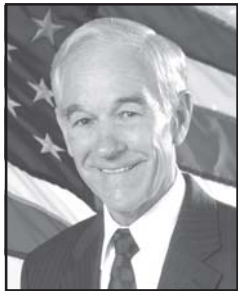


Ron Paul's FREEDOM REPORT

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Ron Paul's TEXAS STRAIGHT TALK

November 3, 2008

The Moral Hazard of Regulation

Since the bailout bill passed, I have been frequently disturbed to hear “experts” wrongly blaming the free market for our recent economic problems and calling for more regulation. In fact, further regulation can only make things worse.

It is important to understand that regulators are not omniscient. It is not feasible for them to anticipate every possible thing that could go wrong with whatever industry or activity they are regulating. They are making their best guesses when formulating rules. It is often difficult for those being regulated to understand the many complex rules they are expected to follow. Very wealthy corporations hire attorneys who may discover a myriad of loopholes to exploit and render the spirit of the regulations null and void. For this reason, heavy regulation favors big business against those small businesses who cannot afford high-priced attorneys.

The other problem is the trust that people blindly put in regulations, and the moral hazard this creates. Too many people trust government regulators so completely that they abdicate their own common sense to these government bureaucrats. They trust that if something violates no law, it must be safe. How many scams have “It’s perfectly legal” as a hypnotic selling point, luring in the gullible? Many people did not understand the financial

house of cards that are derivatives, but since they were legal and promised a great return, people invested. It is much the same in any area rife with government involvement. Many feel that just because their children are getting good grades at a government school, they are getting a good education. After all, they are passing the government-mandated litmus test. But, this does not guarantee educational excellence. Neither is it always the case that a child who does NOT achieve good marks in school is going to be unsuccessful in life. Is your drinking water safe, just because the government

says it is? Is the internet going to magically become safer for your children if the government approves regulations on it? I would caution any parent against believing this would be the case. Nothing should take the place of your own common sense and due diligence.

These principles explain why the free market works so much better than a centrally planned economy. With central planning, everything shifts from one’s own judgment about safety, wisdom and relative benefits of a behavior, to the discretion of government bureaucrats. The question then becomes “what can I get away with,” and there will always be advantages for those who can afford lawyers to find the loopholes. The result then is that bad behavior, that would quickly fail under the free market, is propped up, protected and perpetuated, and sometimes good behavior is actually discouraged.

Regulation can actually benefit big business and corporate greed, while simultaneously killing small businesses that are the backbone of our now faltering economy. This is why I get so upset every time someone claims regulation can resolve the crisis that we are in. Rather, it will only exacerbate it.

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**Ron Paul's
TEXAS STRAIGHT TALK**

October 27, 2008

Spending the Economy into Oblivion

With news this week that Congress is poised to consider a new stimulus package, I am forced to again ask a question that seems silly in Washington: How will we pay for this? While a few Members of Congress have raised the issue, it certainly was not the primary concern of the House Budget Committee when they interviewed Ben Bernanke on Monday. And, when they did direct this question to the Chairman of the Federal Reserve, his answer was the standard rhetoric about how Congress needed to make tough choices. Needless to say, not many specifics were discussed.

One of the most liberal members of the House, Barney Frank, has at least volunteered something of a suggestion: "We can let Iraq take care of itself." This, of course, goes in the right direction, but hardly far enough.

We need to declare the facts and their obvious consequences. The deficit of the United States is now spiraling out of control, and the recent bailout package has only made it worse. Our crushing federal debt is one key reason behind our current economic turbulence.

As Congress begins to consider the third "stimulus package" of the year, we need to realize it is time to start setting priorities. Priority number one should be cutting spending in foreign countries. This does not simply mean Iraq, but everywhere.

The next stimulus package is likely to include money for infrastructure. While these investments are, constitutionally speaking, supposed to be made by state and local governments, it is not likely that Congress will suddenly begin to pay heed to the document we are all sworn to uphold. Still, we need to acknowledge the fact that the current Congress and Administration are rushing the nation toward bankruptcy.

This being the case, we could hope they would at least come to their senses regarding our debt and foreign spending sprees. Our nation's foreign-held debt is at record highs and moving ever higher. Continuing to borrow money from Red China and others in order to pay "dues" to the United Nations

and run "Plan Colombia" makes no sense at all.

Our whole carrot-and-stick approach to foreign policy makes no sense. The US government simultaneously gives money to Israel, and to Egypt. We send AIDS money to Africa while AIDS clinics in America shut down. "Millennium challenge" funding goes to countries which enact "market based reforms" as we push our own country further and further into a centrally planned economy.

Economic recovery will only come through financial prudence, savings and getting back to producing things of value again. But it seems to be a foregone conclusion that we are about to enact another government initiative to "stimulate the economy." Instead, there should be some serious talk about cutting all of these foreign giveaway programs. But, alas and again, we should not hold our breath. Congress is still not close to being serious about ending its addiction to debt and spending, and is again faced with the

deadly temptation to attempt to spend us out of a recession. We should not forget that in the 1930s those types of efforts gave us the Great Depression.

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**Ron Paul's
TEXAS STRAIGHT TALK**

October 14, 2008

Capitalism Without Capital?

It has been long understood that our federal government is going deeper into debt, consistently raising the debt ceiling and demonstrating no fiscal restraint. In recent years, debt ceiling increases have been placed

in "must pass" legislation as a means to guarantee that Republicans as well as Democrats would vote for them when Congress was under Republican control.

We also know our nation's "negative savings rate" reflects the habits of private citizens, showing those habits to be not tremendously different than the habits of the public sector. Yet, the signs of decline are becoming ever more apparent. So apparent, in fact, that it seems unlikely that bailouts or other gimmicks will have even short term success. More inflation, and creating moral hazard by bailing out egregious offenders, is a recipe for disaster. These activities can seem to provide some short term relief, but it seems we are now at a significant crisis point, where monetary policy gimmicks don't provide the band-aids they did in the past.

Not only is our nation on the verge of bankruptcy, but so are its people and private institutions. We are now repeatedly hearing about businesses “needing to access the credit market to make payroll.” This is an unmistakable sign of more dire consequences ahead for the economy. If businesses must borrow just to make payroll, this is evidence of a severe undercapitalization that cannot be sustained, even for the short run.

Couple these facts with items such as the explosion of the “pay day loan” industry and the unmasking of the false sense of economic well-being is nearly complete. These pay day loan companies use preferred access to easy credit to inject cash into the hands of the working poor. They are nearly always set up in lower-income neighborhoods. These people, who are struggling to buy food and pay rent, get addicted to the credit drug. Their standard of living is only further depressed by the interest payments on these loans that make them profitable to their providers. Thus, the recipients are left even less capable of paying for items such as food and housing in the long run, without using this credit again and again.

These people are often the very ones being paid by businesses who “borrow to make payroll.” This is the dark underbelly of the fiat money, borrow and spend economy this nation has been building. As the government takes over more and more functions of the economy many see the rise of socialism as an antidote to this failure of “capitalism”. However, the fact remains that our economy has been increasingly running on debt, not capital. Capitalism does not exist without capital and debt is not, has never been and will never be a form of capital. Only now are we seeing direr implications of an economy without capital.

**Ron Paul’s
TEXAS STRAIGHT TALK**

October 20, 2008

Too Big to Fail?

In the midst of highly unpopular bailouts of Wall Street, many justifications have been given about why Washington feels the need to act. Some claim that capitalism and the

free market are to blame, but we have not had capitalism. If you compare our financial capital to our aggregate debt, this would be obvious. In the same way, we have not had a truly free market. The monetary manipulations of the Federal Reserve, a complex tax code, the many “oversight” agencies and their mountains of regulations show that we are far removed from a free market economy.

Another unsatisfying argument is that certain entities have to be bailed out because of their economic importance. Supposedly, some entities can be so big, so important, that no matter what they do, citizens must perpetually sustain them.

Even limited government has a basic duty to defend against force and fraud. Some argue that force is somehow

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permissible just because the entity engaging in it is “economically significant.” But one could use this reasoning to prop up slavery. It could be deemed unfortunate but economically beneficial, and indeed these arguments have been used historically to deprive people of their liberty. But slavery should never be tolerated regardless of any economic benefit, just as systemic fraud should not be tolerated. Some banks on Wall Street should fail. Fannie and Freddie should fail. They are perpetrating fraud against the people. Yet, government insists on rewarding behavior which should instead be investigated, prosecuted, and punished.

There has been much evidence of fraud at Fannie and Freddie, but when one man, Franklin Raines, defrauded the organization

out of millions of dollars through illegal accounting tricks, and ends up agreeing to pay back just a fraction, one could argue that it was well worth it to him. Fannie went on to only get more deeply involved in subprime mortgages after this investigation. Several organizations are suffering right now precisely because the free market is trying to work and punish mismanagement, if only the government would get out of the way and let it. Perhaps banks are not lending to each other because they know that complicated accounting standards, created in part to defend against confiscatory tax policy, enables false fiscal pictures to be presented, which erodes trust. But this is not a time for the government to step in with more burdensome and complicated regulations, or more foolish liquidity injections. This is a time for some banks to fail, and remaining banks to deal honestly and transparently once again. More regulations will only result in more lies.

Just as economies that turned away from slave labor

had a transition period, our economy would transition as well, but in the end, if we turned to honest, sound money and a truly free market, we would end up with a more just society, founded on truthfulness and decency, not subject to the violence of force or the whims of fraudulent institutions. Unfortunately, it seems we are headed into a new era of slavery, however, where all taxpayers will be forced to render to the Fed and big banking interests the bulk of the fruits of their labor, possibly through higher taxes but definitely through the eroding force of inflation.

**Ron Paul's
TEXAS STRAIGHT TALK**

October 6, 2008

The Do-Something Congress

It has not been a good week for the Republic. It took quite a bit of trampling of the Constitution, but the bailout bill passed, as I suspected it would.

The bailout failed the first time it was brought to the House. Undaunted, the Senate pressed on by attaching the bailout as an amendment to another House passed bill that was pending in the Senate. The new bailout version had new taxes, so according to the Constitution it should not have originated in the Senate.

The rallying cry heard all over the Hill the past two weeks was that Congress must act. Our economy is facing a meltdown. Would this bill fix it? Nobody could really explain how it would. In fact, few demonstrated any real understanding of credit markets, of derivatives, of credit default swaps or mortgage-backed securities. If they did, they would have known better than to vote for this bill. All they knew was that this administration was saying some frightening things, and asking for a lot of money. And when has Congress ever been able to come up with a better solution to a problem than to throw more of your money at it? So that is what Congress did, enacting a financial PATRIOT Act in the process.

In its embarrassment at being called a “Do-Nothing Congress” the 110th Congress took decisive action and did SOMETHING. No matter that it was the wrong thing. In fact, it wasn't until the Senate had a chance to load it up with even MORE spending, when it was finally inflationary and horrible enough, at \$850 billion instead of a mere \$700 billion, that it passed – and with a comfortable margin, in

spite of constituent calls still coming in overwhelmingly against it. 57 members switched their vote!

The market went down anyway. Our nation is now just that much more in the hole. You will pay your part of this mess through inflation, and very likely hyperinflation.

Sometimes doing nothing is much better than thrashing about aimlessly. When one is caught in quicksand, for example, or when one doesn't understand economics and finds oneself in the position Congress was in for the past two weeks, with decades of irresponsible monetary policy coming to a head. Why should we trust the same people who said just a few months ago that the economy was perfectly sound? The same people who just knew there were weapons of mass destruction? The same people that crammed the PATRIOT Act down our throats? Why not consult the people who had the foresight and understanding to see this coming? They would have recommended such logical actions as repealing the Community Reinvestment Act, which forces banks to make bad loans, or allowing the market to set interest rates instead of the Federal Reserve system. How about abolishing the Federal Reserve altogether? There are many things that could have been done, but don't expect Congress take a course of action that comes from a place of understanding and competence when they could just spend money.

This bailout will be the legacy of the 110th “Do-Something” Congress, along with record low approval ratings. Here's hoping the 111th Congress will be a “Do the Right Thing” Congress, and will focus on repealing and abolishing what is wrong with government instead of reinforcing it.

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.