

Ron Paul's FREEDOM REPORT

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Dr. Paul's Texas Straight Talk
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Independence from Washington

Freedom, self-determination, and the end of allegiance to an unaccountable government: 228 years ago this week a handful of radical American colonists set forth their demands in the Declaration of Independence. They sought independence not only from English rule, but also from the feudal notion of obedience to King and Crown. Their views were not shared even by a majority of their fellow colonists, nor could they hope to match England's naval and military power — but their courage was undeniable.

A bloody conflict ensued, and the new Americans emerged victorious. But still we celebrate the 4th of July as the birth of our nation, rather than the date the Constitution was ratified. **We celebrate the day our forefathers boldly proclaimed to the world that liberty was their goal, that the pursuit of individual freedom was paramount.** Those who signed the Declaration of Independence envisioned a nation based on the rule of law and the right of individuals to live their lives free from oppression. To a degree perhaps unimaginable to that band of radical idealists, their vision has come to pass over these two centuries.

That vision has been challenged throughout our history, however. The Nineteenth Century held slavery. The Twentieth Century saw the rise of socialism and its sister, fascism. But rather than focus on where we have failed, we should stay focused on the ideal of freedom. The freedom we enjoy today is the direct result of the commitment of men and women who refused to compromise their ideals. Certainly they failed at times, but they understood that the goal was liberty. Today our government and society seem to have lost sight of this goal.

For more than six months of every year the average American toils not for his family, for his needs, or for his future. No, for the first six months of the year the average

American works to pay the cost of federal, state, and local taxes and regulations. From New Year's Day until about the 4th of July, you worked to pay for government. This is unconscionable. Our Founding Fathers, no doubt, would be embarrassed at our squandering of their vision. After all, they revolted at a comparable tax rate in the single digits or less. And yet we willingly suffer an effective tax rate of 50%, and much more in many cases. The tyranny of the Crown has been replaced by the tyranny of the federal government in Washington.

We are not slaves, but many feel they are indentured servants to government. And by and large it has happened with our willing consent. We have knowingly compromised our sacred liberty for temporary promises of security or false prosperity. But it does not have to be so. We can reclaim our independence not with guns, but with our voices. We can reject creeping statism and encourage the blessings of liberty for our land. It will require work, and it will require commitment, and it will require a willingness to stand firm for our beliefs. But that is a small price to pay compared to the sacrifices made by those who founded America.

Liberty, freedom, and self-determination. Those goals are as worthy of our attention today as they were 228 years ago in a hot convention hall in Philadelphia. Just as devotion to those goals brought forth this great nation then, a renewed adherence to liberty can save our nation today. Our Founding Fathers felt freedom was worth their "lives, fortunes, and sacred honor." Do we?

THURSDAY, JULY 8, 2004

Dr. Paul addresses the House

Government Spending — A Tax on the Middle Class

All government spending represents a tax. The inflation tax, while largely ignored, hurts middle-class and low-income Americans the most.

The never-ending political squabble in Congress over taxing the rich, helping the poor, *Pay-Go*, deficits, and special interests, ignores the most insidious of all taxes — the inflation tax. **Simply put, printing money to pay for federal spending dilutes the value of the dollar, which causes higher prices for goods and services.** Inflation may be an indirect tax, but it is very real — the individuals who suffer most from cost of living increases certainly pay a *tax*.

Unfortunately no one in Washington, especially those who defend the poor and the middle class, cares about [the inflation tax]. Instead, all we hear is that tax cuts for the rich are the source of every economic ill in the country. Anyone truly concerned about the middle class suffering from falling real wages, under-employment, a rising cost of living, and a decreasing standard of living should pay a lot more attention to monetary policy. **Federal spending, deficits, and Federal Reserve mischief hurt the poor while transferring wealth to the already rich.** This is the real problem, and raising taxes on those who produce wealth will only make conditions worse.

This neglect of monetary policy may be out of ignorance, but it may well be deliberate. Fully recognizing the harm caused by printing money to cover budget deficits might create public pressure to restrain spending — something the two parties don't want.

Expanding entitlements is now an accepted prerogative of both parties. Foreign wars and nation building are accepted as foreign policy by both parties.

The Left hardly deserves credit when complaining about Republican deficits. Likewise, we've been told by the Vice President that Ronald Reagan "proved deficits don't matter" — a tenet of supply-side economics. With this as the prevailing wisdom in Washington, no one should be surprised that *spending and deficits are skyrocketing*. The vocal concerns expressed about huge deficits coming from big spenders on both sides are nothing more than political grandstanding. If Members feel so strongly about spending, Congress simply could do what it ought to do — *cut spending*. That, however, is never seriously considered by either side.

If those who say they want to increase taxes to reduce the deficit got their way, who would benefit? No one! There's no historic evidence to show that taxing productive Americans to support both the rich and poor welfare beneficiaries helps the middle class, produces jobs, or stimulates the economy.

Borrowing money to cut the deficit is only marginally better than raising taxes — government eventually must be paid. Federal borrowing means the cost of interest is added, shifting the burden to a different group than those who benefited and possibly even shifting it to another generation.

Eventually borrowing is always paid for through taxation.

All spending ultimately must be a tax, even when direct taxes and direct borrowing are avoided. The third option is for the Federal Reserve to create credit to pay the bills Congress runs up. Nobody objects, and most Members hope that deficits don't really matter if the Fed accommodates Congress by creating more money. Besides, interest payments to the Fed are lower than they would be if funds were borrowed from the public, and payments can be delayed indefinitely merely by creating more credit out of thin air to buy U.S. treasuries. No need to soak the rich. A good deal, it seems, for everyone. But is it?

Paying for government spending with Federal Reserve credit, instead of taxing or borrowing from the public, is anything but a good deal for everyone. In fact, **it is the most sinister seductive tax of them all.** Initially it is unfair to some, but dangerous to everyone in the end. It is especially harmful to the middle class, including lower-income working people who are thought not to be paying taxes.

The tax is paid when prices rise as the result of a depreciating dollar. Savers and those living on fixed or low incomes are hardest hit as the cost of living rises. Low and middle-income families suffer the most as they struggle to make ends meet, while wealth is literally transferred from the middle class to the wealthy. Government officials stick to their claim that no significant inflation exists, even

as certain necessary costs are skyrocketing and incomes are stagnating.

The transfer of wealth comes as savers and fixed-income families lose purchasing power, large banks benefit, and corporations receive plush contracts from the government — as is the case with military contractors. These companies use the newly printed money before it circulates, while the middle class is forced to accept it at face value later on. This becomes a huge hidden tax on the middle class, many of whom never object to government spending in hopes that the political promises will be fulfilled and they will receive some of the goodies. But surprise — it doesn't happen. The result instead is higher prices for prescription drugs, energy, and other necessities. The freebies never come.

The Fed is solely responsible for inflation by creating money out of thin air. It does so either to monetize federal debt, or in the process of economic planning through **interest-rate manipulation**. This Fed intervention in our economy, though rarely even acknowledged by Congress, is more destructive than Members can imagine.

Not only is the Fed directly responsible for inflation and economic downturns, it causes artificially low interest rates that serve the interests of big borrowers, speculators, and banks. This unfairly steals income from frugal retirees

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who chose to save and place their funds in interest-bearing instruments like CDs.

The Fed's great power over the money supply, interest rates, the business cycle, unemployment, and inflation is wielded with essentially no congressional oversight or understanding. The process of inflating our currency to pay for government debt indeed imposes a tax without legislative authority.

This is no small matter. In just the first 24 weeks of this year, the M3 money supply increased 428 billion dollars, and 700 billion dollars in the past year. M3 currently is rising at a rate of 10.5%. In the last seven years, the money supply has increased 80%, as M3 has soared 4.1 trillion dollars. This bizarre system of paper money worldwide has allowed serious international imbalances to develop. We owe just four Asian countries 1.5 trillion dollars as a consequence of a chronic and staggering current account deficit now exceeding 5% of our GDP. This current account deficit means Americans must borrow **1.6 billion dollars per day** from overseas just to finance this deficit. This imbalance, which until now has permitted us to live beyond our means, eventually will give us higher consumer prices, a lower standard of living, higher interest rates, and renewed inflation.

Rest assured, the middle class will suffer disproportionately from this process.

The moral of the story is that spending is always a tax. The inflation tax, though hidden, only makes things worse. Taxing, borrowing, and inflating to satisfy wealth transfers from the middle class to the rich in an effort to pay for profligate government spending, can never make a nation wealthier. But it certainly can make it poorer.

Dr. Paul's Texas Straight Talk

June 28, 2004

Why Can't Congress Stop Spending?

Congress spent one evening last week debating a token measure to reduce government spending by implementing very slight caps on some future entitlements. Not surprisingly, even this exceedingly modest bill failed overwhelmingly. The process behind the vote, however, reveals just how deeply ingrained the spending problem really is.

House leaders knew the spending-control bill had little chance of passing. In fact, that's why they allowed the vote to happen. The real goal was to *appease fiscal conservatives* in Congress, some of whom have become in-

creasingly uncomfortable with the unrestrained spending contained in the proposed 2004 budget. **Some of these conservatives supported an alternative budget that merely spent about 1% less than the proposed budget, and even that nominal act of rebellion earned them the ire of House leadership.** The spending control measure considered last week was merely a *symbolic gesture* designed to quash their complaints and ensure cooperation when the final budget vote is cast later this year. After all, those Members now can tell their constituents they voted to keep a lid on spending, even as they please their party bosses later.

The pressure to go along with the herd in Congress is intense, regardless of which party is in control. Every Member knows that thwarting his party's leadership, particularly on budget matters, is risky. **Any opposition to spending bills can result in veiled, or even outright, threats to cut funding for the Member's district, to limit the Member's committee assignments, and to bury the Member's legislation.** Some Members who buck the system find themselves facing primary opponents in the next election as a result. The desire to win reelection is paramount, and those who go along get plenty of help from their party's fundraising machines.

Predictably, almost all Members of the House Appropriations committee — the committee initially responsible for every nickel of federal spending — voted against the bill. This simply highlights the institutional problem that plagues Congress and government in general:

no politician ever voluntarily relinquishes power. In Congress, control of the nation's purse strings represents the ultimate power. Appropriators can reward some lawmakers and punish others with the stroke of a pen, by adding or eliminating federal projects in any congressional district. No amount of talk about spending can change the reality that government power naturally grows.

Everybody complains about pork, but Members of Congress keep spending because voters do not throw them out of office for doing so. The rotten system in Congress will change only when the American people change their beliefs about the proper role of government in our society. Too many Members of Congress believe they can solve all economic problems, cure all social ills, and bring about worldwide peace and prosperity simply by creating new federal programs. We must reject unlimited government and reassert the constitutional rule of law if we hope to halt the spending orgy.

The words of H.R. Gross, the great libertarian-conservative congressman from Iowa, ring as true today as they did during a budget debate in 1974:

"No amount of legislation will instill in a majority of the Members of the House the ingredient, the

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element that has been missing. That is fiscal responsibility. Every Member knows that he or she cannot for long spend \$75,000 a year on a salary of \$42,000 and remain solvent. Every Member knows this government cannot forever spend billions beyond tax revenue and endure. Congress already has the tools to halt the headlong flight into bankruptcy. It holds the purse strings. No President can impound funds or spend unwisely unless an improvident, reckless Congress makes available the money. I repeat, neither this nor any other legislation will provide morality and responsibility on the part of Members of Congress.”

Dr. Paul's Texas Straight Talk

June 21, 2004

Zero Down for the American Dream

The House Financial Services committee on which I serve often passes legislation that wastes taxpayer dollars, harms the economy, and egregiously violates the Constitution. The *Zero Downpayment Act* [H.R. 3755] recently passed by the committee is a striking example of a bill that *does all three*.

This legislation is considered completely noncontroversial by both political parties, and will breeze through the full Congress later this summer with the blessing of the administration. **Nobody in Washington thinks twice about another welfare scheme that further entrenches the something-for-nothing mentality so prevalent today in America.**

The Zero Downpayment Act, as its names suggests, creates a federal program that allows some homebuyers to obtain federally-insured mortgages without making a downpayment. **Federally-insured really means taxpayer-insured, as taxpayers like you foot the bill for defaults.** So, while Congress congratulates itself on yet another program that supposedly helps the poor, it is taxpayers who pay for the inevitable defaults.

Every mortgage banker knows that even a modest downpayment greatly increases the likelihood that a buyer will pay his mortgage as promised. A buyer who has consistently saved money for a downpayment is by definition a better credit risk, and it's harder to walk away from an obligation if it means losing a sizable amount of hard-earned money. A downpayment measures a buyer's willingness and ability to make sacrifices in order to reach a goal and improve his standard of living. Banks used to recognize hard work and thrift as indicators of creditworthiness, and in a free market would demand a significant downpayment for virtually all homebuyers.

But as with all federal intervention in the economy, housing welfare distorts the mortgage industry and makes ordinary Americans poorer. **Banks, of course, love federal mortgage programs — after all, the risk of default is transferred to American taxpayers.** The lending mortgage banks get paid whether homebuyers default or not, and what business wouldn't love having the federal government guarantee the profitability of its ventures? Between the Federal Housing Administration, which is the largest insurer of mortgages in the world, and the government-created Fannie Mae and Freddie Mac corporations, the mortgage market is hopelessly distorted. Millions of mortgages in this country are federally insured, and the tax bill for defaults could be astronomical if the housing bubble bursts.

Despite the congressional rhetoric about helping the poor, federal housing policies often harm poor people by pushing them into houses they may not be ready to buy. Given the realities of insurance, property taxes, maintenance, and repairs, many low-income buyers lose their homes and destroy their credit ratings. Easy credit and low interest rates, courtesy of the Federal Reserve, have dramatically increased housing demand and artificially increased prices. Zero-downpayment schemes do the same thing by pushing renters into the housing market. **This increased demand actually serves to price many poor Americans out of the housing market indefinitely.**

The American dream cannot be lived courtesy of taxpayer handouts. The experience of working hard, saving for a downpayment, and buying a home is the essence of the true American dream. Eventually the beneficiaries of government programs stop thinking of themselves as independent citizens and start viewing themselves as *wards of the state*. It is impossible to maintain a free society when more and more people look to the state to provide what Americans used to provide for themselves.

[H.R. 3755, *Zero Downpayment Act of 2004*, was passed out of the House Committee on Financial Services on June 3, 2004. It can now be brought up for a vote before the full House.]

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

About the F.R.E.E. Foundation

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