

HON. RON PAUL OF TEXAS IN THE HOUSE OF REPRESENTATIVES April 1, 2003

Don't Antagonize our Trading Partners

Madam Speaker, this week we will be working on the \$75 billion supplemental appropriations to pay for the war. Financing the war is not as simple as it appears. It involves more than just passing a piece of legislation labeled as support for the troops.

It has now been fashionable to bash France and Germany and other friends if they are less enthusiastic for the war than we think they should be. Yet foreign corporations provide millions of jobs for American citizens. French companies alone employ over 400,000. There is a practical reason why offending the French and others may backfire on us.

In 2002 we earned \$11.9 billion less from our investments overseas than foreigners did here. This is not a sign of financial strength. A negative balance on the income account contributes to the \$500 billion annual current account deficit. Since 1985 when we became a deficit nation, we have acquired a foreign debt of approximately \$2.8 trillion, the world's largest. No nation can long sustain a debt that continues to expand at a rate greater than 5 percent of the GDP. This means we borrowed more than \$1.4 billion every day to keep the borrowing binge going. This only can be maintained until foreigners get tired of taking and holding our dollars and buying our debt. Bashing the French and others will only hasten the day that sets off the train of economic events that will please no one.

In thinking about providing funds for the war and overall military expenditures, not only must every dollar be borrowed from overseas, but an additional \$150 billion each year as well. The current account deficit is now 44 percent greater than the military budget and represents the amount we must borrow to balance the accounts. The bottom line is that our international financial condition is dire and being made worse by current international events.

It is true that military might gives a boost to a nation's currency; but this is not permanent if fiscal and monetary policies are abused. Currently, our budget deficits are exploding, as there is no restraint on spending.

No one can guarantee permanent military superiority.

The dollar has already significantly weakened this past year, and this trend will surely continue. A weaker dollar requires that we pay more for everything we buy overseas. Foreign borrowing will eventually become more difficult, and this will in time cause interest rates to rise. Be assured that domestic price inflation will accelerate. Economic law dictates that these events will cause the recession to linger and deepen.

My humble advice, consider being nicer to our friends and allies. We need them more than we can imagine to finance our war efforts. There is more to it than passing the supplemental appropriation. Besides, we need time to get our financial house in order. Antagonizing our trading partners can only make that task that much more complicated.

The day will come when true monetary reform will be required. Printing money to finance war and welfare can never be a panacea.