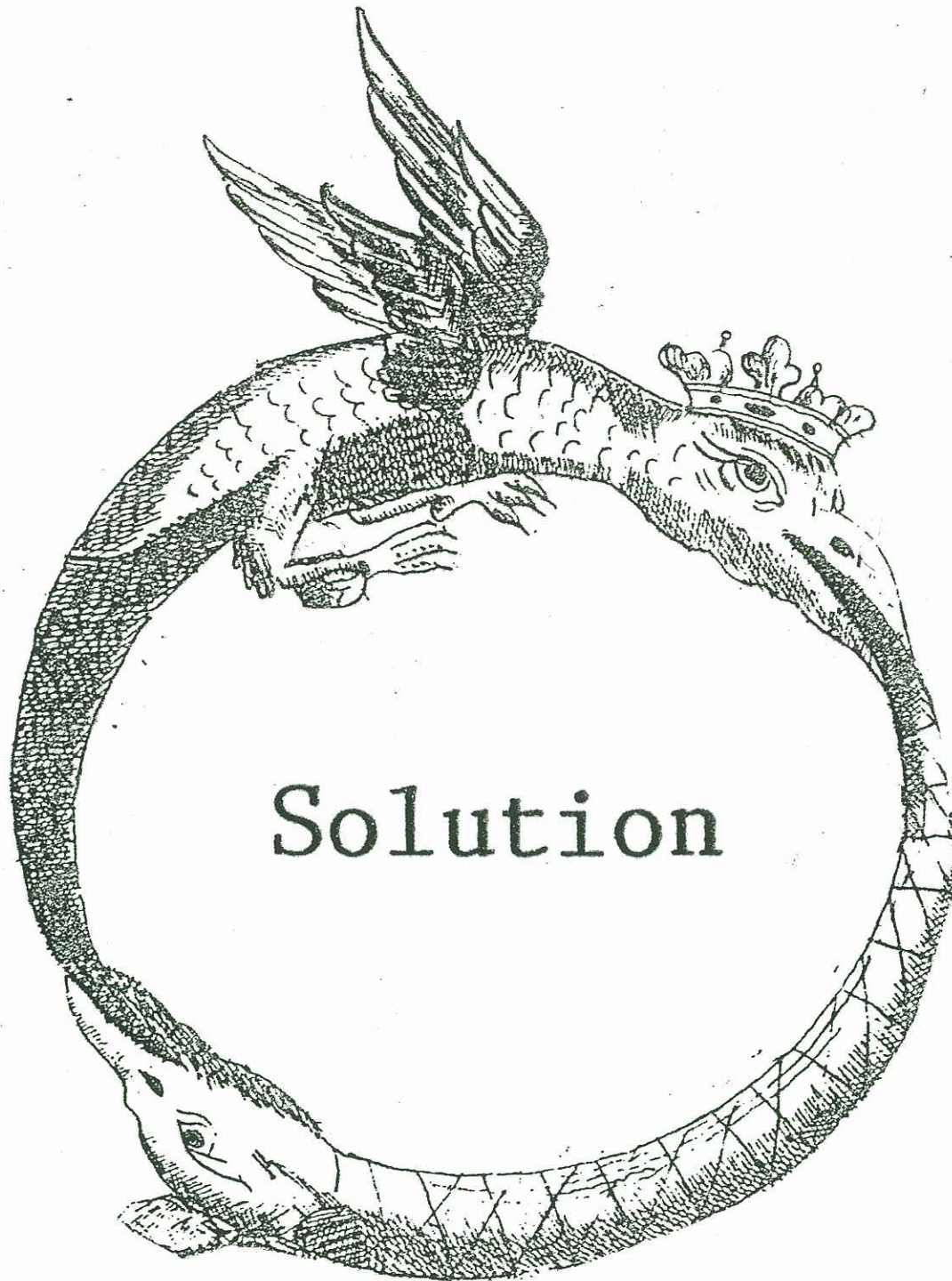


## The Paradox of



Solution

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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 continued support and efforts to contribute to the writings I have been able to continue through their great efforts. I would also like to thank those who have looked after not just myself, but my family, and shown them support and kindness.

Everything we at Princeton Economics that was our mission to gather information and bring together the most widely covered global economic perspective, has been a effort that is now bringing us to that fateful crossroads in history. There are those who are trapped by the past and cannot see the dynamic evolution that causes history to repeat, but like lightening, never quite precisely the same way twice. In 1914, Britain reached its peak as the center of the global economy. It passed that torch to the United States who by 1929 became the leading world economy who was also a CREDITOR nation just as China is today. There will be no 1930s style depression, for the cards are nowhere near the same. Yet China will become the leading world economy by 2016, and then suffer its 1929. The West is doomed and it will collapse from its own debt. We borrow with no intent of ever paying off the debt, and somehow both Congress and the majority ignore this fact just as they had ignored the problems in mortgages that violated common sense.

No matter what country you live in, it is the duty that falls upon the shoulders of every reader to do what you can to get reality to manifest. Feel free to send this report to every government, friend, and member of the press around the world. If we do not get the debate started, we stand no chance of saving the future for ourselves and our posterity. We can reach that next never in political-economic evolution only through the hard work of everyone. For this reason, this is provided as a free service.

There is a NEW DATABASE that will be used for special updates provided exclusively to those who register. I want to thank you all once more for your support and for your contribution to try to help society survive the coming storm.

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GOVERNMENT TO GET POLITICAL CHANGE MOVING

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

# Thank You For Your Support

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

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

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

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

Please register at [ArmstrongEconomics.COM](http://ArmstrongEconomics.COM). I will be providing some special reports to those who register.

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

# The Paradox of Solution

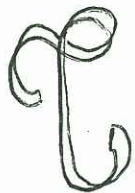


By: Martin A. Armstrong

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

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

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

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

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

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

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

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

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

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

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

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

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

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