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Forecasting the World

Sovereign Debt Crisis Dancing with Death



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By: Martin A. Armstrong Copyright All Rights Reserved February 9th, 2011
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A C K N O W L E D G E M E N T S

I would like to thank all the former employees, associates, sources, and contacts for their ongoing support and efforts to contribute to the writings I have been able to continue through their great efforts. I would also like to thank those who have looked after not just myself, but my family, and shown them support and kindness.

The purpose of these reports is to broaden the understanding that is so vital to our personal survival. Government cannot save us, and will only assist the very economic disaster we face. This is a Sovereign Debt Crisis that threatens our core survival. There is no plan to ever pay off debts. The majority of debt increase is paying interest perpetually to roll over without any long-term plan. What you see in Greece and in the States, we have run out of other people's money. The socialists keep pointing to the rich. But to fund the deficits, we need to borrow now from foreign lands. We ran out of money domestically and to support the current system like Greece, we need foreign capital. But all governments are facing the same crisis and we are on the verge of another widespread government default. Adam Smith warned in his Wealth of Nations that in 1776, no government paid off their debt and had always defaulted. We will have no choice either.

There is no hope that politicians will save us, for they only form committees to investigate after the shit-hits-the-fan. They will NOT risk their career for a future problem that may hit on someone else's watch. There was a politician and a average man standing on top of the Sears' Tower when a gust of wind blew them off. The average man being a realistic-pessimist, immediately sees he is about to die and begins praying. The politicians, the ultimate optimist, can be heard saying "Well so far so good!" as he passes the 4th floor.

At Princeton Economics, our mission was simply to gather global data and to bring that together to create the world's largest and most comprehensive computer system and model that would monitor the world capital flows. By creating that model, all the fallacies of market and economic theories were revealed. The world is far more dynamic and every change even in a distant land can alter the course of the global economy. Just as has been shown with the turmoil in Greece, a CONTAGION takes place and now capital begins to look around at all countries. We can no more comprehend the future but looking only at domestic issues today than we can do so in every other area, such as disease and the spread of flus.

We live in a NEW DYNAMIC GLOBAL ECONOMY where capital rushes around fleeing political changes and taxes just as it is attracted by prosperity. All the people who migrated to the United States in the 19th and 20th Centuries, came for the same reasons as those still coming from Mexico - jobs and prosperity. In the 19th Century, America was said to have so much wealth, its streets were paved in gold. We must now look to both the past and the entire world to understand where we now are today,

Sovereign Debt Crisis Dancing with Death



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SOVEREIGN IMMUNITY is a term that is actually being discussed these days regarding state debt. The debt crisis is getting so bad, discussion in Washington about changing the Bankruptcy Law has been going on allowing states to declare bankruptcy thereby defaulting on bond holders has been considered. We are dancing to the fiddler of Mr. DEATH who stalks all governments, for they too are merely mortal. How is it in the "public interest" to default? New Jersey's bond offering of \$2.9 billion in municipal debt fell short failing to sell \$800 million. The governor has told the people that the state is going bankrupt unless there is major reform. The official debt stands at \$32 billion, there is a \$54 billion shortfall in the pensions for state workers, and then there is \$67 billion of unfunded promises of healthcare. The similar crisis effects other states in the USA as well as in Europe. Government has been promising itself so much money for government workers assuming that the problem will have to be addressed somewhere down the road. But the road is a dead end. Congress is actually discussing to allow states to declare bankruptcy. As a matter of law, states cannot go bankrupt. This is the alternative to yet another round of massive federal bailouts. Most realize that the chances of such legislation getting passed in the open is nil. The 11th Amendment to the Constitution grants the states SOVEREIGN IMMUNITY and that means they cannot be sued. As a result, there is a constitutional problem to allowing states to declare bankruptcy to avoid a federal bailout. The mere fact that this is being discussed, WARNS AND CONFIRMS THE SOVEREIGN DEBT CRISIS!

Unfortunately, the entire world is coming apart at the seams and our great politicians are still trying to con us in ways that just constantly kick the can down the street. We are on the verge of a profound economic change and there are far too many people still trying to talk all of us into believing there is no sinister monster in the closet, so sleep tight, but they won't leave the light on.

There is no way we can cut the vast deficits in every government. Eventually, the cost of rolling this debt forever is going to consume the entire revenue and that means there is no way out of this. A friend of mine working on Capital Hill, among others there, tell me there is no solution whatsoever until there is a MAJOR crisis. Then and only then will the issue be addressed.

The US government is simply in a state of denial. They rose from a bankrupt state in 1896 and 112 years later we came precisely to 2008 and the meltdown of the global economy. They will imprison, kill, discredit and do anything to anyone who dares to tell the truth no different than you are seeing how Egypt attacked the press. Government is just always the same regardless of its pretended label. It is always about the self-interest of those in power to keep that power. As a result, there is not much we can do to stop this insanity. For surely, a 3 year old with that pocket calculator can figure this out and say - OH SHIT!

Why will no one stand up and help the people save the future? The American press will report the isolated incidents, but they stop shy of providing the analysis that then ties these facts together. The London FT reported both the New Jersey failure to sell all its debt, and that Congress is indeed discussing the bankruptcy of states. Why is there no media coverage putting all of this together on a broad basis with a single clear theme of addressing the SOVEREIGN DEBT CRISIS that obviously exists? Well you see, the USA intimidates the press organizations just as you have seen in Egypt. Here, they do it with phone calls behind the scenes and the same as in Russia just recharged the Yuko's director again and resented him for a new crime. America has many political prisoners and it will do precisely the same thing using LAW and the CRIMINAL code to go after anyone who will not conform to their wishes. By then threatening news organizations, they control the press. If they get out of hand, they can then criminally prosecute anyone on taxes.

There is no government that is afraid to use their power to defend themselves. The only difference between a TERRORIST and a FOUNDING FATHER is who wins. Jefferson is a Founding Father because America won. The British knew he wrote the Declaration of Independence and sent troops after him to hang him. He narrowly escaped. Ben Franklin was put on trial in England as well, and that turned him from a supporter of the king into also a supporter of independence.

John Stuart Mill wrote in his classic work, ON LIBERTY, "let us not flatter ourselves that we are yet free from the stain of legal persecution." Oxford World Classics,

(1998 ed, p34). The noted historian who wrote THE ROOTS OF EVIL, Christopher Hibbert, also noted how government used its criminal law for political purposes just as Russia did with the Yuko's director: "men and women [were] turned into criminals by fanaticism or conscience and punished with ferocity because of their threat to political as well as religious institutions." (1963 ed Little Brown & Co, p23).

The Fifth Amendment right to remain silent was a right that was won at the cost of so many lives. It was the trial of John Lilburn for handing out pamphlets speaking out against government that he was put on trial for sedition. He stood up in court and shamed the corrupt judges and the entire government:

"Another fundamental right I then contended for, was, that no man's conscience ought to be racked by oaths imposed, to answer to questions concerning himself in matters criminal, or pretended to be so."

Miranda v Arizona, 384 US 436, 459 (1966)

The sad point of this is that we cannot trust the American press until there is real LIBERTY and there will never be such a thing until government is stripped of the right to bring criminal charges against anyone. If there is really a issue in dispute, then the alleged victim should press charges. Then and only then will we have some LIBERTY for the power to use the criminal law resting in the hands of the government, always leads to LEGAL PERSECUTION. That means the claimed law can ALWAYS be used to threaten and to intimidate the press into telling only the side that government wants you to see. This is why in the Arab world, there is no real LIBERTY for the people are either oppressed by a military government, or by a religious government that prevents freedom of belief.

Government is on the brink of collapse as we know it. There is no way to stop it for they will not relinquish power so they will fight to the last drop of blood. But when this is all over, there will be a opportunity to establish a new form of government and end this pretend republican form of government that creates merely a Executive/Judicial Dictatorial-Oligarchy.

How LAW has been used over the long and often crazy history of mankind, is profound and CRITICAL to our survival. In the days of King Solomon, the duty of the king was to resolve private disputes. Thus, the woman who stole the baby of another stood before the king and only when he said he would cut the child in half, did the real mother give up her claim to save her son.

Even in ancient Athens, the ONLY crime that could be charged by the government was one that was directly against the state or against the gods. If you killed someone, the family was obligated to bring a complaint but not the state. That only came into being after MAGNA CARTA in England in 1215 so the king could restore his ability to make money. He then took the position that a private dispute between two people **DISTURBED HIS PEACE** and thus he was now injured and was entitled to prosecute you and fine you for disturbing HIS peace.

Herein lies our entire problem. The American conviction rate is 99% in federal court because you really have no rights and federal judges as a whole only rule in favor of government. This has taken place since the 1980s. Before then, the conviction rate was 72% and that is probably correct. However, when judges only rule in favor of the government, there is no incentive to obey any law and when prosecutors and all judges have ABSOLUTE IMMUNITY that is even in direct conflict with the Constitution that states they must FAITHFULLY execute the laws and hold office ONLY for maintaining GOOD BEHAVIOR, corruption flourishes.

The plea ratio is also 98.5%. Take the big insider trading case. The Wall Street Journal stated bluntly that the government was now going after family members to force their target to plead guilty to avoid any trial. **PLEAS SHOULD BE UNCONSTITUTIONAL** for it is cocering confessions by threatening two to five times the penalty unless you plead. You are PUNISHED for going to trial and if the jury acquits you on 9 out of 10 counts, you are still sentenced no different than had the jury found you guilty. WHY? Federal Judges have said if you are then acquitted by a jury, THAT DOES NOT MEAN YOU ARE INNOCENT, ONLY THAT THE GOVERNMENT DID NOT PROVE BEYOND A REASONABLE DOUBT THAT YOU WERE GUILTY! Thus, in America, you can

never be innocent since a jury cannot find you innocent, only NOT sufficiently guilty under that standard of proof. Thus, the government CAN NEVER BE WRONG and that is the sad state of affairs in America.

This is what is blocking our future. It keeps corruption in place for no citizen has the right to bring charges for anything against a government official. Thus, judges and prosecutors have crowned themselves with ABSOLUTE IMMUNITY, and the citizen has no right to bring any charge against anyone even if the prosecutor raped your wife and shot the dog. ONLY if the government desires to prosecute him will there ever be any such case.

Unless this reform is put in place, there is no avenue of reform in any other aspect of our future for the government knows you have no power to prosecute them in court at any time. How can we have FREE PRESS as long as government has this power to prosecute anyone at anytime for anything it desires? Government has to be returned to its original form. It must be the real impartial arbitrator that stands in the middle of a dispute and solves the problem.

When government can use the criminal law to cover up its own corruption and prevent the press from telling the truth, then we are screwed. It is vital to reform government because we have no future without real reform. They will not relinquish power for it is always government against the people - never government by the people.

The Inspector General was suppose to be the old Roman Tribune who defended the people and could indict anyone in government who does not honor their oath to defend the constitution. This is so critical at this point because we are in this SOVEREIGN DEBT CRISIS because they know that they cannot be prosecuted for destroying our future.

The real sad part of this mess is that it could be fixed if government was just one time concerned about the future. We have to deal with this nonsense of hide and seek and the government is running around indicting hedge fund managers on inside info that is pointless. Most manuals tell Wall Street banks to talk to 3 tier workers and piece back together what is said. Let's deal with the real issue and save everyone's future.

Net Reality

The NET REALITY remains unchanged. As I demonstrated in the **Greatest Bull Market In History**, because of all the Sovereign Defaults back in 1931, the net capital movements back then were very interesting to say the least. Smart capital began to flee all government debt and that included US debt along with state and muni. Corporate bond yields declined relative to the government debt and thus cash fled from public to private assets. This is the harsh reality that we face. **BE VERY CAUTIOUS ABOUT GOVERNMENT DEBT AT ANY LEVEL!**

This is why we will see the stocks rise along with commodities. Raising and lowering of interest rates to try to effect inflation just does not work. **IT IS A BELL CURVE** and nothing is ever empirically fixed. All the nonsense about managing the economy and the Fed is in charge is gibberish.

Interest Rates are **BY NO MEANS** a valid tool to manage the economy. The theories put forward are one-sided. Take Japan. They lowered interest rates to virtually ZERO with the idea that this will stimulate borrowing and thus create indirectly economic growth. The problem with this theory is they forgot that the elderly needed income from interest to survive. They were the **ONLY** class who are buyers in a recession for they no longer fear getting laid-off. Taking interest rates to zero wipes them out, reduces the buying power needed at a critical time that is no different than outlawing short-selling. It is the short player who buys in the middle of a panic for he is taking profit. When the Congress was investigating shorts in the '30s so that nobody would short fearing getting prosecuted, the market fell with no buying power.

Taking interest rates to ZERO in Japan only encouraged borrowing in yen and investing in dollars (Yen Carry Trade) that did not stimulate the domestic economy. The USA is following that same disastrous mistake. If you simply chart interest rates and stocks, you will notice that rates rise in bull market periods because demand is rising with the economy.

When the Fed raised interest rates to 17% back in 1981, what they failed to realize was that rates will rise on **TWO** occasions. **FIRST**, if a nation is in trouble and then capital fears a currency default, it flees forcing interest rates to rise to meet the expectation of the devaluation. We saw the rates rise in European states viewed to be in trouble.

SECONDLY, raising rates to fight inflation raised the cost of government tremendously and that set in motion structural inflation that has been far worse than the short-term surge in prices thanks to OPEC back then. **LOWER RATES** they thought would stimulate inflation when it would have saved trillions in the national debt. The whole way government looks at the problem is braindead. They forget they too borrow. How stupid do you have to be to pull that one off? **DA?** Teaching kindergarten is easier.

Rates have started to rise because we are looking at government debt and it is rising globally out of control. The cash paid today will not buy the same amount of goods when repaid regardless of the CPI numbers.

Fighting inflation can also be a very difficult proposition. We have a problem where raising interest rates to effect the purported demand for **NEW** money to be lent, can also raise the cost of inventories and doing business so that it actually raises the rate of inflation.

In reality, manipulating interest rates is a **INDIRECT** method of trying to get the economy to do what others want it to do. The problem that we have is simple. Trying to keep rates artificially lower to pretend to be stimulating the economy, may have a serious side-effect whereby those who are looking at the rates of government bonds and perceive the risk is greater than the rate offered, will result in what we have just seen in New Jersey **NOT ENOUGH BID TO COVER THE DEBT OFFERINGS**.

The subtle trend that also shows we are in trouble is the fact Europe has now started to issue 50 year debt and the US is being urged to issue 100 year bonds. They are doing this out of **FEAR** that there will be one day no bid. That is the **NET REALITY!** We are dancing with **DEATH** and the fiddle will soon stop playing. **SELL GOVERNMENT BONDS!**