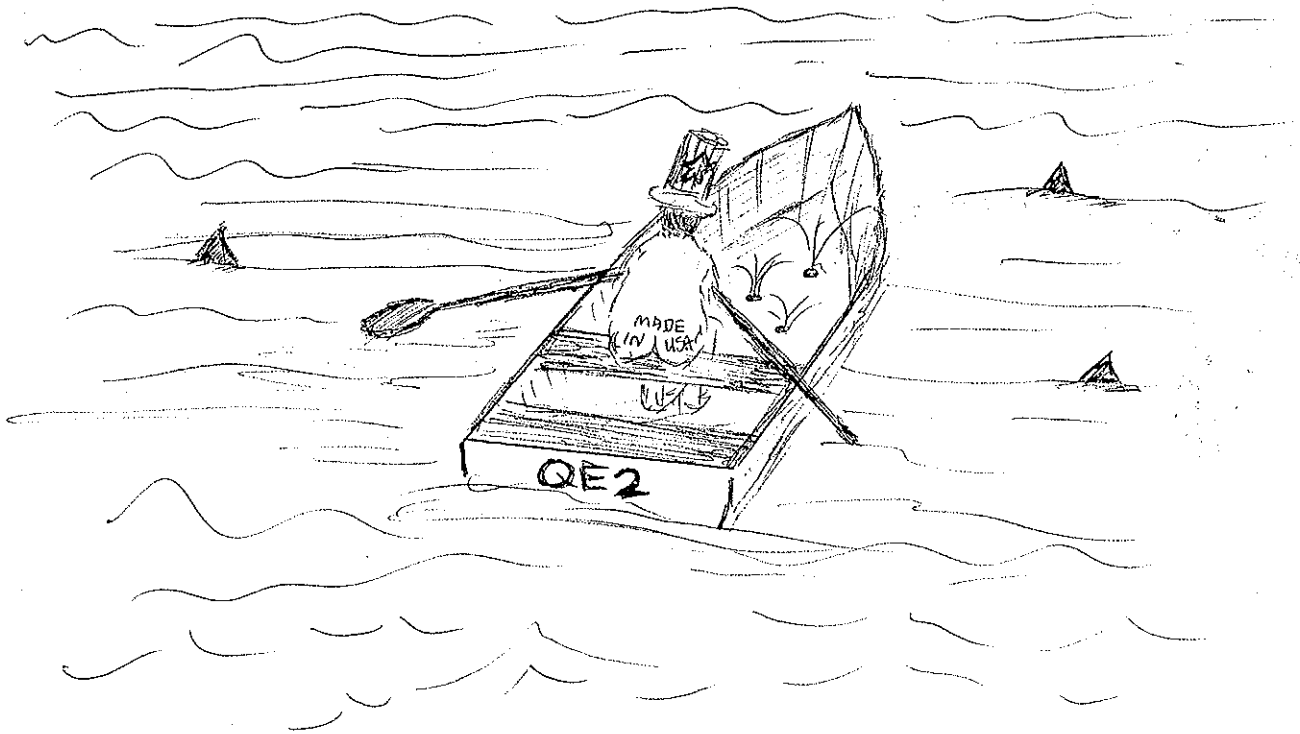


Armstrong Economics 阿姆斯特朗 经济

Forecasting the World

Indirect v Direct Stimulus



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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.

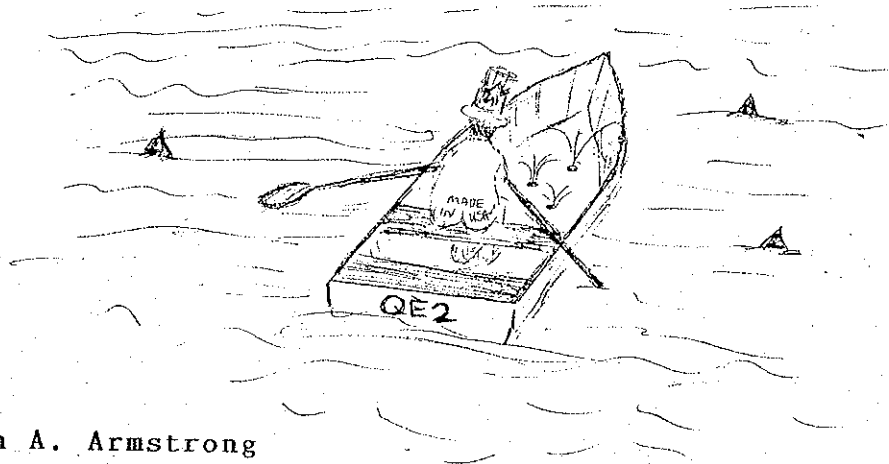
The purpose of these reports is to broaden the understanding that is so vital to our personal survival. Government cannot save us, and will only assist the very economic disaster we face. This is a Sovereign Debt Crisis that threatens our core survival. There is no plan to ever pay off debts. The majority 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,

Indirect v Direct Stimulus



By: Martin A. Armstrong

Former Chairman of Princeton Economics International, Ltd.
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VERY ONCE IN A WHILE, we end up with one of those catastrophic events I called a PANIC CYCLE that is the silver thread that ties all economies and markets together - the Pandora's Box of economic contagion. Nothing but nothing can ever be analyzed in isolation. Everything is interlinked to everything else. Only once you see the world is such a light, will you see the face of this amazing process. It is like looking at the clouds, and then suddenly you see the face that the sum of the patterns combine to form. I have been conservative in what is possible for the years ahead. I have given a number of \$5,000 gold that is VERY CONSERVA-

TIVE. If we take the USA gold reserve 262 million ounces and we divide that into the national debt at \$14 trillion, that yields a price of a staggering amount of \$53,639 per ounce. Even taking the world official gold reserves dividing that into \$14 trillion ignoring the rest of the world, we still end up with \$15,873 per ounce. If gold matched the same percentage gain from 1980 as we saw on the Dow Jones Industrials from 1,000 to 14,000, we come up with the number \$12,250 per ounce. So why are we trading at \$1,400? As always, it is a matter of both time and perception. We are on the verge of watching Western Civilization crumble into dust because the politicians will not listen and the bankers are too greedy to save the nation licking their lips at going short government bonds.

Comparison like these are what gave birth to the absurd "Efficient Market Theory" that was nothing but a sales pitch for used car salesmen and theories upon which the SEC and others went around criminally charging people of the idea that somehow they defrauded the markets by either overpricing or underpricing some stock. These types of prosecutions are no different than the Witch Trials at Salem. "Well she died because a witch looked at her with the evil eye!"

I investigated the markets manipulated by the NY Bankers very closely. It became clear that they were able to accelerate the trend in motion doubling the amplitude, but they could not turn a bear market into a bull market. They could get a rally, tell everyone silver would rise to \$10, and then dump it at \$7 as the buyers came in. That silver manipulation where Warren Buffet had to come out and admit he bought \$1 billion worth of silver, still fell to new lows.

When we look at gold, we are truly looking at just one facet of the whole diamond. It is not a single market in isolation. It is connected to everything else and to some extent, the symbol of Chaos Theory was the statement that if a butterfly flapped its wings at the right time in Asia, he could set in motion a combination of events that culminated in a hurricane that smashes the East Coast of the USA. It may be an extreme example, but what it is trying to reveal is that tiny subtle changes in one market can filter through the silver thread that binds everything together. The fly that bites the elephant's ass at the right spot can make him move.

During the 1980s and 1990s, the amount of gold sold by Central Banks was 4,500 metric tonnes (144.6 million troy ounces). They helped to make the 1999 low in gold 19 years after the intraday high at \$875 on January 21, 1980. Those days are now gone. The central banks do not have enough gold to create a bear market.

China deregulated gold in 2008 and that has opened another vast consumer market. The gold reserves of China have risen from 17 tonnes in 2008 to 143 tonnes in 2010. If China were smart, it should take half of its Foreign Exchange Reserves of \$2.4 trillion and buy gold IN NEW YORK! This will help them in two ways.

- (1) it will reduce their trade surplus helping to politically sterilize the criticism
- (2) it will help China make its true destiny to transform into the new financial capitol of the world.

CHINA - THIS IS YOUR TIME

It seems to be a dirty little secret, but the way I helped the Japanese ease the trade friction with the USA, was to buy gold for it does not matter what you buy, the current account tracks dollars, not the object. Buy gold in NYC and you will then reduce the trade surplus and the American politicians will be so proud that they had lowered the trade surplus, they will be then pounding their chest and yelling - SEE! VOTE FOR ME! I BEAT CHINA!

Unfortunately, all governments die by their own hand aside from those who fall by invasion. The best way to collapse a government is let it run its course. Without fail, the structure of government is so bad that the self-interest for WEALTH and POWER leads to its inability to function in any rational manner ensuring it will only die by suicide. This was true of Communism for centralized planning will NEVER allow any government to respond in a coherent manner to the evolution process of society and its economy.

Adam Smith is hated by the socialist because he warned that governments are always the greatest spendthrifts and should look well after themselves and leave the private people alone. The socialist wants to claim he can manipulate the economy into anything he desires and hates the idea of any free market theory that means he can no more manipulate the economy than the NY Bankers can perpetually turn a bear market into a bull market. The free markets will prevent both from succeeding.

Government wants to believe that by occupying an office of power, that gives them the power to regulate everything no matter what. THEY ARE DEAD WRONG!

Politicians over the decades have been the greatest spendthrifts, but they have also been the greatest frauds that make any nonsense charged by the SEC a joke. These people for decades promised the world with no backing whatsoever. People worked for decades expecting to retire on the golden promises of government. The dream has been shown to be a nightmare and we cannot even wake up to bring it to an end. We are dieing in our sleep.

Everything is collapsing. Europe is in turmoil. In the United States, we suddenly see a debt commission recommending \$100 bil cut in defense, raise the gas tax and raise social security to age 69, lower the corporate tax rate to encourage hiring, repeal the alternative minimum tax, eliminate the deductions on mortgages over \$500,000, cut the farm subsidies by \$3 bil, and cut the fed work force by 10%! By the time my children retire, social security would probably be available starting at age 90.

The collapse of SOCIALISM is widely felt everywhere. The view of US debt by others is taking on the mantle of junk bonds. Many world governments see and feel the CONTAGION effect from the USA because it is the world RESERVE currency. This means that whatever the USA does to further domestic policy, it infects all other nations.

By the Fed buying back government debt, the premise that they will stimulate the economy is ABSOLUTELY DEAD WRONG! The Fed has lost control of the economy BECAUSE THEY NEVER HAD IT! The bond markets defied the Fed and its hairbrain idea of stimulating. The brilliant idea of buying government debt putting cash into the system to try to then inflate the economy out just as ROOSEVELT did by devaluing the dollar and confiscating gold - FORCED INFLATION.

However, Bernanke may not be stating why he is inflating, but he is a limited student of the Great Depression and he does understand the US reaction at that time, yet may not see the bigger picture that today it is China in the same role as the USA was in 1932. The inflation move worked back then marginally and only for one cycle into 1937. The economy collapsed again and fell right back into 1942. It was World War II that did more than INFLATE, it distracted Americans and helped to shift the glut of unemployed from agriculture into the army and then into a skilled work force. These conditions do not exist today. The reason stimulation will fail, is because the problem is debt and you can't buy back what you desperately need to sell more of to keep the game on the float.

IT IS THE DEBT THAT HAS TO GO!

The one thing that is true in every economic collapse, the bond holders lose ABSOLUTELY EVERYTHING! Just as the government workers are on the alert that the new Republicans are going to attack their dreams of milk & honey, there is far too much resistance that exists and we are going down with the ship. Nobody will yield. The government unions will fight. They were promised pensions that are now far more lucrative than anyone in the private sector. We will see protests rise in the USA just as we saw in Greece and France followed by England. This is all typical of the collapse and in fact causes the collapse because people want what they were promised.

Be very careful about the advise that now bubbles-up from New York. Did you notice that Goldman Sachs predicted \$2 trillion in buy backs, and they would buy back the 30yr? Then Goldman was offering to the RETAIL PUBLIC 50 year bonds. Well, the buy back came out at \$600 billion and it would be short-term, not long-term. Was Goldman that WRONG? Or was it that Goldman was talking its own book to bullshit the public again into then buying Goldman paper for 50 years when in fact no Investment Bank has ever lasted that long in any event, calculating from the birth of Goldman. If Goldman is around to pay-off those bonds, it would be defying the laws of nature.

DO NOT TRUST what comes out of NYC right now. They are not stupid. They can smell the blood waiting to gush forth from this debt bubble. Whatever they say, you will see is designed to talk up the bonds to create the sucker rally so they can sell precisely as they did in real estate. There is no difference. It may have once been beware of Greeks baring gifts. Today it is beware of New Yorkers offering bonds! They blew up the country selling foreign debt to the retail public so when the debt crisis of 1931 hit, they succeeded in then wiping out everyone who was missed by the stock market.

Insofar as Bernanke trying to inflate the way out of this mess, he has been in fact criticized and he has said "I grasp the mantle of Milton Friedman." But I spoke with Milton and he believed in the Free Markets FIRST, and he would NEVER have advocated massive debt. Bernanke has no power over anything important. He cannot cut the debt. For whatever he buys back, Congress will just replace.

In truth, the Fed has no clothes. It is a pumpkin hollowed out and its face carved out to make it look like something it is not - defender of the economy. The Fed did not regulate AIG nor Bear Stearns. So Obama's financial reform in July extended the Fed's reach to cover all important financial institutions, not just big banks. We are so far away from what the Fed was in fact designed to do - replace J.P. Morgan's efforts to stave-off the Panic of 1907. Instead of Morgan mustering bankers to save the industry as a whole, the Fed was intended to play that role, yet failed 1930-1933.

The Fed was politically controlled by the Executive until 1951. But its role has been turned-upside-down. When it began, it stimulated by purchasing CORPORATE PAPER - not government bonds. Because of World War II AND the inflation policies of Roosevelt, the Fed was directed to buy US government bonds and to support them at par abandoning the entire design of supporting the economy.

We then have the Monetarist Theory that inflation is created by an increase in the money supply. Therefore, Congress put two and two together and came up with THREE! If inflation was caused by a rise in money supply, hell that was the Fed's problem so they were then expected to sterilize the deficit spending of Congress with no such direct control mechanism.

The Fed was incapable to preventing what was perceived as the Vietnam War era inflation into 1969. Yet they did not see the global effect of creating more money that the promised land of gold backing. The Vietnam War became the visible inflation agent, but in fact, it was accumulative from the start of Roosevelt and his then artificial suppression of the bond market until 1951. Vietnam was the stimulus that broke the camel's back. It was NOT the sole agent of doom. This culminated in the closing of the gold window in 1971 and the birth of the floating exchange rate system.

Volker went nuts going into 1981 with this hairbrain idea that interest rates can effect the demand. He raised the discount rate to 17% and SLEW the dragon inflation, but at a huge cost of altering the usury laws and setting in motion the multiplying factor of the national debt. Issuing bonds at such high rates of interest, succeeded raising the growth rate in the debt from 245% between 1970 and 1980 to 356% between 1980 and 1990. Because Volker could no in any way isolate the US government, he also forced the Treasury to pay higher rates of interest escalating the national debt much more rapidly. Thus, today, 68% of the total national debt is accumulated interest. This is why we have nothing to show for anything and we are exporting about 40% of interest paid to other lands. This has become the GREATEST transfer of wealth that should have gotten the Marxist/Socialists mad as hell. But, alas, they don't understand it!

The track record of the Fed is dismal at best. It failed to save the many banks between 1930 and 1933. The NY Fed was too wrapped up in trying to play ball with the Europeans, It may be true that the Fed's mandate is to stimulate inflation to try to bring down unemployment, but that is a conception devised by Congress, not the reality of the markets.

For the conspiracy theorists who see this as one giant scheme to dominate the world, sorry, but they give these people far too much credit for understanding what they hell they are doing. In truth, there will be no ONE WORLD GOVERNMENT because they can't agree in Congress no less with the rest of the world. Even if they did create such a monster, its life span would be only a few years. There is too many cultures and ideas to ever reach agreement.

These are people who want to play king of the hill and boss everyone else around. But they will not be capable of doing anything for they have no more understanding of the economy than the communists. Central planning DOES NOT WORK! These people have destroyed our future and they could get the ultimate prize even in the middle of their own dream.

As to those who think this could have been avoided with respect to the mortgage crisis had the Fed had more power, you had better change the pipe you are smoking. When Robert Rubin broke down the walls between insurance, stocks, and banking and returned everything to where it was prior to the big crash in 1929, he opened the door for his beloved Goldman Sachs and wiped out the economy. He became an advisor to Citibank, & that worked out just as good for them. This is NEVER about doing the right thing. It is about grabbing what you can for as long as you can and the hell with the country and the world for that matter. It is that moment of ecstasy where they will say anything to reach the immediate goal. The morning after - well that's a different story and a new day.

If the Fed truly wanted to stimulate the economy BUY CORPORATE PAPER NOT GOVERNMENT for the government paper may be owned by foreign investors and the money is just exported. Buying CORPORATE paper would be a direct stimulus to restart the economy.

Buy Corporate Not Government Paper

We do everything indirectly and clearly ass-backwards. We pour money into the banks and expect that they will lend to corporate clients rather than speculate. The banks have always gotten us into a mess for centuries. The bankers in Ireland have wiped out the national savings. Their losses exceed the staggering amount of \$50,000 per household. Did they lend that much money into the real domestic economy? ABSOLUTELY NO WAY! They bought what they thought was a quick buck and no risk. They wiped out the country.

We still try to influence demand with raising and lowering interest rates. That assumes the banks pass on the effect and we are again back to INDIRECT stimulation. The bankers are speculators and we cannot place our country in the hands of the banks for all we will get is pain and suffering in return if not war.

STOP the bullshit indirect stimulus. Buying back government bonds expecting to increase the supply of money is a system that is porous! There is NO guarantee that the money will stay in the country. There is no guarantee that the banks will lend that money rather than speculate with it. And so, the Fed has absolutely no control over anything whatsoever.

I come not from academic nor from the commercial banking sector, but from the real world of international corporate advisory and finance. I have had a front row seat for decades to watch what really takes place. What is believed is simply DEAD WRONG!

We NEED DIRECT management, not INDIRECT. I would not have given 10¢ to the bankers. I would have gathered the deposits and then ensure 100% would be returned, but let the bankers fail. To let those high-flying banks dig their way out of a hole with public money leaving the economy behind, was something you would expect from dumb and dummer.

This is the problem when the banks run government. They look out for themselves at the expense of the nation. Stimulate by only direct means securing actual deposits and not the leveraged derivative profits would have been the prudent way. You buy corporate paper as the Fed was suppose to do originally NOT BANK PAPER that fuels speculations. The non-trading banks who are the core traditional commercial banking are the only banks worth saving. Those who want to be high-flying hedge funds should have failed with a bad trade. That is part of trading. You learn from your mistakes. But the NY Bankers want to rig the game so they keep all the profits and share the losses with the people.

Buying corporate paper would have been the first step in attacking unemployment directly. But then again, that is why the government keeps me where I am - to stop rocking the boat. Sorry! The boat has holes and the captain is but-ass naked.

We stand at the end of a long and dark road. All that remains is a cliff before us. Keep interest rates down, help the banks now become trillionaires, and pray for divine intervention. Because that's all you have left! I will help only countries ready to try a new way.