Can the Euro Survive a

Sovereign Debt Crisis?

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

Please send comments by mail to:

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

Please REGISTER for Special Updates

ArmstrongEconomics.COM

A C K N O W L E D G E M E N T S

I would like to thank all the former employees, associates, sources, and contacts for their ongoing support and efforts to contribute to the writings I have been able to continue through their great efforts. I would also like to thank those who have looked after not just myself, but my family, and shown them support and kindness.

The purpose of these reports is to broden the understanding that is so vital to our personal survival. Government cannot save us, and will only assist the very economic disaster we face. This is a **Sovereign Debt Crisis** that threatens our core survival. There is no plan to ever pay off debts. The majority of debt increase is paying interest perpetually to roll over without any long-term plan. What you see in Greece and in the States, we have run out of other people's money. The socialists keep pointing to the rich. But to fund the deficits, we need to borrow now from foreign lands. We ran out of money domestically and to support the current system like Greece, we need foreign capital. But all governments are facing the same crisis and we are on the verge of another widespread government default. Adam Smith warned in his **Wealth of Nations** that in 1776, no government paid off their debt and had always defaulted. We will have no choice either.

There is no hope that politicians will save us, for they only form committees to investigate after the shit-hits-the-fan. They will NOT risk their career for a future problem that may hit on someone else's watch. There was a politician and a average man standing on top of the Sears' Tower when a gust of wind blew them off. The average man being a realistic-pessimist, immediately sees he is about to die and begins praying. The politicians, the ultimate optimist, can be heard saying **"Well so far so good!"** as he passes the 4th floor.

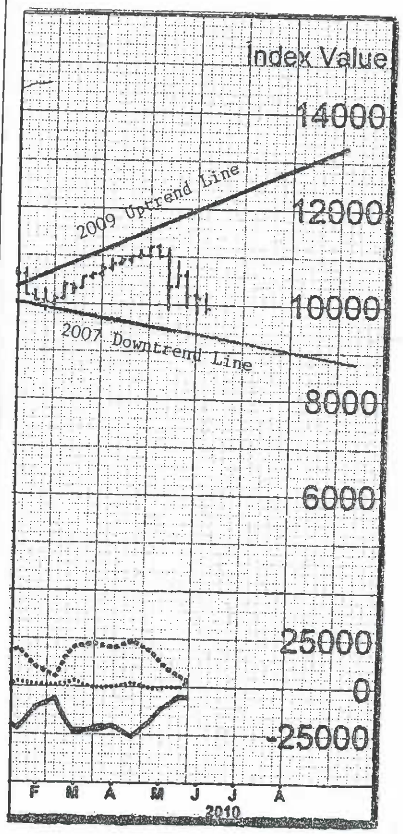
At Princeton Economics, our mission was simply to gather global data and to bring that together to create the world's largest and most comprehensive computer system and model that would monitor the world capital flows. By creating that model, all the fallacies of market and economic theories were revealed. The world is far more dynamic and every change even in a distant land can alter the course of the global economy. Just as has been shown with the turmoil in Greece, a CONTAGION takes place and now capital begins to look around at all countries. We can no more comprehend the future but looking only at domestic issues today than we can do so in every other area, such as disease and the spread of flu.

We live in a NEW DYNAMIC GLOBAL ECONOMY where capital rushes around fleeing political changes and taxes just as it is attracted by prosperity. All the people who migrated to the United States in the 19th and 20th Centuries, came for the same reasons as those still coming from Mexico - jobs and prosperity. In the 19th Century, America was said to have so much wealth, its streets were paved in gold. We must now look to both the past and the entire world to understand where we now are today,

Armstrong Economics 阿姆斯特朗 经济

Special Update Report

Dow Jones Industrial Index
Weekly - CASH



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

The Dow Jones Industrials (CASH) is showing that the big TURNING-POINT will be August. Thereafter, it appears that the opposite trend should unfold into Oct/Nov. The primary support lies at 9400 level and a monthly closing beneath 9675 will warn that the downtrend would become severe, but not new lows.

There are two primary resolutions. There is the crowd that is calling for the Dow to collapse and a Great Depression as was the 1930s. We must understand that all of the world defaulted on their debts with few exceptions (Britain called for a suspension of debt payments) France was the last nation to cling to the gold standard even after the US devalued the dollar under Roosevelt. The dollar rose because it was GOLD. Once Roosevelt confiscated gold, he introduced inflation and that sent stocks up between 1932 and 1937.

Therefore, if the Depression were to repeat, the Doomsday Boys got it wrong! Capital flight was to the dollar because it was GOLD! That's it! Therefore, it is GOLD, not the dollar, that would soar in price!

In the book I am rushing to get done, I go over also forgotten Depressions of the 1340s and the Financial Crisis of 1557 to 1647. This was the period of a series of sovereign debt defaults from Spain and France. In fact, it was so bad, France could not borrow a dime in 1574.

Short-term, there is a potential for the Dow to make a low in early June and then rally into August with the traditional drop in the Sept/Oct time frame. However, making new lows beyond the week of June 14th, will warn of a August low. A key week appears to be the week of August 2nd.

SPECIAL UPDATE REPORTS BY EMAIL

Because of the dramatic increase in volatility, a SPECIAL UPDATE REPORT has been created on a specific market outlook. As we head into the economic storm of **Sovereign Debt Crisis** that is brewing around the world, it is going to be critical to be able to address key events on a more timely basis. Everyone is invited to sign up for thie FREE service at:

ArmstrongEconomics.COM

This will cover the world markets and economies. Please sign up as soon as possible. The event horizon is coming in rapidly. We need to stay vigilant to survive the years ahead for government will only form committees **AFTER-THE-FACT** to investigate why something happened. They will NEVER take steps to prevent an obvious economic crisis. We are on our own. The best course of survival is to stay INFORMED and to understand the nature of what is taking place since no one should ever follow anyone blindly. This is all about educating what is the new reality.

Can the Euro Survive a

Sovereign Debt Crisis?

By: Martin A. Armstrong

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

WHAT IS MONEY seems like such a simple question that could not possibly be very important. Yet, this simple question may be the cause for the **Decline and Fall of Europe** and the catalyst for creating a economic storm that results in the collapse of Western Civilization as we know it. I am not the Doomsday guy. I am not the guy who kept yelling the sky-is-falling who will one day be correct for even a broken clock is correct twice a day. When it is time to explain something, that is ahead of its time, the message is lost like a face in the crowd. It takes the willingness to listen, the guts to be objective, and the courage to taste the moment while realizing that the path to the future is never a boulevard. Those in government typically have no real world experience. They live hand-to-mouth insofar as they are only interested in the immediate moment. There is no concept of FUTURE among politicians, for there is no confidence that they will still be in power. Margaret Thatcher had correctly felt that the Conservatives would lose to Tony Bair and told me - **"It's just time."** There is never a sense of permanent FUTURE among politicians. Thus, there is no long-term planning. They will investigate only when the shit-hits-the-fan. Not before! Why risk one's career today for a problem that may not exist tomorrow?

It is time to taste the moment. Since economics is not a science, but really just a social gathering of opinions with the end objective of manipulating society like lab rats, there is no hope whatsoever that we can avoid what is coming down the pike. We may be facing a complete meltdown economically speaking that could easily devolve into a devastating world war with everyone pointing fingers at each other. There is a lot of clever sounding sophistry desperately seeking to explain Europe. The fundamentals can sound great, but they mean nothing. For at the core of this problem lies the very concept of what is MONEY. It might sound silly, but it is something overlooked.

"The EURO has fallen significantly from the 2008 high. We must face the strong possibility that since this high came on the 37 year monetary crisis cycle calculated from the 1971 collapse of the gold standard, we could still face a major serious change in trend. ... Breaking the 2008 low [1.245] in 2009, will warn that we may see the collapse of the Euro into 2011 making this a 3 year correction."

The Coming One World Currency, May 1st, 2009 p22

"The greatest concern that we should have is that the sheer degree of volatility is off the charts. We are looking at nearly an outside reversal to the downside of the **Euro** on an annual basis! This degree of sheer volatility is truly amazing on an annual level. We have not seen this type of volatility on an annual level since 1933."

Is it The Time To Turn Out The Lights?, Feb. 19th, 2009

Sometimes markets do things that we may not understand at that particular moment in time. But markets ARE NEVER EVER WRONG! In truth - THEY CAN'T BE. If we do not understand what they are doing, it is we who are making mistakes - not the market.

In the Mar. 23, 2009 issue, **Destroying Capital Formation**, I wrote "The survival of the Euro under such intense pressures, places a continental risk fact on the currency." Id./p14. I warned that in May 2009 the peak in the Euro came on the 37 year Monetary Crisis Cycle as measured from the collapse of the Gold Standard in 1971. I warned in February 2009, that the degree of volatility is creating a annual near outside reversal in 2008, had not been seen since the Crisis of 1931 when the last big **Sovereign Debt Crisis** hit.

I spent my life building a model that I had hoped would have prevented the very shit we are going through now. But the SEC and CFTC are no different than Communist Russia who silenced Kondratieff because they did not like what he had to say. Our greatest problem is that government wants all opposition silenced because in their mind, they believe that by saying something will happen, makes it happen because others listen to that forecast. They ensure we will collapse completely in confusion.

We cannot force the FREE MARKETS to do what economically is unsustainable. That is precisely WHY communism failed. They stole the concept of FUTURE from the people and dictated what it would be from there on out. The <u>Wealth of Nations Depends Upon its Core Concept of FUTURE!</u> As long as man had no such concept of a FUTURE, he lived in caves hand-to-mouth as hunter-gatherers. Before we could think of domesticating animals or planting crops, we had to aquire a sense of FUTURE that necessitates planning. Without that very first thought, civilization would never take place.

Communism removed a sense of FUTURE from the people and the state would make all such decisions concerning that idea of tomorrow. The state owned all property and man was thus driven back into the Stone Age and even held much like domesticated cattle. Politicians simply threw in the food, kept the gates then locked, and bred us no different than slaves. Socialism in the West is not much better. It is truly closer to Hitler's dream of a fascism where you retained ownership of property, unlike that of communism, but the state would then dictate what you could do with that property. Both forms of government that in any way seek to remove the concept of FUTURE from the people and replace it with central planning, is unsustainable and will implode with time. FREE MARKETS also implies FREEDOM of the very people themselves to plan their FUTURE!

What Is The Wealth Of A Nation is truly a profound question. It must be broken-down in increments that allows us to honestly see what it is.

(1) Requires a concept of Future that leads to planning for tomorrow

(2) It becomes the total productivity of a nation that manifests in the creation of a some composition by intellectual or physical effort that accrues to and individual while yielding something that contributes to the collective progeny of society.

In other words, after we have the key first step of a concept of FUTURE that then leads to planning for tomorrow, we now in fact have the first element necessary to create civilization abandoning the living for today in a hand-to-mouth manner.* Now we can embark upon creating civilization and that leads to a hundred subordinate steps such as CULTURE that includes social rules of how we interact, what we believe is normal behavior. For example, when we walk into a library we whisper for we are culturally suppose to be quiet. After we move beyond the CULTURE, we now enter the the world of economics.

The **Wealth of a Nation** is composed of more than gold, for that original idea of money did NOT embrace the concept of true **Wealth**. Money is merely our mental measure of wealth - it is NOT wealth. Cultures in different parts of the world all conceive of money, but it is merely the how they measure this universal concept of **WEALTH!**

For example, When Saint Patrick in the 5th Century AD arrived in Ireland, he found that MONEY was in fact slave girls. He wrote in his Confession, **"I think that I have given away to them no less than the price of fifteen humans."**

People did not walk around with cages of women to pay for shopping. A slave girl was the UNIT OF ACCOUNT, or MONEY in only the sense of quantifying wealth. What is clear, Patrick states he gave away objects valued as 15 slave girls, but not slave girls literally.

Money is thus NOT Wealth! It is only a means of measuring wealth. If you go to Africa, some tribes measure a man's wealth by the number of wives he has and his cattle. People look at Donald Trump and assume he is wealthy based upon how many buildings he hangs his name on. Neither case, is wealth viewed as how much money physically someone has, but is other tangible products owned by that person. Money is the ruler, and wealth is a very universal concept that defies definition or measurement. Even if I say gold will rise to $5,000, you measure that in money and then translate that into wealth.

Because Europe got caught-up in the whole macho thing post-World War II whereby politicians sought to measure their success in terms of how high their currency had climbed against the dollar post-War, this whole idea of wealth has been distorted. This concept where Europe allowed the currency to be the political yardstick to measure the success of politicians, has seriously disrupted the entire field of economics. Even the British insisted upon returning to the gold standard in 1925 fixing the pound at $4.86 where it had been before World War I, dramatically set in motion a series of events that indeed culminated in the Great Depression.

By overvaluing the pound, Britain lost the commonwealth in addition to contributing to the start of the Great Depression. With the pound reset at $4.86, Britain was now overvaluing the entire economy including the

---

* FUTURE embodies planning and the concept of tomorrow - i.e. saving for a rainy day. One does not domesticate animals or plant crops without that planning. An analysis of poorer countries today, still show a lack of planning and the concept of living for today because tomorrow is another problem if it comes. Where governments are unstable, people tend to abandon their concept of FUTURE and worry only about surviving for today. In many areas in the world, people still group in tribes. They completely ignore the concept of government and pay no attention to it whatsoever. The concept of FUTURE is the single most overlooked element in economics. It is just skipped in the whole analysis.

labor. That curtailed its ability to grow and thus exports from Britain and all others who used the pound, such as the commonwealth, and Scandinavia who linked their currencies to the pound just as China pegs its currency to the dollar. The overvalued pound suppressed economic growth post-World War I.

The second impact of a overvalued pound was it made not just imports look cheaper to buy than domestic products (think of VW Bugs and Japanese cars at first), but it also now made investing in other countries profitable. This was one of the causes of the spike high in the US share market going into 1929. This was the same reason that caused the bubble in Japan in 1989 - the G5 wanted the dollar down by 40% and that caused the Japanese yen to rise making investing in Japan profitable to foreign capital. The same was set into motion by the overvaluation of the pound in 1925 resetting it to $4.86 pre-War levels with no consideration of current economic conditions.

Because of war, politicians have used their currencies as a ruler to measure their successful policies to European voters and in doing so, they screwed up the global economy. I am not trying to lay the blame for the past solely upon Europe. However, we must understand WHAT IS WEALTH before we can ever hope to straighten out this mess.

I had launch in Geneva with a client who was the head of a major Swiss bank in 1982. I told him we, Princeton Economics, were going to open an office in London to better serve all our European clients. I then asked him about the name we should use. I rattled off a few, and he asked me to name one European analyst. I could not. I was embarrassed for I did not want to appear to be arrogant. He then told me, there weren't any and don't be embarrassed because I had not heard of any. He then told me to bring the Princeton name around the world. He told me the reason we had so many institutional clients outside the US was because I was an American, and thus I didn't care where the dollar was going up or down. I would call the shots as I saw them. A Brit would not speak bearish against the pound for that was then unpatriotic. The same was true of a Frenchman or a German. He told me people listened to me because I was not biased.

This problem has existed for decades. The politicians see currency value as a measure of their policies. The higher it moved, the better they did. Americans did not have their dollar go to zero, so when everything was priced in dollars from gold, oil, and agriculture, it was not a campaign issue for American politicians to say "Vote for me because the dollar is up 20%!" Most Americans would say: So? Europe became too tied up in currency as a political yardstick to say mine is bigger than yours!

The concept of the Euro was again this idea of competition with the United States. The commission preparing to create the Euro attended my London seminar on the subject. They took a whole row in the seating. I then stressed that the Euro had to allow each of the member states to set their own interest rates for the market would do that anyway. As we are seeing today, it matters not what is the currency, they bid up and down the bonds of Greece and other nations based on their perception of WEALTH as reflected in holding their debt as an asset.

MONEY is thus NOT WEALTH and it cannot ever be WEALTH for if it was, then nobody would spend it. MONEY is nothing more than (1) a medium of exchange between two objects of value - WEALTH, and (2) it is the yardstick for measuring WEALTH, or in other words, it is the means of calculating for it is only the language of WEALTH insofar as it reflects the <u>UNIT OF ACCOUNT!</u>

MONEY is indeed the language of economics. If you have studied a second language, when you hear a foreign word, you translate it to your native language in which you actually think. The foreign word is then linked to the native word that embraced the concept of that meaning. Only when you become fluent in the second language, then it is possible to now think in that language without translation. MONEY is performing the same function as the translator of the concept of WEALTH.

Central banks and government clearly do not understand the role of MONEY for they are too caught up in seeing everything only as DEMAND driven. They wrongly think that they can then effect DEMAND with raising and lowering interest rates, when interest is purely reduced as a cost. This is why rates rise in bull markets and drop in bear markets naturally. People will pay 20% interest rates if they think they can double their money in the same time. It is the concept of WEALTH that they do not understand and that leads to wholesale mismanagement of just about everything economically.

The problem with the Euro quite frankly, it is about as unsustainable as the old gold standard during the Great Depression. Whenever a country must value its **"WEALTH"** in terms of an external fixed object, it cannot function long-term in our Marxist Western Economy. For decades, economists did not understand the role of MONEY. They adhered to **Laissez Fair** doctrine subscribing that government should not try to manipulate the economy for it was far to complex. This realization was inherently correct, essentially because government is just far too dishonest to be trusted with virtually anything.

Nevertheless, **Laissez Fair** economics gave way to Keynesian Economics where he correctly advocated abandoning the gold standard as a barbaric relic of the past and for government to take up the slack in a economic decline by increasing its demand. Keynes correctly observed there was a collapse in demand. The problem was, the dishonesty of government kicked in and now government deficit spending took place on a regular basis and no longer was the means to stimulate the demand. The government now became the 800 pound gorilla in the room. They became the economy in so many ways. They now aggressively increased taxes to fund also their Marxist-Keynesian Hybrid system of political economy.

What has evolved today is just a full and complete nightmare that nobody in their right mind would have devised such a economic system. The central problem in economics was under **Laissez Fair**, they assumed that wages would decline during a recession and thus the COST of production would decline and restimulate the economy. However, wages had proved to be too sticky. Layoffs would then take place rather than wage cuts. The other paradox was assuming a balanced budget would restore confidence and people would then invest. Neither theory proved to work. Yet the IMF still gives that advice today.

Keynes was correct insofar as his view of money believing that the gold standard was the problem. His solution of increasing government spending made sense in times of a depression ONLY to offset the collapse in demand from the private sector.

Nevertheless, Keynes had advocated that during mild recessions, the government could lower taxes to stimulate. His view of being an investor, clouded his judgment insofar as he viewed that investment was also important and it was a trade-off that either there is an increase in private investment that will stimulate the economy (lowering interest rates to accomplish that goal) or to create government spending. Either way, he saw it as the objective being to stimulate the aggregate demand.

Central to this entire issue is our key question - **What is Wealth?** For you see, the **Laissez Fair** assumption was that wages would decline to a point that labor would become so cheap that there would be a rebooting of the economy because this would lead back to full employment. Nice theory, but it never works that way.

The Monetarist Chicago School took the position that it should NOT be government fiscal spending that is increased to stimulate the aggregate demand, but a rise in the money supply. Where the monetarist view goes wrong, is their assumption that VELOCITY of MONEY remains constant. There is nothing that remains constant - EVER! However, to make the whole Monetarist theory work, they needed the VELOCITY to remain constant. Otherwise, if you increase the MONEY supply, there might not be ANY stimulation if VELOCITY can change and now decline.

Assuming we increase the MONEY supply, conventional thinking argues that this will be inflationary. <u>NOT TRUE</u>! A host of other factors now come into play.

(1) what if people are scared and now hoard money (save it) for a rainy day and thus VELOCITY will just continue to decline?

(2) what if the money added to the the system leaves for overseas and thus it neither stimulates the local domestic economy nor effects and change in VELOCITY?

These are but two simple reasons why the Monetarist theory will also not work. It is based upon two false assumptions, the first is a constant VELOCITY, and the second a domestic closed economy.

The problem we have in economic theory is that there is no understanding of even what is MONEY, nor is there any concept of how the global economy even functions. Because of the false assumptions in these two areas, we are trapped in a box and cannot escape. Political forces do not want to even listen because this threatens their power structure. They welcomed Keynes with open arms ONLY because he played the same tune as Karl Marx, that government was even capable of manipulating the economy. KEYNES DID NOT ADVOCATE PERPETUAL DEFICIT SPENDING. Our politicians wanted to embrace Marx and did. They created the progressive income tax and passed that in 1913 altering the Constitution cheering that Marx was now far more brilliant than Thomas Jefferson, Ben Franklin, James Madison, or anyone else that was there. They saw the seriousness of what took place with direct taxation that always eliminated freedom and liberty. Why we have any Presidents on our currency rather than Karl Marx is a mystery.

Marx only became a dirty word AFTER the Russian Revolution in 1917. Government then became frieghtened with the rising labor union movements and began to attack unions in the 1940s. On one hand they claimed to be for the people, but if the people ever organized that threatened the possible overthrow of the new government by Marx and that became illegal. We had the whole McCarthy hearings and now the enemy was Communism. Yet all the time, we too still embraced Marx behind the curtain.

Meanwhile, decade after decade past and the deficits continued to mount following Marx, not Jefferson. We then saw Communism as the great threat and needed the cold war to justify all the spending to protect the people from Marxism?

Communism fell because of the very Free Markets that proved centralized planning was simply unsustainable. We are in the process of doing the same thing. The perpetual cycle of unending borrowing is coming to an end. This is the core of the Sovereign Debt Crisis that illustrates the United States is just no different than Greece. We both need to now borrow from foreign sources to sustain the game of musical chairs. The only difference is the scale. There will be those who will argue this is not true. They are the very people who will justify insanity to keep it going because they are living the Marxist dream.

The Laissez Fair theory did not work because wages did not automatically decline in order to restart the economy. Marxism had failed because it stole the concept of FUTURE from the people and placed that totally in the hand of government, whose centralize planning did not even come close to comprehending how the economy worked. Keynesian theory was then usurped and blended with government self-interest of Marxism to justify perpetual new deficit spending. Monetarist failed because of the fatal assumption that MONEY VELOCITY was constant and that changing MONEY SUPPLY can effect anything in a new global economy. Keynes' idea about investment failed because global investment became driven by the very changing expression of MONEY.

So what the hell is going on? Much like Kondratieff, government just does not like what I have to say, because I see them as the problem. Everything is always for their self-interest and the people get screwed all the time.

The reason there has not been massive hyper-inflation thanks to the trillions of dollars injected for the downturn, is due to simple concepts:

(1) the rise in MONEY SUPPLY merely offset the collapse in VELOCITY that is increased through LEVERAGE

(2) the globalization of the economy so that the injection of MONEY does NOT mean a rise in domestic MONEY SUPPLY or VELOCITY if that stimulation is exported and flows to overseas

All the economic theories we have today are pretty much worthless. None of them have any rationale that matches the real world economy nor how the dollar even functions as MONEY because it remains the RESERVE CURRENCY of the world.

Perhaps now you are beginning to catch a glimpse of the real world - the world that exists far beyond the economic theories. Of all the economists, there were only three who were NOT formally trained as economists and are what I call ACCIDENTAL ECONOMISTS - Adam Smith who saw himself as a moral philosopher, David Ricardo who was a VERY wealthy trader, and Keynes, who became outraged at what took place post-World War I with German Reparations that he feared would lead to economic chaos.

THE FATE OF THE EURO

It is so easy to focus upon one single thing and jump up and down in a yellow rain coat yelling EUREKA! But reality is nothing like what we think. It is much like LOVE. It cannot be described, nor can it be predicted. The economy is much the same. There are truly a host of variables that lurk in the process that mystically come together and suddenly produces a magical combination that just clicks.

The **Euro** is just MONEY. It is NOT WEALTH. It is not the true measure of worth, but only and expression of it. The experiment of Europe was bold, but seriously misguided. For what the **Euro** has actually evolved into, is a fixed world against which all things are to be now measured - rightly or wrongly. The Euro has become a very dangerous currency only because of how it has been constructed. It is serving the same role as did GOLD during the Great Depression that forced DEFLATION because gold had become very scarce due to the leverage within the system. Government could not create more gold, for that was only in the hands of God.

All assets and labor are now fixed in the concept of the **Euro**. Countries surrendered the ability to devalue a currency lessening the value of its labor and assets, that then acts as an attraction for capital to pour into the country thus rebooting the economy.

Because of DEBT, we have become more concerned about satisfying the bond holders rather that the people. We thus have the IMF still just giving the same old advice to Greece that did not work in the Great Depression. They preach balanced budgets to sustain the credit rating to continue to float DEBT that nobody ever has any intention of paying off.

Following the advice of the IMF is precisely the same advice preached by the central bankers that caused the Great Depression. They clung to the gold standard and that was unsustainable and went bust in 1931. Roosevelt went against EVERY central banker and abandoned the gold standard revaluing gold by 167%. That infused inflation and restarted the economy. NOT A SINGLE CENTRAL BANKER AGREED. The economist was a unknown from the lunatic fringe, George Warren, who nobody ever heard of. Warren wrote a book studying 230 years or so of wholesale prices. He observed the problem that the value of MONEY was thus too high. This is the same problem today for as the **Euro** drops, it is forcing INFLATION upon Germany regardless of its wishes.

There will be some who focus on the difference in culture between Northern and Southern Europe. Many see the Germans as penny-pinchers obcessed with hyper-inflation of the 1920s. Germany is lost in their own nightmares for hyper-inflation is a collapse in the confidence of government. It has in all honesty - NOTHING TO DO WITH MONEY SUPPLY INCREASES! That follows as an effect arising from the COLLAPSE in public confidence. It is the ABSENCE of FUTURE stability.

The divide between North and South in Europe goes back to the collapse of the banks in Italy and the Spanish Inquisition. Both converged into driving talent North and all the capital. Spain and France completely mismanaged their debts and went into serious **SOVEREIGN DEBT DEFAULTS** in the 16-17th Century. In France, it got so bad, nobody would lend the Crown even a counterfeit dime in 1574. They had a taste previously of **SOVEREIGN DEBT DEFAULTS** in the 1340s when England and Naples wiped out the Florentine bankers. So when it became Spain and France's turn, everyone knew what to expect. Capital moved to the Dutch who became the new Financial Capitol of the world followed by the migration to London, and eventually to the USA after 1914.

There will be others who point to a rich nation taking advantage of poor. This is all nonsense and is merely a distraction that will prevent fixing anything. Then there will be the demographic arguments that the north is aging and the south is where the population is growing and is much younger justifying the borrowing.

These arguments and a 100 more may all make common sense, but they are just sophistry. Yes, there will be some truth, but this cannot be reduced to a single cause and effect. The only truth is WHO CREATES WEALTH!

The Physiocrats against whom Adam Smith argued whose position was that ONLY those who created agriculture created WEALTH, had a hint of truth in their observation. They saw the blacksmith did not create wealth because he sold his wares to the farmer and lived off of his wealth. Smith showed that if both had sold their products overseas, both returned with gold contributing to WEALTH OF A NATION. There is ONLY one class within the economy that does NOT contribute to the creation of NATIONAL WEALTH and live off the fruits of the people reducing their productivity, and that is government - CIVIL SERVANTS!

There is only ONE constant and that is the greater the size of government, the lower the production of national wealth. Therefore, the higher the percentage of a nation's work force is employed by government, the lower its REAL national product. Of course, government wishes to include itself in the GDP calculation and it counts government workers TWICE in many countries. It adds total government spending and adds that to total personal income. One serious problem. By doing this they count all government employees TWICE for they do NOT back it out of the total government spending. So we have bogus statistics in GDP as well for the economy will appear to be doing better when government hires rather than the private sector.

The **Euro** is acting as did gold during the Depression insofar as it is fixed within Europe and is outside the ability of nations to devalue. While the **Euro** has produced very high volatility, it has NOT as yet produced a annual sell signal. The primary support in 2010 lies at they 116 level.Resistance is now starting to form at the 136 level. If this support lying at the 116.6 gives way by a annual closing beneath this area would warn that the **Euro** is likely to break apart. Very key support lies at the 103 level. A annual close below 103, and it is time to turn out the lights.

The problem with the Euro is the diverse economies lumped in together. Germany starts to export deflation to Greece, Italy, and to Spain. Just as Britain exported deflation by the overvalued pound following 1925, we have the same problem in Europe. This runs the risk of tension and finger-pointing. It will result in a rise of nationalism and this could tare Europe apart at the seams. This can then make a global nightmare hit the USA for it can now drive up the dollar exporting deflation to the USA and because China pegs its currency to the dollar, it will be exported to China. The wild result would be driving the dollar higher would then lead to cheapening Europe and capital would flee back to Europe recapitalizing Europe agin.

The **Euro** high is likely in place in 2008. A year-end closing below 129 for 2010 will be bearish and point to lows into 2011. The huge support lies at 103. If that gives way, it is time to turn out the lights. We need a full and complete Monetary Reform to save the West. Politicians will not listen until the shit-hits -the-fan as they say. I doubt that anyone can help at the last minute. Its now or NEVER!

Yearly Cash EURO
Theoretical (1971-2009)