

HON. RON PAUL OF TEXAS IN THE HOUSE OF REPRESENTATIVES March 4, 2003

The Myth of War Prosperity

Mr. Speaker, I want to talk tonight about an economic myth. There is a longstanding myth that war benefits the economy.

The argument goes that when a country is at war, jobs are created and the economy grows. This is a myth. Many argue that World War II ended the Great Depression, which is another myth. Unemployment went down because many men were drafted, but national economic output went down during the war.

Economic growth and a true end to the Depression did not occur until after World War II. So it is wrong to think there is an economic benefit arising from war.

There are many economic shortcomings during a war. During wartime it is much more common to experience inflation because the money presses are running to fund military expenses. Also, during wartime there is a bigger challenge to the currency of the warring nation, and already we see that the dollar has dropped 20 percent in the past year. Although there are many other reasons for a weak dollar, the war certainly is contributing to the weakness in the dollar.

Also, during wartime the country can expect that taxes will go up. I know we are talking about cutting taxes, and I am all for cutting taxes; but in real terms taxes will go up during wartime. And it is inevitable that deficits increase. And right now our deficits are exploding. Our national debt is going up nearly \$500 billion per year at an analyzed rate.

The other shortcoming economically of wartime is that funds, once they are borrowed, inflated, or taxed, once the government spends these, so much of this expenditure is overseas, and it takes away from domestic spending. So this is a strong negative for the domestic economy. Another thing that arises during wartime so often is the sentiment for protectionism- and a weak

economy in wartime will really build an incentive for protectionist measures, and we are starting to see that, which I think is a danger.

During wartime, trade is much more difficult; and so if a war comes, we can expect that even our trade balances might get much worse. There are a lot of subjective problems during wartime too. The first thing that goes is confidence. Right now there is less confidence in the stock market and literally hundreds of billions of dollars lost in the stock market in the last year or two, again, due to other reasons; but the possibility of war contributes to this negative sentiment toward the stock market.

It is hard to judge the future. Nobody can know the future because of the unintended consequences of war. We do not know how long the war will last. How much it will spread? So there are a lot of uncertainties about this. There is fear. Fear comes from the potential for war and a lot of confusion. And unfortunately, when wars are not fought for national security reasons, the popularity of the war is questioned- and this may alienate our allies. And I believe we are seeing some of that already.

There is no doubt that during wartime government expands in size and scope. And this of course is a great danger. And after war, the government rarely shrinks to its original size. It grows. It may shrink a little, but inevitably the size of the government grows because of war. This is a danger because when government gets bigger, the individual has to get smaller; therefore, it diminishes personal individual liberty.

So these are the costs that we cannot ignore. We have the cost of potential loss of life, but there are also tremendous economic costs that even the best economists cannot calculate closely.

War should always be fought as the very, very last resort. It should never be done casually, but only when absolutely necessary. And when it is, I believe it should be fought to be won. It should be declared. It should not be fought under U.N. resolutions or for U.N. resolutions, but for the sovereignty and the safety and the security of this country. It is explicit in our Constitution that necessary wars be declared by the Congress. And that is something that concerns me a great deal because we have not declared war outright since 1945, and if you look carefully, we have not won very many since then.

We are lingering in Korea. What a mess! We have been there for 58 years, have spent hundreds of billions of dollars, and we still have achieved nothing- because we went there under U.N. resolutions and we did not fight to victory. The same was true with the first Persian Gulf War. We went into Iraq without a declaration of war. We went there under the U.N., we are still there, and nobody knows how long we will be there. So there are many costs, some hidden and some overt. But the greatest threat, the greatest cost of war is the threat to individual liberty. So I caution my colleagues that we should move much more cautiously and hope and pray for peace.