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Forecasting the World

Australia &

The Current Account Deficit

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Everything at Princeton Economics that was our mission to gather information, and bring together the most widely covered global economic perspective, has been a effort that is now bringing us to that fateful crossroads in history. There are those who are trapped by the past and cannot see the dynamic evolution that causes history to repeat, but like lightning, never quite precisely the same way twice. In 1914, Britain reached its peak as the center of the global economy. It passed that torch to the United States who by 1929 became the leading world economy and was also a CREDITOR nation just as China is today. There will be no 1930s style depression, for the cards are nowhere near the same. Yet China will become the leading world economy by 2016, and then suffer its 1929. The West is doomed and it will collapse from its own debt. We borrow with no intent of ever paying off the debt, and somehow both Congress and the majority ignore this fact just as they had ignored the problems in mortgages that violated common sense.

No matter what country you live in, it is the duty that falls upon the shoulders of every reader to do what you can to get reality to manifest. Feel free to send this report to every government, friend, and member of the press around the world. If we do not get the debate started, we stand no chance of saving the future for ourselves and our posterity. We can reach that next never in political-economic evolution only through the hard work of everyone. For this reason, this is provided as a free service.

There is a NEW DATABASE that will be used for special updates provided exclusively to those who register. I want to thank you all once more for your support and for your contribution to try to help society survive the coming storm.

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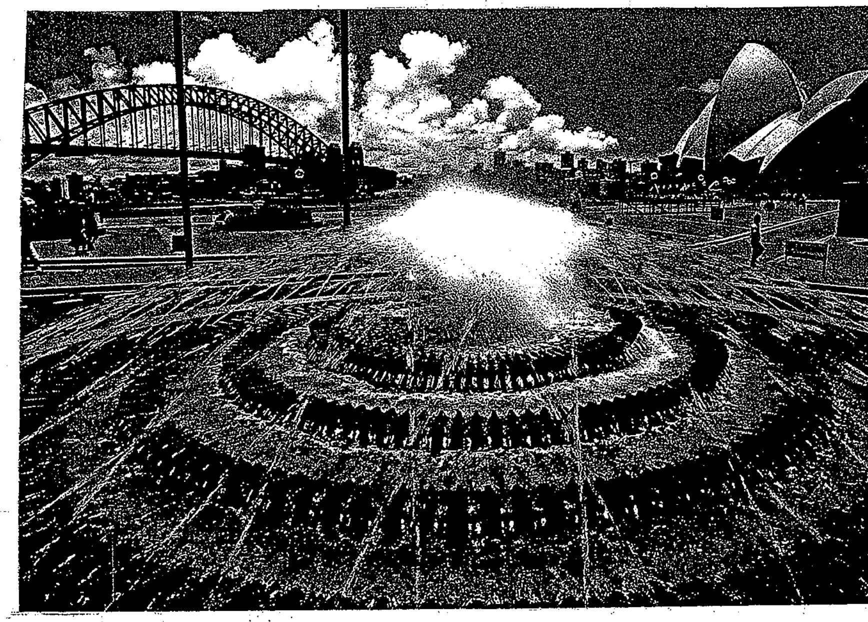
Australia &



The Current Account Deficit

By Martin A. Armstrong

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ONCE more, the argument against Australia is none other than the infamous **Current Account Deficit**. During the 1980s, Princeton Economics made a forecast that the A$ would rise sharply. Every major forecaster in Australia was calling for a continued drop. I delivered seminars in Sydney, Melbourne, Perth, and Adelaide explaining how such forecasts were wrong in the past and would prove to be wrong again. When the A$ nearly doubled, the Australian Associated Press wanted me to do a TV debate with the leading economists in the nation. I agreed, but they could not find anyone willing to debate me. For you see, the accounting statistics for just about everything are deeply flawed, and most of the real economists know that, but lack the resources to correct them. This is where Princeton Economics came in, and probably one of the primary reasons the government wanted it shut down, at any cost no matter how blatant the lies. For you see, we had more money perhaps than any research firm in history, and we used that in the David Ricardo philosophy of comparative advantage. We tore apart every statistic stripping them down to the raw data rebuilding everything by the same formula for each country. In doing that, a lot was revealed.

The **Current Account** is probably the most distorted statistic on the board. It has been often called the trade deficit when negative any the logic has been that the A$ must drop because the **Current Account Deficit** says the Australians keep buying more than they will ever produce. Sounds logical. But this is the biggest crock of shit you will ever hear and this shows why those who use such tools to forecast the future, are only contributing to the very distortion and confusion that government count on to hide the truth.

It would be nice if those in the press understood government statistics. If they did, perhaps we might be in a position to at last straighten out this mess that is going to destroy the future of our children if not our own twilight years. There is hardly a statistic worth quoting, for they have been manipulated so much, the very manipulators have begun to believe their own lies. We obviously need a book **How to Manage a Nation For Dummies**. For the future is just not idiot proof.

The **Current Account** is balanced against the **Capital Account**, which the press never seem to pay attention to – EVER! If one is in deficit, the other must be in surplus. If there was no offset, the nation in question would be simply bankrupt.

When these statistics were created, the understanding of a global economy was nil. It was presumed that importing products from foreign nations meant that gold flowed from one nation to the other to pay for the goods. However, as the economy truly works, there has been CAPITAL FLOWS among nations that are not limited to trade.

Between the mid 13th to the mid 14th Century, we have a 100 year run in France with 150 changes to the gold/silver ratio. For you see, Sir Thomas Gresham (1519-1579) was first an agent of the British Crown in Amsterdam where there was a vibrant main market for both selling short-term debt to raise money for England and foreign exchange because there were so many different currencies issued in those days since national government had not fully formed. There were a host of city states, like Florence, Venice, and Genoa for example, that each issued their own coinage. It was the gold coin of Florence, the FLORIN, that became a standard replacing the Byzant of Constantinople.

Taxes were also not fully developed and this was furthered by the Crusades to raise money for the cause. While there were taxes on movable property including income, these were limited to 10% in accordance with the Bible practice of a tithe. We did not embark upon this crazy tax structure that we have beginning in the 20th Century until the West embraced Marxism with open arms. Now, instead of God, Karl Marx became the new god followed by governments for he had handed them justification to take whatever they desired as absolute power to rule.

This had profound impact, for one way government funded wars and their own power desires, was through DEBASEMENT of the coinage. That meant reducing the content of the coinage, primarily silver. This is why the gold/silver ratio was unstable. Florence, in fact, maintained no link between gold and silver and allowed the ratio to float. The bankers kept their books in gold, small merchants used silver by law.

This is the background to what has become known as **Gresham's Law**, that BAD money drives out GOOD. What he meant by that was that DEBASING the coinage caused people to hoard the older higher quality coinage. This was deliberate inflation where the number of coins produced from a pound of silver increased to pay bills and this was inflationary for prices would rise to now reflect the lower silver content.

Yet, the other effect was CAPITAL FLOW for as the gold/silver ratio varied, the metals would flow to take advantage of the different rates. In other words, if the ratio was 10:1 (silver to gold) in one place and 12:1 in another, there was an arbitrage trade available. You could take 10 pounds of silver to city A and get 1 pound of gold. Take the 1 pound of gold to city B and now you exchanged it for 12 pounds of silver. Keep doing this and you will become very rich.

Arbitrage has been going on for 600 years post the Fall of Rome, and it existed in ancient times as well. Indeed, the USA did not understand this and we ended up with the Silver Democrats who thought they could simply by decree raise the price of silver above that of the rest of the world. That led to silver pouring in from Europe exchanging it for gold, to the point the United States was bankrupt in 1896. J.P. Morgan had to lend the US Treasury $100 in gold just to survive.

CAPITAL FLOW is by no means limited to trade. Historically, I can show that investment capital flows have been often dominant in the economic mix above that of trade. Even **Cicero** stood before the Senate of Rome in 55BC and warned about a **Current Account Deficit:**

> "The budget should be balanced, the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed lest Rome become bankrupt. People must learn to work, instead of living on public assistance."
>
> Cicero, c 55BC

Ok. So what is in the **Current Account** besides trade and subsidies to foreign lands around the globe? **INVESTMENT PROFITS!** What is that? Everything from dividends paid to foreign investors on domestic stock to, yes, INTEREST payments!

In reality, the more foreign investment that flows into a nation, that ends up as a surplus going into the CAPITAL ACCOUNT! However, any dividend or interest payments to the foreign investor go through NOT the **Capital Account** but through the **Current Account**.

The more attractive a nation becomes to foreign investment, the larger the overall surplus will appear in the CAPITAL ACCOUNT while the profits on that investment appears as an outflow through the CURRENT ACCOUNT and that means DEFICIT!

This is why Princeton was the only firm to get it right in the 1980s. Those who have access to the Australian newspaper archives may look up the piece written about how Princeton taught Australia a lesson in economics. I believe it was 1986 published with my picture probably in the Sydney Morning Herald where I had to pose on the top of a building overlooking the city.

It seems that this lesson has to be taught all over again. This is why the USA **Current Account Deficit** is chronic, and the press doesn't bother saying too much about it. It is not even touted as a reason any more for the rise and fall of the greenback.

Indeed, if the USA moved into a big **Current Account Surplus**, it would be the rats abandoning the ship. For that would mean foreign capital is selling US assets and taking its money home. That would be the beiggest sell signal perhaps in the history of the WEST.

So, will a **Current Account Deficit** mean bearishness for the A$? Absolutely no way. As long as foreign capital flows to Australia, there will be a **Current Account Deficit**. If Australia turned to a surplus, it is time to sell, not buy!

Statistics are like prized government witnesses. They can say anything for a price. Take GDP, for example. Here is another monument to stupidity. One of our research staff, Isabel Ring, came to me one day and said she found an error in the USA GDP calculation that was so obvious, she was convinced she was wrong. They calculated total government spending and total personal income, but did not backout the double counting of all federal government employees.

Clearly, including total personal income included government employees. Total government spending included government employees. I looked at the data myself. I was unable to find where the double counting was being corrected. I called the head of the BEA and brought it to their attention and asked where it was being accounted for, since this error was so obvious, surely someone else had noticed. I was told they would check it out and call me back. They never did and when I called again, they just said no comment.

This is why when the government was hiring the census workers, it was like then hiring twice the amount of people. However, once they laid-off the people, we crashed and burned for this was like leveraging the unemployment numbers.

Things are confused enough. We don't need this sloppy accounting that is driving markets, distorting capital flows, and in general, turning things upside-down. We so desperately need to revise the whole entire system, that I fear we will be headed into World War III with a lot of finger-pointing over **WHO DONE IT!**

Perhaps my globe trotting and our offices on every continent forced us to see the world in its true colors. I remember doing business with the Arabs and seeing a lot of brokers in Geneva servicing the oil money. When I was in Japan after 1985, going into the 1989 high, there were the same brokers from Geneva now in Tokyo. The talent roamed around the world following the money. I believe this hands-on experience led me to see the world through everyone's eyes. I caught of glimpse of how and why real money flowed between nations. This was no stagnant classroom using theory in a perfect world built upon bogus statistics. I lived and then worked in a world that paid no attention to nonsense. This was the real world of the true movers and shakers.