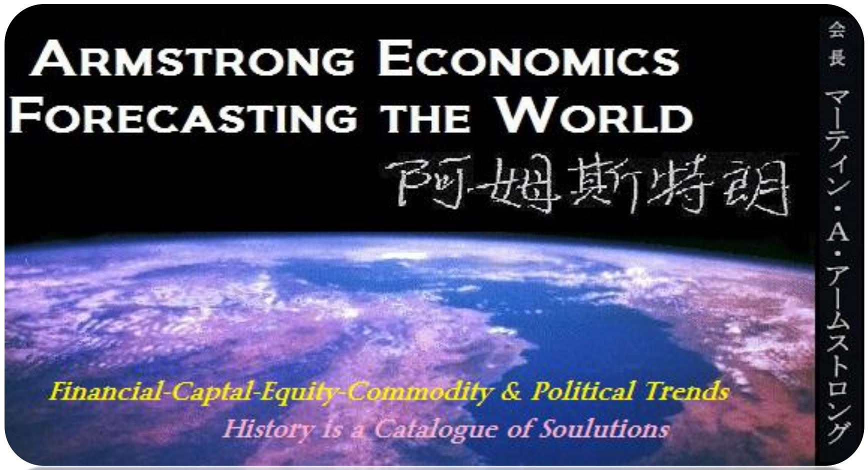

Armstrong Economics
Forecasting the World
阿姆斯特朗
会長 マーティン・A・アームストロング
Financial-Captal-Equity-Commodity & Political Trends
History is a Catalogue of Soulutions

Passing the torch
to Asia
How lower interest rates destroy the economy

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PERHAPS there are two of the greatest kept secrets in the West that are impacting our future that continue to be ignored. **(1)** Lower interest rates destroy the economy reducing the value of money at a time when its value rises removing the incentive to lend money, and **(2)** is the fact that Asia use to be the largest economy and financial capital of the world. Such a status historically **ALWAYS** migrates around the globe.

Indeed, we are passing the torch from the West to Asia because that is part of the nature of all things. The **Financial Capital Of The World** and the **World's Largest Economy** are two titles that have often been shared, yet are never fixed. Perhaps at first you might respond thinking China or Japan may have held that title. Yet, to your surprise, India once also held this title around 1000AD. Today, India is one of the fastest growing regions and Asia is evolving independent of Europe and America. This is why the British were so interested in India. In my upcoming book soon to be published before year end, with the tentative title – **In The Blink of an Eye** – while the central theme has to do with the rise and fall of empires, nations, and city states and how that has happened over the centuries, implicit within that study is the tracking of the financial economy and capital of the world through its migration process with real world management solutions. My work in this area was inspired by Adam Smith's Chapter III or Book V of **Wealth of Nations**, **Of Public Debt**. In this chapter, Smith effectively asks: why people consider government debt quality, when no nation has ever paid off its debt? Smith noted about the Roman Republic:

The Romans, at the end of the first Punic war, reduced the As, the coin or denomination by which they computed the value of all their other coins, from containing twelve ounces of copper to contain only two ounces; that is, they raised two ounces of copper to a denomination which had always before expressed the value of twelve ounces. The republic was, in this manner, enabled to pay the great debts which it had contracted with the sixth part of what it really owed. So sudden and so great a bankruptcy, we should in the present times be apt to imagine, must have occasioned a very violent popular clamour.

Book V Chapter III, Wealth of Nations

Smith noted that government was simply incompetent at managing public debt. It would always default no matter what form of government, because they just are compelled to spend more than they have. He thus wrote:

Like an improvident spendthrift, whose pressing occasions will not allow him to wait for the regular payment of his revenue, the state is in the constant practice of borrowing of its own factors and agents, and of paying interest for the use of its own money.

Book V Chapter III, Wealth of Nations

Like volcanoes and earthquakes, they simply exist. When the next one will hit is not easily determined. Sovereign debt defaults are of the same nature. They cannot be denied, yet we live in a constant state of denial pretending that such things are past and we will by no means end up in a common grave with all our predecessors.

Through this process of sovereign default what surfaces is the migration of the **Financial Capital Of The World** economy and the status of being the **Largest Economy In The World**. These two titles are not always joined in the same empire, nation, or city state at the same time.

We hear nothing but rhetoric and grandstanding as the US presidential elections approach forcing us to listen to much more. Donald Trump should stick to real estate and leave international economics to someone with experience. His comments are already misleading blaming China for taking American industry. He fails to see that this is a historical process that is inevitable because of US mismanagement and this is now China's turn.

The United States has lost virtually every aspect of what was once its competitive edge. The corruption in the financial industry and the refusal of the regulators to actually regulate New York while charging anyone else for the same conduct the bankers have been doing for quite some time, illustrates how America is losing all trust in this industry as well.

Raj Rajaratnam

If the Galleon hedge fund founder Raj Rajaratnam was a white NY Investment Banker of the name houses, they would look the other way. These biased prosecutions include not merely non-New Yorkers, but also fund managers of failed firms so that they no longer have to worry about taking down a major house.

The trial of the two Bear Stearns failed mortgage-bond hedge funds managers, Ralph Cioffi and Matthew Tannin, became fair game because they were at the then defunct Bear Stearns firm. If they were at Goldman Sachs, Morgan Stanley, or J.P Morgan, no charges would ever have been filed. As the lawyers say off the record – New York does not eat its own. Both were also charged with insider trading, but were acquitted when the jury found it absurd to blame these two fund managers for the demise of the entire economy. It was all showmanship. Pretend you are prosecuting someone so you don't have to prosecute the real culprits.

The United States is destroying its last vested title of the **Financial Capital of the World**. Once the financial industry is no longer trustworthy, there will not be much left to salvage. Manufacturing has left. The back-office in in many companies has also been migrating overseas. The United States has to stop blaming the rest of the world for its own stupid mistakes.

If you look at Southeast Asia, Singapore may not be a democracy, but it works. The country is clean, vibrant, and the taxation is reasonable at 15%. There is no capital gains tax. And of course, the people are well educated. The USA is too Marxist chasing down everyone it can catch for taxes and only the US and Japan are taxing worldwide income. This prevents American companies from competing overseas and it prevents the United States from exporting its labor. Yet the rest of the world is to blame?

Here is a 3rd Century India forgery in gold of a Roman coin. It is not actually counterfeiting for it is made of gold. This reflects the fact that in ancient India, there was use of the coinage of

Rome as it then lived in its shadow on the fringe as Rome held both titles. When Rome fell in 476AD, the title of the **Largest World Economy** and the **Financial Capital Of The World** moved to the Eastern Byzantium Empire. But as that went into a great monetary crisis in 1092, the power was passing to India. It was Asia's time. India lost that title as it then passed to China during the Ming Dynasty 1368 to 1644, following the collapse of the Mongol-led Yuan Dynasty. The Ming was the last dynasty in China ruled by ethnic Hans. The Ming capital Beijing fell in 1644 to a rebellion and from this period on, the torch was being passed to Europe where the first real financial market was born in Amsterdam that migrated to London with the Dutch king William of Orange and the Great Revolution in Britain in 1689.

The Financial Capital of Europe was migrating to London where it resided until World War I. The peak in the British Empire was 1913 and from there it migrated to New York City, thanks to J.P. Morgan. The United States has learned nothing about how to manage an empire, nation, or city state. It spent money like someone who was poor and just won the lottery. After having 76% of the world's gold reserves in 1944 at Bretton Woods, it no longer had enough gold to support the fixed exchange rate system in 1971 ending the gold standard.

Japan never captured either title and lost its glory also by the mismanagement of its government. Its debt is far worse even than that of the United States. Japan is in its death throes and the land of the rising sun has turned to the land of the setting sun. It is China where we must look as the torch is being passed once again. Do not rule out India. For it too has great potential. Just as they use to say **Go West** in the heyday of the USA, now it is **Go East!**

THE FAILED THEORIES OF AMERICAN ECONOMICS

There is no hope of real political reform to save the day. This is simply how the torch is passed from one empire, nation, or city state to the next. China was number two to India around 1000AD because it had preferred isolation an attitude where merchants were regarded as less dignified a profession than a farmer.

Why in God's name we tend to ignore the past is anyone's guess. But history is indeed a catalogue of solutions. We are like a group of foragers where the first one eats a poison mushroom and dies, and the rest of the group attributes his demise to something else and continue to eat the same mushrooms. We just don't seem to be able to learn from the past at all.

Bernanke Ignores The Lessons of the Past

I am amazed that the same failed policies are attempted each and every time an economic crisis appears, and you would think somebody would come up with a new game play book and ask at least if this solution was tried before. But no! We suffer from the chronic syndrome of where **HOPE** perpetually triumphs over **EXPERIENCE** as each election come promising change and reform and nothing ever happens.

In this spirit where **HOPE** triumphs over **EXPERIENCE**, the USA is following the same demise based upon the same identical failed policies of Japan. Chronically **lower interest rates destroy capital formation** because they reduce the worth of capital ***(interest rates)*** artificially, removing the incentive to lend and thereby contributes to the economic destruction.

You would think that since this was the policy adopted by Japan that produced what will be a 26 year Depression that someone would wake-up and say hold on a minute! But no! We are plagued by people who only go to school and have never had a real job to see firsthand how the world really functions.

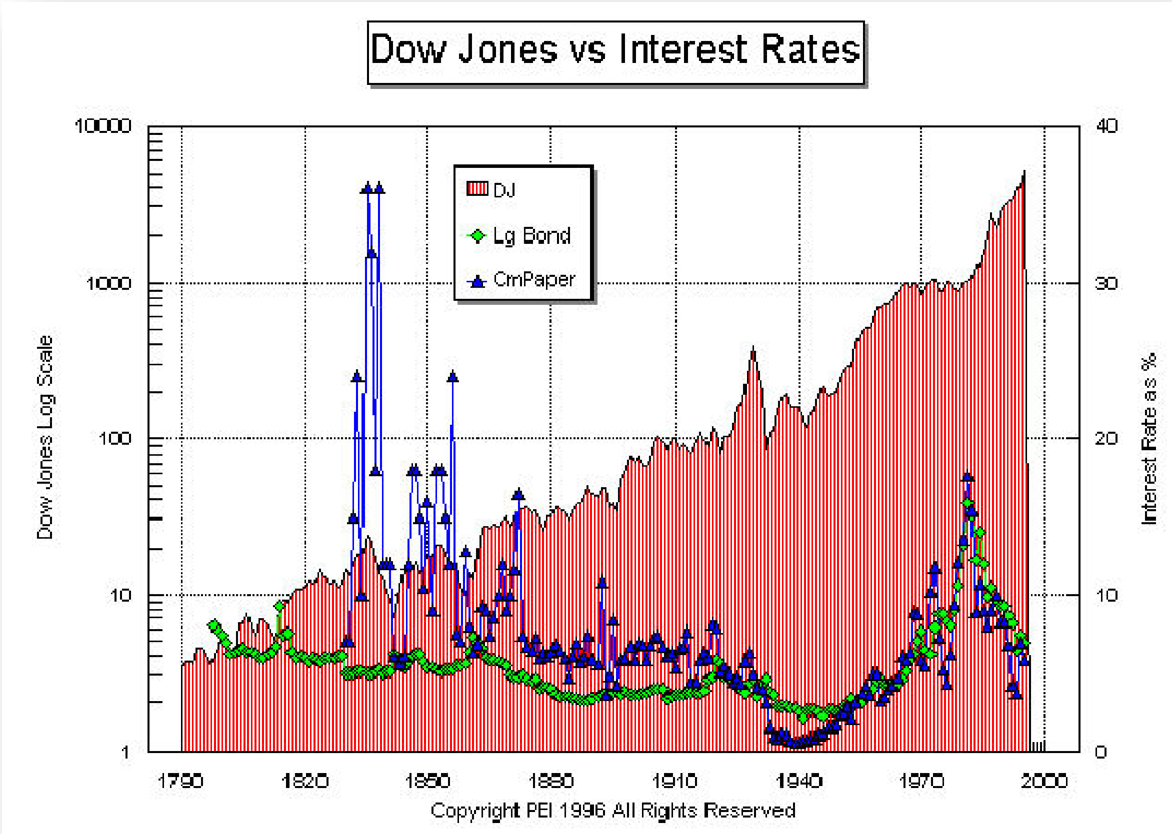
As I have warned that Communism stole the very future of the individual placing all decision making in the hands of the state. Under socialism, that same deprivation of liberty is the spirit driving the government. How they manage the economy is stripping all individuals of their liberty to plan for their own future just as sure as it was done under Communism. It is one thing to care about the poor and to try to help those in need, and another to suppress the entire population to force a centralized planning scheme to run the economy.

In New Jersey, Governor Christie enacted a law that municipal governments cannot raise taxes greater than 2% without putting it to a vote. Towns that have tried that have seen turnouts greater than at any presidential election. Of course they are voting **NO** to requests to raise taxes by 25%-30%. The towns are warning they will have to lay off the police. But local police forces have doubled since 1998 and the towns have converted them into revenue generators by aggressively ticketing the townspeople for anything they can. Instead of reform, local governments are just trying to keep the money pouring in and to hell with the economy. It's all about getting what they see as theirs.

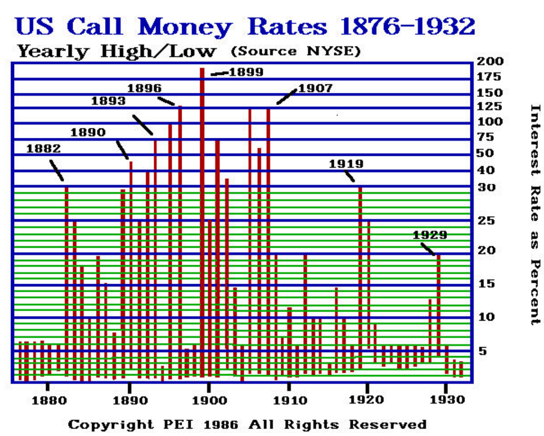
Artificially lowering interest rates wipes out capital formation and gives the incentive for capital to **(1)** hoard, **(2)** flee or **(3)** speculate. When interest rates were maintained at virtually zero, the capital migrates overseas for better returns. In Japan, the carry trade was huge, borrowing in yen at 0.1% and buying US government bonds at 7-8%. Today, money from the West can be lent fully secured into India to earn 15-17% when economic growth is 30%+.

When interest rates are kept artificially low, there is no incentive to lend even by the banks. Why take any risk for so little? Cash tends to hoard as we are watching in banks reach record levels. The elderly, who depend upon interest income, are robbed of their income to fund speculation and the exportation of capital with no economic benefit to the domestic economy.

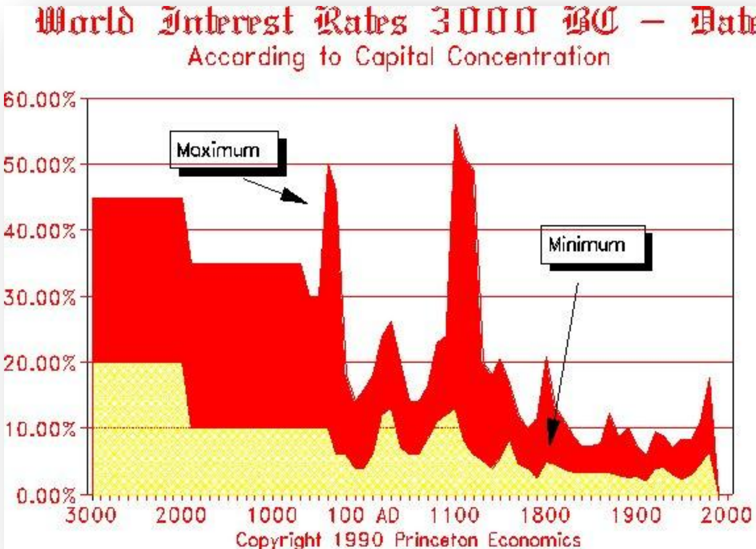
Interest rates rise in bull markets and decline in bear markets on a natural supply and demand basis. The theory of raising interest rates to reduce demand has accelerated the national debt because this stupid idea might make sense if the only people borrowing were in the private sector. But when the public sector is the biggest debtor, you might as well rob a bank holding a gun to your own head screaming if anyone moves, you will pull the trigger!



I find it astonishing that some of these theories used by government to manage the economy are just brain-dead. One need only collect data on interest rates and correlate it to the economy and stock markets to see that what they purport is indeed nonsense. Looking at the history of Call Money Rates on the New York Stock Exchange reveals that there is no empirical relationship between the level of interest rates and the percentage gains in the stock market. The historical interest rate high is 1899 and the biggest stock peak came in 1929 with lowest peak in rates of interest. That was because capital was concentrating in the USA fleeing Europe. The biggest 1-day decline is still the Panic of 1919.



Even the chart at the top showing the stock market from 1790 forward overlaid with interest rates, fails to show any consistent correlation between higher interest rates reduces the economic boom or vice versa. Nice theory, but where's the beef?



Interest rates will naturally rise in regions on the fringe of the major economy where capital concentrates. As rates rise on the fringe, capital becomes attracted to what we might call today – EMERGING MARKETS. This was common during the Roman Republic as it is today and was so recorded in history by Cicero noting the lending of Brutus at 20% offshore compared to 8% in Rome. Interest rates decline during capital concentrations. To manipulate that to an artificially lower rate on theory of stimulating demand has NEVER been proven to work. By reducing them to such an extreme low position, this encourages capital to flee to the fringe economies seeking a decent return on capital. This causes capital to hoard lacking a rate of return domestically, and fosters speculation rather than domestic investment that would create jobs.

Consequently, capital will move both offshore and into domestic speculation such as stocks when capital appreciation offers a greater reward than interest. These are not difficult observations to make. The data certainly exists to illustrate very long-term findings as demonstrated above.

The greatest danger we face is that these brain-dead notions of how to manage the economy do more harm than good for they disrupt the natural balance within the economy. This is the same type of policy experienced in Australia where they imported a species to counteract an indigenous species that had no natural predator and disrupted far more than just the targeted species.

We live in a complex adaptive economic network that is both fascinating and far beyond the manipulations of men. It is time we investigate what we are doing BEFORE we take that action! This is one primary reason China will emerge as the number one economy very soon. Unfortunately, the USA passes the torch and the land of the rising sun becomes the land of the setting sun. As for Europe, well get ready. It should be your turn up to bat again in about 224 years.