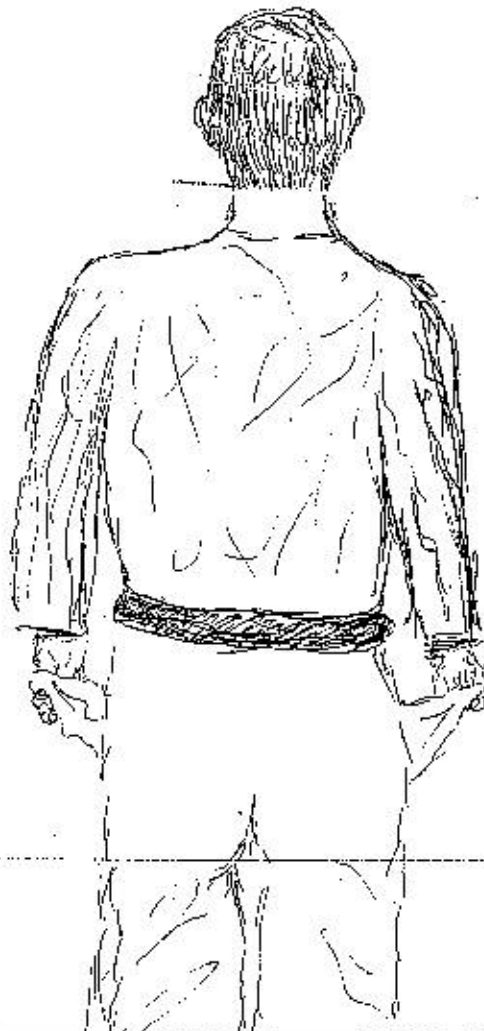


**Soaking the Poor
for the
Benefit of the Rich**

**What
Marx
Got
Right!**



Martin A. Armstrong
former Chairman of Princeton Economics International, Ltd.

A C K N O W L E D G E M E N T S

I would like to thank the many people who have been writing from around the world. It is encouraging to know that there are so many people who are interested in uncovering the truth. I have also special thanks for so many providing valuable insight into trends around the world from China, Soviet Republics, South Africa, Brazil, Australian, and India. I believe we can survive the folly of governments even if they refuse to listen. The key is understanding the nature of events, and that allows us to correctly make the decision to be on the opposite side.

I would like to also thank all my old friend and former clients for their support and to know that they have continued to gather information that serves us all in times of crisis.

We are standing on the precipice of a new era in global-social-economics. How we enter this new age is of critical importance. Government is incapable to doing anything for any reform of its own abuse of power is not up for negotiation. We must weather the storm, and to do so we need to understand its nature. Just as the 1930s Great Depression set in motion profound changes that were even manifest in geopolitical confrontations, we have now reached such a crossroads. A debt crisis has its tentacles deeply embedded into every sector right into government. This is the distinction from a mere stock market crash that never alters the economy long-term. We are seriously still over-leveraged and some banks are still trying to be hedge funds and have to speculate to make a profit. That is a key warning sign that the worse is yet to come.

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This Report may be forwarded as you like without charge to individuals or governments around the world. It is provided as a Public Service at this time without cost because of the critical facts that we now faced economically. The contents and designs of the systems are in fact copyrighted. At a future date, a new edition of the 1986 The Greatest Bull Market In History will be released and a new book will soon be published on the model itself - The Geometry of Time. It is vital that we do not forget this is a world economy and the arrogance that any nation can dictate to the world is just insanity. Every nation effects all others no different than if one nation were to pour all its toxic waste into the ocean. Everything is interlinked and solutions are never isolated events.

Soaking the Poor for the Benefit of the Rich



What
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by: Martin A. Armstrong

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MANY people assume that because I am against Marxism, that this means I advocate soaking the poor for the benefit of the rich. To really understand the truth of trends, if you are unwilling to examine the propaganda without personal bias, you will never see the light of day. This argument between the rich vs the poor, has been so distorted and used to further other goals hidden beneath the surface, we get a lot of heated arguments with no substance. Unfortunately, if you will not examine the facts, then you are allowing those who will manipulate the real core of the people, get away with everything.

Let us examine what has really taken place under Marxism. Putting Russia and China aside, let us look at the Western nations who adopted Marxism under the label of "Socialism" or "Progressive Movements" post 1883.

By raising taxes on the "rich" what we really get is corruption. This creates the lobbies that feed the political process and keeps democracy in check for it creates a perpetual ruling political oligarchy. The "rich" have the option to move their wealth offshore. The average person cannot move his labor offshore without physically hopping on a plane or boat. The "rich" can hoard their capital and refuse to lend or to engage in commerce of any kind, while the average man cannot hoard his labor. So there is a substantial difference between capital and labor.

The majority of taxes collected are always from the working class because they constitute the majority. About 70% of all federal taxes are paid by the average man and this is even higher in the states where they rely upon property taxes. If we took the richest people in society and turn them upside down and shake every dime out of them, what will happen is we will not even just for one year balance the budget. The list of the richest people are mostly foreign and no longer American, and they are only billionaires whereas we are into the trillion dollar deficits now.

- (1) there is not enough "rich" to pay for what the politicians promise.
- (2) it furthers political corruption and defeats the very essence of what a democracy was suppose to do.

Let us look at the inheritance taxes. The idea was that we would take the excess cash left behind to one's children. Today, the rate of taxes are about 50%. The net effect is the precise opposite of what the politicians pretend they are doing.

The number of independent farmers has dropped by nearly 85% since 1940. What has really taken place is that the income tax was first sold as a way to make those damn "rich" pay. So upon its introduction, only the rich paid anything. In 1935 FDR passed the Social Security Act and the "Soak the Rich" Wealth Tax Act. In 1942 the "Victory Tax" was introduced to take profits of those who benefited from war. Roosevelt enacted a wage and price control to stem inflation in By World War II, the payroll tax was now put in place and the average working man was now taxes on income and forced contributions to Social Security.

Nevertheless, why has taxation had the opposite effect? Because of inheritance tax extended down to the average family, farms that were in the hands of a family for many generations became taxes now and were of course appraised with rising values. The next generation had no such cash to pay the tax, and thus began to sell farmland to pay the government demands. After several decades of this trend, the average farmer was forced to sell off land, and that land was bought by the new corporate farming operations. The claim that inheritances taxes would take the excess funds from spoil rich kids, had the opposite effect of driving the average man from his property.

The very same trend is taking place now due to rising state property taxes. Retired people whose home is paid-off, find the tax rates continue to rise. Their savings over their entire life, have not kept up with the thirst for taxes. Retired people are being forced from their homes and to migrate to places like Florida because they can no longer afford to live in the home that they had raised their family.

What is taking place is a clever shell game. I debated Steve Forbes who supported the Flat Tax during his bid for President and former Governor Jim Florio of New Jersey who was driven out of office over tax hikes. The debate took place at Princeton University.

I sat between the Republican and the Democrat and argued for the retail sales tax. I pointed out that we were borrowing money from the average working man and not having the simple decency to pay him/her interest on their own money. The payroll tax was forcing workers to pay money, and then they all celebrated their refunds at the end of the year.

I someone said please let me hold your money and at the end of each year I will promise to hand it back to you. Is this a good deal with no interest? That is what the government does with a shell game and when they are done with the average man, he thanks them for giving back what was his all the time.

American labor is the most suppressed. The Income Tax is on worldwide income. I also testified before the House Ways & Means Committee in 1997. I was asked why most of the big contracts in China were going to construction companies of other nations. I explained that only the US and Japan taxes worldwide income. Consequently, an American company bidding on the same project in China, is in fact 33% more expensive. Where Germans could bid on the project, they could also export their own citizens labor who were tax free. Americans cannot take their labor offshore tax free. They are still taxed on what they make overseas. This is why the US is now after Switzerland.

Taxes on worldwide income further makes the average man uncompetitive and prevents him from exporting his labor whereas capital can re-incorporate in another nation. This whole idea of taxing the rich to benefit the poor, just doesn't seem to really work at all.

Internal Revenue Collections 2002

Corporations ...	211,437,773,000
Individuals	1,037,733,908,000
Employment Tax..	688,077,238,000
Estate/Gifts ..	27,241,515,000
Excise Tax	52,136,835,000
Total	\$2,016,627,269,000

Source: Internal Revenue Service Data Book 2002

When I was in Australia during the late 1980s, there was a political election going on and the debate over a "Luxury Tax" where the slogan was they were going to tax those "rich" bastards who enjoyed their "French Wines, Fur Coats, Ferraris." The truth was I

had only seen 2 such cars since they were already were taxed 100% and were twice the price in the US or Europe. Australian wine was better than most French or of equal quality and any business diner I ever went to always served Australian, never French. And the climate was warm I never saw a fur coat outside of Melbourne. But what was hidden behind all those cheers was the fact that every electronic product was now to be also considered to be a luxury.

What is sold as "soaking the rich" has always come back to exploit the average man and reduce his living standard. What he has to pay for picking up his trash and to send his children to school, is far more than if he had the right to buy those services from a competitive system.

Those who want to think that being against Marxism is somehow for the rich to exploit the poor, had better read the fine print of what is being sold by the politicians. Have you noticed that Paul Volker who now advises Obama, was also there under Reagan? Has anyone noticed that there is no investigation of Goldman Sachs, J.P. Morgan, of AIG? Doesn't anyone find it strange that we have ex-Goldman Sachs head Mr. Rubin who ran the Treasury under Clinton, and then we had Paulson under Bush? Is there any real distinction between Republicans and the Democrats behind the curtain? You will find the same players, playing both sides, and it is their money that is pouring into the political machine - not the average man.

I am firmly against Marxism, not due to trying to help the rich, but because it is an excuse for corruption. I certainly believe in "free markets" but that does not include in that definition the manipulation of the markets to the gain of particular banks. That is not a "free market" and the collapse of Long-Term Capital Markets in '98 and the mortgage backed pools in '07, were schemes built upon not free markets, but on the presumption that the politicians will make sure they suffer no loss. Rigging the markets and bribing officials is not the "Free-Market" idea. It may be the dark side of Adam Smith's Invisible Hand, yet this in no way diminishes what he discovered. If we listened to him, he also warned that it was government who was the biggest spend-thrift in society.

If we truly had the type of government that the Founder of the United States tried to create out of their wisdom of looking at history objectively, then there would be no political class. The average man would be in the Senate or House and for one brief term. Perhaps at best the Senate might be a more professional class with 6 year terms. But the House was to be 2 year terms and Congress had only met for a few weeks a year at first.

If we had no income tax as we once did, then the "rich" would not be moved in their own self-interest to get control of the very government. If the representatives were real people with only one term and supervised the bureaucrats, then there would be far less corruption in government.

The downside of the "welfare state" has been to undermine the American family. Where for centuries, the children took care of the parents, today, they walk away and assume it is the state's job. The bonds that once had cemented the family structure, were broken. In Japan, we saw several generations still living together in the same house. As we have capitalism exploding in China, the government policy to limit families to 1 child, has come back to create new problems. The social net of the family broke. Elderly couples are now offering their homes to woman who will move in with them and take care of them, and they will inherit their property. People once had larger families as a safety net for retirement.

Nothing that takes place is ever one-sided. There are ripple effects that move through the economy in ways often never once considered. In New Zealand during the 1980s, interest rates soared to 25% and the country was on the brink of bankruptcy. When I would travel there from Australia, the joke was all you had to do was pat a Kiwi Girl on the head and her legs would spread. While crude, this was a reflection upon a welfare program where if the girl became pregnant and did not know who the father was, then the state would pay for everything right down to providing a home. They ended up with the largest number of women perhaps in Western Civilization who had no idea of who the father of their children was. Of course, they lied to get the free home and when the social worker came, the father jumped out the back window. That too was self-interest.

Of course we have to have a social duty since the very purpose of coming together in a civilization, is to share a collective benefit from the interaction. That does not justify tyranny. However, there are basic fundamental services that must be provided or there is no purpose to society.

- (1) the right to freedom of religion
- (2) the right to be free from any discrimination whatsoever due to race, creed, or social status
- (3) the right to equal justice
- (4) the right to education that is the very essence of economic progress
- (5) the right not to starve or be thrown out on the street
- (6) the right to healthcare
- (7) the right to settle a dispute between individuals and the right to access the courts, and that includes the right to counsel to prevent oppression by one individual over another
- (8) the right to remain free from government fines and fees.
- (9) the right to remain free from any government prosecution except for crimes against the state directly
- (10) the right to be free from any direct taxation of income, gifts, inheritance, or anything that necessitates reporting any personal information to the state

These ten fundamental rights most have no idea have all existed throughout time. You will recall the Biblical story of King Solomon who listened over the dispute between two women over whose child survived. The duty of the king historically was to preside over private disputes. There was no court fees. This was a right of all such citizens. There should be court appointed counsel for all, and this will ensure that no wealthy company can outspend a citizen to have their way in taking land or some other right. It is the historical right to defend, and that must be on equal terms. This will prevent oppression and it has a long history of success.

The right to freedom of religion is also the right to be free from having to subscribe to any religion at all. That means there is a mandatory right to remain free from any law that is imposed because of one group's religious beliefs. If you cannot live in a state where no one may outlaw abortion, then leave. I personally do not believe in abortion. But I have no right to force that view upon another. What would happen if Mormans or Islam became the "state" religion. It could then be made a felony if a man had just one wife, or if women walked the street uncovered. Freedom of religion means the freedom of others to disagree.

The right to equal just for all is so fundamental to liberty, if anyone dared to disagree, they should be exiled and live in a society that supports their belief.

The right to education is our future. When I was in New York, I met first hand countless blacks from Harlem. Most never graduated school. The drug dealers were actually natural salesmen. They had no real exposure to a real business, and grew up seeing the drug dealers with their fancy car and lots of women. That became the idol. I met a couple of old Italian Mob boys in their late 70s. They too described the same thing where the Mob took care of the people and began counterfeiting food stamps long before Prohibition. They too saw the people respect them and that became their idol.

When I discussed the drug business, I was shocked to find people going to jail for 10 years to make even less than \$1,000. The margin was so narrow, I explained that in a retail store, the mark-up was usually double. They had no idea what could be made in legal business. They were street sellers who the government fills the prisons with and nothing changes because there is another uneducated kid to be hired to replace them. These are not the people who manufacture or even import the drugs. The Feds lock up the street sellers by the thousands that changes nothing. Education to show the real possibilities is vital. If the schools cannot teach real world facts, then change them. If we ignore this underclass, when their numbers multiply and they begin to starve, they will become a mob and society will be put at risk.

There must be a fundamental right to life once born, where no person should be allowed to starve. There must also be a fundamental right to have a place to live. If we cannot provide these rights as a people, then we cannot be very human.

Instead of unemployed, the jobs in the state should be provided. Hence, there is no hand-out to people who just do not like to work, but there should be use of the jobs at the state rather than promising all sorts of pensions they will never pay to people who would otherwise be in the private sector. This would also help keep the cost of the state down dramatically.

The right to healthcare has to be a fundamental right. That does not prevent private doctors and those who wish to have supplemental medical services, but we have to provide a basic health service. When I was starting in business, I gave employees full benefits for them and their entire family. As cost kept getting higher and higher, such policies were over \$20,000 per year, per employee. What once was a cheap benefit, consumed everything. That is why I have stressed tort reform that neither side will address.

The right to be free from any fine by the state is a check and balance against the abuse of their power. Countless small towns hire cops and direct their judges to find everyone guilty of something and impose the highest fines. This is revenue, not law enforcement. If the state could only order public service with no monetary benefit, you will find far less corruption. Insurance companies will only then raise their rates and you may lose your license effecting any job, all because the real goal is revenue not policing the streets.

Even in Athens, private disputes were private. The only right a state had to ever prosecute a individual, was for crimes only against the state or the gods, such as was done to Socrates. The murder of a person was prosecuted by his family, not the state. It was after Magna Carta that restricted the king's ability to impose fines for anything to raise money, that it was the English King who changed the law. He claimed that any private dispute now "disturbed his peace" and thus he had standing as a party to now prosecute private disputes.

Once the king claimed standing to now prosecute anyone for private disputes, he quickly imposed new penalties. Every felony became death because it allowed the king to confiscate your property. If you had a wife and children, well so be it. They were just thrown out on the street. This is where he engaged in torture. If he could compel you to confess, then there was no need to prove anything, and he won. So many died under the rack to save their families. Today, the US still compels people to plead by threatening their family with prosecution, or by then overcharging you so than you face life. If you plead, you get a far lessor sentence and it becomes the Prisoner Dilemma. The plea rate is now 98.5%.

The freedom from any direct taxation is fundamental to liberty. The state need not know if you found a dime in a parking lot. The "rich" will keep their savings onshore and that will reduce interest rates even for the poor. Indirect taxation results in everyone paying regardless whether you are a visitor, citizen, or alien.

What Marx Got Right

All we have to do is look at Hong Kong. The British followed the ancient system of long lease. Then rented the land for 100 years. This system was a throw back to the medieval times and indeed it was the symbol of how wealth was prevented from transferring from one generation to the next. This is where the terms "landlord" come from and "free hold" meaning that the land could be bought.

This was the "rich" preventing the poor from ever getting rich so to speak. It is why so many came to America to become land owners.

However, Marx's assumption that taking everyone's toys away and giving them to the state failed. People are people, and just because they run the state, does not make them saints in the least.

What we are facing is still the collapse of this Marxist state of socialism. It is in fact imploding because those in power have abused their position, promise things they never funded, and spend far more than had they confiscated all the wealth of the rich in any event. If the system was honest, we might have produced a different result.