Manipulating the World Economy



The Rise of Modern Monetary Theory & the Inevitable Fall of Classical Economics

Is there an alternative?

By Martin A. Armstrong

Fifth Edition

Ihave assembled this book to illustrate the proposition that government can manipulate any nation's economy, no less the world, is threatening our future as a free society and that of our posterity. Those in government will always act out of their own self-interest as all humans do, regardless of their position. In my personal dealings with various governments around the globe, I have come to realize that they will never act to prevent a crisis. Governments enjoy a crisis, for then and only then can they act authoritatively, which usually ends with creating more power.

A politician cannot run for office and ask you to vote for them because they saved your job and prevented a recession. Nobody would believe them. Politicians run for office by promising action and change. Just look at the slogans politicians use to run for office, such as 1976 Jimmy Carter's "A Leader, For a Change," 2008 Barack Obama's "Change We Can Believe In," or 2016 Donald Trump's "Make America Great Again." If you lose your job first, then they can run for office, vowing to prosecute the culprit responsible. That is how politics truly work. They never actually prevent an event, and they cannot prove that an event would have taken place.

What I hope to demonstrate in this book is that economics has deviated from any true science. Economics is no longer about discovering how the economy functions, but rather altering it in ways that are unsustainable for personal gain. Governments have assumed the role of manipulating their respective economies, and in the process, have disrupted the very nature of how the world economy functions. This threatens our future; our present form of society will once again be buried in a common grave with the failures of all the empires, nations, and city-states that have gone before us.

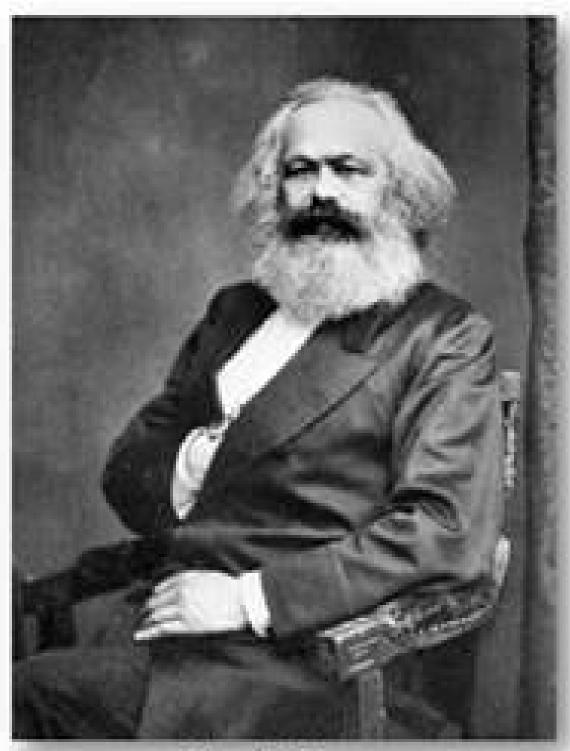
Not even religion has resulted in as many deaths as economics in this futile attempt to change and manipulate society in search of Utopia. What has been done under the banner of economics has been far worse than religion. The class warfare unleashed by Karl Marx has transformed economics into the bloodiest theory in recorded history.

Economics, unfortunately, has been usurped as a political philosophy instead of a science. These political philosophies rest upon the exploitation of one group for the benefit of another. The very purpose of civilization is that everyone comes together, and the synergy which emerges is greater than the sum of the individuals. Someone becomes a baker, which relieves you of the daily burden of baking bread, freeing you to explore your own talents. Civilization is all about harmony and cooperation, which is why it rises and falls throughout history once it loses that benefit for all.

Whenever a society turns in upon itself, polarizing one group against another, the very purpose of civilization ceases to exist. Politics has degenerated into a self-defeating force. Even when Obama was elected, those who opposed him simply moved on with their lives. Today, society no longer accepts the loss of their candidate. Instead, we have deteriorated into a state of obstruction where dying democracy is becoming a faint memory of its original intent.

Others claim capitalism is collapsing and point to the lobbying of multinational corporations and bankers. Simply because it involves money, they call that capitalism when it is plain corruption. Capitalism is the freedom to decide your own future, whereas in the Marxist philosophy of communism/socialism, the state comes first. This has led governments to wrongly assume that they are the embodiment of the nation rather than "We the People."

Welcome to the 21st century that has marked the decline and fall of our most basic principle of civilization — the equal protection of the law.



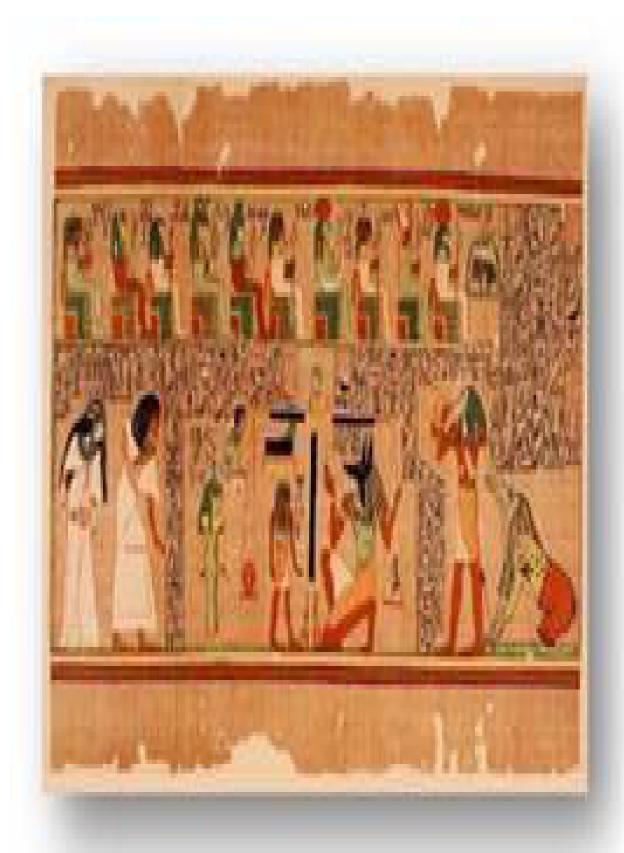
Karl Marx (1818-1883)

Economics is by no means a science where we seek to discover how the economy works. Instead, economics has become a social experiment where people devise theories in an attempt to change human nature without success. No matter how many times people have attempted to apply Karl Marx's theories (1818-1883) known as Marxism, they have failed, and it often resulted in the worst bloodshed in human history. They tried to avoid the labels of "communism" or "socialism" by recharacterizing it as "income inequality" to achieve the same goals with arguments of fairness or equality.



Soldiers raising the Soviet flag over the German Reichstag. 1945

No matter how many have tried to recharacterize Marxism, their goals have led to outright class warfare that has resulted in more deaths than religious wars. Just glance at the Communist Revolutions in Russia and China. The twentieth-century Socialist movement was the bloodiest of all wars. It is generally estimated to have resulted in the deaths of about 61 million in the Soviet Union, 78 million in China, and roughly 200 million worldwide.



The most curious aspect of this recharacterization of Marxism is that perhaps ancient wisdom concluded long ago that socialistic economics is both dangerous and destructive to civilization. For we find in the Ten Commandments, it expressly forbids Socialist philosophy that still dominates our present politics.

"You shall not covet your neighbor's house. You shall not covet your neighbor's wife, or his male or female servant, his ox or donkey, or anything that belongs to your neighbor"

— The Tenth Commandment, Exodus 20:17

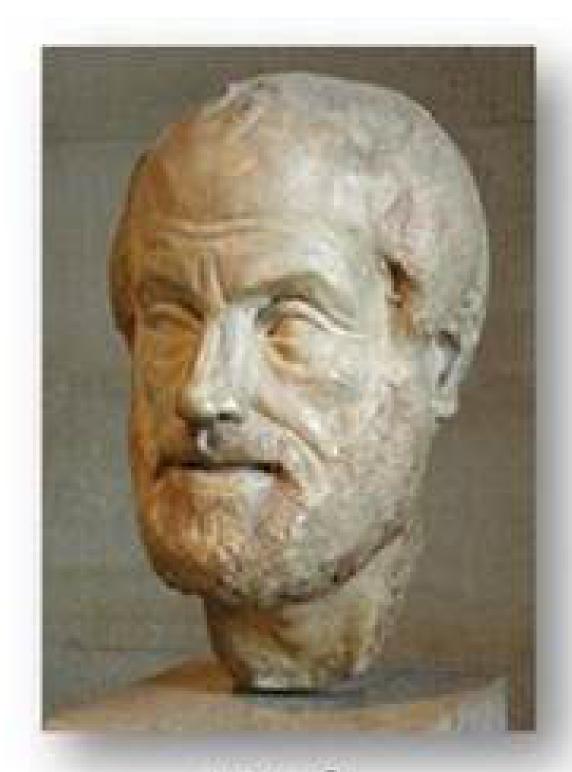
Egyptian - 42 Negative Confessions

I have not done iniquity. 2. I have not robbed with violence. 3... I have not stolen. I have done no murder: I have done no harm. 433 5. I have not defrauded offerings. 6. I have not diminished obligations. 7. I have not plundered the Netcher. I have not spoken lies. I have not snatched away food, 10. I have not caused pain. 11. I have not committed fornication. 12. I have not caused shedding of tears. 13. I have not dealt deceitfully. 14. I have not transpressed. 15. I have not acted guilefully. 16. I have not laid wasted the ploughed land. 17. I have not been an eavesdropper. 18. I have not set my lips in motion (against any man). 19. I have not been angry and wrathful except for a just CHOSE 20. I have not defiled the wife of any man. 21. I have not defiled the wife of any man, (repeated twice) 22. I have not polluted myself. 23. I have not caused terror. 24. I have not transgressed. (repeated twice) 25. I have not burned with rage. 26. I have not stopped my ears against the words of Right and Truth (Ma'at) 27. I have not worked grief. 28. I have not acted with insolence. 29. I have not stirred up strife. 30. I have not sudged hastily. 31. I have not been an eavesdropper. (repeated twice) I have not multiplied words exceedingly. 33. I have not done neither harm nor ill. 34. I have never cursed the King. 35. I have never fouled the water. 36. I have not spoken scomfully. 37. I have never cursed the Netcher. 38. I have not stolen. 39. I have not defrauded the offerings of the Netcher. 40. I have not plundered the offerings of the blessed dead. 41. I have not filched the food of the infant, neither have I sinned against the Netcher of my native town. 42. I have not slaughtered with evil intent the cattle of the Metcher.

It appears that this prohibition even predates the Bible. We find the essence of this prohibition in The Egyptian Book of the Dead known as the "42 Negative Confessions." This features a list of 42 sins that the soul of the deceased had to state affirmatively that they never committed when they stood in the final judgment in the afterlife. The most famous list comes from The Papyrus of Ani, a text prepared for the priest Ani of Thebes (1250 BC). Therefore, the Tenth Commandment is also found in this list as the combination of 13, 20, 21, 29, and 33.

"Covet" means to crave or desire. The Tenth Commandment does not tell us that all of our desires are immoral. It tells us that some desires are most certainly wrong. Coveting is an immoral longing for something that is not rightfully ours, which is the very essence of Marxism. The Tenth Commandment expressly directs us that our desire for something that already belongs to someone else is morally wrong. Therefore, it forbids us from wanting far more than we would legitimately deserve or that would be our rightful share. The Tenth Commandment's focus is that we are not to illicitly desire anything that already belongs to anyone else, which is, of course, the foundation of Marxist socialism.

The most interesting economic developments throughout millennia have been the misconception of the exploitation of labor viewed by Marx and the structural change into a capitalistic system. This was observed by Aristotle (384-322 BC), who influenced Marx. Much of this entire idea of socialism and communism was driven by the evolutionary process of all economies.

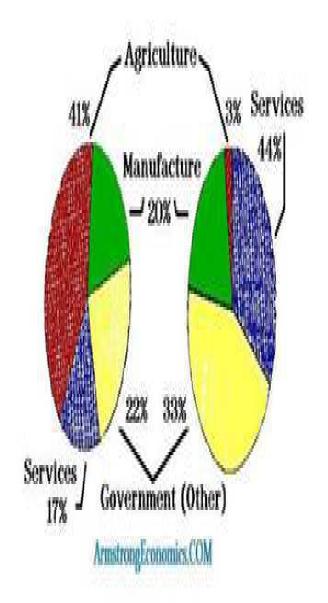


Aristotle (384-322BC)

For example, economies generally begin as agriculturally based. I call this the "Villa Economy," meaning these economies tend to be predominantly self-sufficient. Peripheral trades emerged like the role of a blacksmith who would shoe the horses to plow. There emerged the manufacturing of harnesses and various products, and the market was the farmers. The Physiocrats of France believed that all wealth was derived from land and agriculture, which inspired the age of empire building. They viewed these peripheral trades, which became Mercantilism, as parasites that sucked the wealth from the farmer. Adam Smith (1720-1790) wrote his Wealth of Nations (1776) as the counter-argument to the Physiocrats, illustrating that all activities contributed to the wealth of a nation, and not just agriculture.

Indeed, Mercantilism existed both in China and Europe, which led to the evolution from the Villa Economy to a Market Economy. Gradually, tradesmanship offered an alternative to farming. This evolution of a Market Economy developed in Athens, where people encouraged farmers to grow excess supplies that they, in turn, would sell to others. Aristotle indirectly termed this practice basically as people who made money from money or brokers.

US Civil Work Force 1900 1980



As society evolves from a Villa Economy to a Market Economy, there is naturally a displacement of labor as it shifts into other fields and away from agriculture. During the 19th century, this emerged as the Industrial Revolution that created factories and fueled the urbanization of society at first using the steam engine from about 1776 onward. By 1810, London finally reached a population of one million equal to that of ancient Rome, which had reached that in 133 BC. As urbanization emerges, this displaced the traditional agriculture of the Villa Economy, which is what Aristotle observed in ancient Athens.

As technology advances, it creates new opportunities, but it also makes the prior technology redundant. Joseph Schumpeter (1883-1950) termed this phenomenon waves of "creative destruction." For example, the invention of the automobile put the horse and buggy makers out of business. England lost the edge on the Industrial Revolution because it enacted laws to protect the buggy makers when the politicians were bribed by the oligarchy.

The Locomotive Act (1865) required self-propelled vehicles on public roads in England to be preceded by a man on foot waving a red flag and blowing a horn. The legislation orchestrated by the status quo of the English oligarchy prevented England from fully participating in the Industrial Revolution during this early stage. They were fighting against this wave of creative destruction. The English Parliament finally removed the need for the red flag in 1878 and then went on to abolish the law entirely in 1896.

The Black Death killed about 50% of the population. The shortage in labor led to the birth of wages and the end of serfdom. As there was a shortage in labor, wages rose. In 1362, a petition was filed in the English House of Commons in Parliament that blamed the inflation on workers "who refuse to bear the burden of poverty patiently." This was intended to justify freezing wages. Again, government sought to prevent the wave of creative destruction.

Today, we see the internet expanding, once again, and unleashing a totally new wave of creative destruction. Local stores find it hard to compete with online services. Even newspapers and printed magazines are declining. VHS tapes were replaced by CD-ROMs, which were then replaced by DVDs, and now we have movies streaming over the internet. The wave of creative destruction is never-ending.



Cyrus II the Great of Persia (601-530BC)

Unfortunately, analysis typically fails to see the commonality throughout the centuries. To make matters worse, analysis is often far too biased and becomes more propaganda than objective. People start with a conclusion or presumption and then only look for evidence to support that objective. In this manner, they doom society, for they never reach the true understanding of the trend or the causes behind the trend.

Only Adam Smith sought to understand how the economy functioned. Almost everyone since Marx began with the presumption that the economy is truly random, and thus it can be altered and manipulated to perform as they desire. They never accept how the economy functions, nor do they understand that by trying to alter the economy as Marx did, they are actually trying to change human nature itself. This has resulted in economics becoming a social experiment rather than a science.

Smith discovered that we all act in our own self-interest, and in doing so, we create an economy where a synergy emerges that is greater than the sum of individuals themselves. Someone else grows the turnups, which allows you to spend your time on your talents. This is the very fundamental foundation of how civilization itself is created.

Civilization emerges because the collective interaction of individuals coming together is beneficial for everyone. This is what has been called the invisible hand discovered by Smith. The goal of all economic theories since Karl Marx has been based on how to manipulate the invisible hand.

Communism failed because it sought to replace the individual with centralized planning. Governments cannot respond to the opportunities that only individuals can see in their daily actions. It is the individual that can see that there is a need for a baker, candlestick marker, or social media like Facebook. Governments are also incapable of creating new innovations. The entrepreneurship of individuals creates economic progress. Regulation and centralized control do not.

Even the creation of empires has often been the vision of a single person. The Achaemenid Persian Empire under Cyrus the Great (601-530 BC) grew substantially in less than 30 years and reached its greatest extent within 75 years. The Roman Republic was founded by a revolution against their king in 509 BC, but the Roman Empire didn't reach its greatest extent until 180 AD because it lacked a single individual continuously.

In 336 BC, when Alexander the Great embarked on his major campaign for the Persian Empire's conquest, his military leadership abilities made him a legend in his own time. By 327 BC, the Persian Empire was firmly under his control. However, his conquest of Persia was largely enabled because that civilization had peaked and was on the decline.



Alexander III the Great of Macedon (356 - 323BC)

The Roman Republic was a militaristic society, yet it did not generally set out to conquer territory. Instead, it often defended itself as in the Punic Wars. Moreover, following its victory over its enemies, the Roman Republic offered them some level of citizenship in exchange for loyalty. A few individuals greatly expanded the empire, such as Sulla (138-78 BC) and Julius Caesar (100-44 BC) during the Republican days. Its greatest expansion was still due to the vision of one person rather than a collective decision-making event from central government.

Many empires rise from a collective foundation of individuals, such as the United States, rather than a single individual. However, these types of advances will often give rise to a single individual who then aids its advancement in short bursts of economic expansion. There are often periods at the beginning that create the spark of life in an empire, such as with Cyrus the Great, or there is one individual who emerges that creates a burst of economic growth and innovation. We see these advancements under one individual's vision throughout history, such as Lenin in Russia, Hitler in Germany, or Napoleon in France.

Edward Gibbon said it best in his Decline and Fall of the Roman Empire:

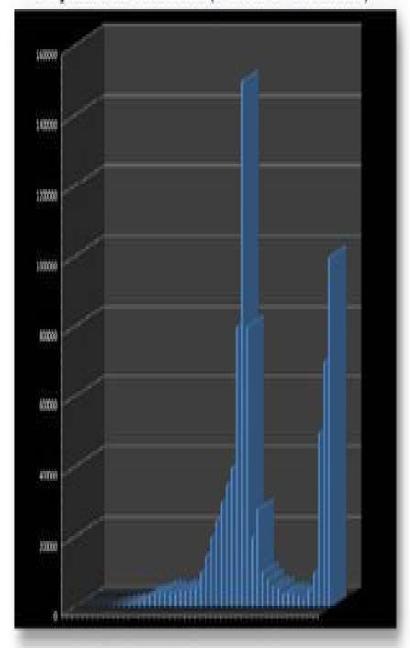
"[Rome in h]er primeval state, ... was then a savage and solitary thicket; in the time of the poet, it was crowned with the golden roofs of a temple, the temple is overthrown, the gold has been pillaged, the wheel of Fortune has accomplished her revolution, and the sacred ground is again disfigured with thorns and brambles. The hill of the Capitol, on which we sit, was formerly the head of the Roman Empire, the citadel of the earth, the terror of kings; illustrated by the footsteps of so many triumphs, enriched with the spoils and tributes of so many nations. This spectacle of the world, how is it fallen!"

What is fascinating is that the rise and fall of empires, nations, and city-states seem to follow the same path as corporations as they adopt centralized authoritarian control as advocated by Karl Marx. Great advancements and creations are due to an individual's vision. Once that creative individual is gone, the entity is dominated by a bureaucracy that inevitably becomes arrogant and assumes the entire foundation is based upon their power. Apple discarded Steve Jobs and became bureaucratic. The company was then compelled to bring him back, for he was the creative spark of innovation and not the board of directors.

In the case of governments, they presume they are sovereign, and the people are subjects to be exploited. The might of the Athenian Empire encouraged an arrogance in the policy makers of the day who grew intolerable to their neighbors and led to the Peloponnesian War.

All empires rise and fall because they grow intolerable, arrogant, and the rule of law is corrupted in favor of the state. When the rule of law fails, everything else crumbles. As Thrasymachus warned Socrates, justice is always the same no matter what form of government is in power. It is simply their self-interest.

Population of Rome (3000BC - 1900AD)



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All empires rise and then fall because they have attempted to manipulate the invisible hand. They forget that they are not the creators of great societies in civilization. Empires always peak and begin to decline as the bureaucracy rises, for they inevitably exploit the very bonds that made civilization work from the outset. They historically turn one segment of society against another — a house divided cannot stand.

Society will always divide into opposing groups and no longer accept a common bond. The synergy that built the civilization is then lost, and the rule of law no longer provides equal protection for all. Civilization loses its purpose, and it is no longer beneficial to stay together and create the synergy that made it great. Hence, all great empires begin to decline, divide, and return to their separate origins from which they came.

Rome reached the 1 million mark in population in 133 BC and peaked by 180 AD. It would take London until 1810 to reach a population of 1 million, and New York finally reached that number in 1875. There is a cycle to everything, and that includes civilizations. The theories of Karl Marx have exploited societies and divided them into opposition forces. Once you divide a civilization, the decline and fall begins. One group cannot exploit another, for the freedom which once existed transforms into economic slavery and ends equal justice for all.

While we classify economics as a science, it is really just a social experiment driven by the greed, jealousy, and ignorance of many who seek to punish others for their own failures. The proposition that government can actually manage the economy to create the perfect world has never materialized in 6,000 years of recorded history. If economics were a true science, we would merely try to live in harmony with how it develops rather than attempt to change how it functions. I remember my physics professor saying that nothing is random, and then the economics professor said everything is random. Obviously, by arguing that the economy is simply random, that means it can be manipulated.



Politics has evolved by adapting itself to Marxism. Politicians promise change and impose laws in an effort to manipulate the economy. Yet, politicians in a republic inevitably become corrupt, for they are easily bought. Republics typically die by their own hand, committing suicide mired in corruption, and legislation is sold to the highest bidder.

Marx believed if you confiscated all assets from people and handed them to government, this would end the boom and bust of the business cycle. His philosophy resulted in the deaths of hundreds of millions of people. Ironically, all the economic theories that have emerged post-Marx have dominated the field during the 20th and into the 21st century. They have all been a derivative of Marx advocating that government can manipulate the economy for the better of human society. They have never been able to prevent a single recession and always launch investigations to blame someone in the private sector. Economics has empowered governments and inspired promises that can never be realized. Politicians have created New Deals with promises of pensions but never funded these promises.

Attempts to manipulate the world economy have prejudiced society and unleashed the battle cry of class warfare. This has been dividing the people, creating the very seed that has been the destroyer of civilizations throughout history. This presumption that government is capable of manipulating the world economy, and thus the business cycle, has been the core of every other economic theory to emerge ever since Marx. Even this new Modern Monetary Theory (MMT) is shrouded in the presumption that the government is all-powerful and good-intentioned, no different than the beliefs that inspired the Communist Revolutions. But all governments die in a pool of corruption.

Former U.S. Secretary of the Treasury and past President of Harvard University Lawrence Summers, who was also an economic adviser to President Obama during the economic crisis from 2009 through 2010, wrote an article that appeared on December 6, 2015, in the Washington Post.

Washington Post

By Lawrence Summers December 6, 2015

"While the risk of recession may seem remote given recent growth, it bears emphasizing that since World War II, no postwar recession has been predicted a year in advance by the Fed, the White House or the consensus forecast."

Subsequently, Bloomberg News interviewed Summers on this very issue. They asked:

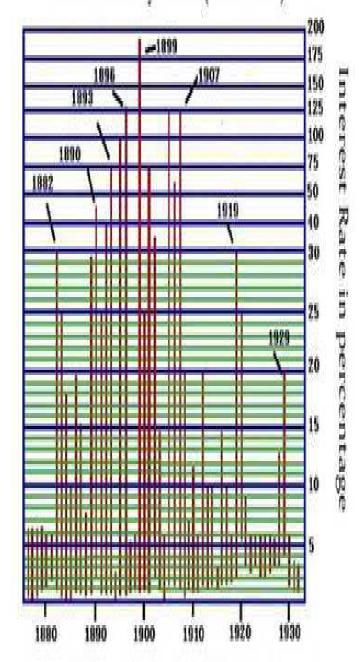
"Why it's so hard for smart guys like you to predict some form of economic slowdown? In part it's hard because the economy is an enormously complex system meteorologists turns out are not very good at predicting the weather that's a complex system too.

In part there is something in the logic of economics if it were predictable that the economy was going to decline people would stop investing; people would reduce their spending and the economy would have already declined. So, there is a sense in which in the logic of the system that once expectation of recession takes hold, you're in recession and therefore it's very difficult to predict in advance when that is going to take place. The argument is not unlike that at least there's a good approximation that speculative prices should follow random walks."

In the Bloomberg interview, Larry Summers again conceded it is impossible to forecast the direction of the business cycle because it is like that of the weather system — too complex. It was Summers who had supported negative interest rates. He had championed the role of what he has called "secular stagnation" in current economic conditions. Summers

argued that the "neutral interest rate" had declined substantially and was likely to be lower in the future. He argued that the idea that real interest rates, defined as interest rates adjusted for inflation, will be lower going forward.

US Call Money Rates (1876-1932)



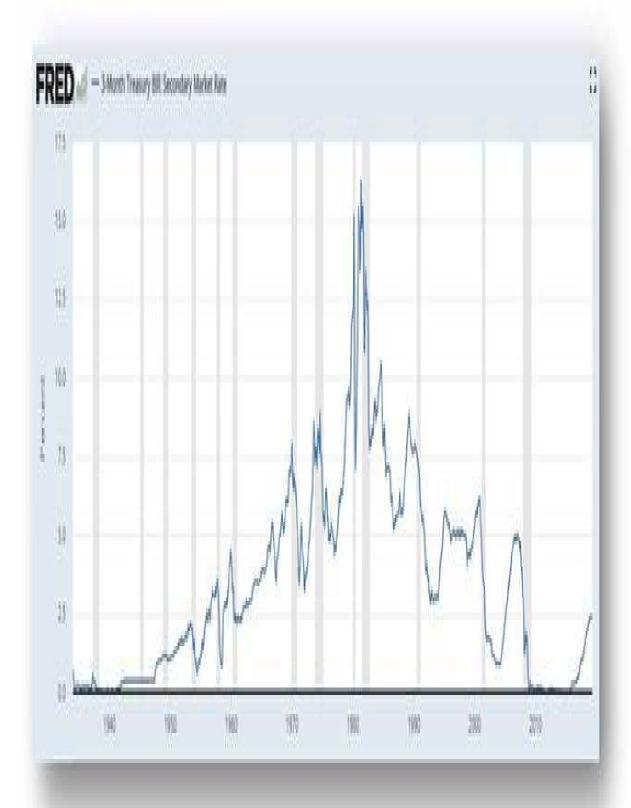
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(Source: Contemporary newspaper reporting of rates at NYSE)

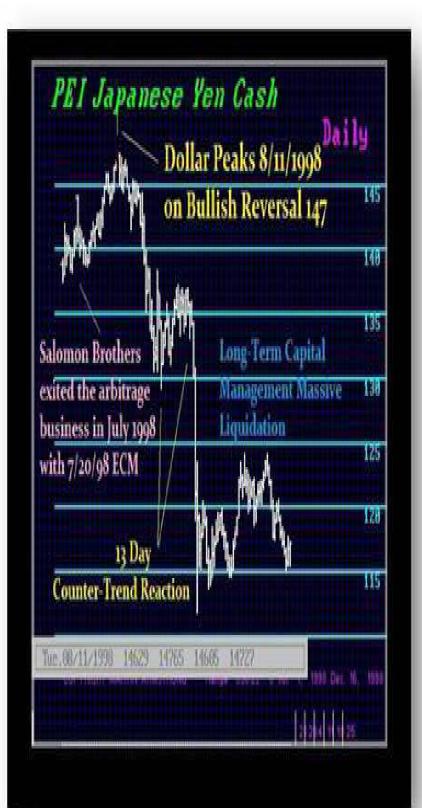
When we look at the call money interest rates from the New York Stock Exchange, something dramatic emerges from the observation. This very idea of a neutral interest rate assumes, as always, that all things remaining equal. What academics fail to understand is that markets move in anticipation. It does not matter if what they think is happening is true or not. Markets do not move in such a plain, logical, or orderly manner.

The United States was virtually bankrupt in 1896 when J.P. Morgan had to organize a gold loan to save the government. We can see that interest rates reached 125% during the crisis of 1896. In 1899, the Bank of England doubled its discount interest rate to 6% in November, up from 3% in February 1899, to curb what it thought was excessive speculative inflation in Britain. A full-scale panic unfolded as a global contagion when British investors began selling American assets to cover losses back home. Call money rates reached nearly 125% during the Panic of 1907. Yet when capital concentrated in the United States post-1914 World War I, we can see that the peak in interest rates during the Panic of 1929 only reached 20% during the worst speculative bubble in history up to that point in time.

The chart of call money rates from 1876 to 1932 illustrates that the peak in interest rates is far more complex than a simple calculation with respect to inflation. There has always been an international component that cannot be judged by simply looking at the domestic economic numbers. This is why economists cannot forecast the economy, for they fail to understand this is a global economy where we are all connected.



We can see from the Federal Reserve chart of 90-day T-Bill rates that completely opposite events took place during the early 1980s compared to the 2007-2009 Subprime Mortgage Crisis. During the 1980s, it was perceived that inflation was the problem (devaluation of the currency), so people fled to the private sector assets including gold. Then the 2007-2009 Subprime Mortgage Crisis hit, and confidence in the banking system collapsed as people fled the private sector to rush into government Treasuries. For a brief shining moment, even U.S. T-Bills moved to a negative interest rate, reflecting that people were just parking their money for security without regard for profit because they did not trust the banks.

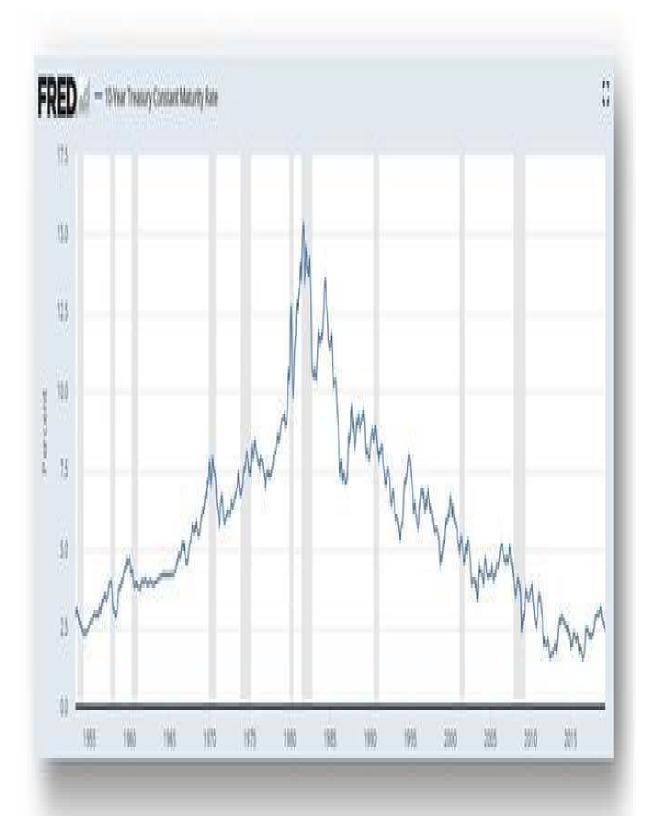


Any attempt to claim there is a neutral interest rate fails to understand that the system will swing between two extremes based entirely upon where people perceive the risk to lie. It is a fictional dream to propose there is some neutral interest rate and 100% full employment will ever exist. Moreover, it is impossible for any government to manage its own domestic economy because an external crisis can impact a domestic economy, as was the case in 1899. There was the liquidity crisis of 1998 when the collapse in Russian bonds took place and investors, including Long-Term Capital Management, were then forced to sell assets everywhere else to raise money to cover losses elsewhere. The dollar crashed against the Japanese yen simply because they needed money. It had nothing to do with the Japanese economy.

This global interconnection has existed for centuries. Investors in Rome were impacted by natural disasters in Asia, which sent panic down the Via Sacra, which was the ancient Wall Street. There were the South Sea and Mississippi Bubbles of 1720 in America. International investment has always impacted domestic economies.

With all the economic theories presented post-Marx, each has been based upon a basic assumption that this complexity does not even exist, and the economic driver can be reduced to a single cause and effect. That basic assumption has colored all economic theories that have emerged post-Marx and his publication of the Communist Manifesto published in 1848. Ever since, most economic theories have adopted the proposition that government is capable of manipulating the economy. Yet, these theories fail inevitably as they cannot control external factors from global contagions.

There has been no theory to date that has been employed by governments to prevent an economic recession. As Larry Summers admitted, "No postwar recession has been predicted a year in advance by the Fed, the White House or the consensus forecast."



The crisis we now face is truly monumental. Central banks have employed Quantitative Easing to "stimulate" the economy in the quest to manipulate the economy and thus the business cycle. They have become like some medieval doctor who tries cutting off your ear in the hope of stopping a chronic earache. They just keep removing body parts until the pain subsides.

The European Central Bank (ECB) lowered interest rates to negative in hopes of forcing people to spend rather than save. They have lowered the economic living standards of those retired, undermining the entire pension system. They also regulate pensions and require them to invest some portion in government bonds, which are now negative yielding. There is now virtually \$17 trillion of negative yielding bonds that will collapse in price to reflect a positive yield once again of about 8%.

The ECB has simply kept the governments in the EU on life support with unrealistic negative yields. The ECB owns nearly 40% of government debt. The central banks are now trapped. Their efforts to employ Quantitative Easing have been only one side of the coin. The other remains the political fiscal spending on various programs and agencies. Central banks cannot control fiscal spending. If the central banks allow interest rates to return to normal, the fiscal budgets will explode.

In Europe, governments will be compelled to raise taxes dramatically to maintain the pretend Maastricht Treaty, which imposed limits on government public spending dictated through limits on government debt and deficit as a proportion of gross domestic product (GDP). A rise in interest rates will threaten the existence of the Eurozone. This will also lead to civil unrest.

Due to the failure of Quantitative Easing, many now assume that government can freely create money without inflation. After trillions of dollars have been created to buy government debt with no appreciable inflation, many conclude that everything has changed. They are calling this the Modern Monetary Theory (MMT), where all the Marxist dreams of creating endless social programs can be funded without consequence. If they are correct, then why bother with taxes? They are simply borrowing money continually with no intention of ever paying off national debts. Governments can just create an endless supply of money to fund a new modern version of Utopia.

Does this proposed theory ignore global connections? Can it really be that simple to create money without regard for economic history? Do they comprehend the implications this experiment will have on the global economy and the very foundation of civilization itself? These questions are not asked because they fail to look at the global interconnections that have existed throughout time and circumstance for centuries.