

than those who benefited, and possibly even to another generation. Eventually borrowing is always paid for through taxation. All spending ultimately must be a tax, even when direct taxes and direct borrowing are avoided.

The third option is for the Federal Reserve to create credit to pay the bills Congress runs up. Nobody objects, and most Members hope that deficits do not really matter if the Fed accommodates Congress by creating more money. Besides, interest payments to the Fed are lower than they would be if funds were borrowed from the public, and payments can be delayed indefinitely merely by creating more credit out of thin air to buy U.S. treasuries. No need to soak the rich; a good deal it seems for everyone. But is it?

Paying for government spending with Federal Reserve credit instead of taxing or borrowing from the public is anything but a good deal for everyone. In fact, it is the most sinister, seductive "tax" of them all. Initially it is unfair to some, but dangerous to everyone in the end. It is especially harmful to the middle class, including lower-income working people who are thought not to be paying taxes.

The "tax" is paid when prices rise as a result of a depreciating dollar. Savers and those living on fixed income are hardest hit as the cost of living rises. Low- and middle-income families suffer the most as they struggle to make ends meet while wealth is literally transferred from the middle class to the wealthy. Government officials stick to their claim that no significant inflation exists, even as certain necessary costs are skyrocketing and incomes are stagnating. The transfer of wealth comes as savers and fixed income families lose purchasing power, large banks benefit, and corporations receive plush contracts from the government, as in the case of military contractors. These companies use the newly printed money before it circulates while the middle class and the poor are forced to accept it at face value later on. This becomes a huge hidden tax on the middle class, many of whom never object to government spending in hopes that the political promises will be fulfilled and they will receive some of the goodies. But surprise, it does not happen. The result instead is higher prices for prescription drugs, energy and other necessities. The freebies never come.

The Fed is responsible for inflation by creating money out of thin air. It does so either to monetize Federal debt or in the process of economic planning through interest rate manipulation. This Fed intervention in our country, although rarely even acknowledged by Congress, is more destructive than Members can imagine.

Not only is the Fed directly responsible for inflation and economic downturns, it causes artificially low interest rates that serve the interests of big borrowers, speculators and banks. This unfairly steals income from frugal retirees who chose to save and place their funds in interest bearing instruments like CDs.

The Fed's great power over the money supply, interest rates, the business cycle, unemployment, and inflation is wielded with essentially no Congressional oversight or understanding. The process of inflating our currency to pay for government debt indeed imposes a tax without legislative authority.

This is no small matter. In just the first 24 weeks of this year the M3 money supply increased \$428 billion, and \$700 billion in the past year. M3 currently is rising at a rate of 10.5 percent. In the last 7 years the money supply has increased 80 percent as M3 has soared \$4.1 trillion. This bizarre system of paper money worldwide has allowed serious international imbalances to develop. We own just four Asian countries \$1.5 trillion as a consequence of a chronic and staggering current account deficit now exceeding 5 percent of our GDP. This current account deficit means Americans must borrow \$1.6 billion per day from overseas just to finance this deficit. This imbalance, which until now has permitted us to live beyond our means, eventually will give us higher consumer prices, a lower standard of living, higher interest rates, and renewed inflation.

Rest assured the middle class will suffer disproportionately from this process.

The moral of the story is that spending is always a tax. The inflation tax, though hidden, only makes things worse. Taxing, borrowing and inflating to satisfy wealth transfers from the middle class to the rich in an effort to pay for profligate government spending, can never make a nation wealthier. But it certainly can make it poorer.

REMEMBERING WHY WE FIGHT

The SPEAKER pro tempore (Ms. HARRIS). Under a previous order of the House, the gentleman from California (Mr. SCHIFF) is recognized for 5 minutes.

Mr. SCHIFF. Madam Speaker, in the early days of World War II, the government commissioned director Frank Capra to make a series of films that would explain the nature of the war to a hastily mobilized Nation.

Over the course of the next 3 years, Capra produced a remarkable series of films collectively known as "Why We Fight." These films were instrumental in elevating the war from a fight for land and resources to a struggle between the "free world" of the Allies and the "slave world" of Nazi Germany and Imperial Japan.

As a Nation rooted in an ideology rather than ethnic or geographical identity, the United States has always looked at its wars as ideological conflicts between freedom and tyranny. Our national reluctance to go to war has shaped the prerequisite that when we fight, we do so for a high moral purpose that honors our principles and values.

When he addressed the Congress, the Nation and the world in the wake of the September 11 attacks, President Bush laid out the challenge posed by terrorism. Al Qaeda and radical Islamists, the President declared, attacked us because "they hate our freedoms, our freedom of religion, freedom

of speech, our freedom to vote and assemble and disagree with each other."

The moral clarity the President expressed nearly 3 years ago has been clouded by the administration's ambiguity over whether the rule of law applied to the prosecution of the war on terrorism or in Iraq. The abuse at Abu Ghraib and the unreviewable and potentially unlimited detention of Americans and others as enemy combatants are incompatible with a Nation born in a struggle against tyranny and caprice.

Last week, three courts in three countries reminded us of what is at stake in the war on terrorism and in our efforts to rebuild Iraq.

In Iraq, Saddam Hussein and the surviving leaders of his government were arraigned for their crimes against the Iraqi people and for crimes against humanity. The sight of the former dictator and his henchmen in a court of law was a glimmer of hope that chaos and bloodshed will one day give way to a better life for Iraq's people.

Here in the United States, the Supreme Court circumscribed the President's power over its own citizens and others when it ordered that Americans and foreigners held as enemy combatants had a right to contest their detention before a neutral arbiter. Expressing confidence that courts would be able to balance individual rights and national security, Justice O'Connor wrote "that a state of war is not a blank check for the President."

Perhaps the most extraordinary assertion of principle was made in Jerusalem by the Israeli Supreme Court, which ordered the government to re-route part of the security fence it is building to prevent Palestinian suicide bombers from infiltrating into Israel. In reaching their decision, the Israeli justices conceded that from a military point of view, the alteration might not make protection against terrorism easier. "This is the destiny of a democracy," the court said. "She does not see all means acceptable, and the ways of her enemies are not always open before her."

The ways of our enemies are not open to us. We do not behead our adversaries on camera for their families to witness in all its gruesome barbarity. Nonetheless, facing greater foes than we face now, we have prevailed and we will prevail again. At root, the rule of law is the source of our strength in war as it is in peace, and the assertion of the rule of law by courts in Iraq, Israel and here at home is a moving reminder of why we fight and also how we must fight to win the America we cherish.

RELIGIOUS FREEDOM

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from North Carolina (Mr. JONES) is recognized for 5 minutes.

Mr. JONES of North Carolina. Madam Speaker, I was, like everybody else in the Congress, home during July 4 and enjoyed being back in my district