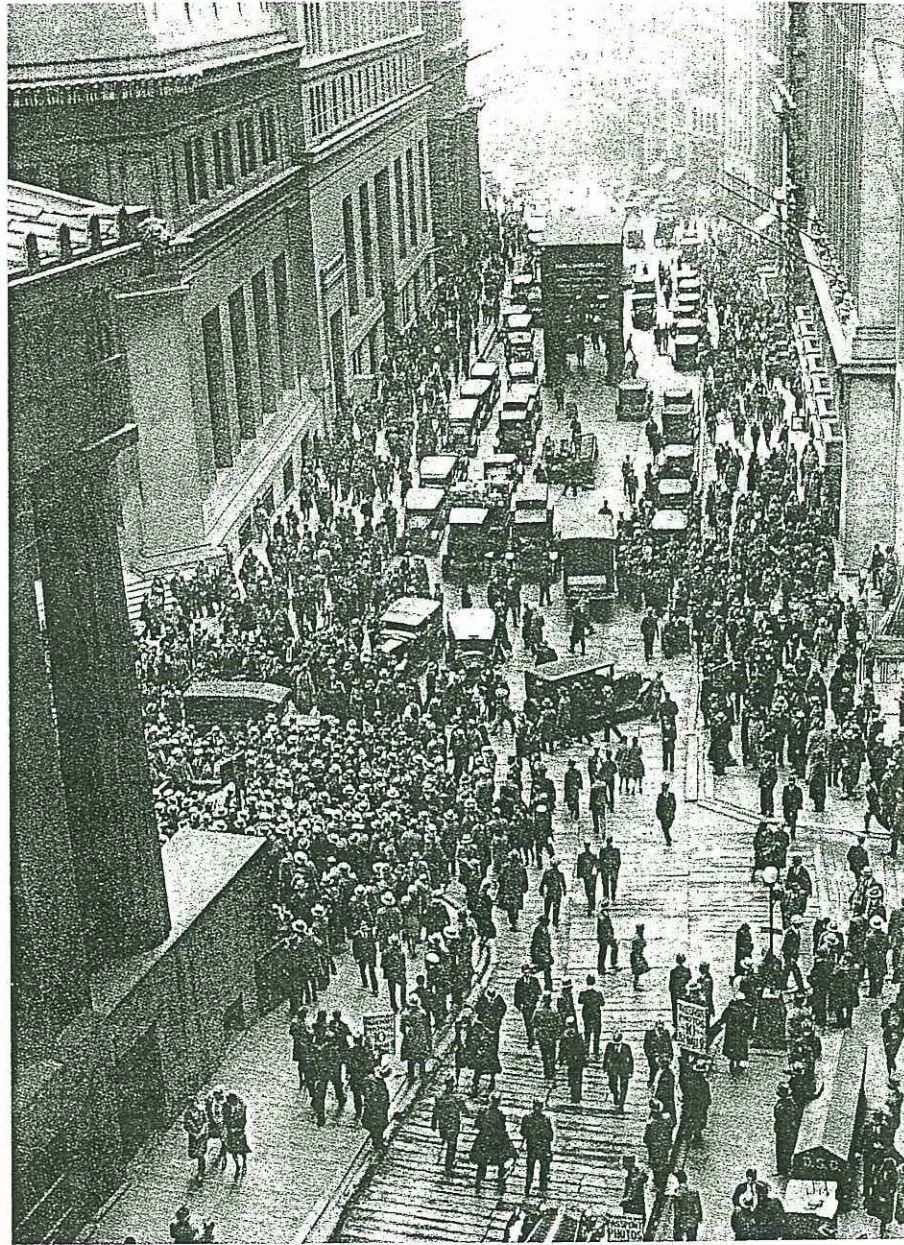


# Armstrong Economics™

FINANCIAL PANICS =  
POLITICAL CHANGE!

Can We Create A New World?



The Crash of October 24th, 1929, declared as Black Thursday

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

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This Report may be forwarded as you like without charge. It is provided as a Public Service at this time without cost. The contents and designs of systems are in fact copyrighted. At a future date, a book will be released *The Geometry of Time*. The charts are often reproductions of an earlier publication from 1986 also to be soon republished *The Greatest Bull Market In History* covering from 1900 up to the 1980s. Additional updating is underway to complete the Century and into the current time, providing a month to month history of the financial development of Western Society.

# FINANCIAL PANICS = Political Change

## CAN WE CREATE A NEW WORLD?

by: Martin A. Armstrong

former Chairman of Princeton Economics International, Ltd.  
and The Foundation for the Study of Cycles

April 15th, 2009

The G20 London meeting is over, and sifting through the rhetoric is quite a job. Intermixed between the sound-bites, was an under-current of demands for a new Global Regulation and eventually a One World Currency. There was also an attack by France upon China for it lacks income taxes and is the ultimate offshore tax shelter armed with nuclear weapons and the largest army in the world. China is pushing hard to end the dollar as a reserve currency cutting deals with Malaysia, South Korea, Hong Kong, Belarus, Indonesia and is now negotiating with Argentina.

Democracy has one serious draw back. Politicians clamor for votes and use the rhetoric that sounds good, attracts followers, but may be self-destructive reducing government itself into nothing but mob rule. Even the Supreme Court upheld in Dred Scot that blacks were nothing more than property because that was the popular view in the slave states and during World War II it upheld locking up all people who were of Japanese heritage even if born here. The Rule of Law means nothing in a court of law because it is always Mob Rule behind the curtain. The noble ideas of freedom and liberty vanish in times of crisis, and as we will see, as often do property rights.

The most serious threat we face is the cry for political change. Such cries are embraced when they further the power of the state, never the people. We do not appreciate that with every Financial Panic, comes the inevitable cry for Political Change that feeds into Class Warfare. What the G20 was talking about was this new form of "global contagion" as if they just discovered this effect. In reality, I have studied every financial crisis I could find in ancient, medieval, and modern times. The cause is always a cyclical pattern that is a systemic attribute of free markets because capital will always concentrate as it has in ancient times to today. It was Karl Marx who exploited the term "capitalism" (although he did not invent it). He pictured the world as the rich v the poor and the evil was money. I believe that Karl Marx (1818-1883) was perhaps the most significant person that perhaps ever lived for the words that came out of this man's mouth, still dominate us today and have led to many deaths and economic destruction. Hopefully, one day in centuries yet to come they will look back at us and remark how stupid we must have been to embrace the ideas of such hatred that even defy the Ten Commandments insofar as we are not to be jealous nor covet thy neighbor's wife or goods. That, nonetheless, is the central theme of Marxism and it remains the driving force in the Western political forces as displayed at G20. For our politicians are so brain dead, they know not what they seek. Here we have France telling China it must prevent tax shelters is in reality saying please go back to Marxism!

We have such an opportunity to rid ourselves of the torment of Marx, yet his ideas are presenting a dilemma for our pretend political leaders. This is like the monkey who sees a banana inside a cage. He can squeeze his hand into the cage to grab the banana, but he cannot remove the banana through the bars. He may realize that he cannot get the banana, but he just can't seem to let go either. The monkey just stands there, and the solution eludes him, for he just can't let go.

### The Monkey & The Banana



the fate of Western  
Politics

# Capital Concentrates ON TWO LEVELS

The concentration of capital is systemic to what had been dubbed "capitalism" of which I believe the proper word truly describing the system is "individualism" rather than Marx's twist focusing only on the money and wealth. The essence of our system is freedom and the dignity to decide what we want to do in life without being told by government. Marx's hatred of the rich pours from his works and they emerge from an early philosophy equally absurd - Utopianism. The ideas of Sir Thomas More (1478-1535) and his book Utopia set in motion a world that we might as well also outlaw death and decree that we shall all run around naked in the Garden of Eden.

The Utopianism that predated Marx, was his true inspiration. These ideas of a perfect world have emerged post-Renaissance where the retrospective of the days of Rome were greatly taken out of context. Nevertheless, trying to create the perfect world has resulted in massive death, pain, and economic retardation. We can no more have an equal distribution of wealth than we can have an equal distribution of all ambition, hopes, desires, and dreams. Human nature is diverse. When we look back in time, unless we truly understand the meaning of even words in their context of time, we misconstrue the lessons of time. For example, the Roman Emperor commonly known as Elagabalus (218-222) was so depraved engaging in sexual acts even on stage and sent troops out to bring to the palace men with the largest penis, was given the nickname Varius (various). The meaning was that his mother was such a harlot that no one knew who his real father was, hence Varius was an insult. The Egyptian king Ptolemy was given the name Philadelphus, which did mean "brotherly love" as the American colonists believed in naming the city in Pennsylvania, but it was not meant in the Christian sense, it meant you slept with your sister.

These misguided ideas of creating the perfect world, have tormented us for centuries. Capital concentrates because that is human nature. Some people will work hard and be content, while some will have the desire to create something regardless of the wealth it may or may not bring. Does anyone think when Bill Gates started he believed he would create the largest computer company in the world? Did Michael Dell see when he started to make computers himself that he would displace IBM? This is the fickle-finger-of-fate that sparks innovation and creates economic growth. Marx wants us to see this as evil, and politicians following Marx see themselves as the answer. But they cannot see innovation, and do their best to prevent it.

Capital Concentrates on two levels (1) on the individual level due to innovation, and (2) within individual sectors within the economy. What makes a stock market boom and bust, is the concentration of capital from all sectors being directed into a single sector. If capital were evenly distributed between sectors, there would be no boom or bust and no innovation or economic growth for a particular sector the same as we are talking about with individuals.

What has made this Economic Crisis worse than others, is that it has focused on the real estate market that is fueled by debt (which we will look at), and as that market is leveraged on debt, prices fall. The problem this presents is that real estate is the source of taxes for state and local government. As property values fall, the taxes do not. States suffer by foreclosures, but the property taxes are rise both in reality, and exponentially relative to decline in values. This is what we need to understand.

CAPITAL CONCENTRATES both between INDIVIDUALS as well as SECTORS within a nation  
And then it Concentrates again among Nations

# 1933 - The Year the Earth stood still

Perhaps the best example of the dangerous link between Financial Panic and the Political Change that destroyed Individualism is 1933. Even the religious right was still very much alive. Beyond the protestant extremists of the deep South who had ushered in Prohibition to use as a covert weapon to imprison Catholics coming from Ireland and Italy who did not see anything wrong with a drink, there was also one notable Catholic priest who may actually be responsible for getting Roosevelt at that time elected.

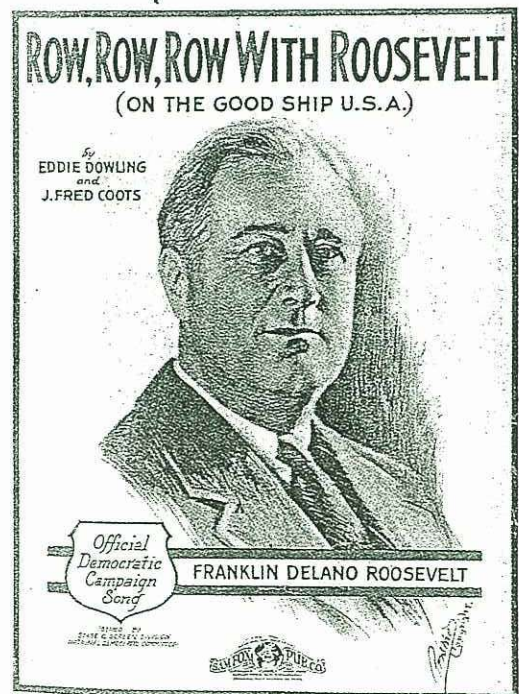


Father Charles E. Coughlin, 1891-1979

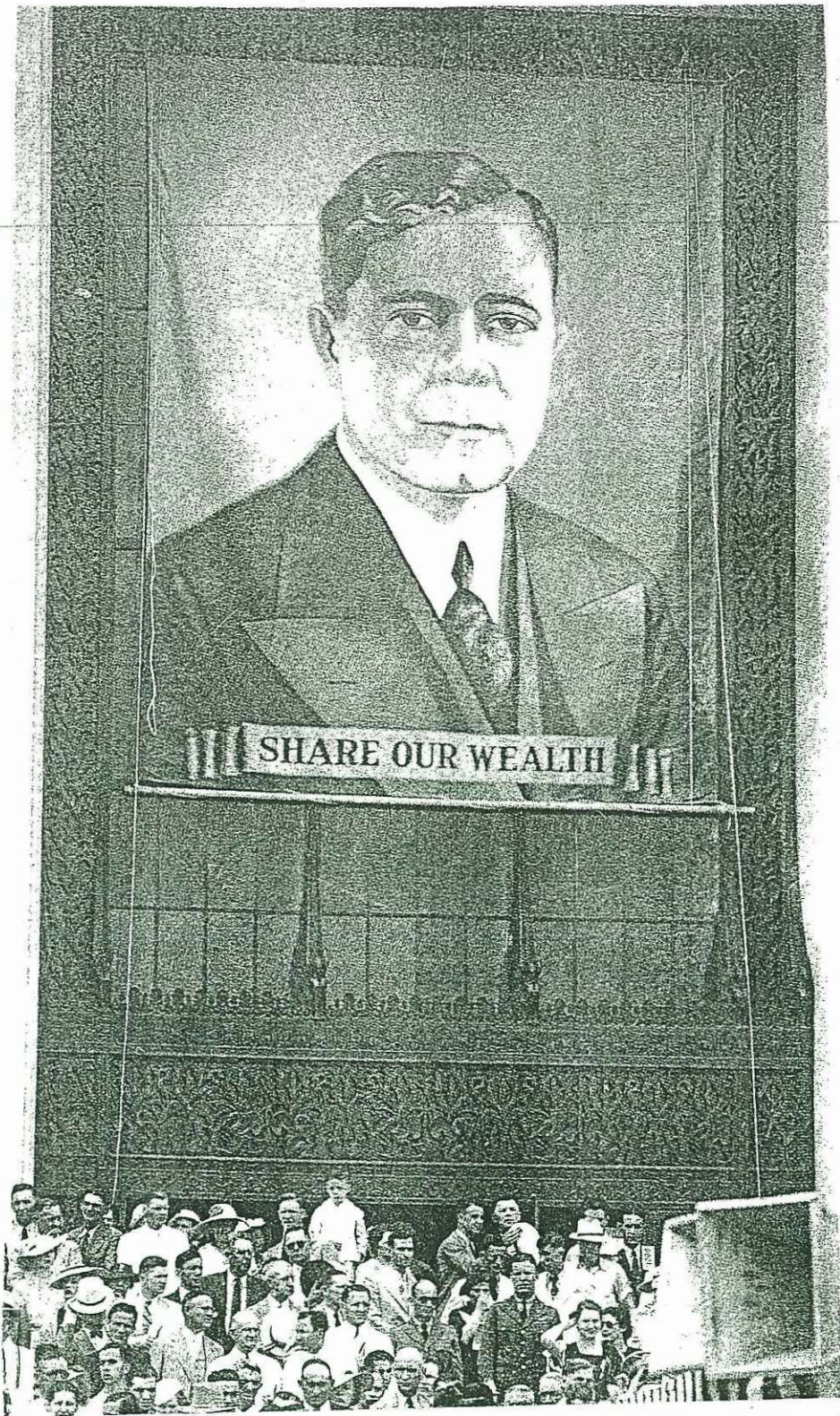
The election results were not overwhelming. FDR obtained 59.2% of the vote 22.8 million compared to Hoover's 15.7 million. It was still not what one would term a landslide scoring well above 60%. Roosevelt was still more socialist than individualist. His confiscation of gold was aimed at devaluing the dollar by 57% raising the price of gold from \$20 to \$35. That meant, the dollar devaluation was relative to gold, but to harness the profit from that, he then banned all private ownership of gold and confiscated the gold reserves during his famous "Bank Holiday" in 1934.

We must understand that the real atmosphere of the times was far more communistic leaning than many are willing to admit. Before the election, senators rose on the floor and even said that a dictatorship was preferable to what the nation was going through. The degree of Marxism that filled the air was truly amazing.

Father Charles E. Coughlin (1891-1979), formed the National Union for Social Justice. Coughlin captured his audience and practiced the homily of "us versus them" and attacked those on Wall Street as a giant conspiracy led by the "grinning devils" who he blamed for everything. He had even charged Wall Street as conducting a campaign of deception and subterfuge that led America into the "great contest for commercial supremacy" he argued was the object of the First World War. Once Roosevelt was in, the tables turned and Coughlin then argued that Roosevelt did both too much and too little. He argued that Roosevelt had created a all intrusive bureaucracy that meddled in the lives of "honest" Americans, while failing to establish the Marxist-equitable redistribution of of all wealth.



(1882 - - 1945)



Huey Pierce Long (1893-1935) was another prominent figure of the times. Long had garnered tremendous followings. When he became governor of Louisiana, it was his control of the state that then allowed him to deliver much of his campaign promises and his efforts are what truly created the WPA movement that FDR put into play in 1935.

Long is the first one to put people to work creating a wide variety of infrastructure work programs. Long was building roads and bridges and gave free textbooks to Louisiana university students. His popularity soared.

Yet Long's ideas went even further. Long was looking to run for President himself. When he arrived in Washington, he had targeted Roosevelt for not going far enough. He downgraded the "well-bred" New Deal reformers both on the Senate floor as well as in his own radio addresses.

Long knew how to market, and he had more than 60 clerks who were hired to send out pamphlets and leaflets portraying all his work for the people. He had even organized his **Share Our Wealth Club**, and was often called the "Kingfish" but his proposals did send cold chills down the spine of anyone who believed in free markets and individualism.

Long's central argument was truly unbelievable. He called for the confiscation of all estates over \$1million and redirecting

that hoard of wealth to provide a home, car, and radio to everyone in America, along with a guarantee of \$2,500 annual income. Long became governor in 1928, imposed new taxes on the rich including inheritance and state income taxes. He surrounded himself with thugs for bodyguards and used intimidation in the state senate to get his way. He then became a US Senator in 1932, fired the elected state lieutenant and installed his own people, turning Louisiana into a virtual dictatorship eliminating local governments assuming control of education, police, fire departments, state militia, taxing powers, judiciary denying the people electoral redress. He was finally assassinated by the son of a man he had publicly vilified. His political ideas were Marxist and he believed that his ideas justified the use of force.

The Great Depression was a worldwide event. The degree of Political Change is simply unprecedented perhaps since the rise of the Roman Republic in 509 BC that was also a contagion that spread to Athens where Democracy was born in 508BC. This was

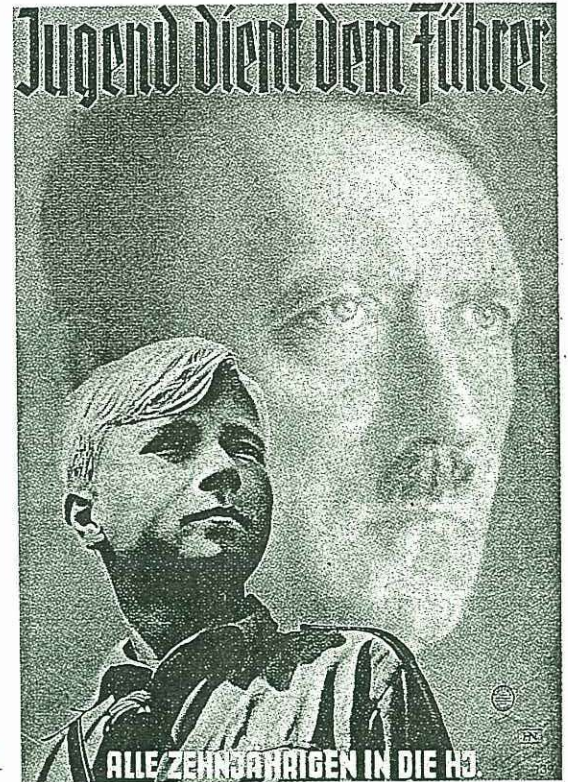


truly a year of political upheaval - a political earthquake that would cost millions of lives and set in motion such sweeping political changes on a global scale, it is hard to find such simultaneous global events. Even the American Revolution sparked a sweeping change in political structure causing the downfall of monarchy that led to changes in France and Britain. But it was 1933 that marked a change that was so devastating, it is hard to put into words to transfer that "feeling" of such total despair.

In China, we find the rise of Mao Tse-tung (1893-1976) and his famous Long March for the Communist movement. This led to civil war, and eventually defeated his opponents establishing the People's Republic of China in 1949. Yet at the same time, we see the rise of Adolf Hitler in Germany in 1933.

Often lost in the perception of history is that Hitler was elected without a majority. It was the fact that there were minority parties and a coalition gave him the power. Hitler then moved to cede all individual rights in order to restore the nation. Where previously, the Nazi symbol of the swastika (an ancient greek symbol) appeared everywhere from flags, plaques, pins, armbands, and commercial products such as hair-brushes, cigarette lighters, paper cups, flower arrangements, and various toys. It was 1933 that the **Ministry of Propaganda** instituted a new law known as the antikitsch law, prohibiting the use of Nazi symbols for commercial use.

Hitler not merely captured the youth with propaganda, he replaced Jesus Christ in Catholic schools where they were made also state "Heil Hitler." What appears to be the underlying spark was the terrible hyperinflation of the early '20s and the deprivation of economic rights imposed on the people of Germany for the First World War. To this economic revival, people were made to work in factories and wages were reduced for the sake of the fatherland. Indeed, 1933 was a very critical turning point in political history with the rise of Roosevelt, Mao, and Hitler. This was surely the year that seems to have stood still, waiting to catch the breath of history.



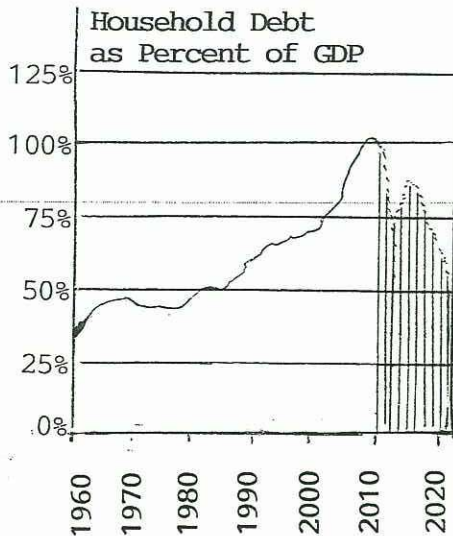
1935 Poster that reads  
"Youth serves the fuhrer! All  
10 yr olds into Hitler Youth"

The previous period of **Political Change** came on the heels of the Russian Revolution in 1917. We see sweeping changes also taking place around the world both in China as well as Europe. **Benito Mussolini** came to power also in 1922 at the bottom of the massive Financial Panic of 1920-21. **Mussolini** (1883-1945) ruled Italy between 1922 and 1943.

We must respect, that **Financial Panic** breeds **Political Change**, and rarely is it ever for the better. We must pay attention to the words of the G20 for what we may yet see on the horizon, is just a red glow of personal freedom going up in smoke. It is best that we explore the history, for the reason it repeats is very simple. We are just so stupid as a society that our demands for immediate relief, always and profoundly lead to the same response. We may advance in technology, but on a pure emotional level, a mother still cries today for a fallen son in battle as she did in Roman times.

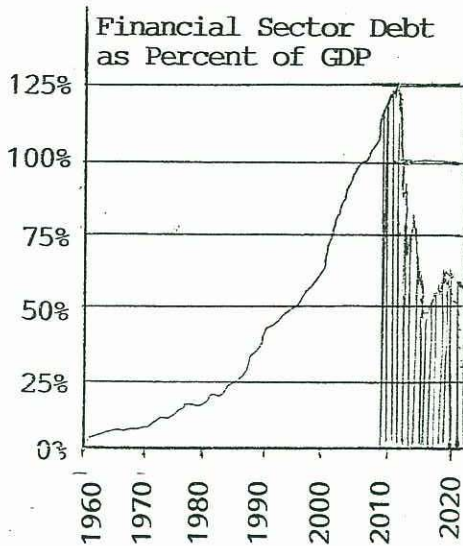


# It's the Debt STUPID



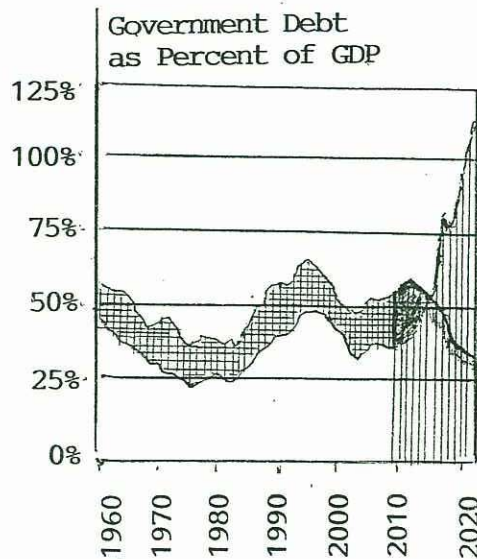
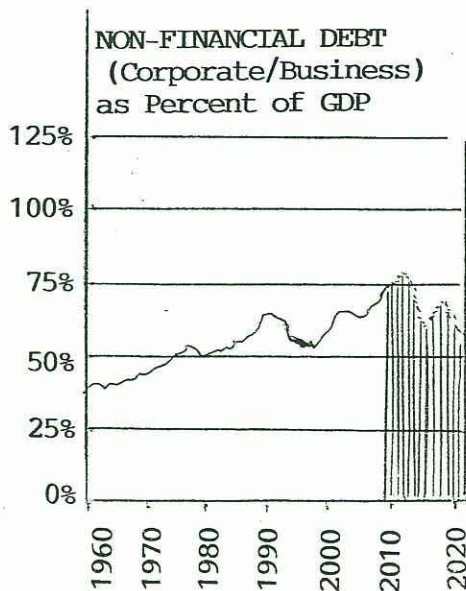
Here is a profile of debt and why we are likely to wake up to a world that is entirely different if our politicians don't stop this nonsense. It matters not what we chart, for the patterns are truly just human interaction with that instrument. Thus, do not ignore what you see and may have come to learn by observation or technical analysis.

Household debt is the only debt that has started already to decline by the end of 2008. It actually has declined by 1% compared to **Financial Sector Debt** still rose in 2008 by 6%, **Non-Financial Debt** rose by 3%, and **Government Debt** rose the most by 8% in 2008.



The average person cannot turn to the Feds for a bailout. Adam Smith called governments the greatest spendthrifts within society, and they should look well after their own debt, and trust the private people with their's. Smith was correct. The average person has begun to hoard his cash and earnings and the age of borrowing appears to have come to an end. Now look at the chart of the **Financial Sector Debt**. This growth rate has the traits of a bubble-top as we saw in the **Dot.Com** rally back in 2000, or the 1989 **Nikkei 225** Japan bubble.

The corporate debt will become the best quality in the years ahead, and we may see the collapse of even more **Investment Banks** for their debt is insane and the leverage they have sought is dangerous to the long-term viability of that industry.



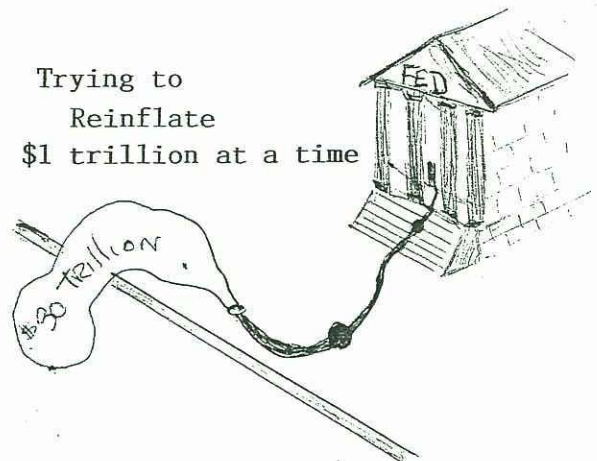
There is going to be a great shift in debt from the **Financial Sector** to the **Government** as the government is coerced by the Investment Banks who will argue that the economy will go into a depression if they are not saved. I do not believe that argument is correct, and we could see a collapse in the Investment Banking sector that may stunt growth. But we should see a decline in debt in that **Financial Sector** of at least 31% if not moving into the 50-62% zone.

The problem we face is the sheer stupidity of government. They are trying to re-inflate an over-heated sector that is no different than passing a law that the Dow Jones Industrials may not trade below 10,000. What goes up, must come down! We are not talking about just throwing a ball in the air. We cannot artificially sustain a banking sector that has leveraged its future children.

There are plenty of people talking about the deleveraging that is taking place. Yet I find that what is lost in these concepts is the real world impact of such an implosion. Just as people do seem to understand that if margin rates are too low, people can buy far more stock than they actually could pay for, and if the market was to collapse overnight, they would have no money to pay for their contracts.

We have been leveraging everything in unbelievable multiples of the real core underlying economy. If everyone wanted their money back and tried to cash out, there are far more debts than there is actually money available to pay them off. This is why we can see stimulus packages in the trillions of dollars, with no inflation. We are simply looking at a collapse of leverage of \$30 trillion at least, and even if Obama now injected \$5 trillion, it is unlikely that we will still see inflation. We are in the eye of a storm and the potential collapse is just beyond description.

I am not trying to scare you. These are extraordinary times. If you understand the events, then you can personally survive them and even profit tremendously from them. No matter what trend emerges, there are always going to be winners and losers. The trick is understanding that there are two sides to every coin toss, and there must be a strategy to ensure you and your family get on the right side.



We are dealing with a bubble-top in **Financial Debt**. This is not Wall Street, nor is the stocks nor stock brokers. This is the Investment Banks that pled before the SEC like Hank Paulson did as Chairman of Goldman Sachs, to allow them to leverage even more. This is the balloon that has deflated - it is the CDS market and the huge degree of leverage created in various complicated derivatives. Trying to pump in hot air to re-inflate this bubble makes no sense. We do not want to be where we were and it is best to deal with the re-organization to get on with the restructuring of our economy.

This is what I mean that capital **concentrates** not only among individuals, but also among sectors. The **Financial Sector** has been the object of that **capital concentration** since Volker eliminated the usury laws. We need to return to the 1970s. Stop the credit card interest rates of 20% and get back to the real world. **Household Debt** will continue to decline. We may see an end to the credit card economy and see this debt level drop back to 75% by 2012 or perhaps lower. This is the key to the economy. Not the Investment Banks.

# The Silver Lining

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The collapse in consumer spending and the shift that is coming in consumer debt, will have a profound effect upon how our future looks. We must understand that even the Great Depression of the 1930s, was long-term beneficial to the over-all economy. About 40% of the work force was unskilled labor working on farms. With the 7 year drought that created the **Dust Bowl**, yes there was individual hard times, but as a whole, this is what forged our modern society.

The WPA that was begun by Huey Long in concept, had a two fold benefit. First, it created jobs for the unskilled labor and trained them how to make a living in a new world off the farm. The product of building roads and bridges was a critical development that allowed Rome to explode economicly. This provided the physical version of the **Internet** that allowed commerce to expand and the population to move freely. This led eventually to the urban sprawl - the suburbanization from the city that also increased the standard of living.

We can see if there was no drought, and there was no depression, we would still lack infrastructure, would not be the largest economy, and 40% of Americans may still be just farming. So you see, with each economic downturn, there is also a silver lining and a spark that is ignited for the next business cycle of innovation. As the Crash of 1907 may have marked the end of the Railroad Age, and the crash of 1920-21 the end of the commodity boom of World War I, the next bull market from 1921 going into the 1929 was the first one due to the Industrial index. This was led by the auto stocks and was supplemented by the birth of the airplane stocks.

We have seen a similar boom in the **Dot.Com** stocks that peaked in 2000. If we see a low in the NASDAQ in 2010, we will have an opportunity for a 10 year low and the end of the bear market. In other words, the **internet** will come back and provide a new era of gloabl economics. This may be the next great innovation that fuels the economic engine of progress.



We have to end the corruption and the hidden agendas that go on behind the curtain. With the fall of the Investment Banking concept of excessive and insane leverage, we may find a whole new world of economic future. But we have to end the nonsense of corruption that goes on behind the curtain.

It is time for the Investment Banks to earn a living like everyone else - good analysis and hard work. We have to stop this rigging of the free markets to ensure there will always be the perfect trade.

We are on the threshold of a real opportunity. We have a chance to learn from the past and bring forward **political change** that will benefit society. We have to end the **Age of Marx** that historians will look back upon us and no doubt label. We have such great potential if we turn away from the shenanigans behind the curtain. Stop the class warfare and stop the coveting of whatever the beighbor has. It is time to grow up and for once learn something from history, for it is a record of mankind's triumphs, defeats, and follies. We are better than this. It is time we make that known to the politicians. It is time for a true restructuring of government.

# We Must Restructure Now!

If we analyze history and financial panics that have throughout the recorded events of mankind, we come away with a persistent problem of class warfare. As the emerging city states evolved in ancient times, we find a wide variety in the form of society and governments. But there is constantly the clash between the haves and the have nots. This is a natural trait of human society. There are those who work only for the money, those who work for the sake of accomplishment, and then there are those who do not want to work at all as there are those who are content to live a modest life without work taking them over from their family.

I was told in Australia about how there were some aboriginal people still living out in the outback or the "bush" as they call it. The more compassionate white folk, felt it was terrible that these people slept in riverbeds outside. They constructed an apartment building and furnished it for them. They went in, took the furniture, and used it for firewood. To the aborigine, living in an apartment was like living in a jail cell. They lived under the stars for thousands of years. Who are we to tell others how to live? This is also the problem with the concept of Marx and the notion that there should be social justice through the redistribution of wealth. There must be the opportunity for education that works, not as we have today. There must be a return to the hands-on apprentice type method of learning. We hire based upon a degree that only shows they have an interest in the subject. But the graduate must still be trained in the private sector by those who have experience. There must be the equal opportunity to learn, but there should not be a cookie-cutter model.

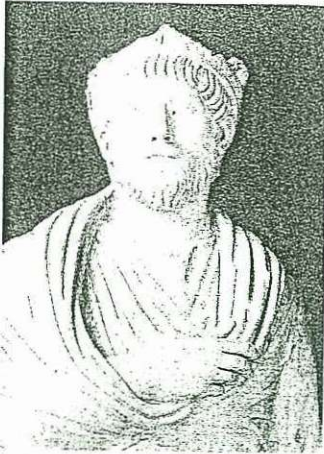
Yet no matter what the time, we always see the rise of class warfare. Even if we go back to when Rome overthrew its Tarquin King, this was a class warfare where the common people (plebs) more or less revolted against the rich (patricians) and demanded a say in government forming the first "res publica" meaning thing of the people or in modern English - Republic

## 1.) We Must Restore The Rule of LAW. Where is our Tribune?

I believe we need to sift throughout time and do what the Romans did, take the best ideas, and incorporate them into the society. What we can learn from the lessons of time by looking at Rome, is that a representative form of government provides nothing to protect liberty or the dignity of the people. What the Romans created was the office of Tribune who defended the people against government, and had the power to criminally prosecute any government official. Today, if a federal prosecutor threatens you or your family, there is nothing you can do. Like a federal judge, they are so far above the law, they might as well be kings. No citizen has the right to press criminal charges against any government official. Only the government can prosecute their own. This breeds nothing but indifference for the rule of law and makes our nation a true mockery. Our courts will allow you sue foreign governments under US law and sue foreign government officials for torture. But you cannot dare prosecute any federal official no matter what he does.

We cannot have honest government until everyone has to abide by the same law. Once the government claims to be above the law, then it is no different than the king that we were suppose to de-thrown. If the American Revolution was against monarchy,

then there can be no one who sits in an office of power claiming absolute immunity as a king. There have been times of such reform that have surfaced persistently. We find the forcing of King John in England to sign Magna Carta establishing the rights of the people and trial by jury just one instance among many. Yet perhaps one of the major efforts of reform was that of the Roman Emperor known as Julian the Apostate.



Julian the Apostate, detail of a marble statue; in the Louvre, Paris

Julian the Apostate (331-363AD) was an heir of the family of Constantine the Great. He rejected Christianity, perhaps for just cause due to personal tragedy. Upon the death of Constantine the Great, he left three sons from his marriage to Fausta, and the troops, it is believed, were ordered by the youngest son to then murder all the half-brothers and possible heirs. One of those who was murdered in a political move that most likely gave inspiration to Niccolo Machiavelli (1469-1527) author of **The Prince**, was the father of Julian. This gave great pause how one could claim to be a Christian, yet act so ruthlessly.

Julian the Apostate thus rejected Christianity and did his best to favor those who still were pagan at heart. He embraced not merely pagans, but showed a deep and remarkable sense of honor rooted in Greek philosophy. Julian was appointed Caesar (Vice President so-to-speak) by Constantius II, the youngest son of Constantine the Great who it was believed ordered the troops to commit the Palace Massacre. Having lost his two other brothers, he had no choice but to turn to Julian. In 360 AD, Constantius sent an order asking Julian to send a large portion of his troops to serve him in the East. The troops supported Julian and it appeared civil war would unfold, but Constantius died before a battle unfolded.

As Emperor, Julian did far more than torment Christianity disfavoring any such Christians from serving at the Palace and supported rebuilding the Jewish temple, not to mention his restoring pagan images on coinage. He did restore dignity and above all honor to the office of Emperor. He declared that there would be no such thing as absolute immunity even for himself. He declared that even the Emperor was bound by the same laws as the people. His deep seated discontent for the two standards of conduct that allowed Constantius to murder his father yet claim he was above the law is something we need to seriously restore once again.

On April 3rd, 2009 in the New York Times on the **OP-ED** page, you will find an article written by the former Attorney General of New Jersey, John Farmer, who has made it plain that we desperately need such reform. After listing a series of cases involving Prosecutorial misconduct and actions clearly brought for political reasons, he offers his counsel to Eric Holder for reform.

"Above all, Mr. Holder should promote the idea that the prosecutor's job, understood properly, is an end in itself, not a stepping stone to higher office. The powers to accuse, to arrest and to prosecute ARE THE MOST FEARSOME CONFERRED BY OUR SOCIETY. The abuse of those powers, historically, has been the very definition of tyranny. Accordingly, the attorney general should consider supporting a rule barring prosecutors from seeking higher office for two to five years after their tenure ends.

The motives underlying a decision to prosecute may rarely be beyond reproach, but they should always be above politics."

What I have personally witnessed would shock everyone. I have seen sheer torture, threats against family, extortion of confessions, even in a case against a foreign corporation CBL in the Southern District of New York, the main witness Mr. Blech used by the government to imprison others, admitted once being released that the prosecutors threaten him, his family, and sent him to witness school for three weeks to train him how to use certain words to make the jury believe there was a crime. In my own case, they froze the funds of my then 80 year-old mother including her social security cutting-off even all her medication. My lawyers had to threaten to hold a press conference to expose what they were doing putting my mother's life in danger. Only then, did the Receiver Alan Cohen and his counsel Tancred Schiavoni agreed to unfreeze her funds.

Woman are threatened that if they do not testify for prosecutors, their children will be put up for adoption. You just cannot image what this absolute immunity for judges and prosecutors inspires - the most inhuman treatment and they claim that they alone are above the law. If the President of the United States or a Senator or Congressman did what prosecutors can do, they would themselves be indicted. But no one will investigate. When the Egyptian student was arrested on claims he had a radio that guided the planes into the World Trade Center for 911, the Government told the courts he had confessed. Then the American Airline pilot who had left the radio at the hotel returned for it on his next trip to New York, it came out that it was his radio all along. The embarrassment forced the Judge to order the prosecutors to investigate how they obtained a confession from an obvious innocent man. The prosecutors told the Judge, he had no power to order them to investigate themselves.

For centuries, prosecutors have been extorting confessions and even Shakespeare noted in his play the *Merchant of Venice* that the practice of torture will make any man say anything. This practice was to be rejected by our Constitution, yet it is still in full use minus the rack. It was the Spanish Inquisition under **Tomas de Torquemada** (1420-1498) who usurped the Inquisition being an advisor to the Spanish Crown. He convinced the government that the Moores and the Jews were threats to the state, and once he usurped the Inquisition, he quickly expanded its subject-matter beyond heresy and apostasy, into witches, sorcery, sodomy, polygamy, blasphemy, usury, and a host of other offenses that he envisioned. He authorized the use of torture to extract confessions. He ordered no less than 2000 burnings at the stake. Numerous vile complaints were made about his personal hatred and abuses. The Pope tried to curb his cruelty, but he powers came from the Spanish Crown. In 1494, Pope Alexander VI appointed four new inquisitors in June 1494 to retrain his cruel inhumanity. The U.S. has exceeded **Toruemada's** conviction rate of 93% reaching 99% today.



**Tomas de Torquemada**  
(1420 - 1498)

The New head of the SEC Mary Shapiro, has claimed she will rely more upon the private sector to monitor the industry. This is a very, very bad idea. Already the problem has been that the big institutions manipulate the SEC and CFTC to file charges against competitors, and then the SEC will never admit a mistake, so they will defend the very people who manipulate them. In the case of CBL, it was Charles Schwab who called the SEC against a rival taking their business. In our case, we gave notice to Republic National Bank of our intent to file suit for their staff's illegal trading. They ran to the SEC. The same was true in Drexel Burnham. It is a bank idea to let competitors give secret tips to instigate the SEC.

## a.) ~ Restore the Rule of Law ~

The **Rule of Law** is the first and foremost cornerstone of economic wealth. Just as capital flees and will never return to a country that cannot be trusted because it nationalizes private assets like oil, the same problem exists in the United States. We blame the greed of manufacturers for leaving our shores. The truth is high taxes, high costs of health care, and over-regulation in many areas that is arbitrarily imposed.

I was personally told by Proskauer Rose, LLP, a major law firm, that a European bank was going to buy an American bank and sought first to know what the **Country Risk** would be known as the **Rule of Law**. When Proskauer Rose was forced to inform them about my case and how just being a corporate officer denies you any rights at all even post-indictment, they turned around and left.

Either we are a nation built upon the **Rule of Law** or we are no better than the worst third world dictator. Before my case, the US held more than 50% of global new stock offerings. That fell to less than 5% before this immediate crisis. The abuse of my case has sent more capital fleeing and rightly so. When prosecutors are above the law, even when they make an honest mistake, they will never admit it for that would effect their prospects of future employment. Prosecutors take the low paying jobs as stepping-stones to (1) political careers like Elliott Spritzer and Guiliani, or (2) to grab one of those high paying jobs often with the firms or their lawfirms who they were suppose to regulate, ie Madoff, AIG & Investment Banks.

We can no longer afford this corruption. Capital will not return until we now clean up our justice system. This is why we need a **Tribune** for some accountability from Judges and Prosecutors. Our nation depends on the **Rule of Law**. We need to end this corruption that is destroying our capital formation. We cannot expect capital to remain where it can be picked-off for political purposes and trial by jury no longer protects anyone.

During the early 1980s, I had the opportunity to go behind the Berlin Wall. The day the Wall had been put up, a friend who was born in Berlin had been walking on what became the free side of the wall with his grandmother. He could not return home and became an American citizen. He asked me to go with him to visit his family that remained behind the Wall hearing rumors that if the East Germans found out that he had been born there, he would vanish. I agreed because I wanted to see what was true and propaganda about what went on behind the Wall.

To reduce a long story to the core for this subject-matter, we met with his cousin who gave us a tour of East Berlin. When we were alone, she spoke freely. But as soon as anyone came close to us, she reverted into her propaganda mode espousing how great the Communist government was.

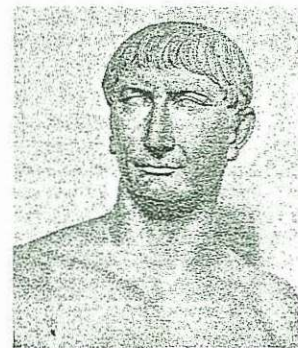
America practices the same evils when it prosecutes "conspiracy" to commit any offense which means you did not even have to attempt to commit the crime, just talk about it. Somebody else can testify that you agreed to participate yet they did all the acts, and you are still guilty only on their testimony. This is why conviction rates are 99%. They need not prove you did anything, just extort a confession from someone else who testifies you knew about it, and you go to jail for life. This is why the US has almost one-third of all prisoners in the world, and about 70% are non-violent. In Europe, there is no conspiracy. You have to have actually committed the crime or attempted to do so. Justice Holmes once wrote that if the day conspiracy became charged in each offense as it is today, it would be an abuse of that concept. That day is here and capital has fled making London the new Financial Capitol of the world and it seems to now be moving to China. Either we stop this insane and costly game to further the careers of government attorneys and prosecute only real crime, or we will destroy ourselves. Would you let a rapist go because he testifies that someone else told him how to do it?

## 2.) We must Eliminate Income tax & create A two-tier Monetary System To Survive

It is time that we also eliminate direct taxation as the Founding Fathers had so wisely incorporated into the Constitution. We can take consumption, for the rich will pay a higher share based upon their consumption. If there is no direct taxes, then it also will not matter if someone is a legal or illegal alien, for they will have to pay like everyone else. We survived without direct taxes from 1775 to 1913 with no problem, and China has soared to be the second largest economy surpassing Europe and the whole idea that creating the Euro would allow Europe to compete in economic power. Well that did not work. China has no direct taxes and economics has prevailed showing an astonishing growth rate becoming the 2nd largest economy today.

If we eliminate direct income tax, we not merely restore the dignity and the liberty of citizens that was lost by having to keep track of what every citizen owns and does in life. This is the liberty that was lost that Thomas Jefferson was so deeply concerned about. Beyond that personal liberty, by limiting government to indirect taxes, we will restore the lost jobs and the United States will be reborn and explode in economic growth just as China is doing right now. American would then dwarf both Japan and Europe and everything that made business leave, will attract them to return increasing employment.

There are examples of such major reform that spark fantastic periods of economic growth. One such reform took place during the reign of the Roman Emperor **Trajan** (98-117AD). Right on target at the mid-point of the 224yr **Cycle of Political Change** 112AD within the Imperial Age (44BC-180AD) going into the major high, **Trajan** proved to be a wise emperor who reduced taxation, even burned the ledgers of all old taxes owed and even issued coins showing him setting fire to such records. Trajan increased the number of eligible poor for free grain, and began the institution of public funds for the support of poor children known as the **alimenta**. When emperors came to power, it was traditional to try to buy their favor and thus the provinces and city states sent gifts of gold. Trajan even rejected these gifts and sent them back to the people. The golden age that followed created a true era of spectacular economic growth that culminated in the peak of Rome under the reign of Marcus Aurelius (121-180AD).



Trajan (98 - 117 AD)

The income tax adds to the cost of doing business at all levels and just like leverage, it increases the cost of goods and services tremendously. If we are now honest about its effect, we have lost not merely manufacturing labor jobs, but we have lost service jobs. How many business calls are redirected to the Philippines or India? We are bleeding not just manufacturing jobs, but services because the net cost to even a \$50,000 job, ends up being nearly \$125,000. Even insurance companies are relocating their clerical staff offshore. It is time we be honest and recognize that throughout history, taxation when it becomes excessive undermines the economy and leads to the economic collapse by the flight of capital formation. Indirect taxes upon consumption are by default proportional for he who spends the most, pays the highest tax in proportion to their income. China is exploding in economic growth without direct income taxes. If we will not reform our method of taxation, we will only continue to slowly die as a nation. Indirect taxes have the ability to be fair, for there is no longer an issue of who is an illegal alien for they too will automatically pay their fair share.



The payroll tax is borrowing money from the poor and not even paying them any interest for the use of their funds. Like a thief, we take their money, and then pretend we are so generous, we hand it back and they are in awe like a 5 year old who just saw a dime come out of their ear.

Neither China has an income tax nor did the Founding Fathers allow one. Is Marx truly a smarter and more wise man than George Washington, Thomas Jefferson, James Madison, Ben Franklin and countless others? If so, then why not remove all those men from our history books, our currency, and from any library? Why not erect statues of only Karl Marx?

We have a real chance to soar as a nation if we reject the failed ideas of Karl Marx (1818-1883). We need to rise above the class warfare that torments society and stop the coveting of thy neighbor's goods. We need to restore the nation intended by the Founding Fathers.

## a.) A Monetary Standard ~

The problem with the gold standard was that it did not allow for expansion of the money supply in proportion to economic growth, population growth, or in regard to economic booms and busts. We need to understand that waves of inflation were created by the sudden discovery of gold as in the California Gold Rush of the 1850s. When there was economic growth but a shortage of money, the lack of any new supplies of gold acted like a deflationary cloud. The price of gold would rise in proportion to demand creating deflation at the same precise time of a wave of economic expansion was present. This created excessive booms and busts and often tempered and controlled the economy furthering the disparity between the haves and have-nots.

But cutting the golden chain to money, we have freed our economy in ways we do not take into consideration because we are still operating under economic theories that were created under a gold standard and no longer function. We are fooling ourselves if we think we can claim that borrowing is not inflationary. We have been deficit spending almost every year since the Great Depression. The accumulated debt is being purchased by foreign nations, and that threatens national security. For if a rival owns your mortgage, they can also foreclose. The greatest weapon that could undermine the stability of government, is if foreign governments began to dump US debt. The dollar would plummet. The interest rates would rise if we failed to stop the borrowing, and the economy of the United States could be extinguished like a fly just as if an enemy counterfeited dollars to render them worthless to win a war.

Between 1986 and 2006, the national debt rose from about \$2.1 trillion to \$8.5 trillion, yet \$6.1 trillion was interest! We are paying interest that flows overseas and fails to stimulate the domestic economy at all. So where is the conservative idea that if we borrow rather than print, we would somehow have less inflation? If we look at the physical supply of paper dollars, this stood at \$719.4 billion on June 30th, 2006 according to the **Financial Management Service, US Treasury**. This is at best about 5% of the electronic money supply. The national debt increased about 400% between 1986 and 2006. Had we printed the money we needed instead of borrowing, we would have saved the interest expenditures of about \$6 trillion. So you can see, if we eliminated the income tax and mandated that the budget may not increase greater than the percentage of population and GDP growth, you would find we have far less inflation by borrowing.

It is time we stop the nonsense and realize that if we strictly create money only that is needed to ensure a steady economic growth, we will also reduce the economic volatility swings. We need to update our theories to current facts.

## b.) The Coming One World Currency

The rising call for a **One World Currency** is starting to be heard among the ranks of the G20. They see this as an attack upon the United States and one that is justified due to the abuse in the Investment Banks from which they see the epic center of the current worldwide decline. By moving to a one world form of currency, they see this as having a say in the economic policies that will dictate the global economy.

China is already making inroads to transform its currency into the reserve currency for Asia. We must understand that this is a political call to arms and the United States may no longer be able to lead because of the internal corruption within the **Rule of Law**. By allowing prosecutors and judges to remain above the law, they will continue to place their personal careers above the welfare of our nation. This will continue to weaken the national wealth of the United States and cause the dollar to fall from grace as a reserve currency.

The only viable way to deal with the political fallout from this debacle that will destroy the world monetary system as we knew it, is to take the initiative and re-establish a **two-tier** monetary system. The United States had stopped minting the silver dollar in 1873 for domestic purposes. This left to the **Free Silver Movement**. During the 1870s, European countries adopted the gold standard. By the early 1900s, the only countries to maintain a silver standard were China and Mexico. In order to facilitate that trade with China, the United States issued the **Trade Dollar** that was one troy ounce of silver. By 1878, the demand to increase the money supply had grown and would continue to grow going into 1896 with the famous speech of **William Jennings Bryan (1860-1925)**. The domestic silver dollar was about 72% of an ounce whereas the trade dollar was a full ounce. Hence, we had a **two-tier** monetary system. This may be what we will have to do to offset the **One World Currency** demands.

A **Two-tier** dollar would allow the domestic economy to create dollars as it needed in proportion to economic growth measured by a standard GDP formula not subject to change, and the growth in population. Hence, we will be able to retain our political independence, yet yield sovereignty with the external dollar giving a voice to the world. Like China, the government would earn a fee on the conversion of **Domestic Dollars to International Dollars** to offset the need for direct taxation - eliminating all income taxes. This will require the repeal of the 16th Amendment.

### XVI Amendment

The Congress shall have power to lay and collect taxes on incomes from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

We need to prohibit all direct taxes be they income, inheritance, gifts, or any other pretended distinction and any judge who attempt to create such forms of taxes must be charged criminally and removed from the bench. We can no longer tolerate any judge who alters the intent of the law as it was enacted.

Returning to a gold standard or a one world currency that are indistinguishable, will infringe greatly upon the sovereignty of all nations. The economic policies could then be dictated by the vote of nations. The floating exchange rate system has its pluses and that is maintaining individualism. We should retain that, yet create a new international monetary system that yields sovereignty only to maintain a stable currency among nations. When the gold standard collapsed, first in 1968 gold began to trade in a **two-tier** market in an open market in London and fixed rates between nations. We need to look at this system now.

### 3.) Healthcare Reform Cannot Be Done Without Tort Reform

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It is interesting that the majority of Senators and Congressman are lawyers. We hear about the greed of "Wall Street" and the government wants to curtail bonuses to corporate CEOs and bankers that will make the highest paying jobs in society either of two options - (1) be a sports player, or (2) a lawyer.

Princeton Economics conducted a small study into the heal industry. What we had found was that doctors were ordering tests they knew they did not need, not for the sake of personal greed to increase fees, but because if sued the lawyers would then claim they were guilty of malpractice. Costs have escalated because of the lawyers and then the cost of insurance has to reflect the risk of huge jury awards. However, the lawyers may take on a case on a contingent basis and then take 40% of the award.

It is time that the self-interest of the legal profession yield to the needs of our economy to save our way of life. There should be national health care just like there is a fire department, police, and schools. That does not prevent private doctors for those who want to pay for that. But we need full coverage for the average American family. Small business routinely paid for the family as a benefit. Then the lawyers sent the costs sky-high.

Then government sees how much those benefits are today as a percentage of income, and then you hear the battle cry to tax it. This is a economic death-spiral that if we do not fix correctly with real live **tort reform**, there will be no healthcare that is provided by employers. Just look at General Motors. The legacy costs are so high, they would be better off going bankrupt. People who worked in good faith for those long-term benefits will see that there is nothing guaranteed but what Ben Franklin said - death and taxes.

We need to eliminate unlimited jury awards. If you lose an arm, that should have a specific penalty, not be based upon emotional loss that the person may not be able in the future to be a rock-star. Healthcare should not be this insane. It never use to be this costly as a percent of total spending.

Healthcare costs are sending even service jobs overseas. Employers cannot afford these costs and it is not right that families end up in poverty because of a medical emergency. The majority of lawyers on Capitol Hill have been preventing this reform because it is not Wall Street, but the Legal Profession. Every other profession is now subject to the criticism of Congress, but the legal profession and that include their own Government attorneys. This is the fate of our society at stake. When will we stop not the greed on Wall Street, but the greed in Congress?

Obama's plan illustrates the problem. He is only proposing adding \$50 trillion in future liability for Government healthcare to cover those who are not covered at tax payer expense. If you are a small business, give up the healthcare for your workers can now get coverage for free. This will attract a larger proportion of the population but will not address the rising costs and will accelerate them because the Government will pick-up the tab. We need tort reform as well - not just picking up the bills for those who cannot afford it. This will not reduce halthcare costs as a percent of GDP and allows the lawyers to still reap the benefits.

We need to address the rising costs, not just those who have no insurance. If we do not address real reform, then we might as well declare bankruptcy now for there will be a revolution when all the jobs that can leave, do leave. What will we become then? All sports viewers, and where is my free bread?

# 4.) Judicial Reform is VITAL To our Economy

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Often not understood until you have to stand before a judge, is how vital it is to have a honest impartial tribunal. For thousands of years, the easy way for the state to get its way is to stack the courts with pro-government judges. If we look to the Bible, we will find in the **New Testament** at **Luke 18** the story of the widow and the corrupt judge who refuses to give her the rule of law. Part of the reforms in the Roman Republic that led to the overthrow of the king, centered on the corruption of judges. The **plebs** (common people) demanded a **Tribune** who could indict even magistrates to defend the people against the corrupt courts.

One of the critical aspects that Edward Gibon noted in his **Decline and Fall of the Roman Empire** published in 1776, was the corruption of the courts that led to the sheer absence of the **Rule of Law**. In England, we see again in Magna Carta the demand that the king only appoint judges who were competent in the law, and had the courage to uphold it, see Chapter 45.

Stacking the courts has been the number one means of how the state manages to seize property and create tyranny. The Judiciary of the United States has fallen into such a state of debasement, it would take a book in itself to highlight all the sheer horror stories. We all know that the Supreme Court now today claims it has the sole discretion whether or not it even wants to listen to your case. This is an assumed power that is not conferred by the Constitution. The only court created by the constitution was the Supreme Court. Congress created the federal courts beneath it and they are known as the "inferior" courts. You will find no reference to any power of discretion within Article III of the Constitution now claimed by judges. In fact, one of the leading Chief Justices of the Supreme Court, **John Marshall** (1755-1835) who served in the Supreme Court between 1801 and 1835 who is regarded as one of the best unbiased early jurists, made it very clear that the entire assumed powers of the Supreme Court today to decide whether or not it even wants to listen, in his day was called treason.

"We have no more right to decline the exercise of jurisdiction which is given; than to usurp that which is not given. The one or the other would be treason to the Constitution."

Cohen v Virginia, 19 US 264, 404 (1821)

Judges just rule whatever they want. Thomas Jefferson (1743-1826) argued that also the legislators should be able to rule on what the Constitution says. Jefferson above all knew the history of the Judiciary and warned that "the germ of dissolution of our Federal government is in the constitution of the federal judiciary." **Writings of Thomas Jefferson, Chp XV, p331-32**. Jefferson realized that the most dangerous of all the three branches was the Judiciary. Ben Franklin (1706-1790) argued during the formation of the Constitution, that the legal profession should appoint the judges as in Scotland, for the profession would always advance its best in order to eliminate its competition. But that was rejected, allow politicians to appoint the judges, and that has proved to be a disaster.

Judges are not elected by the people. They are so far above the law, they preside as if they were God himself. They rule that they can even deliberately oppress your rights for if any judge would be subject to the same law, then they might be afraid to rule impartially. This is the biggest bullshit story ever told.

Every time we have a Presidential election, both parties are clamoring over the fact that the otherside will have appointments to the Supreme Court and effect the **Rule of Law** for political purposes. This in and of itself, demonstrates the threat to American liberty that lies behind these words, yet are never plainly stated.

The examples of how you have no real Constitutional rights whatsoever are far too numerous. Take the case of Dred Scott (1795-1858) who was a slave. His master took him on a trip and crossed into a state where slavery was not allowed. He filed a lawsuit, and that rose to the Supreme Court in 1857. Because of the economic impact to the South, the Supreme Court ruled not in favor of the Constitution, but based upon special interests. That rule set the stage for the Civil War and indeed show why a war was necessary, because we lacked any honest judicial system. The Supreme Court held that Mr. Scott was nothing more than a dog, for he was property and not in reality a human being. That decision cost so many lives and illustrates that the entire purpose of the judiciary is to be the alternative to force. If you have a honest forum in which to seek redress, then this is the alternative to physical retaliation. But federal judges in the majority, as so caught up in their personal powers, that they have long forgotten their constitutional role in our democratic society, to protect Liberty and Property.

In Randall v Brigham, 74 US 523 (1869), the Supreme Court first ruled that judges could be sued "where the acts are palpably in excess of the jurisdiction of the judges, and are done maliciously or corruptly." Randall v Brigham, at pg 537. Clearly, behind closed doors the judges complained and argued they needed the power of a king to be absolutely immune. So the next year, the Supreme Court reversed itself in its own self-interest stating:

"judges of courts of superior or general jurisdiction are not liable to civil actions for their judicial acts, even when such acts are in excess of their jurisdiction, and are alleged to have been done maliciously or corruptly."

Bradley v Fisher, 80 US 335, 351 (1872)

A judge can accept a bribe from a competitor to imprison you, and you still cannot sue them. They can know what the law states as in my case that civil contempt shall have a maximum sentence of 18 months, and absolute right to appeal within 30 days, and a right to bail - 28 USC §1826. President George W. Bush's cousin, who was Chief Judge of the Court of Appeals in New York, refused to obey the law. He claimed "inherent" power to ignore the statute and just imprisoned me with no right to bail or even an appeal. They can do whatever they want, and you can write to the Judiciary Committee in the Senate to either Republican like Arlan Specter or the Democrat Patrick Leheay, and they just ignore you to protect the judges. So you have no constitutional rights. Judges can do whatever they want and there is absolutely nobody to even appeal to. In fact, the Chief Judge John M. Walker, Jr on his way home killed a cop directing traffic driving right over him. He was not even tested for alcohol and let go because as a judge, he can even kill a cop that the rest of us may have spent life in prison for such an accident.

We desperately need accountability. Judges cannot not be political appointees. They must be selected by the American Bar Association and be subject to the will of the people. They must retire at the same age as everyone else. It is a court of law, not a throne to claim a right to hold until death. We must never forget what the Supreme Court did during World War II upholding the right to arrest all Japanese even born here and imprison them until the war was over. We must not forget the witch hunts of McCarthy. We must not forget the horror of declaring a human being the equivalent of a dog. Enough is enough. Jefferson was correct. The greatest threat to our nation is not Russia or China, it is the Judiciary.

## 5.) Regulatory Reform

Our problem is not too little regulation, we have far too much regulation and that those in charge of regulating are both incompetent, and there are no ethical boundaries whatsoever.

The Commodity Futures Trading Commission has long hated my guts. Those who manipulate the markets and didn't like the fact that Princeton Economics would warn about their activities, caused them to call the CFTC behind closed doors and told them I was manipulating the "world economy" as if this were some James Bond movie. Yet the CFTC issued a subpoena demanding Princeton Economic produce a list of all client worldwide telling in court documents that I was manipulating the world economy and they could prove it if the judge granted their subpoena. My lawyer defended against the CFTC and told the court that even if I was indeed manipulating the entire world, where was there a statute that said I could not? I prevailed. But this incident showed me how the regulators are pawns of the main financial institutions.

I warned in the mid 1980s that the CFTC should be merged with SEC because these conflicting agencies were sending capital fleeing from the United States. Congress would not listen. In 1985, the biggest hedge fund was a \$100 million. What was as plain as day to anyone who had any practical experience, under the CFTC one could charge any performance fee as long as it was disclosed. Under the SEC, there could be no performance fee. Within 20 years, the hedge fund industry developed offshore with several trillion dollars.

We ended up with over-regulation that drove capital from American shores and every other country had one regulatory body. We ended up with the SEC, CFTC, and the Federal Reserve not to mention NASDA and FSA just for starters. Then there were exchange regulators, IRS, and the sheer amount of overlaying regulation was completely insane. This provided nothing to protect the investor, and drove costs through the roof and provided countless jobs for brain-dead nephews of those in power.

We need consolidation, not more regulation. We need competent regulators, not stepping-stone jobs for the private sector. Reduce the number of regulations into a single set, create an approved list of auditors for investment funds, make the auditors file separate reports to the regulators and responsible to the public for their audits, and now we will have a system that we might be able to trust. Even in my own case, had there been accountability for Republic National Bank, their staff would not have been able to be illegally trading in the accounts for which the Bank had to plead guilty and pay \$606 million in criminal restitution. Yes, my judge John F. Keenan order I pay \$80 million and \$1 in restitution, but he also then ruled I got credit for the restitution Republic paid, which was a clever way of ruling I had no restitution.

We need one set of regulations. The SEC is wrong not allowing performance. We do not have countless individual specialized funds because this is good for the average investor have a bond fund, stock fund, or a endless amount of variety. The truth is, the hedge fund is the best for you are hiring a fund to make the best decision. If the average person has to listen why every type of fund is the best, it is like listening to used car salesmen. We need professional management that makes the strategic decision where to invest and in what. That can only be done offshore because of the over-regulation. We need one set of regulations and good compliance. Regulate the degree of leverage. That was the entire problem. We need this to be now under one roof - the Federal Reserve. Only actually taking funds for personal use should be criminal. Knock-off the political prosecutions. That must be barred. Do this and watch who America will be restored faster than any bailout program.