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EUROPE AGREES TO DEFEND BANKS MORE BAILOUTS – NO REFORM

There is not much that isn't collapsing in Europe right now. The politicians refuse to sit down and revise the monetary system for it seems no matter what, they just don't get it. A single currency requires a single debt. Can you imagine what would happen if every state in the USA could issue federal bonds and the bank reserves had to be fairly distributed among the 50 issuing states? Why Europe just can't see the error of their ways is beyond me.

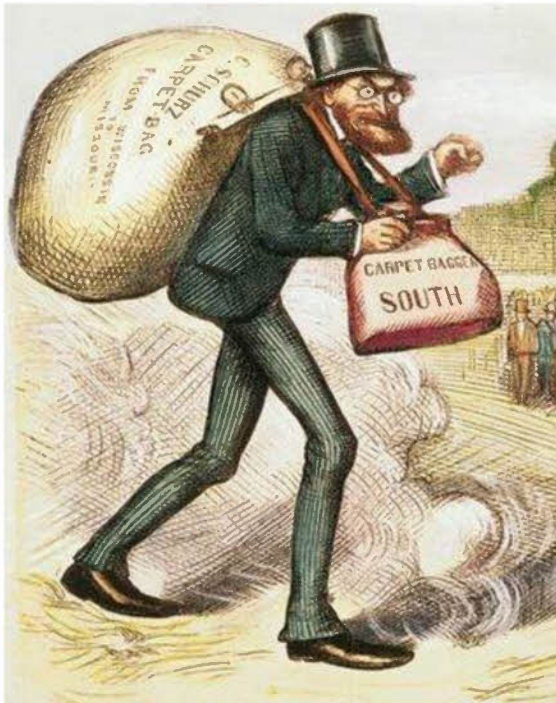
They seem to assume that consolidating the national debts of the 17 members somehow will place the burden on Germany to rescue everyone else. To the contrary, creating a Eurobond will **PREVENT** the need to bailout the banks on a grand scale or for Germany to bail out the rest. Once consolidated, it is the Euro that stands behind it, not Germany. Each member state would thereafter issue its own debt just as the states do in the USA. Forcing austerity upon Greece will only foster civil unrest and ultimately revolution.

Even in the USA, this **Occupy Wall Street** movement is now in the thousands. They do not know exactly what they want. They are just mad as hell and listen to the rhetoric of corporate greed lacking the knowledge that it is the investment banks that have manipulated markets, infiltrated government stacking non-elected positions with their "**alumni**" as if it were some university or secret club that one you work there, you're in for life. Just as the Italian press demonized **Amanda Knox** and supported their prosecutor taking the position she was released **ONLY** because she was American, the American press is just as biased and will defend the banks against all odds and reason. This movement to **Occupy Wall Street** is showing the soft-underbelly of what all this hate the rich rhetoric has produced. Young people who are demonstrating against stock brokers who do not **MANIPULATE** the world, bribe politicians, and blow up the financial markets and the economy just to desperately try to make the **PERFECT TRADE**.

Unrest is rising everywhere. The **Panic of 1869** the dragged bankers out and hung them on the streets. They had to send in troops to suppress that riot. Politicians are just not taking this economic decline

seriously. I have to hand it to Bernanke. He went to Capitol Hill and said the economy is “**close to faltering**.” For those who are not familiar with behind-the-scenes politics, you are not supposed to say stuff like that in public. What Bernanke did was heroic. He previously was as pointed as he could be and top Europe to shit or get off the pot. Now he tells Congress this is getting really bad. <http://opinion.latimes.com/opinionla/2011/10/ben-bernanke-capitol-hill-testimony-faltering-economy.html>

Our greatest problem right now is the press protects New York banks and in so doing, they are screwing the entire world. Anyone who attacks the banks is called a conspiracy nut because the banks are paying bug bucks for screens and ads. The **Amanda Knox** issue was far deeper than the surface appeared. She



got caught up in an anti-American sentiment according to European sources and this is all created by the NY banks who are seen once again as the Carpet Baggers who instead of raiding the South after the USA Civil War, they raid the world. Because the press shelters them at all costs, they feel protected and are not inclined to do the right thing.

Secondly, the politicians just will not act. There is nobody running anywhere that understands the problems or will stand up and make a difference. Their refusal to sit down and revise the monetary system is sealing our fate. Instead, they keep trying to bailout everything, while keeping in place a system that is crumbling around them. They keep thinking this is going to blow-over and thus it is business as usual. They only look at themselves like a good sociopath and do not even ask the question – what if they are wrong?

I want you to know, somebody has to go! Just look outside. Unrest is rising everywhere. When will someone stop the bullshit! All those editors who keep the faith in New York to support the banks, all the judges that always dismiss every case against them, and the prosecutors who turn a blind-eye, this is only going to destroy your family's future.

Attached is what seems to be quotes a lot these days. This is what I wrote about the fate of the Euro back in 1997. This is not being clairvoyant. This is simple common sense. A single currency required a single debt. As long as there is no debt consolidation, then shorting the bonds of a member state is no different than shorting the currency that is not supposed to exist. I do not understand what the problem is other than self-interest. The profits you reap today are going to be worth something tomorrow, there has to be a system left to spend it in. Don't forget. You can pay the press not to report the truth. You can ensure the prosecutors and judges are on your side. But when the system cracks, that's what Thomas Jefferson said about the Tree of Liberty. It needed to be nourished with the blood of tyrants and patriots alike every so often. What goes around does come around.



European Monetary Union - *the fate of Europe*

This site offers detailed research into the pros and cons. You will also find historical examples of past monetary systems. For if there is one thing that mankind must learn, it is his history. Without a historical perspective, we have no memory. Without memory, we are doomed to making the same stupid mistakes time and again. The Euro is but another vain attempt at perpetuating the socialistic systems of Europe through a strong central government mechanism. For this reason, EMU poses a serious threat to the world economy since the true trend in economics and net capital movement is one that is back to a regional focus rather than federal. Russia and China failed due to central planning. Japan is now suffering from its over regulation. Europe is now about to embark on a new era of change and volatility that the political forces have not yet begun to comprehend.

Understanding the Euro

By Martin A. Armstrong
October 28th, 1997

There appears to be great confusion among not merely the public sector officials, but also among corporate and institutional Europe not to mention the rest of the world. Perhaps the most confusing aspect of the coming monetary changes in Europe is what will the single currency do? Will a single currency end currency speculation? Will a single currency lead to a single interest rate for Europe? Does a single currency mean Europe becomes one economy while retaining individual sovereignty? These were among a handful of questions that I encountered on my fall trip to visit our European clients. The most profound conclusion as I begin writing this piece while 60,000 feet in the air crossing back over the Atlantic, is just how many in Europe have absolutely no idea what a single currency is all about regardless if they oppose or support it.

To truly understand the implications of a single currency, we must begin with fact rather than mere opinion. In the postwar period, currency has become a badge of honor outside the United States. National pride has always been wrapped up in the European currencies as a standard form of measuring how far their nations have come since the devastation of World War II. This is also true in Asia. Because some sense of national pride is involved, politicians have often been judged by the value of their currency particularly against the dollar. If a nation's currency is suddenly devalued, politicians are attacked by their foes who paint this event as confirmation of their failure in government. Consequently, comments from Malaysia calling for currency trading to be banned is an example of a government enraged at being forced to allow its currency to devalue. The politicians see this as public and world confirmation of their own personal shortcomings in dealing with their economies.

We must understand that the old fixed exchange rate system of pre-1971 was also plagued by an age of "competitive devaluation" and cracks within the armor of the gold standard. Its ultimate demise was again wrongly blamed on speculation when in fact it was the political desire to spend at will while denying accountability and responsibility. Governments tried to hold the value of gold pegged at US\$35 while allowing their money supplies to grow unchecked. The first sign of trouble came during the mid-1960s when private redemption of currency for gold was prohibited giving birth to a two-tier gold standard. Gold became a commodity that was traded on the London Metal Exchange. Governments agreed to uphold the old standard at \$35 per ounce only between themselves allowing the private sector to trade separately on its own. The French, however, began an onslaught that would ultimately bring the entire house of cards down. The French began excessive redemptions of dollars for gold in an attempt to boost its gold supplies in hope of transforming France into the largest economy. Indeed, the French succeeded in forcing the entire gold standard to collapse because governments had printed far more paper currency than there was gold to go around. Instead of readjusting the value of gold to account for the huge growth in money supply between 1950 and 1970, politicians in all countries preferred

to ignore the fact that the system designed at Bretton Woods could no longer be supported. Admitting the failure of Bretton Woods would have clearly highlighted the fact that politicians were indeed incapable of fiscal restraint.

When Britain was forced on "Black Wednesday" to leave the ERM and allow the pound to float, it was humiliating to the Conservative Party. While it is often said that this single collapse of the British pound cost every British citizen 20 pounds, it did so only because the government sought to reenter the ERM setting the value of the pound at the highest possible price for the three previous year period. Politicians chose the highest price for the pound as a symbol of how good a job they had done with the British economy. Unfortunately, while the economy in Britain had turned the corner, the pound was being priced too aggressively for the world economy.

Every currency collapse in the past 200 years has taken place NOT due to speculators, but due to politicians attempting to fix currencies based upon their personal careers rather than underlying economic considerations. The coming Euro is nothing different and given a transition period where each individual currency will co-exist along side the Euro until 2002, the opportunities for readjustments at the hand of capital markets could be endless.

Phase I of the European Monetary Union is a transition period. This means that each country will continue to maintain its own currency while attempting to pledge its link to the Euro. In other words, it is not much different than the gold standard where everyone tried to keep their currency fixed to gold. Some have argued that if currency speculators try to play around with the individual currencies, nobody will care since it is the Euro that will survive. Keep in mind one fact. Even Russia could not stop black markets and net capital movements despite torture, tanks and guns. If anyone believes that the currency speculators will be defeated by merely pegging the currencies to the Euro, you better take another close look.

There is only one way that speculation within Europe between one nation and another will be defeated. That exclusive secret weapon can only mean the full and unquestioned federalization of Europe. Even if the individual currencies dwindle and die between 1999 and 2002, net capital movement and speculation will merely take the form as it does within the United States – bonds and interest rates.

It is ABSOLUTELY IMPOSSIBLE for Europe to impose a single interest rate upon the whole membership of states. As long as some sovereign rights reside with the individual nations of Europe there will be differences in credit risk as there is today between all 50 states within the US. Therefore, even if the single currency succeeds, speculation will be shifted from currencies to the bond markets. The socialistic dreams of Europe that paint a utopia where everyone will enjoy the same interest rate and stability simply cannot materialize as has been the case throughout the past. If capital perceives that the French are going in their separate direction from that of Germany, France will find it cannot sell its bonds at the same rate as Germany. France will be forced to sell its bonds at a discount such as 98 to Germany's 100. In effect, Europe will be no different in 2002 than it is today.

All that will be saved is mere currency costs of transactions within Europe but not external to Europe. In order to deliver the dreams of European politicians as related to the people, only a federalized Europe with dictatorial powers over domestic policy in each nation can deliver. If this is the ultimate true goal, then devolution in Britain has come at the precise wrong time.

A close examination of the United States economy reveals that its success is due to a standard uniform code of law throughout all 50 states. Federal taxes are the same in Texas as they are in Hawaii or New York. Who is taxed in the social code is also the same in all states. The issue of inheritance taxes, retirement customs, pensions and the general rule of law are uniform. In order for Europe to succeed in this ultimate quest, Westminster must be reduced to a parish council subservient to Brussels as every state is to Washington in the US.

What is frightening for Europe is that there seems to be a political drive with its spin-doctors who deflect any and all serious investigation. If the goals are to produce a single economy with federalized powers or somehow a loose economic co-operation zone with a figure-head with about as much teeth as the United Nations when it comes to enforcing.

What does appear to be clear is that at least short-term interest rates will be federalized. This will not end speculation, but could promote excessive speculation in the bond markets. If France is not following the same economic agenda, then it may find that if short-term rates cannot differ throughout Europe, then it will be forced into shifting its national debt into long-term funding where the market will dictate the interest rates – not Brussels.

The single currency cannot produce utopia without pain unless everyone is on drugs. Each nation must meet the criteria of the whole and be willing to send its own economy into deep recession for the good of the whole. If Europe cannot meet the criteria today without playing all sorts of games with its numbers, are we to take Europe seriously in the future?

There does not appear to be a political will to tell the truth. Kohl ignored all the experts who warned that German unification would cost far more than he was telling the German people. Kohl feared that if the people knew the truth about the cost, they might vote against unification. Perhaps there was a risk. The point is we will never know if there even was a risk that the German people might have turned down unification. This same tactic is now being used with regard to EMU. The promises being made simply cannot take place without a full-scale federalization of Europe. Anything shy of that will merely transform currency speculation into bond speculation assuming the Euro is successful.

From a historical perspective, it was the revolution in the United States that finally forged the bonds of brotherhood within the 13 colonies. Previously, each competed against the other and even tried to block free trade. If Europe is to one day emerge as a new federalized state, it may need to go through the pains of severe economic hardship before individual states are willing to give true control over their economic and political social goals to a new federal government.

The winds of change are subtle yet continual. Tony Blair is up for the head of the EC in 1998. His recent verbal slips stating that if Britain wanted to join the first wave of the Euro in 1999, it would need to make up its mind in early 1998. Some have not panicked just yet arguing that a referendum would need to be called before Blair could take Britain headfirst into the Euro. However, keep in mind that Tony's role model is Bill Clinton who motto is "never tell the truth until you are served with a subpoena and then stall." Tony does not have to call a referendum simply to go in on the first wave. Sources tell me that he only promised a referendum before the abandonment of the pound. Tony wants to be President of Europe. He is up for the slot in 1998 and he wants to lead Europe into the millenium. A referendum in Britain may not be necessary until 2002. The argument is that Tony view 1999-2002 as a trial run and his political spin-doctors are preparing scenarios along those lines. If they think they can sell the Euro and are assured of victory, then Tony may call for a referendum even by March 1998 while his popularity is still soaring. If not, then look for the trial run argument to emerge pushing the referendum off until 2002. Germany desperately needs Britain as a counter-balance against the new ultra-(far-out)-left in France. Kohl is using Tony Blair's personal career desires to be head of Europe and maybe its first President to entice the UK into EMU. After all, Tony cannot become head of the EC in 1998 if Britain is not in EMU.

These revelations are already starting to move and shake capital. The British economy is in serious danger of imploding. Britain attracted vast amounts of capital from the continent and around the world because it had the best of both – in the EC but out of the Euro. Over 2,000 companies from Germany alone opened offices in the UK as a hedge against the uncertainty of EMU. Japanese investment into Europe was all attracted to the UK for the very same reasons in addition to the significant lower tax rates. If Mr. Blair is going to take Britain into the Euro, capital will flee Britain as it appears it is now starting to do since it has become public knowledge that Tony is looking at joining as early as 1999. Even our computer model now warns that a year-end closing BELOW \$1.58 could signal a 10-year bear market is underway going into 2002-2003 before its completion.

What EMU is all about is something very basic. It is the last gasp for a dying system of socialism. Russia collapsed, China also was forced into a more capitalistic system. Europe must break the cord with socialism and adopt a true free market system. EMU is the last attempt to hold onto a system that has made Europe the worst economic growth center in the western world. Its unemployment on a good day is double that of the US on a bad day. Failing to simply set the economy free from the heavy-handed control of government will raise the risk of total collapse. Europe simply cannot maintain an inefficient economic system that continually amasses debt at the expense of the future. Unfunded social

programs cannot be maintained. No government can force capital to buy its debt not even at the point of a gun. The lack of capital broke the back of Russia and China. In the end, EMU must embrace **SERIOUS** economic reforms that go beyond merely the monetary reform issues and into the realm of a fiscal union. Perhaps it will be the birth of the EMU that will finally reveal that fiscal responsibility is as important as monetary union.

EMU will **NOT** bring utopia to Europe. EMU will not bring a single interest rate across the continent. If each nation retains the right to issue its debt in Euros at will, the system will collapse as surely as it did in the United States pre-1792. When the US became a federalized body, each state gave up its monetary authority to Washington. The Constitution specifically prohibited the states from issuing money on their own and that power was given to the federal government. Can you image the US if each state had the authority to issue more dollars at will? Such a system collapsed before as surely EMU will collapse within Europe. Ironically, it may be the collapse of the EMU that finally leads to true economic reform throughout Europe. Either Europe federalizes and imposes uniformity or it collapses back into a confused state of tribal self-interests.

These very basic issues concerning Europe will continue to force capital to move short-term as confusion rises to the surface between those who simply believe in fair tales and those who ask the hard questions. Volatility will continue to rise spreading from the FX markets into stocks and bonds as well. Speculators will prosper. Capital will suffer and pull away preferring to hoard its assets in an atmosphere of certainty. But the wage earner will endure the worst for it cannot place his labour offshore nor can he hoard his labour in fear of volatility, political uncertainty and devaluation. In that atmosphere, political change is born.

We do not live in a world where capital can be forced to invest against its will. We do not live in a world where the marketplace can be artificially dictated to by politicians. While there will be a major thrust to insure that EMU and the Euro succeed, we must realize that if the Euro succeeds, then Europe may fail. The Euro will **NOT** erase all the sins of the world. It will not redeem mankind from the savages of speculation. It will not even transform politicians into benevolent saints. It could merely prove to be a Band-Aid when what Europe needs most is stitches to binds its deeply rooting historical wounds.

EMU - Next Great European Economic Disaster

by Martin A. Armstrong

There is a huge debate fermenting over the future of Europe. In Britain, this debate is also heating up as the infamous date of 1999 moves closer to our focus. Many argue that Europe must pull together to fight off the rising tide of trade around the globe. A united Europe is seen as the answer to keeping the Marxist foundation of socialism alive. To some observers this appears as a close parallel when Rome tried desperately to fend off the invasions of barbarians that also proved fruitless in the final historical analysis.

The one sales pitch that has been used to sell this revived dream of a united Europe is none other than the currency. It has been pointed out that if one begins in London with a 100 pounds, after traveling around Europe exchanging the currency in every port, when you return to London you will have only 60 pounds left after spending nothing.

While this argument appears to invoke much common sense about how inefficient currency transactions might be between nations, at the same time, it fails to deal with the reality behind creating a single currency. The proponents of a single currency for Europe often point to the success of the United States, albeit behind closed doors and far away from the public eye, as the justification behind a single currency. Many fund managers and multinational corporations also hail the move to a single currency as the future for Europe simply because they are finding it extremely difficult to cope with the rising volatility in foreign exchange.

Nonetheless, Europe does not quite understand the United States model of a single currency. Europe looks at the US and sees one single currency as being extremely efficient with a by-product of consistently lower unemployment as one goal. However, it is in fact a single currency policy that is actually part of the internal problems that are causing much concern within both the United States and Canada.

It is of vital importance that we understand the benefits as well as the nasty side-effects of a single currency for Europe as a whole and in that context US and Canada do serve as an excellent model to explore for answers. Prior to 1927 the central banking system in the US was established in 1913 with 12 INDEPENDENT branches. Each branch maintained its own separate

discount rate. This is very important to understand. It was not uncommon to find rates at 7% in California and 3% in New York. This is far too often a point totally lost in history, but it is paramount in trying to define whether or not EMU will succeed or fail for Europe.

The central banking system known as the Federal Reserve emerged as a solution out of the disaster of the financial Panic of 1907. The Federal Reserve was formed in 1913 because the evidence revealed in the investigations by Congress discovered that even though a single currency had existed in the US since 1792, the regional capital flows within the US were often to blame for numerous financial panics—1907 being the primary Panic that drew the attention of government to this problem.

The differences on a regional basis within the US economy as a whole were the source of Panics due to cash flow problems on a nationwide scale. Even today, the differences between the local economies in Texas and New York are staggering. We call this the Texas/New York arbitrage. When Texas is booming, New York is in the depths of a recession and vice versa. The New York economy is more financial and business related today while Texas is more commodity oriented with farming and oil production. Therefore, when inflation is running high, Texas booms at the expense of New York.

This is the same regional capital flow problem is silently tearing Canada apart. When real estate was booming in 1987 in the Eastern regions of Canada, interest rates continued to rise in an attempt to stop the speculation. However, while there might have been a real estate boom in the East, the rising interest rates policies were driving farmers into bankruptcy in Alberta.

The Panic of 1907 followed on the heels of the Great San Francisco Earthquake. The claims were obviously on the West Coast but all the insurance companies were of the East Coast. As capital flowed from East to West, shortages in money supply emerged among New York banks that culminated in bank failures.

A single currency does not necessarily make things great. In fact, there is more to the issue of a stable economy than merely a single currency.

The regional cash flow problems were initially resolved between 1913 and 1927. However, a very significant development took place in 1927 that would forever alter the course of our economic destiny for the entire century.

By the mid 1920s, it was noticed that there were significant problems emerging on a cash flow basis internationally. In a power struggle within the US Federal Reserve, the New York branch managed to convince the government that the same system of regional cash flow management should be extended to the international level. The New York Fed won the battle against Chicago who warned that changing the focus would undermine the domestic policy objectives of the bank. In the end, the entire power of the Fed was shifted into a single nationwide system where one interest rates policy would be used thus abandoning the original mission of the the Federal Reserve as the guardian of domestic cash flow problems.

1927 this marked the beginning of the very first G4 effort at influencing international cash flows. The discount rate in the US was usurped into a single rate. The first action was to lower US interest rates in an attempt to divert capital back to Europe. The manipulation backfired because it gave credence to rumor that there was a problem with the escalating debt in Europe. As the cash flows into the US intensified, the Fed moved into a state of panic. Capital poured into the US driving the stock market up dramatically—doubling between 1927 and 1929 despite the Fed raising interest rates from 3% to 6%.

The post-1927 economy has remained on the international regional focus rather than on the original intent of domestic regional capital flow management. This is where our modern problems of regional disparities emerged. The one-size-fits-all approach to interest rate policy is now increasing the tensions between regions within most nations. It is this very issue that is tearing apart Canada pitting one province against another.

This theory that a single currency for Europe is NOT the answer. It will not solve the vast disparities between the economies of Europe but in fact will be a means of exporting deflationary policies at work in Germany to other nations such as Britain. What EMU must be about is more than a single currency. While a single currency will ease some risk problems for business associated with currency, it poses significant dangers that would breed resentment between member states.

If EMU were to adopt a single currency, it must NOT, under any circumstances, lead to a single monetary policy that would impose a one-size-fits-all approach. The basic sovereignty over establishing local interest rates must reside with each state. Allowing this vital power to be usurped into a single rate will undermine the entire framework of Europe much in the same manner as is taking place in Canada or even the United States.

The individual nations of Europe have distinctly different economies as is the case among the 50 US states. When US auto manufacturers lost market share to the Japanese and European cars, the economy of Michigan was devastated. When IBM was forced to restructure, Massachusetts was devastated. When oil prices fell sharply, million dollar homes in Texas fell to \$100,000. Regional problems exist today as they did prior to 1913. If Europe follows-through with its one-size-fits-all plans for EMU, it very well may lead to the worst economic disaster in the economic history of Europe.

Princeton Economics' The World Capital Market Review
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