in following decades as the American population grows older.

The Medicare “trust fund” is already badly in the red, and the only solution will be a dramatic increase in payroll taxes for younger workers. The National Taxpayers Union reports that Medicare will consume nearly 40% of the nation's GDP after several decades because of the new drug benefit. That's not 40% of federal revenues, or 40% of federal spending, but rather 40 % of the nation's entire private sector output!

The politicians who get reelected by passing such incredibly shortsighted legislation will never have to answer to future generations saddled with huge federal deficits. Those generations are the real victims, as they cannot object to the debts being incurred today in their names.

The official national debt figure, now approaching \$9 trillion, reflects only what the federal government owes in current debts on money already borrowed. It does not reflect what the federal government has promised to pay millions of Americans in entitlement benefits down the road. Those future obligations put our real debt figure at roughly *fifty trillion dollars*—a staggering sum that is about as large as the total household net worth of the entire United States. Your share of this fifty trillion amounts to about \$175,000.

Don't believe for a second that we can grow our way out of the problem through a prosperous economy that yields higher future tax revenues. If present trends continue, by 2040 the entire federal budget will be consumed by Social Security and Medicare alone. The only options for balancing the budget would be cutting total federal spending by about 60%, or doubling federal taxes. To close the long-term entitlement gap, the U.S. economy would have to grow by double digits every year for the next 75 years.

The answer to these critical financial realities is simple, but not easy: We must rethink the very role of government in our society. Anything less, any tinkering or “reform,” won't cut it. A good start would be for Congress to repeal the Medicare prescription drug bill.

Paul Honored as “Taxpayers’ Friend” for Tenth Consecutive Year

Congressman Ron Paul has been recognized as a top advocate for taxpayers in the U.S. Congress for the tenth year in a row, earning the nonpartisan National Taxpayers Union's annual award as a “Taxpayers’ Friend” for 2006. Only 30 of 435 members in the U.S. House of Representatives earned similar honors last year.

The annual NTU rating is based on critical congressional votes relating to federal tax, spending, and regulatory issues. Paul consistently ranks at or near the top of NTU's scorecard in terms of his pro-taxpayer votes.

Overall, however, Congress is slipping when it comes to serving the least-represented special interest of all—American taxpayers.

“If every member of Congress voted like Representative Paul, Americans could enjoy much lower taxes and less waste in government,” stated NTU President John Berthoud. “Overburdened taxpayers in Texas and across the nation owe Mr. Paul a debt of gratitude for his hard work on their behalf.”

“While many Members of Congress talk about reducing the size of government, Representative Paul backed up those words with votes. This award proves that he is a consistent and effective ally in our battle to restore fiscal responsibility to Washington.”

Nothing in this publication is intended to aid or hinder the passage of legislation before Congress.

About the F.R.E.E. Foundation

The Foundation for Rational Economics and Education, Inc. is a 501(c)(3) tax-exempt public foundation dedicated to individual liberty and free-market economics. It was founded by Congressman Ron Paul of Texas and publishes his Freedom Report. For more information, or to make a tax-deductible donation write: F.R.E.E., Inc., P.O. Box 1776, Lake Jackson, Texas 77566, or call 979-265-3034.