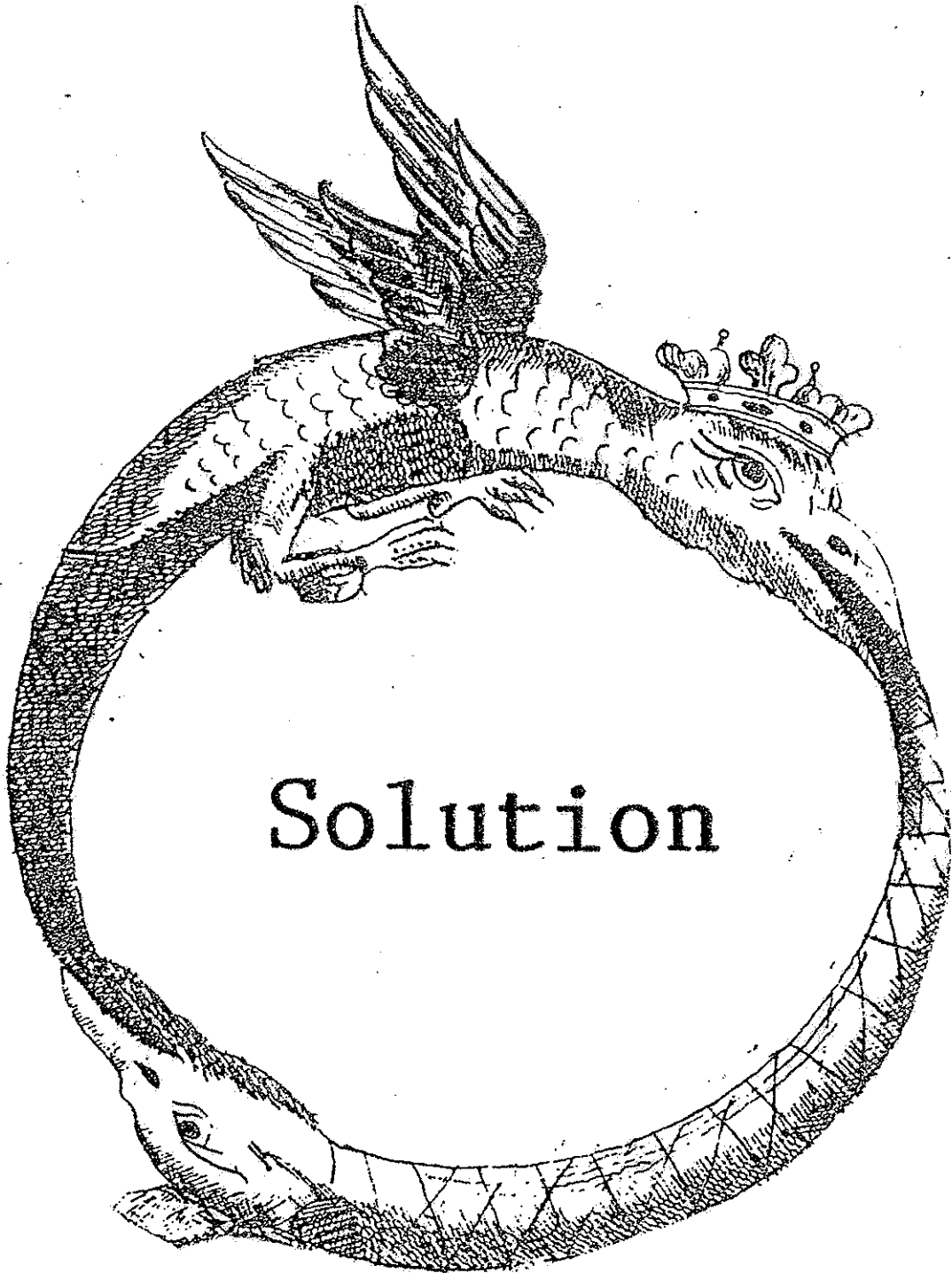

Armstrong Economics™

The Paradox of



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

Copyright Martin A. Armstrong All Rights Reserved April 18th, 2010
Comments Welcome: ArmstrongEconomics@GMail.COM (Internationally)

Comments & Information Please Send by Mail

Martin A. Armstrong
#12518-050
FCI Fort Dix Camp
PO Box 2000
Fort Dix, NJ 08640

ACKNOWLEDGEMENTS

I would like to thank all the former employees, associates, sources, and contacts for their continued 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.

Everything we 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 who 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.

PLEASE REGISTER YOUR EMAIL ADDRESS
FOR UPDATES & SPECIAL REPORTS WHEN CRITICAL

ArmstrongEconomics.COM

YOU MAY FORWARD ANY REPORT TO A FRIEND OR TO ANY
GOVERNMENT TO GET POLITICAL CHANGE MOVING

Copyright, Martin A. Armstrong, all rights reserved

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.

Thank You For Your Support

I would like to thank so many people for their continued support. What we face in the years ahead is not going to be easy. There will be NO Great Depression as there was in the 1930s. In fact, where America was bankrupt in 1896 and Britain was the center of the world economy reaching its zenith by 1914, its fall from grace eliminating the title "Great" passed the torch to America and by 1929, the USA had become the largest economy in the world measured both by productive capacity as well as by the standard of its gold reserves. What took place in 34.4 years (4 x 8.6), is once again unfolding from 1989 as the torch is now passed from America to China.

We are on the verge of such a profound economic fall from grace, that we are flying too close to the flames and we may crash and burn through the turmoil of civil unrest. I cannot stress enough that we must understand the nature of the problem before we can comprehend the solution for the future. I would like to think we can make a difference. But to do so, it will take many in ALL nations to DEMAND that political change is addressed BEFORE the next crisis.

Since politicians act in their own self-interest, we are most likely doomed. To get them to do something BEFORE the crisis, is not realistic. Nevertheless, all we can do, is kick up our heels and DEMAND change, even though they will ignore the people. We are in such a economic crisis, it is likely that even Obama may be a one term president. The status quo, is not what it use to be.

There are people in various governments around the globe who can see the crisis coming. I remain in contact with them and pray that they will be able to gather the support within government before it is beyond all hope. Each of us is charged with a duty to try our best to save our own future and that of our children. I have been working very hard to explain the full scope of the problem and the solutions we must embrace to be released in a book format.

Please register at ArmstrongEconomics.COM. I will be providing some special reports to those who register.

With each event, the solutions that emerge are merely a restoration of errors that are seen as setting in motion the previous crisis. There is so much that has to be restructured, to address it all and how it truly works requires a book. It is almost done.

The Paradox of Solution



By: Martin A. Armstrong

Former Chairman of Princeton Economics International, Ltd.
and the Foundation of the Study of Cycles

THE Paradox of Solution is alive and well. I wish there were some way to prevent the complete economic madness that will be unleashed by the bold new regulations coming down the pike, but there just isn't. During the final stages of the Decline and Fall of every nation or empire, whatever political state that is in power, they inevitably turn against their own people. We are seeing this in the thirst for tax revenue and all one need do is look at the legal notices in the Wall Street Journal of page after page of notices of property seizures. Even someone who grows pot in their basement for personal use places at risk the loss of their entire property under the drug laws. This is all about money. Fines and penalties are rising on just about anything you can imagine all in a revenue gathering mode. The health care bill is not without its tax hikes. Yet these are the minor events within the trend. The more serious huge problem is screwing up the entire economy under the pretense of protective regulation.

It is one of the strangest paradox event of all time when the solution to a immediate crisis become restoring the very system that created the previous crisis. Yet there is a serious problem lurking behind the regulation changes both circulating in Congress and now those proposed by the SEC. There is simply a complete lack of understanding of how the global economy even functions. Those who are proposing these regulations are clearly lost and remain clueless even about the evolution of the entire financial system that has in fact brought us to this point of no return. We are about to commit economic suicide and that seems simply unstoppable.

There has been a tremendous and complete breakdown in understanding what roles each entity possessed going into this crisis. The one entity that seems to unfairly taken all the blame is none other than the Federal Reserve. There is much debate that links the Fed to the big banks and that alone leads to the popular view that it should be destroyed. The proposals TO STRIP IT of all power over the bulk of the banks and transform it into some sort of watch-dog over only the very biggest, illustrates above all else, the complete and total misconception of what the Fed was indeed suppose to have been when it was formed in 1913.

People who hate the Fed have largely in fact overlooked what its historical purpose was suppose to have been. Today, people just blame the Fed when in fact the Fed never had any regulatory role over investment banks who created this nightmare. The real culprit has been the SEC and CFTC, who emerge in shining armour armed with more power to screw things up than they had before the crisis.

Most of the hatred against the Fed has centered on its claimed control of the money supply. This was NOT its original intent in 1913 and the reasons why local banks sat on the various boards in each of the 12 branches was in fact to replace the role J.P. Morgan had provided in 1907.

The purpose of the Fed was simply to provide funding to prevent a banking crisis and that funding was to come from the banks themselves. Much has changed since 1913 and the role of the Fed was transformed sharply in 1935. Before the advent of World War I, the open market operations to stimulate the local economy was through buying and selling of commercial paper - not US government bonds that became a mandate changing the structure of the Fed entirely.

Once the politicians ordered the Fed to support their bonds for the war effort, at that moment, the Fed was truly transformed and began down a path of a quasi-official government branch. This was dramatically indeed changed with the Great Depression. Not merely was there the realization of a global contagion that began in Austria, but this event now led to the usurpation of the Fed even in far more serious ways.

The popular view that Fed was raising interest rates during the early stages of the decline, must be put in perspective of the gold standard. It was the same view even now put forth by the IMF in their advice to nations like Greece - cut spending and move to balance the budget. Just as there is a serious uprising of civil unrest in Greece, this very same policy is what caused the Great Depression. To that extent, John Maynard Keynes was correct. To offset the full implosion, the state should move into being a spender to compensate for the contraction within the private sector. The problem has emerged that governments took Keynesian economics to justify perpetual deficits that he never advocated. However, once the role of the Fed was changed, the system was set to implode.

Just as the 1907 Crash was seen as a major domestic capital flow problem, the 1930s was seen as a international capital flow problem. Benjamin Strong saw the NY Fed as a major central banker with the largest gold reserve following World War I. He saw this role as displacing the Bank of England and adopted policies to try to deflect the rush of capital to the United States by then lowering interest rates. But that move was seen only as a confirmation that there were long-term problems in Europe.

The macho role of Strong led to the usurpation of all independent branch power at the Fed into a single policy established through central control in Washington in 1935. Now, we add the confiscation of gold by FDR in 1934. All the old large size paper currency was replaced by Federal Reserve notes. Suddenly, the Fed became a strange quasi-official branch where private banks still retained board positions among the branches that were stripped of independent power to set interest rates in their region. The new currency became the small size notes still used today beginning in 1934.

Blend this with the new evolving view of Keynesian economics and monetary theory. Suddenly, the political forces were able to have their cake and eat it to. The politicians were able to now spend as they liked because it became the role of the Fed to compensate for inflation despite the fact it did not in any possible manner control the government spending.

Because there were ample hoards of those who generally disliked banks as there were in the days of Andrew Jackson, they focused on the private bankers ownership in the Fed and board memberships. Nobody seems to have taken the time to observe that this was one giant shell game. The politicians could spend as they liked and the Fed got the blame for just about everything.

Now we have proposals to strip the Fed of its role to provide security for the banking system as a whole. The mistake that the Fed made began with Long-Term Capital Management. The news made it seem that the Fed was now in fact bailing out a hedge fund. In reality, it was bailing out the banks without mentioning them by name. It was a backdoor bailout just as AIG. The position defaulted on was with the banks. By bailing out LTCM, it was no different than what just took place with AIG.

Once the Fed bailed out LTCM, they set themselves up as being the masters of their own demise. The public now began to see the Fed not as the protector of the banks, but the entity that was to bailout anything. Thus, we now have the 2008 counterpart to LTCM that became AIG. Once again, it was not a bank. It owed the banks and thus a bailout of AIG was really a bank-door bailout of Goldman Sachs among others. But the perception was forever changed with LTCM. The banks should have then and their suffered their fate. Bringing in the Fed in 1998 has set the stage for the complete and ultimate collapse of the American system.

Consequently, politicians are themselves confused. They are altering the Fed transforming it into some bailout specialist that is just insane. Meanwhile, the very agencies who are directly responsible for the mortgage back crisis, get more power to screw things up even better. We are now back to where we were in 1907. The entire US banking system will be vulnerable to a major crisis. There will neither be the Fed nor a J.P. Morgan to usher in any practical management whatsoever.

Simply put - we need the Fed to be what it was intended to be in 1913 AND NOTHING MORE at all. It is NOT the controller of the money supply. If the Fed tries to stimulate the local economy by injecting cash through its open market operations, it can just as easily buy US government securities that belong to China, then the cash injected into the system will flow out to China, accomplishing NOTHING.

We are not an economy of the old gold standard days. The Fed has no more power over the economy than WalMart. It is an illusion to even pretend the Fed controls interest rates. They can set a rate but the free market will circumvent it. They even call the REPO market the shadow banking system. Once you allow Fed Funds, that means a bank that is over-extended, can circumvent regulations by borrowing excess funds from another. The whole purpose of regulations falls moot at the end of the day.

Neither the press nor the Congress have a serious clue as to what is going on no less how to honestly regulate reality. We are all living in a dream world and then as the old popular song goes, don't bother sending in the clowns, for they are already here. Those who hate the Fed, better look closer.

Assuming we can dismantle the Fed and all our problems will be solved, is taking a shallow view. I do not disagree with all the criticism of the Fed and its structure that is truly morphed into a strange and unthinkable quasi-official government branch. Removing the private banks from the New York Fed and making that position also appointed by the President, merely places the last nail in the coffin. This illustrates that the Fed is so far removed from its original purpose, whatever role it is being reshaped into now, you can bet will do nothing to protect the banking system. One of the very reasons why there was a national FDIC and Fed on top of a state system, was due to the widespread collapse in the 1930s. Even if we go back to the 1830s and collapse of the state wildcat banks, the more regulators involved, the greater the chances for the inevitable corruption. The advantage of a national single entity, is to reduce that propensity for widespread corruption. The secret dealings of the Fed is in fact the clash between the old design and the new quasi-official branch status. Once the view was that money supply increases created the inflation, then politicians shifted the blame to the Fed and borrowed rather than printed and that has led us to the brink of a major debt crisis.

Further evidence that we are doomed is illustrated by the SEC attempt to regulate debt. The SEC is intending to remove the credit rating agencies from the process in evaluating debt products backed by consumer loans. The SEC proposed rules will require the houses issuing the bonds to vouch for their soundness. The SEC brain-dead rules require the issuers to retain a chunk of the securities in their own portfolios. The idea is that they would not put together a debt product that will collapse assuming that they themselves will have to retain a portion as their investment. Mary Shapiro stated that this would "represent a fundamental revision to the way in which the asset-backed securities market would be regulated."

HELLO! Yes, it would be a fundamental change. The problem is it will wipe out the market and ensure that real estate will in fact collapse into 2032. Capital is not unlimited. If a house is going to retain a portion of each issue, it will be limited by its capital. Underwriters will shy away

from issues merely because of the restriction upon capital. What do you do when all the big firms are saturated? The SEC rules would then cut off the securitization market entirely.

The SEC is also assuming that this new requirement will somehow ensure that the debt products are sound. HELLO! Didn't Bear and Lehman collapse because they had excessive positions on their books? The idea may sound nice like some bedtime story you tell your children at night, but it is just plain bull-shit. Neither Bear nor Lehman foresaw the risk when they retained the mortgage back securities on their books.

The SEC is brain-dead. They have simply no understanding of the economy and this is nearly a \$10 trillion area that they are now proposing to regulate with obviously unsound ideas and no track record whatsoever. If you look at the size of the market, that means the capital requirement will be \$500 billion if firms must retain 5% of the issue on their own books. I doubt that even J.P. Morgan can handle more than \$150 billion.

The SEC has conceded that the total of offerings in 2009 were 87 down from over 1,300 in 2004. The rules would extend to private placements which are sold only to institutional investors. The SEC is reducing the entire professional institutional market to the same level as a widow and orphan.

This illustrates the dilemma with how government approaches a problem. They take a constant top-down approach leaving in place the very thing that needs to be reformed or changed, and then regulating that in such a broad manner that we are looking at the risk of collapsing the available market to service consumer loans that will include residential mortgages, automobile loans, and even student loans.

The SEC screwed the entire economy by not properly preventing excessive leveraging and promoting effectively proprietary trading to displace the entire purpose of brokerage and underwriting. Is it that difficult to require some simple reforms such as restoring Glass-Steagall? How about altering the label "Investment Banking" to "Investment House" that will end the public confusion that all banks are not Wall Street. How about a clean simple rule NO PROPRIETARY TRADING beyond hedging that is simply measured by an offsetting position cannot exceed the face value of that to be hedged!

Neither the SEC nor those in Congress seem to understand that you will create a complete disaster by overlaying regulations on top of present structures that will only complicate matters and ensure there will be no real reform. There is no problem with the bonus paid out even at Goldman Sachs. The problem is allowing proprietary trading to take place as the bulk of the profit engine within the banking/brokerage industry. What is taking place is that the industry is not servicing the community, but is an adversary to the community.

Goldman Sachs is a lean and mean trading machine. THERE IS NOTHING WRONG WITH THAT if it is a hedge fund. Proprietary trading should be separated from banking/brokerage. It is one thing for a market maker (specialist) to take positions to provide liquidity and another to create products to sell to clients while taking adverse positions to the client.

Simply divide and conquer. Requiring 5% to be retained to ensure the issuing house has some sort of stake in the product is just nuts. Nobody has \$500 billion to service the consumer loan industry and if the economy was recovering, the SEC should ensure that the consumer will be unable to go to college, buy a house, or even a car to sleep in if the house is too expensive.

It is time to restructure everything for once from the ground up. Enough is enough! We have to begin to step back and look at the whole economy and how it works. Even the idea that the Fed or anybody can dictate the rate of interest is absurd. If capital will not invest in Greece, the rate will rise until the FREE MARKET attracts capital. There is no dictating. The whole idea that the Fed controls interest rates is also absurd. It is just not true.

It is time we stop pretending. The Fed raises and lowers interest rates in hope that it will indirectly effect banks by altering demand. This is like harrasing your wife in hope that she will force you to take out the trash. The DIRECT way to effect banks is to raise or lower the reserve ratio. In other words, if the economy is heating up, you now raise the ratio requirement from 6% to 10% of deposits and that will reduce lending. Instead, the Fed raises interest rates and tries to make the consumer pay so much that they will reduce their demand. Sorry, but it is time for a complete restructure!

The outrage over the Federal Reserve is largely caused by the overwhelming confusion as to how and what it is now, combined with how we got here. Much of this confusion has been centered around the presumed role that the Fed actually controls the money supply and interest rates.

We are trapped to a large extent in a world that no longer exists. Much of the theory of monetary policy is a throw-back to the gold standard and the complete lack of any comprehension of how the global economy has evolved. It is assumed that monetary policy is the domain of a nation's central bank. **THIS IS DEAD WRONG!**

It is true that inflation has been tied to the quantity of money as well as its true quality. I can show numerous examples from ancient history that when there was a real shortage of money, the political state often began to debase the currency, meaning they lowered the purity of silver or gold in order to create a greater number of coins with the same amount of silver. We can see this in the coinage of Athens toward the later stages of its war with Sparta. We can see the long progression of a gradual debasement of the silver denarius that began with Nero (54-68 AD) in Rome, and we can see this within the collapse of the gold standard in Byzantium after the Arabs seized the Nubian gold mines in North Africa. These are just a few easily documented debasements in ancient times.

The practice of debasing coinage indeed reappeared in medieval times. In fact, it became known as Gresham's Law that bad money drives out good money. In other words, when lowering the purity of a coinage based upon precious metal, the public will hoard the old and circulate the debased new currency. Thomas Gresham (1519-1579) was an English financial advisor to Queen Elizabeth I (1533-1603) who succeeded her father, King Henry VIII (1491-1547) who had reigned 1509-1547 whose coinage was profoundly and notably debased.

When Franklin D. Roosevelt sought to confiscate gold, he did so in part because people were hoarding gold out of rumors he would confiscate it. Even in 1964 when the United States removed silver from its coinage as did most other nations, whatever silver coin that had circulated, disappeared within just a couple of years.

When money was tangible, debasement was the game. Hence, I'm sorry, but a **GOLD & SILVER STANDARD** will not eliminate inflation! Those who argue for "sound money" just do not understand that what is money, is far less important than **WHO** controls money. Politicians from ancient times have always sought to make just a little bit more to cover their spending that has never been responsible. Some have needed money desperately to defend the nation as was the case in Athens. Others just wanted to spend more to have nice things like Nero. Regardless of the reason, it is **WHO** controls the quantity and quality of money that truly matters - **NOT** what is actually money!

Now that we understand that it is really **HE WHO CONTROLS THE MONEY CONTROLS THE RULES**, it is time that we journey down this path to reach a clear understanding of what is money and then we can comprehend how to in fact even argue about restructuring the economy & the government.

MONEY IMPLIES THE CONCEPT OF FUTURE

When modern man has encountered lost tribes that society has left behind still living within the hunter-gathering stage, the truly amazing emerging realization has been that there is the absence of the concept of **FUTURE!** In other words, they live for today and do not make preparations for the future. When tribes at this stage in evolution encounter another, it produces warfare over resources and taking women. There is no **TRADE** because there is no concept of the future as we understand it.

To a large extent, mankind reverts back to this primitive stage far more often than one would suspect. Warfare exists from this primitive period insofar as one needs either women (Roman rape of the Sabines) or resources plundering the wealth of a neighbor. There is no practical reason for China to invade the USA nor for the USA to invade China. There is nothing that either nation wants to further its own goals. The only reason for warfare remains to eliminate competition.

In order for society to have created a concept of money, there had to have been the realization that there is a tomorrow. Once that develops, the birth of planning for a rainy day emerges. Something of **VALUE** is now to be stored and retained. Consequently, that simple step created a host of evolving social development.

The earliest forms of money was simply food be it grain or cattle. Once agriculture was born and the domestication of animals, we clearly have the concept of future and with that concept is born money. Where hunter-gatherers simply raided, plundered, and pillaged, the concept of future giving rise to the idea of value (money) gave rise to raiding being no replaced with barter and trade.

To the shock of most, once this concept of future was born yielding the idea of VALUE, everything from banking to derivatives began to emerge even in ancient times. In Mesopotamia, we have price codes for commodities, legal decisions to dispute titles, and FORWARD contracts to sell crops when they come in. There are even clay tablets that illustrate contract law and the emerging concept of bearer bonds. For example, a farmer has borrowed something of value and issues a clay tablet stating that he will pay a predetermined amount of barley to the BEARER of the tablet at crop season. In order to truly appreciate what these clay documents are, you must realize that they in fact do NOT state a particular person. What is absolutely amazing, is that they expressly drafted to pay whoever the BEARER may be. This implies that the tablet circulated as a form of private bearer bond. This is NOT a limited loan from one person to another. This is a freely circulating bearer bond. There are also loans with official usury laws limiting the amount of interest one could charge.

The implication of this economic activity from Mesopotamia illustrates the emerging and dynamic development of banks, credit, trade, and interest rates not to mention insurance and people would share the burden of a voyage in a fundamental way creating venture capital. Therefore, this practice of hating the banks goes back a long time and is focused on the typical person who complains when loss now emerges.

While I far from a fan of Karl Marx, I cannot overlook his observation about labor representing value. The idea of communism was to create a state of utopia where money is not necessary and is replaced by a unit of labor that is collectively employed to now create the perfect state. Marx dehumanized people and only saw the exploitation of labor while ignoring that the so called "rich" that presented the greatest threat to the people were those who controlled that state, not corporations.

Money is not gold, silver, cattle, grain nor oppressed labor. Money is the future idea of value. Marx was partially correct in seeing labor as value. The wealth of a nation is its total productive force. That labor can be both physical or mental. It is best expressed as the TOTAL PRODUCTIVE FORCE of a nation. Thus, a man who invents the automobile has produced the PRODUCTIVE FORCE that will bring in far more than a single individual building one automobile. Bill Gates will do far more for society in furthering the national wealth (creating jobs) than a single individual who only repairs the car.

Money is only an expression of value. It can be whatever the other person is willing to consider has value. Barter is the ultimate meaning of economic communication that created trade. Money merely facilitated barter since it was not always possible to find someone who had what you wanted but was willing to exchange it for barley that was your sole crop. Precious metals merely became universal insofar as being accepted as a medium for all exchange.

MONEY BECAME THE LANGUAGE OF TRADE

The concept of barter thus emerged with the concept of future. Then, money emerged as a universal language of barter. Precious Metals simply became more convenient than cattle to transport. Nevertheless, it was only the language of exchange. It was NOT the sole reason for trade. Neither did gold or silver create wealth. The wealth of a nation emerged from the productive forces of its people.

Once we understand the role of money and how it has emerged, only then can we in anyway comprehend how to make it to the next stage in our economic evolution. We are still struggling from the primitive days of hunter-gatherers where we were prone to react violently in confrontation. There is nothing to be gained by international conflict. Yet there are those who see it as a throw-back to prehistoric times where one just doesn't like the ideas of another or one tries to dominate their views oppressing all others. We have to distance ourselves from this primitive state of mind that is by far not easy. For as much as we try to pretend we are civilized, we do not act the role in the least.

It is nice to create a unrealistic view of a world where all we have to do is restore a gold standard and all will be well. That is about as practical as Karl Marx who believed that we could eliminate money and collective society would create utopia. It is not what is money, but who controls it that has always counted.

Do not get confused by looking at the Fed and its current role. With each event, the Fed has been transformed from one thing into another always moving further away from what it is.

The creation of money is a TREASURY function. The government merely usurped the the Fed, who use to stimulate by buying commercial paper, into the buyer of government paper. In fact, until 1948, the law was that the Fed had to support US government bonds at par with no loss to the investor. Once the Fed was relieved of that duty, the value of those bonds fell by 96% going into 1981.

The Fed has been demonized unfairly for the real culprit has always been Congress. If the politicians could spend whatever they want and then blame the Fed for the effects, they did so. Now, the roof is caving in and we are about to see the Fed diminished to such an extent, we will see a major banking crisis unfold and the SEC is about to wipe-out the economy because they are a loose nut-job who are far beyond their original intended design. The SEC MUST be merged with the CFTC, and they are not to get involved beyond the plain listed securities on exchanges! The SEC wants to call everything a security. That is just insane. Private notes between private parties are NOT securities within their domain. Look well after the stock and futures markets and get the hell out of everything else. They are about to destroy the economy entirely that has nothing to do with listed securities.

Interest rates are a natural product of the free market. Just as Greece rates are at a premium to Germany when they are the same currency, this proves that central banks will never be able to control interest rates. We are living in a delusion to think that the Fed can control interest rates or money for neither one can be forced to move opposite of the Free Markets.

Money is purely the PRODUCTIVE FORCE of a nation. It is NOT the amount of gold a nation possesses, nor is it the amount of people. It is not even the amount of natural resources. Evidence of that is Japan, who rose to be the second largest economy and yet it had to import most raw materials including oil. China has more people, but without the skills, it could not transform that into a productive work force. China allowed the individual spirit to survive whereas Stalin purged intelligence and suppressed the core spirit of the individual. When the Berlin Wall fell, it quickly became obvious that it took 2 to 4 East German workers to produce the same as 1 West German worker.

A FIRST STEP

To survive the future, we truly need to restructure. But we need to comprehend two critical aspects. FIRST: We are in desperate shape and MUST return the Fed to its 1913 role. It cannot control the money supply for that is now electronic and the movement of capital in and out of the country can change the domestic money supply at any given moment. Money is really the PRODUCTIVE FORCE of any nation. It is time we wake up and understand its true role. Congress has to stop pushing the duty of managing inflation upon the Fed while it does as it pleases to win elections. Take responsibility for your own actions and stop the bullshit! Stop borrowing money and simply create money as a fixed percent of GDP each year eliminating taxes federally on a individual level. Indirect taxes are the only way a state may seek revenue. Anything else is tyranny. Taxes are a barbaric relic of the gold standard when God controlled money, not man. Eliminate the debt and borrowing and you will see the greatest explosion in economic growth creating jobs like never before. The boom-bust cycle cannot be manipulated by the interest rates. That is indirect. The Fed is incapable to such management and should just raise or lower the reserve ratio banks must put up at the Fed. Regulate the REPO market to eliminate posting collateral that explodes in the middle of the night.

SECOND: creating a RESERVE currency will eliminate contagions to a large extent. With the US\$ as a reserve currency, it exports its domestic policies to the world. A RESERVE currency is NOT a circulating currency, just a neutral buffer.