
Armstrong Economics 阿姆斯特朗 经济

Forecasting the World

'TIPPING POINT'

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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,

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By: Martin A. Armstrong

Former Chairman of the Princeton Economic Institute
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HE EVENTS IN EGYPT are revealing the very core essence of this problem we have historically been plagued with - the PERPETUAL battle between PUBLIC v PRIVATE interests. No matter what label a government shrouds itself in, they are all the same when you put a bag over their head. It is government against the people no matter what. They have the power and will do anything to retain it. America called out the troops and sent tanks against veterans in 1932 that was then known as the BONUS ARMY. The troops fired upon citizens and even used tear gas killing infants. To justify their actions, they labeled the veterans "CRIMINALS" because they were told to go home, did not, and thus they disobeyed the law and that made them criminals. Governments always gravitate

toward one of two things - a dictatorship of oppression or an oligarchy. The unrest that we are now watching will spread throughout the Arab world and it will start to blend with the discontent in Europe. This is all emerging thanks to the abuse of socialism where promises have been made, but the economic implosion is so bad from the debt, that UNEMPLOYMENT will continue to rise. But because government is now firmly in the pocket of the banks, this OLIGARCHY will not address the problem of debt and thus we are doomed. THEY CANNOT CUT DEEP ENOUGH BECAUSE A VAST CHUNK OF EXPENDITURE IS INTEREST OWED NO LESS TO FOREIGN INTERESTS! We have run out of other people's money to TAX as well as BORROW. Socialism has failed for this is no longer a class war between the rich and poor, it is between paying interest and transferring the wealth of the nation overseas. This is how EVERY empire has collapsed from Rome to Great Britain. This is a bitter lesson but we will see rebellion before reform because just as we have see in Egypt, it just hurts too much to let go of power.

The question we have to face one day is **What the hell are going to do?** Somehow we have to straighten out this mess but it appears that the only time that will ever be possible is when the **FAT LADY SINGS LOUD FOR THE LAST TIME!** Government will never reform freely nor will they ever resolve our future for the sake of the people. It may be true, as Thomas Jefferson said, that the **Tree of Liberty** needs to be nurished with the blood of tyrants and patriots every now and again. This is what we are watching in Egypt. Police in plain clothes attacking the people to disguise the real lethal desire to retain power.

A former subscriber who was the head of institutional trading for Fidelity Capital Markets, recently sent me two articles that I wrote back in 1988 concerning the debt at the time. I reproduce them today 23 years later. I thank Kevin who has saved my writings over the years. The government has confiscated my work to censor everything they can. I have also been informed I will not be released as other prisoners are entitled. So, I am living proof that America is no different from any other state. It is always about the pure self interest of government - NEVER about the rights of the people. The computer they wanted I called Socrates. It self-destructed.

When you gather everything that moved from markets to economic statistics, there was something that jumped out. Suddenly you could see that the long-term trends moved slowly. Just as we put out a forecast that oil would rise to \$100 by 2007 back in 1999 when it hit \$10, some people find it very hard to understand that forecasting major long-term trends is FAR EASIER than where will the Dow Jones or gold close tomorrow.

The truth of the matter is quite simple in reality. The number of variables are just huge. Consequently, there is a tremendous amount of noise that allows for the minor variations to cause short-term fluctuations that by no means alter the course of long-term trends.

If you look at yourself in a mirror each day, you do not see the aging process. Pull out a photograph and suddenly you see what has changed. This is no different in forecasting. The articles presented were written back in 1988. The prospects of the debt crisis that we face today were easily seen back then. In fact, we had a Economic Conference in 1985 at Princeton. Several hundred movers & shakers flew in from all over the world. Many government sent delegations and it looked like the United Nations with people from everywhere dressed in the Arab garb to business suits from Japan.

These international gatherings were fantastic. This was more than just me standing up lecturing. I enjoyed interaction with the audience for we all learned from each other. The international events we held were always the best because you could see and feel the global economy at work in the room. These were tremendously valuable events that were not available anywhere else.

The long-term trend actually unfolds in slow motion. You can see it coming years in advance. Most people who were independent thinkers, knew that social security was just a Ponzi Scheme that would fail once there were more people retired than working. That day is arriving rapidly. With unemployment still poised to rise, this is accelerating that trend. Even in the government sector, Obama put in a freeze on wages and a freeze on hiring. This has had a profound effect already - but for the negative, not positive.

The reason the government is collapsing at its core, is because we allowed government employees to negotiate pensions for government employees pretending that somehow if they had sat on the opposite side of a table, somehow this eliminated the conflict of interest and self-interest.

Within the Justice Department, they must retire at 58 and get full pay. Thus, people have stayed to get raises and promotions so they leave with the highest possible pay. Now that there is a freeze on wages, many are starting to leave. This presents the same problem that existed in many small towns. As their police retire at near full pay, they are unable to make up the difference by having to hire replacement people, yet still have to pay the pension that was not funded. The cost of government can now start to really soar. How do you cut taxes when the cost of government is poised to almost double over the next decade?

The average citizen is finding that the government can change the terms of social security at any time. This is CRIMINAL FRAUD outside of government. How can you enter a contract, and then refuse to obey its terms while claiming the unilateral authority to change the contract at will? Obviously, you should not do business with someone like that. Well - HELLO! These are our politicians who always vote in favor of the government self-interest against the people. That date you believed would be your retirement date is moved off into the future because politicians just can't tell the truth. They want to grab that power, and kick the can down the street into the future for some other politician to figure out how to pay for the promises made decades before just to win that election.

We have indeed reached that **TIPPING POINT**. It is the American Oligarchy where the banks control Congress, the Courts, and the Justice Department will never prosecute any of them at any time. As long as we act like a junkie asking the drug dealer what to do, we are **SCREWED!** It is ironic that we could have prevented this decades ago. When I met with the US Treasury and discussed the problem our computer was projecting in 1984, I was told back then, they would be paying back with cheaper dollars. Inflating one's way out of this mess just did not work, because they forgot about interest expenditures.

Pandemonium

It is the DEBT CRISIS that is engulfing the world in social chaos. In Yemen, the President Ali Abdullah Saleh has announced a new package of benefits for the chronic unemployed university students who protested against government corruption.

In Jordan, King Abdullah II has called for a new government because the religious right is also against kings. He is also now demanding Islamic Law.

Palestinian's President Mahmoud Abbas relied upon Egypt's help. The separate Hamas organization, which rules the Gaza Strip, is an outgrowth of Egypt's Muslim Brotherhood. The right wing within Egypt has long been a dangerous power even to tourists.

Lebanon, where the government is run by a coalition government including Hezbollah, can all rise up for much of the same tensions that exist in Egypt are present there as well.

Syria is also witnessing a rising tide of protests against President Bashar Assad who has been a dictator following his father who was supported by military troops as was the case in Roman times.

Iraq is still a mess and Al-Qaeda has focused its attention there because of the American presence. There is no real true stability, for there are far too many factions that are deep in religion. It is the contest between a modern Islamic state and that of the Iranian Model run by the religious leaders.

Iran, of course, with its usual lack of impartiality, call upon Egypt to respect the people. Of course, Iran put down their own students and executed a few they thought were the leaders.

There is the risk that the right wing will get control. If that took place, we have some very serious time ahead so watch

both gold and oil. Within this movement is also the unemployed youth. The oppression of the United States as it is seen outside of America is a serious problem. The conflict with the labeled terrorists goes against the ability of America to appear just. The prosecution of the so called terrorists held in Cuba is another problem. The people held are basically the brainwashed instruments, not the masterminds. During World War II, the Japanese also had their kamikaze pilot who also flew his plane into ships. They too were suicide attackers who believed that they were doing a duty for the son of God. This is the same thing. It is the idea that has become the weapon and locking up every terrorist does nothing because there will always be another right behind them. It is the idea and the leaders that must be finally addressed. Until that is done, there is no WAR in any conventional manner that will ever be won. It was the unorthodox fighting tactics used by Americans that defeated the British.

Unless there is a full scale army that invades, there is no real enemy to defeat for it is an idea. They persecuted Christians and that did not stop them for they too saw themselves as martyrs. You cannot fight an idea nor a true belief.

America is acting no different than Rome. Rome lost and the Christians won. If we are not careful, the last thing we need is a full scale religious war - the Crusades of the 21st Century.

It is indeed that TIPPING POINT that is on the horizon. America must realize that due to the fact that it is the reserve currency, whatever domestic policies America has, they export them to the rest of the world. We will be unable to prevent that under the current system, and yet we ignore the complaints of other nations who see a problem here.

We really need to completely turn this whole thing upside down. The world could be fixed in 30 days or less. Unfortunately, our governments are too busy trying to keep power.

How to Balance the Budget

in four easy steps.

by Martin A. Armstrong

It is a shame that the free press in the United States is beginning to degenerate into real muckrakers. Instead of asking the candidates how they would deal with inflation, the budget deficit and merchandise trade deficits, the only questions they have on their mind is who slept with who, when, where and why. The interrogation of Dan Quayle was an indictment of the entire middle-aged group - "Did you ever smoke marijuana?" - "Did you join the National Guard because you were afraid of death?." With these types of questions, one can only conclude that anyone from the baby-boom era may think twice about public office. Is the press perception of the baby-boomers all drug smoking, braless free love protestors? Will the baby-boomer generation always be forced to defend itself? Let us hope that the press does not continue this extreme.

The press is way off base on what America wants to hear. Ever since the Gary Hart issue, the press feels that it has a license to ask anything - no matter how personal or irrelevant it may be to the issues at stake. The danger here is that the press is supposed to be looking out after the public interest. They are seriously neglecting that responsibility by spending all their efforts on preposterous issues rather than getting down to the real problems which face our nation.

The democrats are trying to blame the deficit on Reagan as if they had nothing to do with it whatsoever. Of course the democrats have been in charge of the check book and not one Reagan budget was ever accepted as is. Each and every budget proposed by Reagan was increased by the Congress. No President has the power to spend

one cent - that power lies exclusively with the Congress.

The so called "Massachusetts Miracle" is nothing special at all. The majority of states are enjoying budget surpluses with the exception of those who are oil producers. Among those states with a surplus - we find both democratic and republican administrations. State surpluses are a by-product of the expanding national economy which has unfolded since 1985.

Sorting the real bull from the sublime truth is easy if you know the facts. Of course the democrats will raise taxes - that is their solution to all problems. They believe that the rich should pay a higher percentage in taxes. To be rich is somehow inferred to be a sin yet at the same time it is part of the so called American dream.

The real issues are far more serious and as far as the big problem is concerned, neither party has yet identified it. Dukakis claims he will balance the budget, but he does not say how. He infers it will be done miraculously somehow involving spending. This is highly unlikely since the democrats have been in charge of that all along anyway. Even a 50% reduction in defense with a freeze on social spending will not produce a balanced budget long-term! Can Bush balance the budget through cuts in spending? His economic advisors claim that the tax cuts will expand the economy and thereby increase revenue, resulting in a balanced budget perhaps by 1992. Of course if interest rates rise, this schedule could become just as impossible.

Unfortunately, neither party seems to offer a clearly defined plan for dealing with the problems ahead. Both make the fatal assumption that interest rates will NOT rise. Every 1% jump in rates will result in at least another \$50 billion in interest expenditures between now and 1992. Unless they at least admit that the problems are stemming from an accumulation of debt since World War II, solving our future problems will be IMPOSSIBLE! Both sides MUST admit that the explosion in the budget deficit under the Reagan years would have taken place regardless of who was President. The national debt has indeed doubled during the Reagan years. Upon close inspection, however, the interest expenditures over this period are exactly the same amount - nearly \$1 trillion.

We have some serious problems in the structure of the American system as a whole. Originally, the federal level collected the taxes and dispersed aid to the states. But now, that is taking place in combination with rising state and local taxes. Only within the last 10 years, we have seen the invention of state income taxes. Without the tax cuts at the federal level, the burden on the individual American can be huge depending upon the state in which he resides. Consumption taxes, otherwise known as sales taxes, prevail in most states and in some cases there are city sales taxes as well on top of the state sales taxes. In Philadelphia, one must pay their federal income tax, state income tax and a city wage tax in addition to sales taxes, real estate taxes and so on.

One new and inventive source of tax revenue was revealed by an employee at our company who actually has to pay an "Occupation Tax" for the Council Rock School District imposed by the municipal government of Newtown, Pennsylvania. The "Occupation Tax" does not refer to occupying a residence. Instead, it refers to one's profession which he "occupies." The tax varies according to your profession. Professionals, doctors, lawyers etc., must pay the highest tax rate of about \$400 annually. This is the first tax we have heard of which actually taxes you based upon your choice of profession. Since a municipality would probably run into trouble implementing an income tax, this is a clever way around the issue. The problem that emerges is the lack of distinction between a

lawyer (solicitor) who is just starting at the base salary and the head of the law firm who earns considerably more.

The waste within the US structured system takes place between the various levels of government. The state surpluses, including that of Massachusetts, accounts for 62% of the federal deficit according to the Bureau of Economic Analysis. The system should be changed to the extent that the federal government should provide aid only to the states who are in need. Since the states have introduced their own levels of income taxes, the original design of depending on the federal level for assistance is no longer applicable. The federal level should be restructured so as to offer a helping hand. But the states want it both ways. They want the freedom to tax at will and they want the luxury of dipping into the federal till.

The US fiscal picture is nowhere near as bad as it appears. In most nations, the state and local levels remain in deficit along with their federal levels. In some nations such as Australia, the federal level has been balanced while the states remain in deficit. But in the US, the states are bleeding the federal level to death as they build huge surpluses offsetting 62% of the federal deficit.

We must consider a major option. That is returning the system to one form or another. Federal aid to the states should be stopped. It should be granted only to those states in need. In that way, areas that are honestly poor would be able to receive more aid, and states like Massachusetts would not be given money it does not need; which is then either wasted or reinvested buying federal bonds. In this way, the needs of the poor, such as education, would be fulfilled and the standards of living raised for one and all. The federal deficits would decline or disappear, provided Congress were prevented by law from spending more than a 20% of GNP.

Some suggestions for the next President on how to balance the budget in four easy steps are as follows:

- > 1) Call a moratorium on all interest paid between various levels of government.

This will save nearly \$25 billion next year alone or roughly 15% of the total budget deficit.

- > 2) Call an immediate HALT to all state aid. The state level surpluses amount to 62% of the total federal deficit. Aid to states who are suffering from the effects of the drought and low oil prices, should be given as interest free loans. States with surpluses must use that money for their local citizens before dipping into the federal till.
- > 3) Issue a portion of the debt in gold backed bonds. The backing may be as much as 40%. This will allow the yield to be reduced from 9.2% to 3.2%. This will result in an immediate savings of up to \$110 billion the first year.

4) Deem the holding of 10 to 30 year Treasury Bonds to be TAX FREE to all American citizens. This will help shift 1/3rd of the debt which currently rests in foreign hands back onshore, thereby reducing the current account deficit. This should be extended to all retirement funds including those of government employees, but banks and corporates should be exempt or bared from buying more than 15% of their total assets. This will provide an incentive to buy domestic bonds

and reduce the pressure on domestic interest rates. In turn, this will help to reduce interest rate expenditures at the federal level providing additional fuel to insure a balanced budget throughout the next decade.

If these four steps were taken, we could see a balanced budget within 1 year. It would also allow a surplus - provided the savings are NOT spent on other areas. Balancing the budget would not be that difficult if we realize that interest payments are the fastest growth expenditure within the total budget. Unless the issue of interest is addressed - no balancing act will ever be successful.

It would be a refreshing moment in history if for once the press helped illuminate an issue of this importance rather than trying to dig up dirt on who slept with who or whether someone smoke marijuana when they were 17. Ben Franklin once said that he came to learn that he should not trust his own judgement. For with each passing year, he realized how much he didn't know the year before. There are no perfect individuals. The definition of experience is living itself. Someone who has never made a mistake in life is merely waiting to make a real big one someday. May be we should be allowed to question the reporters with the same tactics they apply to others. It would be interesting to see how many would meet the new standards they are trying to set for the rest of us.

Canadian Cash Management Seminar

being held in Vancouver this October

Princeton is proud to participate at this important treasury and corporate finance seminar held in Canada. Our Chairman, Martin Armstrong, will be one of the key guest speakers this year and in addition he will be addressing a special treasury management seminar at the request of Midland Doherty - Canada's largest retail brokerage house.

We will also have a booth at the Cash Management Seminar where Socrates, our Artificial Intelligence Computer, will be talking personally about the markets.

For further details please contact our office in Princeton

The Final Confrontation

a bewildered central bank

by Martin A. Armstrong

Alan Greenspan shocked the world recently when he elected to raise the US discount rate from 6% to 6.5% in the face of an election year. The plight which has infested the central banking system of the world is none other than the final confrontation of erroneous economic theories.

A formal education is great in providing a long list of abbreviations following one's name. But formal education is at fault for our present world economic crisis as much as the political system. Colleges and universities are not preparing students for the real world and the theories they are cramming down our throats are choking us to death.

At Princeton, we have a fair amount of graduates apply for employment from a variety of well known universities. During the interview, we usually go through a list of the major economists and ask for their opinion on their respective economic theories. To our surprise, most do not realize that Marx was an economist. They simply respond that Marx was someone discussed in social science classes. In Australia, Marxism is the dominant economic theory discussed in the classrooms.

Formal education is merely a biased entity designed to propagate favoured ideas. Few teach how to think rationally, but instead teach us to rely on indoctrination and memorization. Consequently, formal education has handed down, from one generation to the next, theories which not only clash with the reality of events, but insure confusion for decades to come.

In recent polls, less than 12% of the American population knew what the Federal Reserve was.

Less than 6% understood that Congress presides over the spending and that the President does not have the authority to spend one cent.

The level of awareness in the field of economics is shamefully low among the populace. However, the understanding of economics among the so-called "well educated" is even more disappointing. A degree in economics does not qualify someone as an economist anymore than a degree in political science qualifies someone to be President of the United States.

Interestingly enough, some of the most brilliant men in the world were those who failed at formal education. The well known story of Albert Einstein being kicked out of high school as a result of daydreaming is one example. Surprisingly, the founders of many successful corporations were high school or college dropouts. Abraham Lincoln was a self-taught person. The "dreamers" are those who find fault with the theories taught in school and it is that quality of challenging accepted wisdom which leads to progress. If we merely accept what education propagates, there would be no change - no progress - no future.

We are indeed standing on the edge of the final confrontation. It is the confrontation of ideas and theories in economics. The Fed raised the discount rate in August 1987 followed by an explanation that it foresaw inflation rising. Most laughed and appeared bewildered. Inflation, in their minds, was something from the '70s which had been put to death. The Crash of '87 followed shortly thereafter and those statements quickly faded from memory. Concerns shifted to a rerun of 1929 and the deflation that resulted.

Nevertheless, Greenspan has raised the discount rate once again. He has justified his actions as a choice between the dollar and inflation. He chose to fight inflation rather than worry about the dollar.

Inflation's popular definition is "too much money chasing too few goods". Therefore, if we raise the discount rate, the cost of money will rise, lower demand and reduce inflationary pressures in the process. Hence, the reason for the Fed's recent rate hike.

However, if you raise the interest rates, more money from overseas will be attracted to the dollar in search of a better return. This is what formal education would have us believe. If that is the case, then a rising dollar lowers the values of foreign goods, making them more affordable while causing the domestic goods to be more expensive overseas and domestically. Therefore, it would seem that a rise in the dollar might cause the value of goods to decline which in turn would offset the rise in the cost of money.

On the other hand, raising the discount rate causes higher interest rates in all sectors, including government bonds. That means that the government will be spending more in interest to borrow - further increasing the budget deficit which in turn will theoretically increase the supply of money.

There is obviously a conflict in the scheme of things. To make matters worse, if inflation's roots are a consequence of shortages in raw materials, raising the interest rates will only force companies to curtail any expansion. If the ability to produce is not expanded because of the rise in borrowing costs, then the shortages in supply will not be relieved unless demand contracts below production levels. Therefore, a rise in interest rates can actually spark greater levels of shortages which will perpetuate higher levels of inflation until demand is seriously impaired.

As far as inflation rising due to the drought and its effect on the U.S. grain harvests, higher borrowing costs will again cause an adverse effect on

supply, resulting in less produce, and bringing about higher prices in the future.

Although raising the discount rate is the Fed's view of fighting inflation, there are many drawbacks to this action. If we were dealing with a pure monetary inflation perhaps this method would be effective. But since inflation is rising due to shortages in production and natural disasters in agriculture, raising the discount rates may actually produce higher levels of inflation next year.

We wholeheartedly agree with the Fed in this respect - that inflation is on the rise. But we disagree that the Fed can control that inflation by raising the discount rate. We are dealing with a different type of inflation which will only be enhanced by increases in interest rates. The rising dollar will attract additional foreign capital. There is little the Fed can do when one looks at US investments and their performance in the post Crash era in comparison to those in Europe. Clearly, the international investor is making money in US markets and losing his shirt in the European markets. Not only have European stock markets performed miserably in their home currencies compared to that of the US, but their currencies are falling sharply as well. This double edged sword is a prescription for a fatal attraction to the dollar. Fatal - in regard to the long range effects upon the European economy as a whole.

The surprise move of the Fed is, in fact, no surprise. Their choice is to raise interest rates or leave them unchanged. In the process they will be criticized for inflation no matter what they do. Congress spends without concern and then expect the Fed to manipulate the markets to offset their fiscal irresponsibility. The Fed does not have the same size check book that the Congress has at its disposal. Its reserves are minuscule in comparison to the national debt.

Lets face the facts. They put Boesky in jail for using inside information while the Fed is expected to manipulate markets on behalf of the Congress. Maybe we should require our politicians to take ethics classes - not just business students in the universities.