$20 trillion debt set to blow in 1990

The monetarist economic policy followed by the United States government has nourished a cancer of usury and debt, which is sucking the lifeblood out of the goods-producing economy. While academic economists babble that too much liquidity causes inflation, the fact of the matter is that speculative investment, fueled by tax and credit policies that direct funds *away* from productive investment, has created an enormous balloon of debt—$20 trillion in the United States alone.

The more wealth that the debt cancer pulls out of the system, the faster the speculation grows, which generates even more debt to loot ever-increasing amounts of real wealth from the productive sector.

Parameters of the crisis

By the middle of 1989, total U.S. indebtedness—including local, state, and federal government, financial and non-financial corporations, and households—amounted to $12.3 trillion. Piled on top of this is more than $8 trillion of income-bearing paper, including $3 trillion of "off-balance-sheet liabilities" of commercial banks, which represent a variety of speculative scams and schemes (**Figure 1**).

Together, all of this amounts to over $20 trillion of debt and speculative paper, which must be rolled over or serviced. Of this amount, an estimated $4.5 to $5 trillion must be rolled over or serviced every year, or $1 to $1.5 trillion per quarter. That is a conservative estimate; the figure would be even larger if the full book value of offshore claims against the dollar were added in.

Since 1981-82, the physical economy of the United States has been functioning at around half the level required for breakeven, defined as the level at which investment in the physical economy equals depreciation or normal wear and tear of goods and physical capital. Breakeven is a useful measurement of the growth or collapse of an economy. We can measure the shortfall from breakeven, as defined relative to the per capita and per hectare market basket standards of the late 1960s, in the collapsing goods content of wage and salary income, the accumulated $350 billion per annum deficit in spending on basic infrastructure, the collapse of educational and health services, and the goods content of the trade deficit.

Since 1983, total U.S. public and private debt has been growing by about $1 trillion per year (see **Figure 2**), with speculative activity growing at a similar rate—while the productive capacity to service that growing debt has collapsed. Indeed, annual service charges and claims by debt and speculation nearly exceed the already highly inflated and erroneous measure of economic activity known as the Gross National Product, which is running at about $5 trillion a year. The GNP counters allocate just under $2 trillion to the productive side of the economy—less than half of what is required for the $4.5 to $5 trillion annual service of debt and speculation.

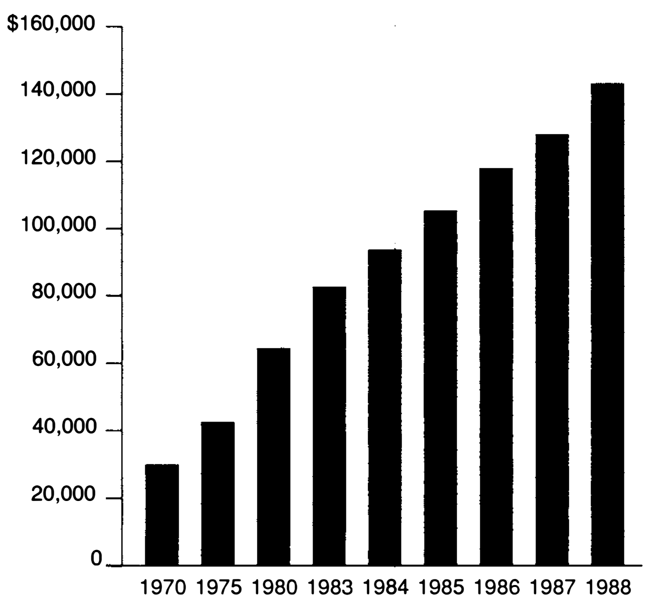
Even if virtually all of the $5 trillion in the GNP were used for annual debt payments, the entire system would break down—as it is now doing—because the machinery, the qualified labor, and the infrastructure to support the expanded activity would be completely starved of resources. With all the money in the world, you still can't buy what isn't being produced.

Looting the productive economy

Some comparisons illustrate this insanity. In 1967, actual U.S. economic production supported a monetary structure priced at more than twice the value of that production. It also supported a total debt that was priced at more than triple the value of real production.

By 1989, real U.S. economic production, in terms of the 1967 standard of living at which it supported society, had been cut in half. That is, the actual goods produced—including infrastructure, capital, and durable and non-durable goods—provide just half the real economic needs that 1967

FIGURE 1
Total U.S. public and private debt
per household



Source: EIR

production provided.

But real production today is now supporting a monetary structure priced nearly five times as high as 1967's production, and a debt priced nearly *nine* times higher than production in 1967.

This means that real U.S. economic production in 1989, since it provides only half as much of society's requirements as it did in 1967, actually supports a monetary system priced at *10* times its own worth, and a debt superstructure *18* times its own value. And that is a process that cannot continue.

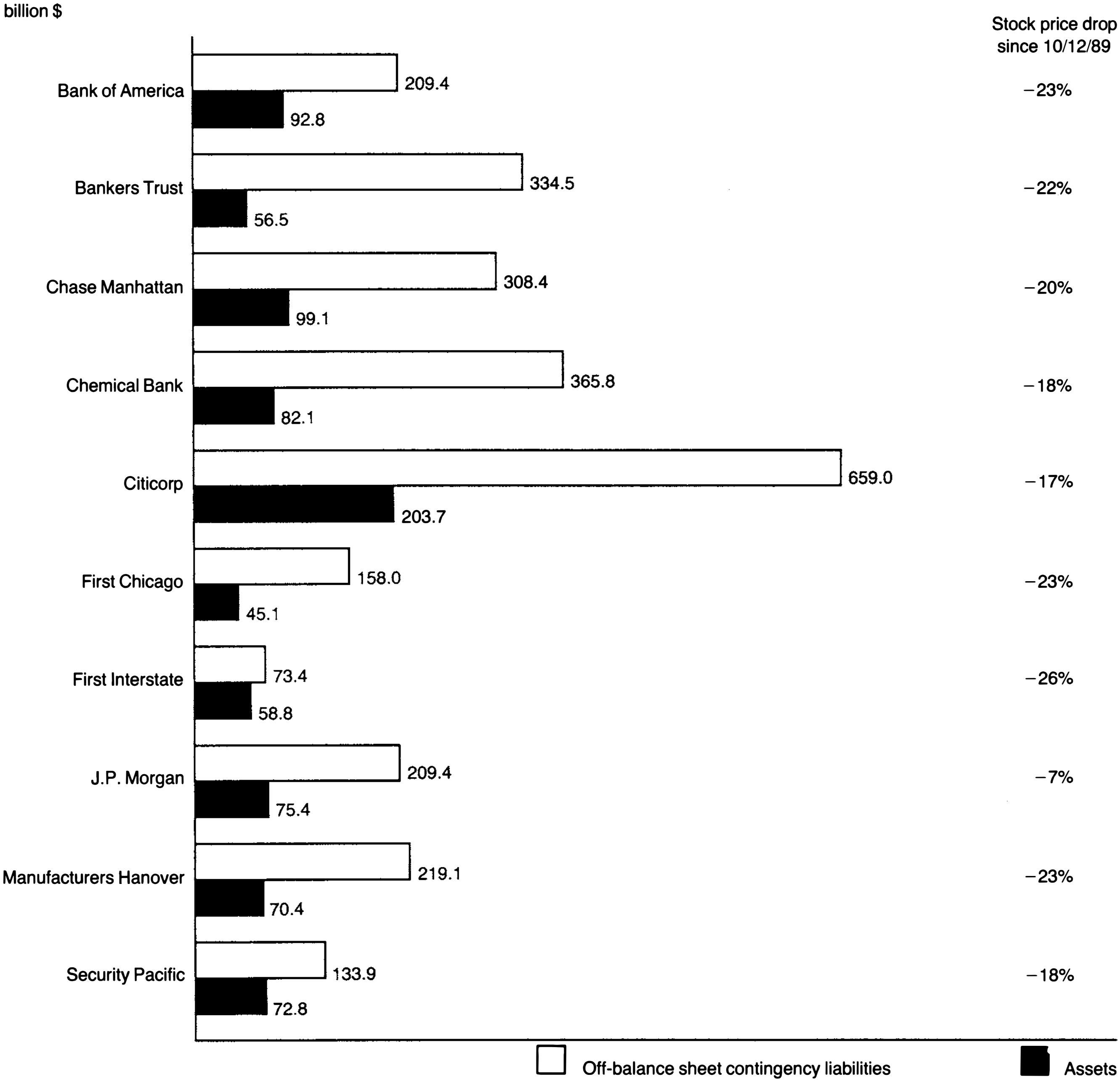
The 25-year slide into depression

The U.S. economy and financial system have been sliding into bankruptcy since the 1963-67 period, when President

FIGURE 2

Assets, off-balance sheet contingency liabilities, and stock prices of selected U.S. banks

billion $



Source: *EIR*; Salomon Bros. "Status of Global Risk-Based Bank Capital Adequacy Guidelines," June 1988.

Lyndon Johnson initiated his so-called Great Society program. Johnson's program emphasized consumerism over production, thus undermining the productive economy required to meet real consumer needs over the long term. Then, between 1967 and 1971, U.S. high-technology capabilities, as embodied in the Apollo Moon program, were shut down, and the dollar was driven into international bankruptcy, leading to the August 1971 abandonment of the gold standard.

U.S. economic capacity was further ravaged between 1972 and 1979 by the combined effects of floating exchange-rate policies, and by the oil shocks of 1973 and 1979. The effect of both was to accumulate an offshore bubble of holdings of stateless dollars, recycled into lending secured primarily against developing-country raw materials assets. Fed chairman Paul Volcker's high-interest-rate regime of 1979-81 then plunged the world economy as a whole into bankruptcy and genocidal austerity, laying the basis for the financial and economic obscenities that have developed since.

The much-touted "87 straight months of recovery" which began in September 1982, was in fact built on the biggest speculative bubble since John Law's South Sea Company of the early 18th century. Between 1967 and 1979, a speculative real estate bonanza was created inside the United States, a binge which is ultimately secured against the faith and credit of the U.S. government, and therefore the U.S. taxpayers. The speculative structures associated with that bonanza began to come apart over the summer of 1987, leading to Black Monday on Oct. 19 of that year.

The two years since then have seen remarkable parallels to the interval between the October 1929 stock market crash and the collapse of the entire world economy in 1931. This spring may well see the dissolution of everything that has been accumulated on the accounts of usurious debt and speculation. Each of the potential triggers for the extinction of the mass of $20 trillion of indebtedness and speculation, corresponds to the swindling financial means by which the phony "great recovery" has been perpetrated.

Three triggers to the debt bomb

There are three principal triggers on this mass of indebtedness.

First, the approximately $200 billion of funds accumulated in the"junk-bond" component of so-called leveraged buyouts (LBOs). For each dollar of debt contracted in junk-bond financing, at least $4 more have been borrowed to complete the packaging. Thus, approximately $1 trillion in paper is riding on the junk-bond market.

Second, the international trade in securitized paper and dirty drug-contaminated funds known politely as the "off-balance-sheet liabilities" of commercial banks. This market comprises more than $3 trillion of the total $8 trillion in speculative paper. This paper is not officially counted as debt; much of it is mostly insurance-like guarantees which generate interest and fee income to the issuer and a debt liability only in the event of other defaults or disasters. Ratios of bank equity to the combination of on- and off-balance-sheet liabilities are such that the country's major banks barely have one cent of equity coverage for each dollar of liability outstanding.

Third, the debt secured off-budget by U.S. government-sponsored agencies and mortgage pools, like the Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae), and so forth, which burgeoned in support of the speculative residential real estate market that funded the mythical "recovery." In this case, the financial charges associated with real estate speculation were assumed largely by the U.S. government, as an inducement to maintain the pace of such speculation. Now, after the passage of the FIRREA savings and loan reorganization bill, this paper is being sold off, into a collapsing domestic real estate market.

Added to the volatilities associated with these three markets, especially under conditions of declining values for underlying real estate collateral for lending, is the overall corrosive influence of the deregulation of the financial markets and the double-digit prime interest rate policy, which has been only slightly modified since it was initiated 10 years ago.

Each of these markets is now beginning to unravel.