

Statement of Congressman Ron Paul

Financial Services Hearing on Sovereign Wealth Funds

DIMP Subcommittee

September 10, 2008

Mr. Chairman, once again we confront the issue of sovereign wealth funds, an issue which has become quite important due to the large amount of dollars and dollar-denominated bonds held by foreign governments, and the fears of these governments given the dollar's precipitous decline over the past few years. The past few days have been quite interesting, with speculation that one of the reasons for the government takeover of Fannie Mae and Freddie Mac was the more than \$1 trillion in Fannie and Freddie debt held by foreign governments. The threat of default on this debt would have undoubtedly had massive repercussions on the value of the dollar and might have unleashed the "nuclear threat" of a massive international sell-off of government and agency debt.

The United States government now finds itself between a rock and a hard place. The massive amounts of debt that we have allowed to accumulate are hanging over us like Damocles' sword. Foreign governments such as Russia and China hold large amounts of government and agency bonds, and there are fears that as our creditors they will exert leverage over us. At the same time, as the dollar weakens, the desire to sell bonds and purchase better performing assets increases, leading to fears from others that foreign governments will attempt to purchase American national champion companies, or invest in strategic industries to gain sensitive technologies.

In either case, most politicians overlook the fact that we are in this situation because of our loose monetary and fiscal policy. Actions that would stifle the operations of foreign sovereign wealth funds would likely result in corresponding retaliatory actions by foreign countries against American pension funds and could have the same detrimental effects on the economy as the trade wars begun after passage of the Smoot-Hawley tariff. Rather than limiting or prohibiting investment by sovereign wealth funds, we should be concerned with striking at the root of the problem and addressing inflationary monetary and fiscal policy.

Debtors cannot continue building debts forever, and we now face strong indications that our creditors are eager to begin collecting what is owed them. It is not too late to correct our mistakes, but we must act now and cannot dally. We must drastically reduce government spending, end wasteful and disastrous interventions into financial markets, and rein in the Federal Reserve's inflationary monetary policy. Failing to do so will ensure a descent into financial catastrophe.