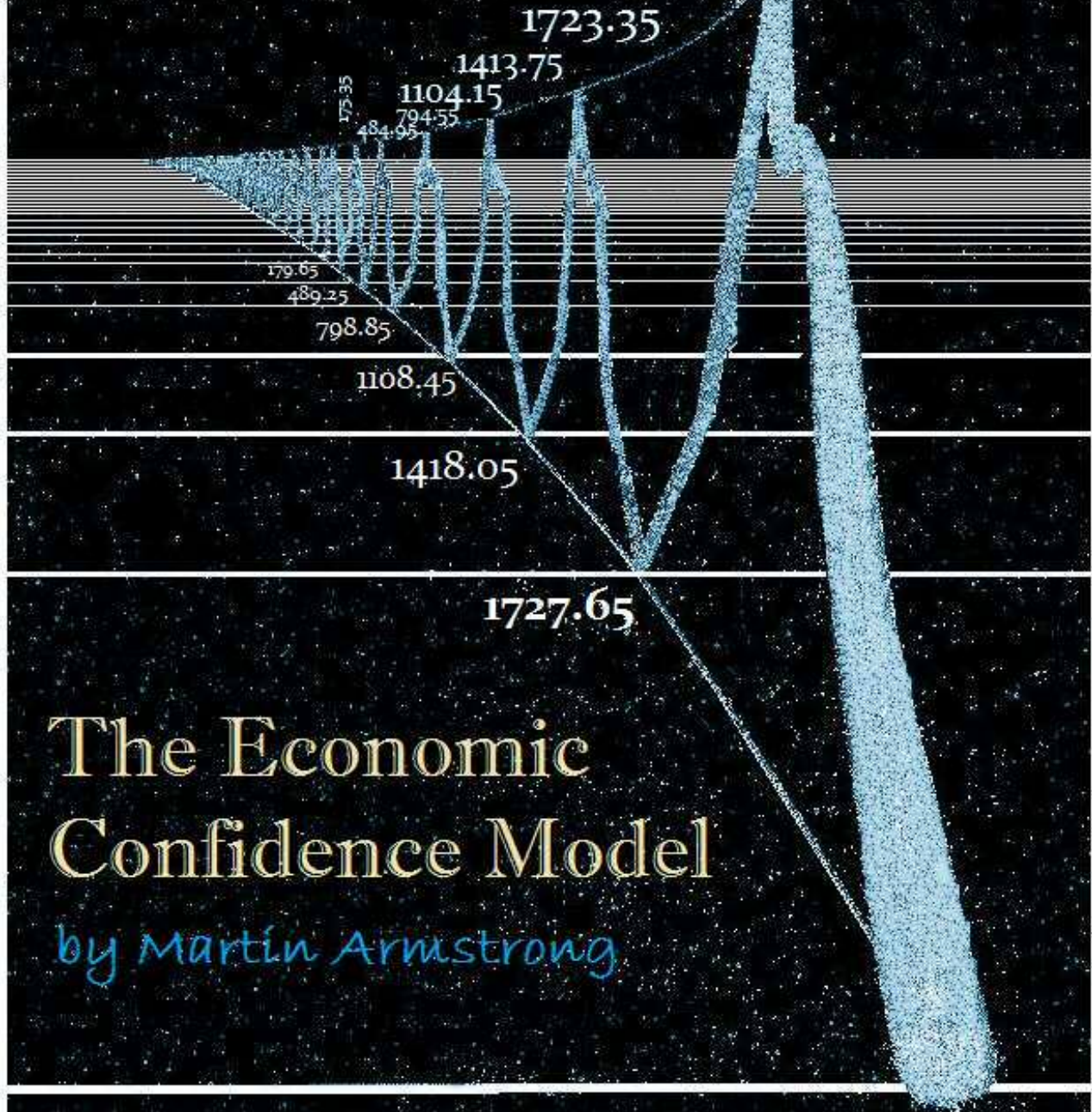


# The Discovery of the Business Cycle

2032.95



# The Economic Confidence Model

by Martin Armstrong

2037.25



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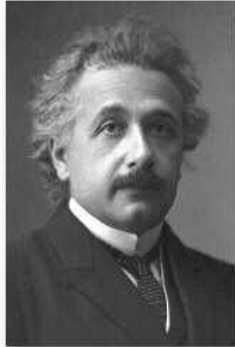
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# Prologue



"The important thing is not to stop questioning. Curiosity has its own reason for existing."

Albert Einstein (1879-1955)

In life, there are only two methods of research. The first, people start with a theory and then cherry-pick facts to support it. Secondly, you are curious and simply discover something you never expected. Albert Einstein (1879-1955) also explained that curiosity is the origin of all discovery for if we are not curious, then we will never discover anything. You cannot discover something that you think you already know. A closed mind was what the Dark Ages were all about. Like under communism, curiosity died.



The  
Search  
for  
Reality

In politics of late, the Democrats criticize Trump regardless of what the issue might be simply because he is in the Republican camp. Even criticism comes in two major fashions: (1) to defend a current assumed fact for the status quo, or (2) a legitimate criticism based on real unbiased analysis. We must search for reality in this world of established dogma for the discovery of something new that is

blocked by refusing to surrender old ideas.

In Western Society, we have lost the knowledge of TIME, the real last frontier, and how everything functions in a cyclical manner from how light and sound travel, to climate changes with the beat of the sun like your heart. This long forgotten understanding has led to the arrogant assumption that we can manipulate society and the business cycle to further political goals.

When I was in high school, I was confronted by a dilemma. In physics class I was told that nothing was random. Then in economics class I was told everything is random so the government can smooth out the business cycle eliminating depressions and recessions. I realized that someone was lying. The fields were at opposite ends. Physics was based on hard science but economics was a social science based on opinion and political power. Who was right? Was the business cycle definitive or malleable?

Then in history class, the teacher brought in an old black and white film from 1937 *The Toast of New York* starring Edward Arnold and Cary Grant. The film was about the attempt to corner the gold market in 1869 that led to the financial panic. People were dragging the bankers out on the street and hanging them. That was the origin of the term “Black Friday” which was not a shopping day. In the



film, there was a scene where Jim Fisk was reading from the tickertape and turns to his girlfriend and says gold just hit \$162.

This was perhaps around 1964. I had a part-time job in a coin/bullion store back then. I knew gold was \$35. It bothered me, so I went down to the library and looked that date up in the New York Times on September 25<sup>th</sup>, 1869. There it was – \$162.50. That changed my life. Suddenly I saw that what I was being taught—that the world and history was linear always progressing forward, was just not true.

You cannot measure the circumference of the earth with a straight edge ruler. Everything in this universe functions in cycles including life itself. Some have advocated that stock markets are just random walks. They are unable to see the patterns or comprehend how cycles function. They may see waves crashing on the beach but cannot see the patterns. They never looked at why you have brain waves and your heart beats instead of a constant flow. It's Just Time we apply real science instead of social science to economics.



My curiosity compelled me to read the newspapers of old trying to see why gold was \$162.50 in 1869 but \$35 in 1964. I had stumbled upon a list of panics in a newspaper dated April 11<sup>th</sup> 1907. I was a history buff and I noticed that the first date was 1683. I knew that was when the Ottoman Empire Invaded Europe at the siege of Vienna, which was the capital of the Holy Roman Empire back then. Little did I understand at that moment because this was an international list of panics, rather than domestic, it was actually capturing global capital flows and movements. I took the span of years which was 224 and divided the number of events 26 and arrived at 8.6153846.... which was a simplistic average. I did not notice at first that this was like the Pi calculation being nearly



- 1683—Earliest recorded English panic.
- 1711—English commercial crisis.
- 1720—Mississippi Bubble in Paris, terminated in May.
- 1720—South Sea Bubble in London, terminated in end of year.
- 1721—Another English crisis.
- 1747—First Black Friday, December 6, caused by progress of Pretender's Army, with run on Bank of England.
- 1756—First of modern English panics.
- 1773—Another English crisis.
- 1793—Panic in England.
- 1793—Financial upheaval in England and first panic in United States.
- 1812—American panic following capture of Washington by British on August 24. Bank in New York suspended specie payments September 8. English crisis came in 1815.
- 1818—Minor American crisis began in October.
- 1825—English Panic started in December, superseding United States in 1826.
- 1837—Great panic and commercial depression starting with suspension of banks on May 9.
- 1848—Minor American crisis, 10 in England in preceding year.
- 1852—Another great panic started by failure of Ohio Life & Trust Co., August 24.
- 1866—Panic caused by failure of great London house of Overend, Gurney & Co., May 14. This was the second Black Friday.
- 1869—Collapse of gold conspiracy in New York causing the third Black Friday panic on September 18.
- 1871—Panic caused by Chicago fire, October 4th.
- 1873—Panic caused by Russian war, November 9.
- 1873—Tremendous commercial crisis, often called "The Panic," starting with the failure of Jay Cooke & Co., on September 18.
- 1884—Panic in May caused by failure of Grant & Ward and Marine Bank. Clearing House certificate issued May 15.
- 1890—Panic caused by suspension of great London Bank of the Barings.
- 1893—Collapse of Georgia, with many failures on May 3, starting the great silver panic of this year.
- 1893—Panic on December 19, caused by President Cleveland's Veto of the Sherman message.
- 1893—Bryan panic, culminating at the time of his Madison Square speech in August.
- 1893—Panic caused by sudden death of R. P. Howe, on May 12.
- 1893—Northern Panic, caused on May 9.
- 1893—Undertaken securities panic, reaching its culmination in September.
- 1897—Mystery panic of March 24.

*LISTING OF YEARS IN WHICH PANICS TOOK PLACE INTERNATIONALLY*

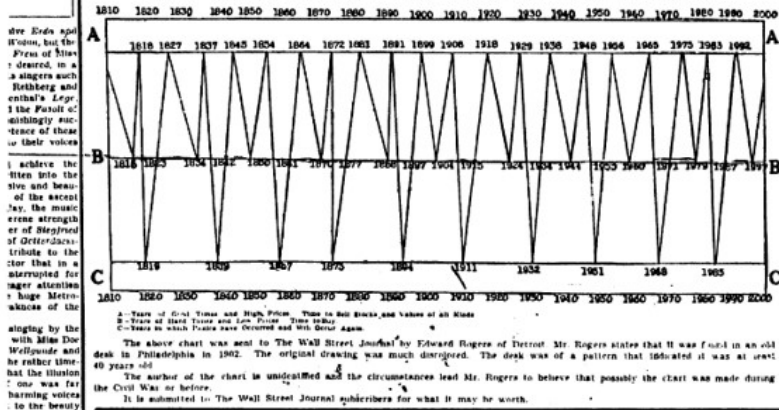
1683								
1711	1720	1731	1745	1763	1772	1783	1792	
1814	1818	1825	1857	1866	1869	1871	1872	
	1873	1884	1890	1893	1895	1896	1899	
1901	1903	1907						

said did not exist. To my surprise, I found that there was regularity to this cycle. I had thought it was just an average, so I wrongly assumed it would certainly not be definitive. I was to be proven wrong in that assumption.

infinite.

Since I had always been drawn to ancient cultures and history, I started to backtrack this average to see if there was any validity to a definitive business cycle that in economics class they

### The Forecast Of An Earlier Generation



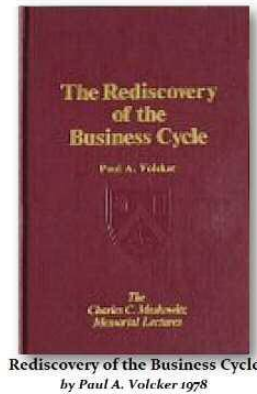
of the Wagner...  
 Newspaper-Specials  
 Current Earnings Reports  
 Following is how they daily estimate of earnings reported by various companies...

Dank Heads N  
 Frank L. Danks ha...  
 James D  
 GENTLE  
 TRAV  
 At this season...  
 CHARL...  
 67 Wall Street  
 "Everything"  
 Present

Later on, I was feeding my curiosity by researching the newspapers at the Firestone library at Princeton University. That is when I came across this chart of a business cycle published in the Wall Street Journal on February 2<sup>nd</sup>, 1932. The caption claimed it was found in an old desk. That turned out later to be a fraud for someone was taking the work of Samuel Brenner (1832–1913), who we will look at later, in an effort to claim the bottom of the Great Depression was in place. They altered the cycle to fit the current conditions.

Nevertheless, finding this chart back then published in the Wall Street Journal caught my attention. It was implying that there was a business cycle that conformed to a nonlinear pattern like everything else in the world around us from the waves in the ocean to the cyclical movement of sound and light. Suddenly I discovered that there had been this understanding of a cyclical nature from the commodity field. Samuel Brenner was a farmer, and they have to understand the cycles of nature to know when to plant and when not to plant. But further research confirmed that Brenner was taken seriously and included in a list of 7 top forecasters by the Chicago Tribune on April 12<sup>th</sup>, 1884 stating that he held a "unique place in financial literature." There appeared to be respect for cyclical analysis prior to the Great Depression. It was suddenly rejected when economists advocated that they could manipulate society to eliminate the business cycle following John Maynard Keynes (1883–1946).

So, what happened? Why did we abandon this idea that cycles even existed? As we will explore in this book of my life's journey in search of knowledge and reality, once the Great Depression hit during the 1930s and the economic community embraced Keynesian Economics, the economic field abandoned all previous knowledge and took up this idea that the business cycle was just random so it can be manipulated to create utopia.



In the aftermath of the financial crisis of the 1970s and the emergence of STAGFLATION, former Chairman of the Federal Reserve Paul Volcker (1927–2019) put out his *Rediscovery of the Business Cycle* in 1979. Paul Volcker explained:

*"The Rediscovery of the Business Cycle – is a sign of the times. Not much more than a decade ago, in what now seems a more innocent age, the 'New Economics' had become orthodoxy. Its basic tenet, repeated in similar words in speech after speech, in article after article, was described by one of its leaders as 'the conviction that business cycles were not inevitable, that government policy could and should keep the economy close to a path of steady real growth at a constant target rate of unemployment.'"*

*"Of course, some minor fluctuations in economic activity were not ruled out. But the impression was conveyed that they were more the consequence of misguided political judgments, of practical men beguiled by the mythology of the old orthodoxy of balanced budgets, and of occasional errors in forecasting than of deficiency in our basic knowledge of how the economy worked, or in the adequacy of the tools of policy. The avant-garde of the profession began to look elsewhere – to problems of welfare economics and income distribution – for new challenges."*

*"Of course, the handling of the economic consequences of the Vietnam War was an obvious blot on the record – but that, after all, reflected more political than economic judgments. By the early 1970s, the persistence of inflationary pressures, even in the face of mild recession, began to flash some danger signals; the responses of the economy to the twisting of the dials of monetary and fiscal policy no longer seemed quite so predictable. But it was not until the events of 1974 and 1975, when a recession sprung on an unsuspecting world with an intensity unmatched in the post-World War II period, that the lessons of the 'New Economics' were seriously challenged."*

What this book is all about is indeed the rediscovery of the business cycle that has been forgotten. My discussion with Paul Volcker about my work and also Milton Friedman who honored me coming to listen to my lecture in Chicago I believe was a Market Technician Conference, inspired me that what I bumped into thanks to my curiosity was important. Paul agreed that the business cycle existed and it was about 8 years in length. Milton came up and shook my hand and said I was doing what he had only dreamed about. I had not realized that he had first written about a floating exchange rate system in 1953.



Tokugawa Yoshimune  
8th Shōgun of Edo shogunate  
(1716–1745)

Thus, I have both Milton and Paul to thank for encouraging me to follow my curiosity to hopefully demonstrate to the world that we are all connected and what I discovered by looking at the entire world, was that similar trends appeared even before there was official contact between regions. We have heard of the wild speculation during South Sea and Mississippi Bubbles of 1720, yet that speculation was not restricted to Europe. There was also speculation in Japan, long before there was any financial connection with that of Western Europe or America.

The 8<sup>th</sup> shogun Tokugawa Yoshimune (1684–1751) is known for his financial reforms dismissing his adviser Arai Hakuseki and introduced what would become known as the Kyōhō Reforms. He banned all expensive clothing, furniture, cakes, candies, and other extravagances in an austerity decree in hopes of controlling inflation during the same period.





**Aurelian**

(270-275)

*ORIENTIS AVG, Sol, holding globe and raising hand, with captives bound at feet*

I hope that what I am presenting is taken objectively rather than the typical *ad hominem* attacks on the messenger that often accompany new theories because they have no answer regarding the theory. Some will say I am self-taught lacking a degree in economics. The same could be said of Adam Smith, David Ricardo, and even John Maynard Keynes. There is not just a business cycle we have forgotten, there is also a cycle to knowledge. The ancients knew the world was round. Here is a coin of Roman Emperor Aurelian (270–275AD) depicting the god Sol, the sun god, holding the earth as a globe. He was the model for the Statue of Liberty.

Here is the only surviving scepter of a Roman Emperor, Maxentius (306–312AD) who was defeated by Constantine at the Battle of Milvian Bridge. The most fascinating aspect of this is that on top is a Blue Orb representing the ROUND Earth – not flat.



**Maxentius**  
(306-312AD)



**Giordano Bruno (1548–1600)**

We lost knowledge during the Dark Ages and even burned alive at the stake Giordano Bruno (1548–1600) for daring to argue that the Sun was the center of our solar system and not the Earth. So, hopefully I will not be burned alive at the stake for arguing that there is a business cycle and it is not some random walk through an arbitrary neighborhood.