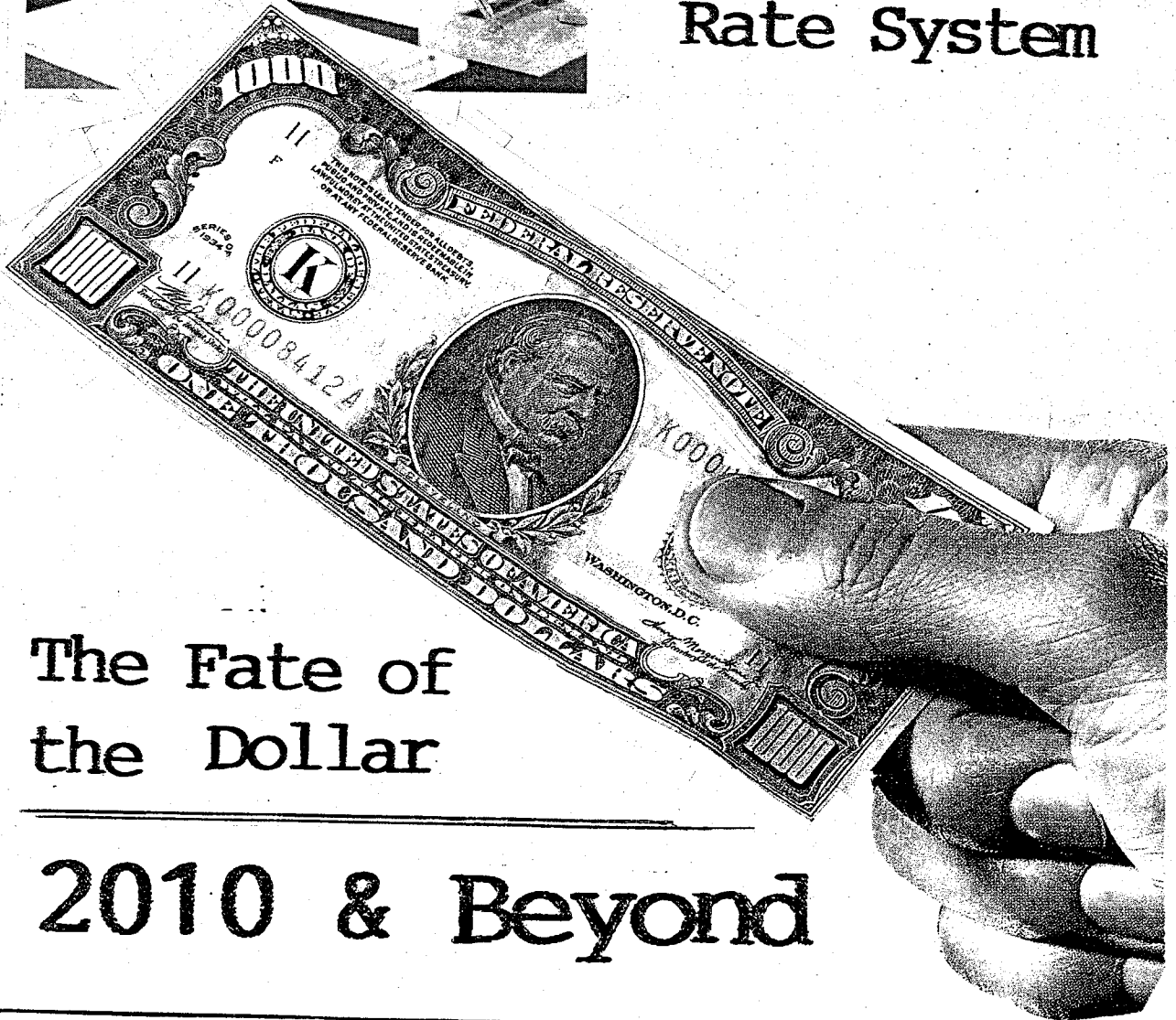


Armstrong Economics™



Creating the
Floating
Exchange
Rate System



The Fate of
the Dollar

2010 & Beyond

Martin A. Armstrong
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I would sincerely like to thank everyone for their support. It has meant a great deal to me and my family.

I believe we are at a crossroads where we are in serious danger of creating an economic disaster beyond belief. The corruption is running so wild, it prevents us from correcting our system to save our own future. It is far more than mere volatility in financial markets. Our children and our grandchildren will **NEVER** know the world we once enjoyed. With economic decline, comes the finger-pointing, tension, and then war. When the Supreme Court ruled that black were just property and had no rights even if free in the **Dread Scott** decision, they then also created the Civil War for they illustrated that law, which was to be the essence of civilization providing the alternative to force, did not exist. We have reached that point once again for there is no **Rule of Law** and that is destroying the essence of our civilization once more. Courts will simply rule only in favor of the government in critical issues for judges are merely political appointments.

No matter what country you live in, we must be mindful of what is going on. We must look not merely domestically, but to the global horizon to understand the dangers we now face. Government is imploding, for the Marxist systems that they adopted, has created a debt crisis that is truly unprecedented. They borrow every year with **NEVER** any intention to repay anything, consuming capital and creating the very thing they pretend to be fighting against. They claim to be the champion of the poor and the little guy, while they borrow so much, the interest payments to keep the shell game going is the greatest transfer of wealth to the very people they claim to be against. They are stripping our children of their future, and nothing will stop them until the music stops, and there are not enough chairs for everyone to take a seat.

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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.

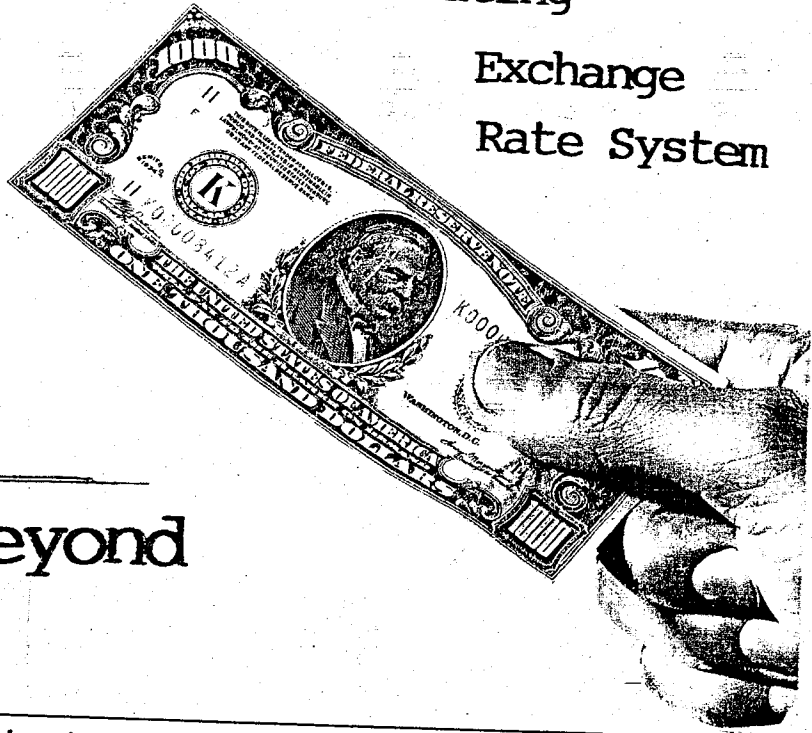


The Fate of the Dollar

2010 & Beyond

Creating the Floating

Exchange
Rate System



By: Martin A. Armstrong

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

CREATING THE FLOATING EXCHANGE RATE SYSTEM was not something that was ever actually debated and designed in advance. There was simply rising core disputes over trade and the fact that both the French and the Swiss were constantly redeeming dollars for gold. The United States was dead broke. It had squandered all its wealth because the nation was run by a system that created an incentive to spend money in order to gain reelection. It was Adam Smith's invisible hand that worked silently behind the scenes to undermine everything that had been accomplished since the birth of the nation. Many hate my guts because I believe in the real "Free Markets" and by that I mean that no matter what, the reality will always catch up. They had created a system in 1944 at Bretton Woods that obviously lacked common sense. How can you fix gold at \$35 per ounce, yet at the same time, allow unlimited spending creating an endless supply of dollars? Didn't anyone realize that such an imbalance was UNSUSTAINABLE? That is what I mean by the "Free Markets" insofar as it matters not be it private or public, capital is like water, it will find the crack and just leak through the pot. It cannot be stopped. Laws are only a form of tyranny, for you cannot legislate against common sense or human nature.

The birth of the Floating Exchange Rate System simply just happened. It was not designed, nor was it intended to be a permanent system. It was a response to a trade dispute that became sidetracked by the rise of OPEC during the 1970s. Demands that oil will now be controlled and the price raised, had a sweeping impact upon the whole economy worldwide. Manufacture that had been built upon cheap energy costs were turned on their head. While inflation was attributed to OPEC, in reality, this became an excuse to raise prices generally.

Yet the Floating Exchange Rate altered everything. They did not realize what they had done, but in effect, the entire world would never be the same. Each and every economic statistic was changed, yet nobody seems to understand that this is so. We have countries arguing over trade that is flatly incorrect and people calling for another Great Depression yet fail to understand that for history to repeat the same way, that means the dollar must rise in value, not decline, and its supply must contract not expand.

In a gold standard, everything is then measured in terms of gold. In a **Floating Rate** there is NOTHING that is constant. It becomes relative to the last time value was calculated. For example, look at ple, when British Airways introduced the Concord in the early 1980s and the pound was \$2.40, the price of a ticket was 2000 POUNDS = \$4,800 ROUND TRIP NY/LONDON. The British pound fell to \$1.03 by 1985. Now that same ticket was about \$2,000. The plane was full because a First Class ticket on TWA at the time was about \$3,500. The Concord was now a success and the British raised the price to 5,000 pounds, pricing it above standard First Class on a conventional flight. But the pound rallied back to nearly \$2 making the price of that ticket about \$10,000. The rise and fall of currency was altering business, and to a large extent, contributing to what I would come to call "**currency inflation**" meaning the currency swings was becoming the driving trend behind price movement.

How do we measure value when everything remains in a state of flux? If you earn any money, the socialists want to subject you to a progressive income tax. What they don't tell you, is that inflation is carrying you into a higher and higher tax rate. In World War I, a welder earned \$20 in gold per month. That was good money, enough to support your family. If wages were frozen and prices free to rise, \$20 won't even buy a subscription to a newspaper. The term "**millionaire**" was really a wealthy person back then. Today, the average man will earn more than that in his lifetime. What was once "**Millionaire's Row**" in London, is now "**Billionaire's Row**."

On the front cover, I have illustrated a \$1,000 bill printed in the 1934 series. Once upon a time, that was serious money. The top line of a car was less than \$1,000. To issue a note that would have the same purchasing power today, it would have to be roughly a \$72,000 bill.

Why has the government stopped printing large denominated notes? They fear that cash can then be hoarded and large denominated notes would allow people to store vast amounts of money. For tax purposes, the United States will not print large size notes. Europe will print large notes, but they routinely cancel the currency and replace it. This has forced those who hoard cash to come in and exchange it for the new version. By the way, did you pay your taxes on this?

Quixotic Gold Standard

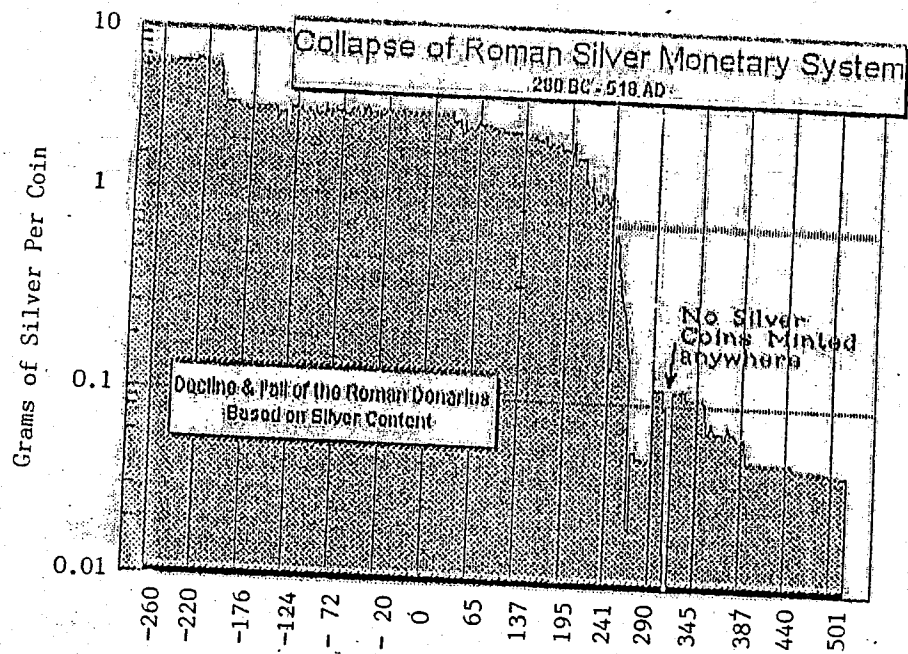
There remains a very foolishly impractical nostalgic vision of the **Gold Standard** that is like remembering an old relationship. With time, we remember the good times we had with that particular person. Our mind glosses over the bad and we forget why we broke up in the first place. Remembering the **Gold Standard** is no different, for it seems to invoke a lofty unrealistic view of the past that inspires great romantic ideas and such extravagantly chivalrous action. Within this imaginary world, we conjure in the caldron we create in our mind mixing up facts and leaving out what we do not want to listen to, and pronounce that had we been on a **Gold Standard** we would not have these economic collapses that are near-death experiences.

While these visions of history are grand and we can stir that caldron until we have the perfect intoxicating brew, when we wake up from this drunken steeper, we must still face the hard light of day. I have studied the rise and fall of civilizations from the beginning. I believe **GOLD** is the neutral store of wealth that pierces the veil of political instability. But it will **NEVER** by any means provide a fool-proof monetary system that will protect us against the evil dark lords. **Ain't gona happen!**

I have reconstructed what no one else seems to have ever been so possessed to do. I rebuilt the monetary system of the world creating a databse that was unmatched. This allowed me to look objectively at the whole issue of debasement, and found that just as we have monetary problems today, so did the ancients.

In fact, the **Great Monetary Collapse** of the Third Century was so profound, this was the primary reason for the rise of Christianity for when people prayed to their gods and nothing happened, they were ready to try something new. But this collapse of the monetary system was so profound, the government would no longer accept its own coinage and imposed **Taxes In Kind**, meaning, they would take physical property in payment such as grain or livestock.

That debasement began with a slight reduction in the silver content of the Roman



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denarius - the dollar of ancient times. The culprit **Nero (37-68AD)**. The complete collapse came during the reign of **Gallienus (253-268AD)**. The decline from start to finish was just 224 years (26 waves of 8.6 years).



Byzantine Gold Solidus

After the fall of Rome in 476AD, the real power shifted to Constantinople. The Eastern half of the Roman Empire survived, while the West fell into city states and feudalism. The people migrated for safety and this became known in latin as "**suburbium**" meaning that people fled from the cities and adopted a more local life. Property ownership disappeared but for the landlords who could protect their workers. So people sold themselves and their families in return for shelter and protection.

The Byzantine gold solidus became the new world currency. It has been found in digs as far north as Scotland and as far east as China. It facilitated trade because it was a recognized quality standard, and military power. Byzantium even waged war against some countries who tried to mimic their currency. It was prestige.

Nevertheless, what supported the power of Byzantium was a constant supply of **NEW GOLD**. Their famous mines had even been used by the Egyptians and were located in the ancient region known as **Numidia**, located in North Africa east of Mauretania found today in Algeria where the chief city was **Hippo**.

The collapse of Byzantium began with the rise of the arabs, for as they swept North Africa, Byzantium lost its source of gold. **Once** that fresh supply to keep the money supply growing was cut, it was like cutting off the water supply to a city. By 1453, the once great city of Constantinople, fell with its last emperor fighting in hand to hand combat on the city walls.

Now we can adopt an unrealistic view of history and cling to the nostalgia that somehow Byzantium was the ideal city for it had a gold standard. But we would be drinking our own bath water. Byzantium prospered **NOT** because of the gold standard, but because of the steady increase in its supply. Once that supply was cut, debasement appears during the late 11th Century. The gold coins of this later period are of such poor quality, their color is a very pale yellow. They were mixed with silver to the point that **Solidus** no longer was minted and old coinage was quickly melted down to create larger quantities of a debased issue. The people, hoarded the old coinage as they did in the 1960s hoarding silver coins after 1964. They will always hoard no matter what.