

# Ron Paul's FREEDOM REPORT

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*Dr. Paul before the  
U.S. House of Representative*

## **Statement on Competing Currencies**

I rise to speak on the concept of competing currencies. Currency, or money, is what allows civilization to flourish. In the absence of money, barter is the name of the game; if the farmer needs shoes, he must trade his eggs and milk to the cobbler and hope that the cobbler needs eggs and milk. Money makes the transaction process far easier. Rather than having to search for someone with reciprocal wants, the farmer can exchange his milk and eggs for an agreed-upon medium of exchange with which he can then purchase shoes.

This medium of exchange should satisfy certain properties: it should be durable, that is to say, it does not wear out easily; it should be portable, that is, easily carried; it should be divisible into units usable for every-day transactions; it should be recognizable and uniform, so that one unit of money has the same properties as every other unit; it should be scarce, in the economic sense, so that the extant supply does not satisfy the wants of everyone demanding it; it should be stable, so that the value of its purchasing power does not fluctuate wildly; and it should be reproducible, so that enough units of money can be created to satisfy the needs of exchange.

Over millennia of human history, gold and silver have been the two metals that have most often satisfied these conditions, survived the market process, and gained the trust of billions of people. Gold and silver are difficult to counterfeit, a property which ensures they will always be accepted in commerce. It is precisely for this reason that gold and silver are anathema to governments. A supply of

gold and silver that is limited in supply by nature cannot be inflated, and thus serves as a check on the growth of government. Without the ability to inflate the currency, governments find themselves constrained in their actions, unable to carry on wars of aggression or to appease their overtaxed citizens with bread and circuses.

At this country's founding, there was no government controlled national currency. While the Constitution established the Congressional power of minting coins, it was not until 1792 that the US Mint was formally established. In the meantime, Americans made do with foreign silver and gold coins. Even after the Mint's operations got underway, foreign coins continued to circulate within the United States, and did so for several decades.

On the desk in my office I have a sign that says: "Don't steal – the government hates competition." Indeed, any power a government arrogates to itself, it is loathe to give back to the people. Just as we have gone from a constitutionally-instituted national defense consisting of a limited army and navy bolstered by militias and letters of marque and reprisal, we have moved from a system of competing currencies to a government-instituted banking cartel that monopolizes the issuance of currency. In order to introduce a system of competing currencies, there are three steps that must be taken to produce a legal climate favorable to competition.

The first step consists of eliminating legal tender laws. Article I Section 10 of the Constitution forbids the States from making anything but gold and silver a legal tender in payment of debts. States are not required to enact legal tender laws, but should they choose to, the only acceptable legal tender is gold and silver, the two precious metals that individuals throughout history and across cultures have used as currency. However, there is nothing in the Constitution that grants the Congress the power to enact legal tender laws. We, the Congress, have the power to coin money,

regulate the value thereof, and of foreign coin, but not to declare a legal tender. Yet, there is a section of US Code, 31 USC 5103, that purports to establish US coins and currency, including Federal Reserve notes, as legal tender. Historically, legal tender laws have been used by governments to force their citizens to accept debased and devalued currency. Gresham's Law describes this phenomenon, which can be summed up in one phrase: bad money drives out good money. An emperor, a king, or a dictator might mint coins with half an ounce of gold and force merchants, under pain of death, to accept them as though they contained one ounce of gold. Each ounce of the king's gold could now be minted into two coins instead of one, so the king now had twice as much "money" to spend on building castles and raising armies. As these legally overvalued coins circulated, the coins containing the full ounce of gold would be pulled out of circulation and hoarded. We saw this same phenomenon happen in the mid-1960s when the US government began to mint subsidiary coinage out of copper and nickel rather than silver. The copper and nickel coins were legally overvalued, the silver coins undervalued in relation, and silver coins vanished from circulation.

These actions also give rise to the most pernicious effects of inflation. Most of the merchants and peasants who received this devalued currency felt the full effects of inflation, the rise in prices and the lowered standard of living, before they received any of the new currency. By the time they received the new currency, prices had long since doubled, and the new currency they received would give them no benefit.

In the absence of legal tender laws, Gresham's Law no longer holds. If people are free to reject debased currency, and instead demand sound money, sound money will gradually return to use in society. Merchants would have been free to reject the king's coin and accept only coins containing full metal weight.

The second step to reestablishing competing currencies is to eliminate laws that prohibit the operation of private mints. One private enterprise which attempted to popularize the use of precious metal coins was Liberty Services, the creators of the Liberty Dollar. Evidently the government felt threatened, as Liberty Dollars had all their precious metal coins seized by the FBI and Secret Service this past November. Of course, not all of these coins were owned by Liberty Services, as many were held in trust as backing for silver and gold certificates which Liberty Services issued. None of this matters, of course, to the government, who hates to see any competition.

The sections of US Code which Liberty Services is

accused of violating are erroneously considered to be anti-counterfeiting statutes, when in fact their purpose was to shut down private mints that had been operating in California. California was awash in gold in the aftermath of the 1849 gold rush, yet had no US Mint to mint coinage. There was not enough foreign coinage circulating in California either, so private mints stepped into the breach to provide their own coins. As was to become the case in other industries during the Progressive era, the private mints were eventually accused of circulating debased (substandard) coinage, and in the interest of providing government-sanctioned regulation and a government guarantee of purity, the 1864 Coinage Act was passed, which banned private mints from producing their own coins for circulation as currency.

The final step to ensuring competing currencies is to eliminate capital gains and sales taxes on gold and silver coins. Under current federal law, coins are considered collectibles, and are liable for capital gains taxes. Short-term capital gains rates are at income tax levels, up to 35 percent, while long-term capital gains taxes are assessed at the collectibles rate of 28 percent. Furthermore, these taxes actually tax monetary debasement. As the dollar weakens, the nominal dollar value of gold increases. The purchasing power of gold may remain relatively constant, but as the nominal dollar value increases, the federal government considers this an increase in wealth, and taxes accordingly. Thus, the more the dollar is debased, the more capital gains taxes must be paid on holdings of gold and other precious metals.

Just as pernicious are the sales and use taxes which are assessed on gold and silver at the state level in many states. Imagine having to pay sales tax at the bank every time you change a \$10 bill for a roll of quarters to do laundry. Inflation is a pernicious tax on the value of money, but even the official numbers, which are massaged downwards, are only on the order of 4% per year. Sales taxes in many states can take away 8% or more on every single transaction in which consumers wish to convert their Federal Reserve Notes into gold or silver.

In conclusion, Madam Speaker, allowing for competing currencies will allow market participants to choose a currency that suits their needs, rather than the needs of the government. The prospect of American citizens turning away from the dollar towards alternate currencies will provide the necessary impetus to the US government to regain control of the dollar and halt its downward spiral. Restoring soundness to the dollar will remove the government's ability and incentive to inflate the currency, and keep us from launching unconstitutional wars that burden our economy to excess.

With a sound currency, everyone is better off, not just those who control the monetary system. I urge my colleagues to consider the redevelopment of a system of competing currencies.

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**Ron Paul's  
TEXAS STRAIGHT TALK**

January 13, 2007

**Legislative Forecast for 2008**

Congress is re-convening this coming week and I would like to take this opportunity to give my legislative forecast for the coming year. Here are a few things we can expect to see from Washington .

First and foremost, we will see ramped up spending for the warfare/welfare state. There is no resolution or end in sight on the Iraq occupation. While the American people try repeatedly to communicate to Washington that enough is enough, there still remains little political will in Washington to bring the troops home. The war will continue to require mountains of taxpayer and newly printed dollars, and our economy will sink under the burden. If we are manipulated into a second war, the effects on our economy will be truly devastating. Welfare and entitlement programs will also be ramped up as the economy flounders and budgets in American households are strained.

This leads me to my next forecast of more federal bailouts for the housing sector. Efforts by the Federal Reserve to stave off recession will have the net effect of only blowing the bubble bigger, making the crash that much more painful when it inevitably comes. The malinvestments caused by easy credit in the housing industry will be prolonged by more easy credit. New programs and laws will be enacted to prop up housing, all with a falling dollar, devalued by continued foreign interventions. The crisis in the housing market will spread and I'm afraid we are in for some rough economic times.

Moreover, the government will require more money than ever this year, and as funding options run out, taxes will go up. Expect stealth tax increases on consumer goods, perhaps airline tickets or cigarettes, and increased government fees here and there. Ironically total revenues will probably fall due to a weakened economy. The new programs started to "help" the country will require extra money wherever the government can squeeze it out of you, unfortunately it will be at exactly the moment you can least

afford it. Since the Democrats enacted "pay-as-you-go" rules for new legislation, cutting taxes to give relief during recession will be bureaucratically next to impossible. In spite of that, I will continue the uphill battle for tax relief.

Last, I expect, in spite of rhetoric to the contrary, we will see more federal control of education as Congress prepares to reauthorize No Child Left Behind.

If this is indeed the agenda of Congress, let us hope that there is not nearly enough time to accomplish it all this year.

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**Ron Paul's  
TEXAS STRAIGHT TALK**

January 20, 2007

**Constitutional Responses to Terrorism**

It has been over 6 years since the atrocities of September 11 were committed and there are still some very basic measures that need to be taken to bring the perpetrators to justice and make America safer. I have proposed legislation to help with these efforts and will continue to fight in Congress for the safety and security of the American people.

My legislation entitled the *Marque and Reprisal Act of 2007* (HR 3216) makes the surgical strike option available to the President in our mission to capture Bin Laden. Our military has been pursuing him without result for far too long now, and it is high time ALL constitutional tools were utilized in the hunt for this dangerous madman. As an American it sickens me to know that Bin Laden and top leaders of al Qaeda remain at large and thumbing their noses at us, while we unravel the sacred fabric of our constitution out of fear. It is Osama Bin Laden and the perpetrators of terrorist attacks that ought to be afraid of us, not the other way around. The answers are found in the Constitution. We should boldly root out the perpetrators and not let them get away with their crimes against us. As the home of the brave we should use Letters of Marque and Reprisal to bring Bin Laden to justice.

Also, we need to take serious steps to prevent terrorists from gaining easy access to targets on our soil. Quite alarmingly, even with the knowledge that the 19 terrorist hijackers entered our country legally, and that 15 of them were from Saudi Arabia , student visas from terrorist sponsoring countries are still far too easily obtained. In a baffling move President Bush struck a deal with Saudi King Abdullah in 2005 to allow 21,000 more Saudi young men

into the US on student Visas. Of course, not all students from terror sponsoring countries are terrorists, but I place a higher premium on the security of the American people than the convenience of citizens of hostile countries. We should not be making the goals of would-be terrorists easier to accomplish, but rather should be vigilant about defending against enemies at every turn. They should not be slipping through our doors so easily, using our immigration laws against us, and that is why I proposed the *Terror Immigration Elimination Act* (HR 3217) to toughen standards for VISAS from countries on the State Department's list of terrorist sponsoring countries in addition to Saudi Arabia . Just as you decide who to invite to a dinner party in your home, we should be in charge of who we allow in this country, without apology.

A lot has been done to fight the War on Terror and much of it has been misdirected, but there are some tools still needed and more progress to be made. My bills, the *Marque and Reprisal Act of 2007* and the *Terror Immigration Elimination Act*, are logical steps in the right direction.

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**Ron Paul's  
TEXAS STRAIGHT TALK**

January 27, 2007

**Economic Stimulus Concerns**

This past week in Washington there has been much talk about the economy. It seems by their actions the leadership and the Fed is finally willing to admit we have a problem, and we need to do something about the economic mess we are in. This is a good thing. However, they are still not being honest about the root cause of our impending crisis and want to deal only with symptoms, not the disease.

There are some positive aspects of the highly lauded economic stimulus package that has been negotiated. I am in favor of taxpayers getting some of their money back, however temporary tax cuts and one-time rebates will not "fix" the economy. What we desperately need right now is real deep significant tax cuts that are enabled by big spending cuts and reduction of government waste that is so rampant. Unfortunately, too many in Washington still believe we can spend our way into prosperity, which does not work and never has.

Countries build wealth through robust economic

environments, in which jobs are created and businesses can operate at a profit and grow. When taxes bleed away profits and burdensome regulation hamstrings operations, our businesses and our jobs go overseas. The United States must foster a competitive business environment once again. There are a few ideas out there for economic stimulus that I do support, such as making permanent President Bush's tax cuts. I have also signed on as one of 49 original cosponsors of the Economic Growth Act of 2008 which will provide actual economic stimulus through private sector tax relief and job-creating business incentives. This plan features:

- Full immediate expensing for major business asset investments
  - Reducing the top corporate tax rate from 35% to 25% to be aligned with average rates in Europe
  - Indexing the capital gains tax for inflation
  - Cutting and simplifying the corporate capital gains rate
- Enactment of these dramatic tax cuts will free up money so employers can start hiring again. I would like for the unemployed to have the satisfaction of having a job again so the standard of living of the American family will go up. And even more than a one-time miniscule rebate check, I want you to keep more of your own money in the first place. Sending out checks and cutting interest rates yet again is merely a shot in the arm when in actuality, the economy needs major surgery. I look forward to working with my colleagues in Congress to provide major tax relief to the American people.

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

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