

Ron Paul's FREEDOM REPORT

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Will Rising Interest Rates Burst the Housing Bubble?

Washington: Although Federal Reserve officials today announced the short-term federal funds rate will remain unchanged, their report makes it clear that the *policy accommodation* of promoting economic growth through exceedingly low interest rates is coming to an end. **In other words, the Fed has signaled that it can and will increase interest rates in the near future.** The current funds rate of 1% — the lowest in 45 years — results from years of aggressive Fed rate cutting. The incredible increase in American housing prices over the last ten years is directly attributable to this Fed easy-credit policy, yet **few Americans understand that housing prices are artificially high — and destined to fall significantly when interest rates rise.**

During recent testimony by Mr. Greenspan before the Joint Economic committee, Congressman Ron Paul pressed the Chairman to acknowledge the potential severity of a collapse in housing prices. *"I think the Fed is mistaking debt with collateral,"* Paul stated at the hearing, referring to recent Greenspan statements touting home equity loans as the engine driving economic growth. *"New debt is not wealth,"* Paul added. Still, Chairman Greenspan continued to insist that Americans are richer because of paper increases in the value of their homes. Yet the very Fed policy responsible for higher demand and higher housing prices — cheap credit — is about to change.

"Federal Reserve manipulation of interest rates and the money supply has created a perilous situation for millions of Americans," Paul stated. *"Rising interest rates may well cause housing prices to fall dramatically, leaving many homeowners who bought at the height of the bubble, owing more than their homes are worth. Homeowners with adjustable-rate mortgages are espe-*

cially vulnerable, as are those who used paper gains in real estate values as collateral for second, third, and even fourth mortgages. The Fed's easy-credit policies are directly responsible for lowering creditworthiness standards and encouraging millions of Americans to overextend themselves. If trillions of dollars in housing equity disappear, no amount of Fed sorcery will keep record amounts of Americans out of bankruptcy."

THURSDAY, JUNE 3, 2004

Dr. Paul addresses the House

The Same Old Failed Policies in Iraq

The more things change, the more they stay the same. Our allegiances to our allies and friends change constantly. For a decade, exiled Iraqi Ahmed Chalabi was our chosen leader-to-be in a new Iraq. Championed by Pentagon neocons and objected to by the State Department, Mr. Chalabi received more than 100 million U.S. taxpayer dollars as our man designated to be leader of a new Iraqi government.

But something happened on the way to the coronation. The State Department finally won out in its struggle with the Pentagon to dump Chalabi and his Iraqi National Congress, delivering Iraq to a competing exiled group, Dr. Iyad Allawi's Iraqi National Accord. But never fear, both groups were CIA supported and both would be expected to govern as an American puppet. And that's the problem. Under the conditions that currently exist in Iraq, American sponsorship of a government, or even United Nations approval, for that matter, will be rejected by a nationalistic Iraqi people.

We never seem to learn, and the Muslim Middle East never forgets. Our support for the Shah of Iran and Saddam Hussein's war against Iran never endeared us to the Iranians. We're supposed to be surprised to discover that our close confidant Ahmed Chalabi turns out to be a cozy pragmatic

friend of Iran. The CIA may have questioned the authenticity of Iranian intelligence passed on to the U.S. by Chalabi, but this intelligence was still used eagerly to promote the pro-war propaganda that so many in Congress and the nation bought into. And now it looks like the intelligence fed to Chalabi by Iran was deliberately falsified, but because it fit in so neatly with the neocon's determination to remake the entire Middle East, starting with a preemptive war against Iraq, it was received enthusiastically.

Inadvertently we served the interests of both Iran and Osama bin Laden by eliminating the very enemy they despised — Saddam Hussein. To the Iranians' delight, it was payback time for our allegiance with Saddam Hussein against Iran in the 1980s.

The serious concern is that valuable and top-secret U.S. intelligence may well have gone in the other direction: to Iran with the help of Chalabi.

These serious concerns led to the dumping of the heir-apparent Chalabi, the arrest of his colleagues, and the raid on his home and headquarters to seize important documents. The connection between Chalabi and the U.N. food-for-oil scandal is yet to be determined.

What a mess! But no one should be surprised. Regime change plans — whether by CIA operations or by preemptive war — almost always go badly. American involvement in installing the Shah of Iran in the fifties, killing Diem in South Vietnam in the sixties, helping Osama bin Laden against the Soviets in the eighties, assisting Saddam Hussein against Iran in the eighties, propping up dictators in many Arab countries, and supporting the destruction of the Palestinian people all have had serious repercussions on American interests, including the loss of American life. We have wasted hundreds of billions of dollars while the old wounds in the Middle East continue to fester.

How many times have our friends become our enemies and our enemies our friends, making it difficult to determine which is which? Our relationship with Kadafi in Libya is an example of the silliness of our policy. Does his recent *conversion* to our side qualify him for U.S. assistance? No one can possibly predict what our relationship with Kadafi will be in a year or two from now. My guess is that he too has a long memory. And even if he becomes a U.S. stooge, it will only foment antagonism from his own people for his cozy relationship with the United States. Long term, interference in the internal affairs of other nations doesn't help us or those we support.

Those who strongly argue behind the scenes that we must protect *our oil* surely should have second thoughts, as oil prices soar over \$40 with our current policy of military interventionism.

The real tragedy is that even those with good intentions who argue the case for our military presence around the world never achieve their stated goals. Not only do the efforts

fall short, the unintended consequences in life and limb and dollars spent are always much greater than ever anticipated. The blow back effects literally go on for decades.

The invisible economic costs are enormous but generally ignored. A policy of militarism and constant war has huge dollar costs, which contribute to the huge deficits, higher interest rates, inflation, and economic dislocations. War cannot raise the standard of living for the average American. Participants in the military-industrial complex do benefit, however. Now the grand scheme of physically rebuilding Iraq using American corporations may well prove profitable to the select few with political connections.

The clear failure of the policy of foreign interventionism followed by our leaders for more than a hundred years should prompt a reassessment of our philosophy. Tactical changes, or relying more on the U.N., will not solve these problems. Either way the burden will fall on the American taxpayer and the American soldier.

The day is fast approaching when we no longer will be able to afford this burden. For now, foreign governments are willing to loan us the money needed to finance our current account deficit, and indirectly the cost of our worldwide military operations. It may seem possible for the moment, because we have been afforded the historically unique privilege of printing the world's reserve currency. Foreigners have been only too willing to take our depreciating dollars for their goods. **Economic law eventually will limit our ability to live off others by credit creation.** Eventually trust in the dollar will be diminished, if not destroyed. Those who hold these trillion-plus dollars can hold us hostage if it's ever in their interest. It may be that economic law and hostility toward the United States will combine to precipitate an emotionally charged rejection of the dollar.

That's when the true wealth of the country will become self-evident, and we will no longer be able to afford the extravagant expense of pursuing an American empire. No nation has ever been able to finance excessive foreign entanglements and domestic entitlements through printing-press money and borrowing from abroad.

It's time we reconsider the advice of the Founding Fathers and the guidelines of the Constitution, which counsel a foreign policy of non-intervention and strategic independence. Setting a good example is a far better way to spread American ideals than through force of arms. Trading with nations, without interference by international government regulators, is far better than sanctions and tariffs that too often plant the seeds of war.

The principle of self-determination should be permitted for all nations and all demographically defined groups. The world tolerated the breakup of the ruthless Soviet and Yugoslavian systems rather well, even as certain national and ethnic groups demanded self-determination and independence.

This principle is the source of the solution for Iraq. We

should suggest and encourage each of the three groups — the Sunnis, the Shiites, and the Kurds — to seek self-government and choose voluntarily whether they want to associate with a central government.

Instead of the incessant chant about us forcing democracy on others, why not read our history and see how thirteen nations joined together to form a loose-knit republic with emphasis on local self-government. Part of the problem with our effort to re-order Iraq is that the best solution is something we have essentially rejected here in the United States. It would make a lot more sense to concentrate on rebuilding our Republic, emphasizing the principles of private property, free markets, trade, and personal liberty here at home rather than pursuing war abroad. If this were done, we would not be a militaristic state spending ourselves into bankruptcy, and government benefits to the untold thousands of corporations and special interests would be denied.

True defense is diminished when money and energy are consumed by activities outside the scope of specifically protecting our national security. Diverting resources away from defense and the protection of our borders while antagonizing so many around the world actually serves to expose us to greater danger from more determined enemies.

A policy of non-intervention and strategic independence is the course we should take if we're serious about peace and prosperity. Liberty works!

WEDNESDAY, JUNE 2, 2004

Dr. Paul addresses the House

The House of Representatives Must be Elected!

I rise in opposition to H.J.Res. 83, which amends the United States Constitution to allow appointed persons to fill vacancies in the House of Representatives in the event of an emergency. **Since the Continuity of Government (COG) Commission first proposed altering our system of government by allowing appointed Members to serve in this body, I, along with other Members of Congress, journalists, academics, and policy experts, have expressed concerns that having appointed members serve in the House of Representatives is inconsistent with the House's historic function as the branch of Congress most directly accountable to the people.**

Even with the direct election of Senators, the fact that Members of the House of Representatives are elected every two years (while Senators run for statewide office every six years) means that Members of the House are still more accountable to the people than members of any other part of the federal government. Appointed Members of Congress simply

cannot be truly representative. James Madison and Alexander Hamilton eloquently made this point in Federalist 52: *As it is essential to liberty that the government in general should have a common interest with the people, so it is particularly essential that the branch of it under consideration should have an immediate dependence on, and an intimate sympathy with, the people. Frequent elections are unquestionably the only policy by which this dependence and sympathy can be effectually secured.*

During a time of crisis, it is all the more important to have Representatives accountable to the people making the laws. Otherwise, the citizenry has no check on the inevitable tendency of government to infringe on the people's liberties at such a time. I would remind my colleagues that the only reason we are reexamining provisions of the PATRIOT Act is because of public concerns that this Act gives up too much liberty for a phantom security. Appointed officials would not be as responsive to public concerns.

Supporters of this plan [COG amendment] claim that the appointment power will be necessary in the event of an emergency, and that the appointed Representatives will only serve for a limited time. However, the laws passed by these "temporary" Representatives will be permanent.

This country has faced the possibility of threats to the continuity of this body several times throughout our history, yet no one suggested removing the people's right to vote for Members of the House of Representatives. For example, when the British attacked the city of Washington in the War of 1812, nobody suggested the states could not address the lack of a quorum in the House of Representatives through elections. During the Civil War, DC neighbor Virginia was actively involved in hostilities against the United States government — yet President Abraham Lincoln never suggested that non-elected persons serve in the House.

Adopting any of the proposals to deny the people the ability to choose their own Representatives would let the terrorists know that they can succeed in altering our republican institutions. I hope all my colleagues who are considering supporting H.J.Res. 83 will question the wisdom of handing terrorists a victory over republican government.

The Constitution already provides the framework for Congress to function after a catastrophic event. Article I, Section 2, grants the governors of the various states authority to hold special elections to fill vacancies in the House of Representatives. Article I, Section 4, gives Congress the authority to designate the time, manner, and place of such special elections if states should fail to act expeditiously following a national emergency. As Hamilton explains in Federalist 59, the "time, place, and manner" clause was specifically designed to address the kind of extraordinary circumstances imagined by the supporters of H.J.Res. 83. Hamilton characterized authority over federal elections as shared between the states and Congress, with neither being able to control the process entirely.

Last month, this body fulfilled its constitutional duty by passing HR 2844, the Continuity of Representation Act [H.R. 2844]. H.R. 2844 exercises Congress's power to regulate the time, place, and manner of elections by requiring the holding of special elections within 45 days after the Speaker or acting Speaker declares 100 or more Members of the House have been killed. This proposal protects the people's right to choose their Representatives at the time when such a right may be most important, while ensuring continuity of the legislative branch.

In conclusion, I call upon my colleges to reject H.J.Res. 83, since it alters the Constitution to deny the people their right to elect their Representatives at a time when having elected representation may be most crucial.

[With 353 Members voting against, and only 63 voting for it, H.J.Res 83 was overwhelmingly rejected on June 2, 2004]

Dr. Paul's Texas Straight Talk

May 24, 2004

The Great Foreign Aid Swindle

Yet another ill-conceived foreign aid swindle has become law in the form of the "Millennium Challenge Act," a disgraceful bill that sends billions of American tax dollars overseas, even as our national debt explodes. The Act combines the worst aspects of bad domestic policy and bad foreign policy by wasting \$2.5 billion taxpayer dollars in 2005 alone while meddling in the affairs of foreign nations. *Arrogant* is the only word to describe a Congress that cares so little about its own taxpaying citizens while pretending to know what is best for the world.

The very name – *Millennium Challenge Act* – is highly insulting. It sounds like a PBS fundraising slogan or car company sales pitch. It's like calling an old used car a classic or an antique. Foreign aid welfare is still foreign aid welfare, no matter what jingoistic name is applied. There is nothing new or noble about it. **The Millennium Challenge Act is just another shabby federal program that takes your money and gives it to somebody else.**

Foreign aid doesn't help poor people; it helps foreign elites and U.S. corporations who obtain the contracts doled out by those foreign elites. Everyone in Washington knows this, but the same lofty rhetoric is used over and over to sell foreign aid programs to a gullible public.

During a hearing about the new Act last week, I asked one of the witnesses how much of the \$2.5 billion would actually go to U.S. corporations. He enthusiastically answered that much of it would, making no attempt to downplay the corporate interests promoting expansion of our foreign aid programs. **Naked corporate welfare is bad**

enough, but corporate welfare in the guise of helping poor foreigners is indecent.

In many cases, foreign aid money simply distorts foreign economies and props up bad governments. In countries that pursue harmful economic policies, an infusion of U.S. cash only exacerbates and prolongs problems. **No amount of money can help nations that reject property rights, free markets, and the rule of law.**

In developing countries that pursue sound economic policies, foreign aid money is not needed — the international financial markets will provide the investment capital necessary for economic growth. This capital will be invested according to sound investment strategies – designed to make a profit – rather than allocated according to the whims of government bureaucrats.

Foreign aid encourages socialism and statism. Because it is entirely geared toward foreign governments, it mandates economically devastating "public-private partnerships" in developing nations. If the private sector wants to see any of the money, it must be in partnership with government. Who knows how much of this money is wasted on those companies with the best political connections to the foreign governments in power? **Foreign aid invites political corruption by creating a slush fund under the control of foreign governments.**

The wisest approach to international economic development is for the United States to lead by example, by revitalizing the economic policies that led us to become wealthy in the first place. This means less government, less taxation, and no foreign meddling. The greatest gift we can send overseas is a demonstration of the freedom and prosperity possible only with limited government and the rule of law.

Americans are the most charitable people on earth. Those who wish to help fight AIDS, famine, and poverty overseas can choose from hundreds of private charities. Americans don't need a politician or rock star to tell them what causes are important. Most of all, they don't need to be forced to pay for foreign welfare at the barrel of a government gun.

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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