

Ron Paul's FREEDOM REPORT

A publication of the Foundation for Rational Economics and Education.

VOLUME 16, NO.10 – OCTOBER 2013

New Fed Boss Same As The Old Fed Boss

Texas Straight Talk, 10/14/13

The news that Janet Yellen was nominated to become the next Chairman of the Board of Governors of the Federal Reserve System was greeted with joy by financial markets and the financial press. Wall Street saw Yellen's nomination as a harbinger of continued easy money. Contrast this with the hand-wringing that took place when Larry Summers' name was still in the running. Pundits worried that Summers would be too cautious, too hawkish on inflation, or too close to big banks.

The reality is that there wouldn't have been a dime's worth of difference between Yellen's and Summers' monetary policy. No matter who is at the top, the conduct of monetary policy will be largely unchanged: large-scale money printing to bail out big banks. There may be some fiddling around the edges, but any monetary policy changes will be in style only, not in substance.

Yellen, like Bernanke, Summers, and everyone else within the Fed's orbit, believes in Keynesian economics. To economists of Yellen's persuasion, the solution to recession is to stimulate spending by creating more money. Wall Street need not worry about tapering of the Fed's massive program of quantitative easing under Yellen's reign. If anything, the Fed's trillion dollars of yearly money creation may even increase.

What is obvious to most people not captured by the system is that the Fed's loose monetary policy was the root cause of the current financial crisis. Just like the Great Depression, the stagflation of the 1970s, and every other recession of the past century, the current crisis resulted from the creation of money and credit by the

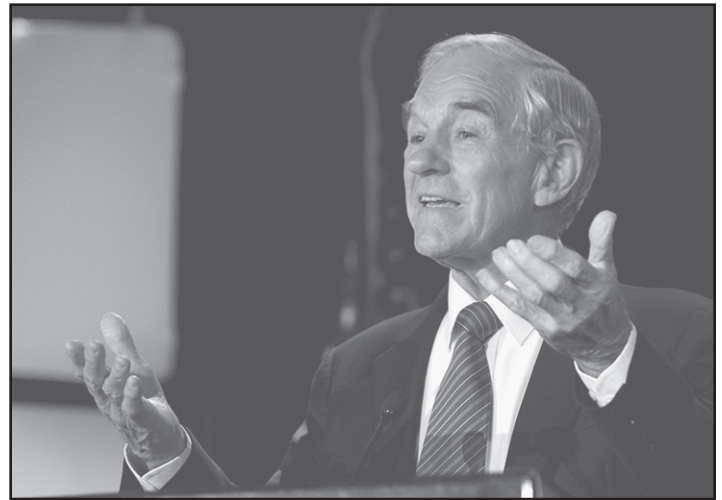


photo: Gage Skidmore

Ron Paul speaks at the Liberty Political Action Conference, September 2013.

Federal Reserve, which led to unsustainable economic booms.

Rather than allowing the malinvestments and bad debts caused by its money creation to liquidate, the Fed continually tries to prop them up. It pumps more and more money into the system, piling debt on top of debt on top of debt. Yellen will continue along those lines, and she might even end up being Ben Bernanke on steroids.

To Yellen, the booms and bust of the business cycle are random, unforeseen events that take place just because. The possibility that the Fed itself could be responsible for the booms and busts of the business cycle would never enter her head. Nor would such thoughts cross the minds of the hundreds of economists employed by the Fed. They will continue to think the same way they have for decades, interpreting economic data

and market performance through the same distorted Keynesian lens, and advocating for the same flawed policies over and over.

As a result, the American people will continue to suffer decreases in the purchasing power of the dollar and a diminished standard of living. The phony recovery we find ourselves in is only due to the Fed's easy money policies. But the Fed cannot continue to purchase trillions of dollars of assets forever. Quantitative easing must end sometime, and at that point the economy will face the prospect of rising interest rates, mountains of bad debt and malinvested resources, and a Federal Reserve which holds several trillion dollars of worthless bonds.

The future of the US economy with Chairman Yellen at the helm is grim indeed, which provides all the more reason to end our system of central economic planning by getting rid of the Federal Reserve entirely. Ripping off the bandage may hurt some in the short run, but in the long term everyone will be better off. Anyway, most of this pain will be borne by the politicians, big banks, and other special interests who profit from the current system. Ending this current system of crony capitalism and moving to sound money and free markets is the only way to return to economic prosperity and a vibrant middle class.

The Shutdown Is Not The Real Problem

“I think both parties are doing the same thing. They're grandstanding. They're politicizing this. They talk about a shutdown, which really isn't a shutdown. The big stuff continues, and they close down the monuments. I think it's all a political game and it's a blame game. You know, even with the deficit—the deficit limit was met in May! So government goes on. I think that the shutdown is not a real problem. I think the real worry should be the breakdown of the entire system. And as far as default goes, we're always going to pay the interest. That's just a fake argument. I'm concerned about the continuation of the default by paying off our bills with money that has less value. That's where the real problem is, and they're not even talking about it.”

—Ron Paul on CNBC 10/10/13

Ron Paul's Texas Straight Talk, 10/7/13

An Opening To Iran?

Last week, for the first time since the 1979 Iranian revolution, the US president spoke with his Iranian counterpart. Their 15 minute telephone call was reported to open the door to further high-level discussions. This is a very important event.

I have been saying for years that we should just talk to the Iranians. After all, we talked to the Soviets when they actually had thousands of nuclear missiles pointed at us! The Iranians have none, according to our own intelligence services. I even suggested a few years ago that we should “offer friendship” to them. Unfortunately, so many so-called experts have a stake in keeping tensions high and pushing us to war. They did not want to hear what I was saying. It seems, though, this is beginning to change now with these recent events.

The phone call was one of the most important moves away from war and conflict in a long time. Taken with the Obama administration's decision to hold off on bombing Syria, we should be encouraged.

It is also probably a good sign that this phone call has infuriated the neoconservatives at home, the pro-war faction in Israel, and the hard-liners in Iran. Now that a process of negotiation has begun, the chance of war has been significantly reduced. The US is very unlikely to bomb Iran while it is talking with them, and Israel is also unlikely to start a war while the US is at the negotiating table with the Iranian leadership.

But we should also remain very cautious. Obama's war on Syria was only stopped because the American people finally stood up and said “enough.” The message was received loud and clear and it shocked the neocons pushing war. They were used to being in charge of foreign policy.

In a recent CNN poll, more than 75% of Americans favored negotiations with Iran. This is very good news, but those pushing for war will not give up that easily. Believe it or not, some Members of Congress have recently introduced legislation to authorize war on Iran—even as these first steps toward a peaceful resolution of our differences begin to bear fruit!

So no, they will not give up that easily. There are many in the president's own Cabinet who do not want to see US/Iranian relations improve. Even the presi-

dent himself seems unable to avoid provocative statements—such as his claim that the Iranians are only willing to talk because the sanctions have been so successful in bringing them to the table. That is a false and unnecessary boast, and if he continues in such a way he will destroy what progress has been made.

But we are in the majority now. There are more than three-quarters of us who do not want war on Iran. It is essential that we keep the pressure on the Administration to ignore the war demands in both political parties and among the so-called foreign policy experts. There will be much more war propaganda coming our way as the warmongers get more desperate. Americans must see this propaganda for what it is. They should educate themselves and become familiar with alternative news sources to gain the tools to counter the propaganda. We do have a better chance at peace, but this is no time to let down our guard!

Ron Paul's Texas Straight Talk, 9/30/13

A Grand Bargain For Liberty?

As I write this, it appears that the federal government is about to shut down because the House and Senate cannot agree on whether to add language defunding or delaying Obamacare to the “Continuing Resolution”. Despite all the hand-wringing heard in DC, a short-term government shut down (which doesn't actually shut down the government) will not cause the country to collapse.

And the American people would benefit if Obamacare was defeated or even delayed.

Obamacare saddles the American health care system with new spending and mandates which will raise the price and lower the quality of health care. Denying funds to this program may give Congress time to replace this bill with free-market reforms that put patients and physicians back in charge of health care. Defunding the bill before it becomes implemented can spare the American people from falling under the worst effects of this law.

As heartened as we should be by the fight against Obamacare, we should be equally disheartened by the fact that so few in DC are talking about making real cuts in federal spending. Even fewer are talking about reductions in the most logical place to reduce spend-

ing: the military-industrial complex. The US military budget constitutes almost 50 percent of the total worldwide military spending. Yet to listen to some in Congress, one would think that America was one canceled multi-million dollar helicopter contract away from being left totally defenseless.

What makes this military spending impossible to justify is that it does not benefit the American people. Instead, by fomenting resentment and hatred among the world population, our costly interventionist foreign policy makes our people less safe. Thus, reducing spending on militarism would not only help balance the budget, but would enhance our security.

Yet both the House and the Senate continuing resolutions not only fail to reduce military spending, they actually authorize \$20 billion more in military spending than authorized by the “sequestration” created by the 2011 Budget Control Act. Most of the supposedly “draconian” sequestration cuts are not even cuts; instead, they are “reductions in the planned rate of spending.” This is where Congress increases spending but by less than originally planned—and yet they claim to cut spending.

Under sequestration, military spending increases by 18 percent instead of by 20 percent over the next ten years. Yet some so-called conservatives are so opposed to these phony cuts in military spending that they would support increased taxes and increased welfare “military” spending. This “grand bargain” would benefit the DC political class and the special interests, but it would be a disaster for the American people.

Instead of grand bargains of increased spending and taxes, those of us who support limited government and free markets should form a coalition with antiwar liberals to reduce spending on both the military industrial complex and domestic welfare programs. Instead of raising taxes on “the rich” we should also work to reduce all corporate subsidies. This “grand bargain” would truly be a win-win for the American people.

Sadly, even if a congressional coalition to cut both warfare and welfare spending was formed, it would be unlikely to carry the day as long as the Federal Reserve is willing to enable Congress's debt addiction by monetizing the debt. But this cannot last forever. At some point the Fed's policies will result in hyperinflation and an economic crisis that will force Congress

to reduce spending. Hopefully, the growing number of Americans who are awaking to the dangers of our current path can convince Congress to reduce overseas militarism and begin an orderly drawdown of the welfare state before this crisis occurs.

Ron Paul's Texas Straight Talk, 9/23/13

Internet Sales Tax Could Crush Small Businesses

One unique aspect of my homeschool curriculum is that students can start and manage their own online business. Students will be responsible for deciding what products or services to offer, getting the business up and running, and marketing the business's products. Students and their families will get to keep the profits made from the business. Hopefully, participants in this program will develop a business that can either provide them with a full-time career or a way to supplement their income.

Internet commerce is the most dynamic and rapidly growing sector of the American economy. Not surprisingly, the Internet is also relatively free of taxes and regulations, although many in Washington are working to change that. For example, earlier this year the Senate passed the Marketplace Fairness Act, more accurately referred to as the national Internet sales tax act. This bill, which passed the Senate earlier this year, would require Internet businesses to collect sales tax for all 10,000 American jurisdictions that assess sales taxes. Internet business would thus be subject to audits from 46 states, six territories, and over 500 Native American tribal nations.

Proponents of the bill deny it will hurt small business because the bill only applies to Internet business that make over a million dollars in out-of-state revenue. However, many small Internet businesses with over a million dollars in out-of-state revenues operate on extremely thin profit margins, so even the slightest increase in expenses could put them out of businesses.

Some businesses may even try to avoid increasing their sales so as to not have to comply with the Internet sales tax. It is amazing that some of the same conservatives who rightly worry over Obamacare's effects on job creation and economic growth want to impose new taxes on the most dynamic sector of the economy.

Proponents of the law claim that there is software that can automatically apply sales taxes. However, anyone who has ever dealt with business software knows that no program is foolproof. Any mistakes made by the software, or even errors in installing it, could result in a small business being subject to expensive and time-consuming audits.

Some say that it is a legitimate exercise of Congress's Commerce Clause power to give state governments the authority to force out-of-state businesses to collect sales taxes. But if that were the case, why shouldn't state governments be able to force you to pay sales taxes where you physically cross state lines to make a purchase? The Commerce Clause was intended to facilitate the free flow of goods and services across state lines, not to help states impose new burdens on out of state businesses.

The main proponents of this bill are large retailers and established Internet business. Big business can more easily afford to comply with a national Internet sales tax. In many cases, they are large enough that they already have a "physical presence" in most states and thus already have to collect state sales taxes. These businesses are seeking to manipulate the political process to disadvantage their existing and future small competitors. The Internet sales tax is a bad idea for consumers, small Internet business, and perhaps most importantly, the next generation of online entrepreneurs.

For more information about the small business program well as all other aspects of the Homeschool curriculum please go to ronpaulcurriculum.com. You can purchase a copy of my new book, *The School Revolution: A New Answer for Our Broken Education System*, at Amazon.com.

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.