

## U.S. Economy

# Depression Collapses Purchasing Power by 50%

by Richard Freeman

Since 1963, the purchasing power of an American worker's average weekly paycheck—measured in physical terms, by a household market basket of goods essential for human existence—has plunged by a staggering 50%. This collapse in purchasing power was caused by, and confirms the force of the physical-economic depression that has overwhelmed the United States for the past several decades. *EIR* was able to discover the sharp drop in purchasing power by returning to the method of physical economy, as developed by Gottfried Leibniz and Lyndon LaRouche, rejecting the lies of U.S. government agencies, which, through a blizzard of counterfeit data and concepts, try to portray living standards and the economy as doing well.

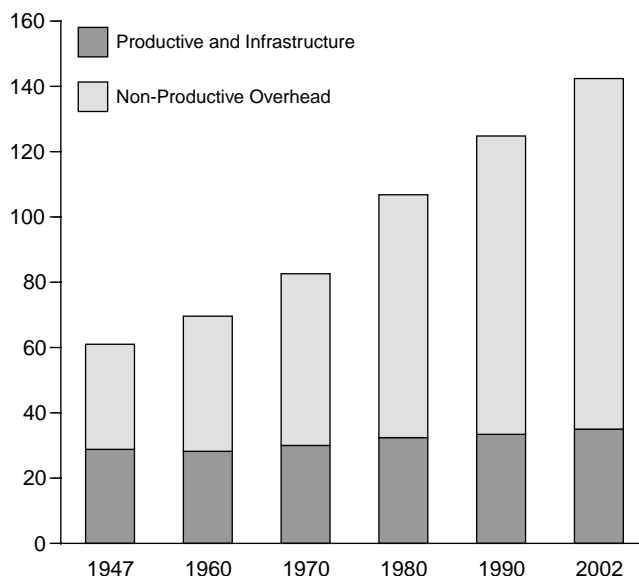
A 50% fall in purchasing power may surprise some incompetent professional economists. But this is a reality that most of the lower 80% of the U.S. household population, by income class, know all too well, as an unrelenting process which is destroying them. In an attempt to offset the loss in purchasing power, many households in the lower 80%, have taken on extra jobs, and now most have two, three, up to seven jobs, spread among the two adults and some children. Further to offset falling purchasing power, many of them have borrowed heavily. The debt which initially tided them over is now a problem. The mounting monthly payment of interest and principal is causing their income level to go even lower. Many still cannot afford basic necessities of life. In many cases, they cease getting anything but the most emergency forms of medical treatment. Some 41 million of these households have no medical insurance at all.

Despite the attempt by government agencies to deny this, millions of families move in and out of homelessness during the course of a year. During the last dozen years, if we eliminate double counting, more than 11 million households have filed for bankruptcy protection. The 50% fall in purchasing power is a barometer for this immiseration. Millions of households have been pushed so far below real subsistence, that they can barely survive.

The collapse in purchasing power derives from a momentous transformation. The Wall Street-City of London financiers imposed a post-industrial society policy upon the United States, following the murder of President John F. Kennedy in November 1963. It is for this reason that 1963 is chosen as

FIGURE 1  
**U.S. Labor Force, 1947-2002; Non-Productive Overhead Grows**

(Millions of Workers)



Sources: U.S. Department of Labor, Bureau of Labor Statistics; *EIR*.

the starting point in many of the graphs which here show the fall in a worker's purchasing power. The post-industrial society policy tore down manufacturing, agriculture, and infrastructure, and built up a gigantic speculative bubble, which sucked dry the underlying physical economy and crushed living standards.

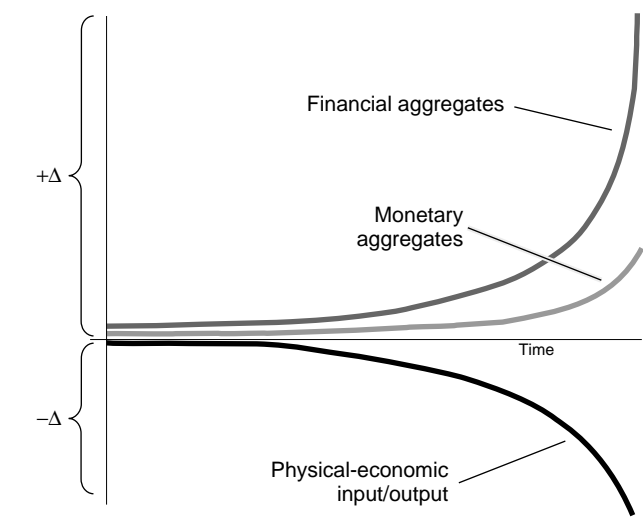
This policy has been implemented by phases over the years, each more ruinous than the preceding one. It included Richard Nixon's 1971 move to sever the dollar from the gold reserve system, and then Federal Reserve Board Chairman Paul Volcker's acting on behalf of a policy of "controlled disintegration of the economy," by raising interest rates to over 20% in 1979, which devastated the U.S. physical economy.

The post-industrial society policy completely degraded the labor force. **Figure 1** shows that in 1947, of America's total labor force, 46% was engaged in productive activity or essential economic infrastructure. By 2002, only 24.6% of America's labor force was so engaged, while more than three-quarters were employed in overhead, largely wasteful activity.

The cumulative effect of this post-industrial policy, inclusive of the labor force breakdown, is best analyzed from a higher conceptual standpoint through the Triple Curve collapse function **Figure 2**, developed by economist and 2004 Presidential candidate Lyndon LaRouche. The upper curve,

FIGURE 2

## LaRouche's Typical Collapse Function



which has been accelerating upward, is the financial aggregates—the mass of speculative financial paper, including derivatives, speculative stocks, etc. The middle curve is the monetary aggregates, essentially the money supply. The lower curve represents the real physical economy, upon which human existence depends. The mass of financial aggregates have rates of return—such as the yields on bonds, the dividends on stocks, etc.—which have taken in more and more wealth, claims against the physical economy, as the mass of speculative instruments has swelled. The resulting looting of the physical economy has triggered, during the past 35 years, its *contraction* by 1-2% per annum, and the contraction of living standards by the same ratio.

Since 1997, the Triple Curve has changed in two important ways. First, the middle curve of monetary aggregates has been increasing at an ever-faster rate, in order to hold up the financial aggregates. *The rate of increase of the middle curve is now greater than that of the upper curve.* This correlates with Fed chairman Alan Greenspan's "wall of money" policy to hold up the financial aggregates of a bankrupt banking system. It has put the U.S. and global financial system onto the path of a Weimar-style hyperinflation which threatens to explode the world financial system.<sup>1</sup>

Second, the rate of looting demanded has become so intense, that fascist economic austerity is being applied.

- As the U.S. airline industry succumbs to the final phase of bankruptcy, caused by 30 years of deregulation, airline pilots, mechanics, flight attendants have had wages cut by more than \$3 billion during the past three years, in an attempt

to keep the airlines open. This included \$1.62 billion in concessions that the pilots, flight attendants, mechanics, et al. made to American Airlines, the world's largest airline, on April 25.

- Steelworkers, both current and retired, have had more than \$2 billion cut from their health benefits during the past three years.

- In Portland, Oregon, teachers worked ten days without pay, to prevent the school system from having 24 days cut from the school calendar.

- Since November 2000, more than 4 million U.S. workers have lost their jobs. Most are full-time unemployed; some are now working part-time jobs, at less than half their previous pay and health benefits.

- Info, USA, of Omaha, Nebraska, which sells databases to marketers, announced that all its workers who earn \$30,000 or more per year, would be forced to take a 10% pay cut or leave the company. It is also outdoing the genocidal health maintenance organizations (HMOs), telling its workers they should visit doctors less often, and charging them more (toward their health insurance) when they do.

Millions of workers are being put on the path of Nazi economics. As they have their wages and health benefits cut, they draw down the stored-up wealth within their household, cutting back their food portions and other types of consumption, until they have exhausted everything, and don't have the wherewithal to survive.

## The Productive Power of Labor

The concept of a household's consumption of a market basket of goods, as a simultaneous measure of its development potential and purchasing power, is crucial. LaRouche's concept of a market basket begins from the conception that for each generation, a labor force has to be produced. Contrary to the lunatic ideas of Adam Smith, this is not a random or spontaneous occurrence; the labor force must be deliberately produced, so that it has a rising material standard of existence, and a cognitive and skill quality superior to the preceding generation.

The reason for this is as follows. The source of all economic wealth is mankind's unique capacity, above that of the beasts, through creative reason, to make new revolutionary discoveries of validatable fundamental scientific principle. By adding and acting on such new principles, mankind changes the ordering of the universe. This ability to make discoveries and to integrate them into the economy, is the only real source of physical profit in a society.

The improvement of the productive powers of labor has two parts. On the one hand, the economy is made more powerful by incorporating new scientific design of machine tools, which transmit these discoveries to all the machinery in the economy. The scientific matrix of the array of machinery is upgraded. This scientific discovery is also embedded in, and transmitted through economic infrastructure, which reshapes

1. See *EIR*, Feb. 7, 2003, "State of the Union: On the Subjects of Economy and Security," by Lyndon LaRouche.

the entire biosphere.

On the other hand, this process requires an improvement in the cognitive quality of the labor force that will be brought into connection with the advanced machinery sector. Joining the improved powers of labor with the machine-tool design principle produces anti-entropic growth, and increases man's mastery over nature. But if the labor force lacks the cognitive and skill abilities, the new scientific advances in the machine-tool sector cannot be realized. Thus, the cognitive ability and skill level must be constantly raised, so that the true labor-saving capacity of the productive powers of labor (not through austerity or speed-up) is realized, as Alexander Hamilton described it in his 1791 *Report on the Subject of Manufactures*.

This is where our market-basket comes in. To produce a generation of productive workers, infrastructure operatives, etc., who are more advanced than the current generation, requires two things. First, that the education system be based upon Classical methods of education, in which the student's ability to replicate and master the most important scientific discoveries of the past millennia is developed. Second, that families have incomes that translate into purchasing power sufficient to nurture a young person, so that a youth goes through high school, college, and two to four years of graduate work, to become a doctor, engineer, or physicist. The household must have the ability to assist in the support of the student up to the age of 22-25. This cannot be done if the major wage-

earner is paid \$8 per hour—as the lunatic Adam Smith says—as “what the market will bear.” There must be a scientific, definite minimum level, expressed by a market basket of commodities.

Let us look at the market basket. It must include certain essentials of an improving quality: housing, food, clothing, medical care, education, transportation. Precisely this productive power of labor is being extinguished in America, and this may obliterate both the present and future of the United States economy.

### Paycheck's Purchasing Power Falls

The 50% drop of purchasing power is a measure of the collapse of the market basket. The method that *EIR* selected deliberately does not use monetary values. Instead, *EIR* compared the weekly paycheck paid to an average worker in the U.S. economy, to the amount that this paycheck could purchase, of a representative household market basket of commodities. This was done for each year in the period from 1963 through 2002.

How can the method avoid monetary values, when both the paycheck and the purchase cost of the household market basket array of commodities, are stated in dollars? By comparing the two, one has cancelled out the dollars, and is looking at a ratio. If the purchasing power of the paycheck has increased, it should buy a greater percentage of the household market-basket array of commodities. But, if its purchasing power has decreased, the paycheck should buy a smaller percentage of that market-basket array. We are looking at a *functional relationship expressing purchasing power*, not a dollar amount.

*EIR* developed this method, to escape the prevailing “authoritative” method of reporting on purchasing power, used by both the Bureau of Labor Statistics (BLS) and the Commerce Department—Keynesians and monetarists alike—which lie about what purchasing power is. This false method takes the weekly paycheck, or annual household income, and standardizes it, by using the BLS's Consumer Price Index (CPI) as a measure of inflation, and expresses the paycheck or annual income in “inflation-adjusted dollars.” After thus allegedly removing the inflation, this BLS method then compares for a period of time, whether the “inflation-adjusted” income has risen or fallen. But the inflation index, the CPI, is a lie, using such scams as the Quality Adjustment Index (which reduces the rate of inflation due to alleged “quality improvements”), to greatly understate the real rate of inflation. By applying the CPI to “adjust inflation” for the weekly paycheck or annual income, the BLS manufactures the impression that the paycheck is rising—just the opposite of reality.

To arrive at its conclusions, *EIR* had to start with two categories: a) what is called the worker's average weekly paycheck; and b) a representative household market basket of commodities. For the worker's average weekly paycheck, *EIR* used a series already compiled by the BLS, the “average

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weekly earnings of a worker on a private non-agricultural payroll.” According to the BLS, the worker’s average weekly paycheck has been rising, from \$88.46 in 1963, to \$503.66 in 2002.

Second, to construct a representative household market basket of commodities, *EIR* began with the most important commodities: housing, food, apparel, transportation, health and hospital care, and education. Accordingly, *EIR* selected five indispensable, and completely representative commodities: 1) the purchase/ownership of an existing home; 2) the purchase of all food and beverages; 3) the purchase/ownership of a new car; 4) the share of medical expenditures paid by the household (excluding those paid by an employer and/or the government); and 5) the cost for a student’s college tuition and fees.

In consulting household expenditure surveys, *EIR* found that the five commodities it chose for inclusion in its market basket, are significant enough to account for over half of all household weekly expenditures. Our market basket is representative. And methodologically, one is always measuring the same thing: There is consistency in the procedure of measurement of the two categories—the worker’s average weekly paycheck, and the representative household market basket of commodities—each year. That way, the ratio relating one category to the other is consistent from year to year, and one is able to consistently measure whether the purchasing power of the paycheck is rising or falling.

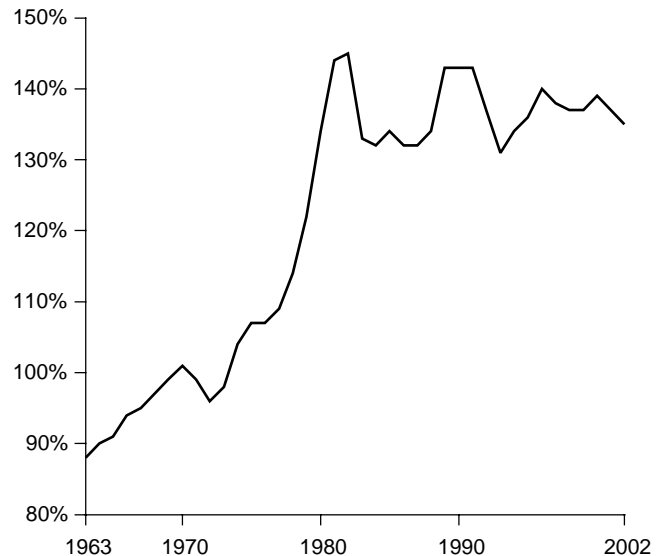
**Figure 3** shows that in physical terms, the weekly paycheck’s ability to purchase a household market basket of goods essential for human existence, has plunged since 1963. Moreover, this is the first approximation; when the breakdown of infrastructure is taken into account, as we shall consider, the actual fall is much deeper.

In 1963, the weekly cost of acquiring the five commodities of *EIR*’s representative household market basket, was \$78.12. In that year, the worker’s weekly average wage stood at \$88.46. Therefore, the weekly purchase cost of the five commodities represented or consumed 88% of the weekly average paycheck. But, the underlying depression process changed this. Since 1963, prices leapt, and wages did not increase at a rate sufficient to keep up with prices. By 2002, the weekly purchase cost of the five commodities of *EIR*’s household market basket consumed 135% of a worker’s average weekly paycheck. A single weekly paycheck was no longer sufficient to purchase the five fundamental components essential for human existence: housing, food, medical care, transportation, and college education (a family will not always be paying for college education, but most families will pay some or all of college education for their child at some point).

In 2002, the five major parts of the market basket consumed a staggering 53% more of the paycheck than in 1963. Thus, during this period, even though the paycheck rose in nominal dollars, the cost of the household market basket rose 53% faster. The loss of purchasing power is the inverse of

FIGURE 3

### Combined Home, Car, Medical, College, and Food Payments as Percent of Average Paycheck



Sources: U.S. Department of Commerce; National Association of Home Builders; The College Board; U.S. Department of Labor, Bureau of Labor Statistics; *EIR*.

this relative rise of the costs of the market basket; that is, since 1963, the average weekly paycheck has lost 35% of its purchasing power, its ability to purchase a market basket of necessary goods. Again, when the breakdown of infrastructure (transportation, energy, water management, etc.) is taken into account, the fall is considerably deeper.

### Decline of Purchasing for Critical Commodities

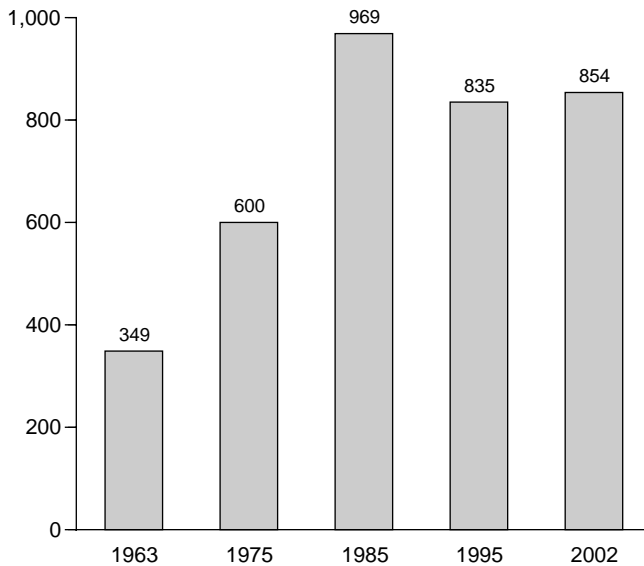
We can more precisely understand the process of destruction of households’ existence, by looking at the paycheck’s decline relative to individual commodities that make up the *EIR* household market basket.

**1. Housing:** Housing is crucial for a household’s survival, not only as a place of shelter, but as a place to nurture and raise a family. There is a housing bubble. For example, in Arlington County, Virginia, during the last three years, the median price of an existing home has risen from \$240,000, to \$440,000.

**Figure 4** depicts that in 1963, to purchase an existing home required 349 average weekly paychecks. In its calculations, *EIR* assumed that household could not buy a home entirely in cash, and would need financing: that a household would buy an existing home, on a 30-year mortgage, and that the home mortgage loan would carry a home mortgage interest rate prevailing at the time. By 2002, it required 854

FIGURE 4

**Number of Weekly Paychecks Needed To Buy Existing Home**



Sources: National Association of Home Builders; Federal Housing Finance Board; U.S. Department of Labor, Bureau of Labor Statistics; *EIR*.

paychecks to purchase an existing home. That is, it cost 503 more paychecks, or two and a half times as many weekly paychecks, to pay off the full cost of a home in 2002, than it did in 1963.

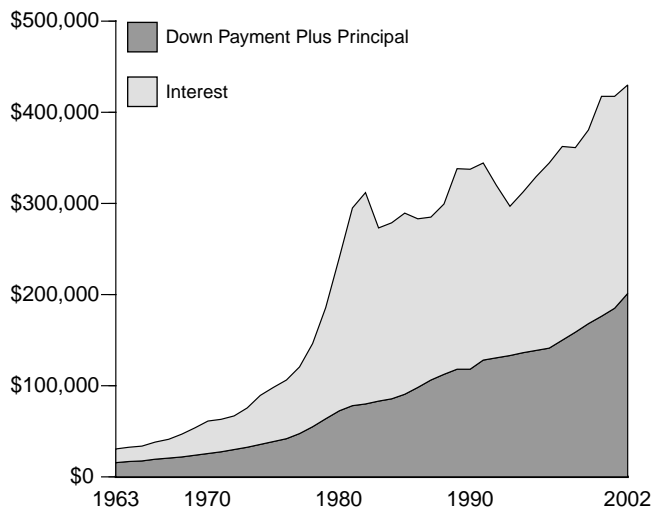
Inversely, between 1963 and 2002, the purchasing power of a paycheck, relative to its ability to purchase a home, had fallen an astounding 59%.

Furthermore, in most respects, homes today are of an inferior quality to those of the 1960s. Today’s “McMansions,” which cost between \$400,000 and \$800,000, are essentially glorified tar-paper shacks, with gold-plated faucets in the bathrooms.

Figure 4 presents an anomaly, which it will be fruitful to explore. In 1985, it cost 969 paychecks to purchase an existing home, even more paychecks than in 2002. Why? Because in 1985, the interest rate on a home mortgage was 11.55%, which is nearly double the home mortgage interest rate of 6.43% in 2002. That is, even though home prices are far higher today than in 1985, the fact that 1985’s home mortgage interest rates were nearly double today’s, kept the number of paychecks higher in 1985. But this points to a tremendous instability, which could further destroy living standards. Fed chairman Alan Greenspan has worked desperately to keep interest rates, especially housing mortgage rates, low. But were the world financial bubble to rupture further, accompanied by a disinvestment from the U.S. dollar, this would cause interest rates

FIGURE 5

**Total Cost of Existing Home Has Soared, Driven by Bankers’ Interest Charges on Financing**



Sources: National Association of Home Builders; U.S. Department of Labor, Bureau of Labor Statistics; *EIR*.

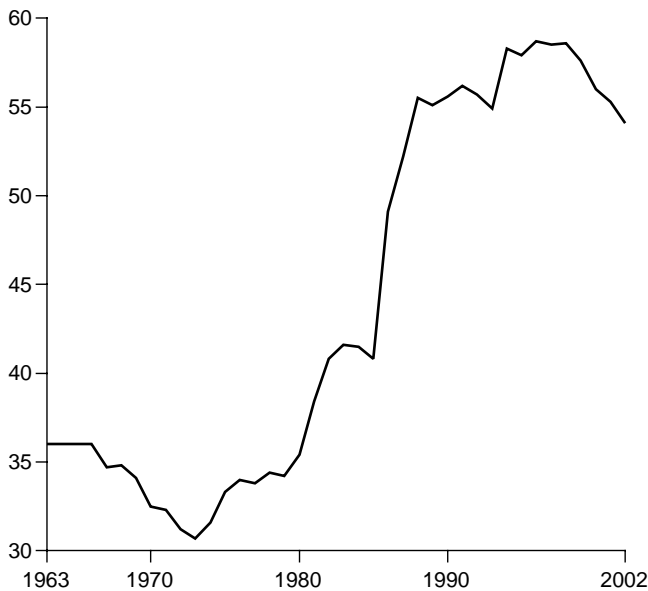
to spike—maybe not immediately to 1985’s level of 11.55%, but perhaps to 9%. Even at an interest rate of 9%, the total cost of purchasing a home now, would skyrocket to 1,170 paychecks. Under that condition, with respect to 1963, the purchasing power of an average paycheck for housing, would have fallen 70%.

**Figure 5** gives insight into how this distorted process is exacerbated by bankers’ interest charges. The lower, dark portion of the curve represents the combined down payment plus the principal of the mortgage loan, which two together are equivalent to the purchase price of the home. As a result of the housing bubble, from 1963-2002, the purchase price of an existing home leapt 12-fold. The light colored upper portion of the graph displays the interest that has to be paid on a mortgage loan. To illustrate the point, in 2002, the purchase price of an existing home was \$201,700. The interest costs that would accrue over the course of a 30-year loan, are \$228,500, bringing the total cost to \$430,200. This depresses the purchasing power of a paycheck with respect to home purchase; as indicated, with a spike in interest rates, this situation would immediately become much worse.

**2. Motor Vehicle:** *EIR* selected a new car as the representative for transportation in the market basket. **Figure 6** shows that in 1963, the purchase of a new car required 36 average weekly paychecks. It was assumed that a household would finance the purchase of a new car at the standard loan terms and prevailing interest rates. By 2002, it required 54

FIGURE 6

**National of Weekly Paychecks Needed To Buy New Car**



Source: U.S. Department of Commerce; U.S. Department of Labor, Bureau of Labor Statistics; *EIR*.

weekly paychecks to purchase a new car. It thus required 50% more paychecks to purchase a new car in 2002, than it did in 1963. Inversely, between 1963 and 2002, the purchasing power of a weekly paycheck to purchase a new car, tumbled by 33%.

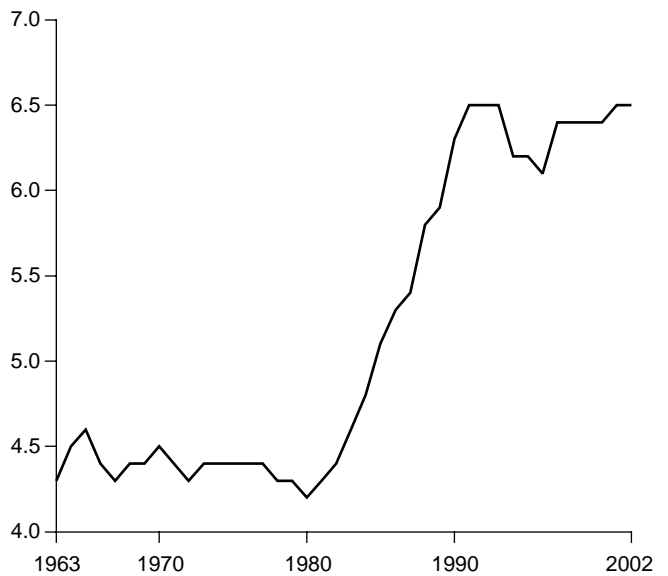
In many fundamental areas, the quality of a new car has not improved—as the BLS claims in its Quality Adjustment Index—but has deteriorated (see *EIR*, Feb. 14, 2003, “How Inflation in the U.S. Is Hidden”). But there is an additional problem in America’s over-reliance on the automobile for transport, especially inter-city passenger transport. Rail is a far more efficient mode for inter-city passenger transport, but it has shrunk to less than 1% of all inter-city passenger volume.

**3. Medical:** Medical costs have risen sharply, while health maintenance organizations and the shutdown of hospitals have reduced the availability of medical care in many ways.

*EIR* chose for its market basket the amount of annual health and hospital expenditures that a household pays for by itself (including its out-of-pocket expenditures for health insurance); there are medical expenditures paid for by employers (which may pay part or all of medical insurance) and/or the government, which *EIR* did not count. **Figure 7** shows that in 1963, it took 4.3 average paychecks to pay off the

FIGURE 7

**Number of Weekly Paychecks Needed To Pay for Medical Care**



Sources: U.S. Department of Health and Human Services, Center for Medicare and Medicaid Services; U.S. Department of Commerce; U.S. Department of Labor, Bureau of Labor Statistics; *EIR*.

household’s annual medical expenditures; by 2002, it took 6.6 paychecks to pay off the household’s annual medical expenditures. Thus, between 1963 and 2002, the purchasing power of a weekly paycheck, relative to its ability to purchase medical services, had decreased 35%.

While 6.6 paychecks to pay off annual health expenditures is considerable, that is an average. For some families, it takes 10-15 or more paychecks. There are 37 million Americans who have no health insurance of any kind, neither paid for by themselves nor by the government.

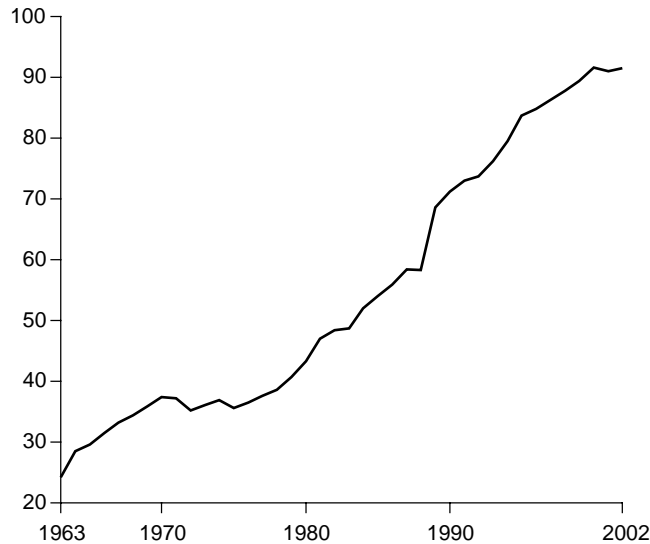
**4. College Education:** In determining the cost of college education, *EIR* concentrated on college tuition and fees; it did not include the substantial costs of room, board, books, etc. In calculating tuition and fees, it took the average cost of tuition and fees at a four-year private college and at a four-year public college (the latter is less expensive).

There has been an explosion in college tuition and fees: during the last few years, such costs at four-year private colleges have grown at double-digit rates; meanwhile, the deepening budget crises at state and local governments, has led them to sharply jack up tuition: in Iowa, public college tuition was hiked 18.5% this year, with discussion of hikes of 20% next year; in California, it is anticipated that next year, public college tuition will be hiked 10-15%; and so forth.

**Figure 8** shows that in 1963, it required 24 paychecks to

FIGURE 8

**Number of Weekly Paychecks Needed To Pay for Four-Year College Education**



Sources: The College Board; U.S. Department of Labor, Bureau of Labor Statistics; *EIR*.

pay for four years of college tuition and fees (assuming that the college education was financed by a loan, at prevailing rates). By 2002, this had jumped to 95 paychecks. Thus, since 1963, the cost of college tuition and fees had increased a whopping 400%, and the purchasing power of a weekly paycheck relative to a four-year college education, had decreased 75%.

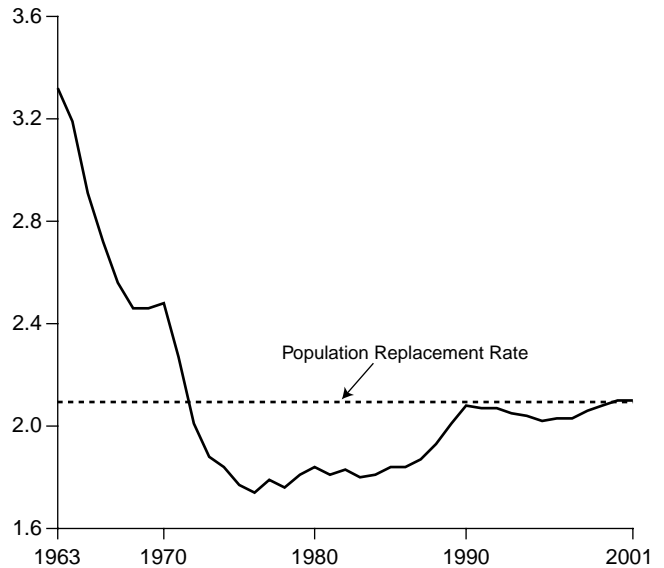
Yet, while higher tuitions and fees are being loaded onto the backs of families and students during the last four decades, a college education’s quality has sharply declined, to the point of destroying the sovereign cognitive ability of the individual student’s mind.

**5. Food:** The number of paychecks required to buy the full range of food that a household needs did not appreciably change between 1963 and 2002. In 1963, it required 18.1 paychecks to pay for the annual food bill; in 2002, it required 18.7 paychecks. Though the number of paychecks required to purchase food did not change, families still spend a significant amount of their budget on food. But while the cost of food, relative to the average weekly paycheck, is relatively stable, this condition is caused by a destructive “cheap food” policy, pushed by the banks and the food cartels. Under it, America imports an increasing share of fruit and vegetables from low-wage countries: for example, it brings in tomatoes, broccoli, and lettuce from Mexico, where, under the North American Free Trade Agreement (NAFTA) accord, farmers are paid

FIGURE 9

**Total Fertility Rate of U.S. Women**

(Live Children, per Woman of Child-Bearing Age)



Sources: U.S. Centers for Disease Control and Prevention, “National Vital Statistics”; *EIR*.

only a few dollars per day. This keeps farmers abroad in poverty. However, with the threat of low-cost imports hanging over their heads, American farmers are paid very little for their basic crops—less than their cost of production. The low prices (and accompanying heavy debts) have driven tens of thousands of American farmers off their farms over the past few decades. Though it looks “attractive” in the short run, the cheap food policy endangers the agricultural capacity of farmers in the United States and other lands.

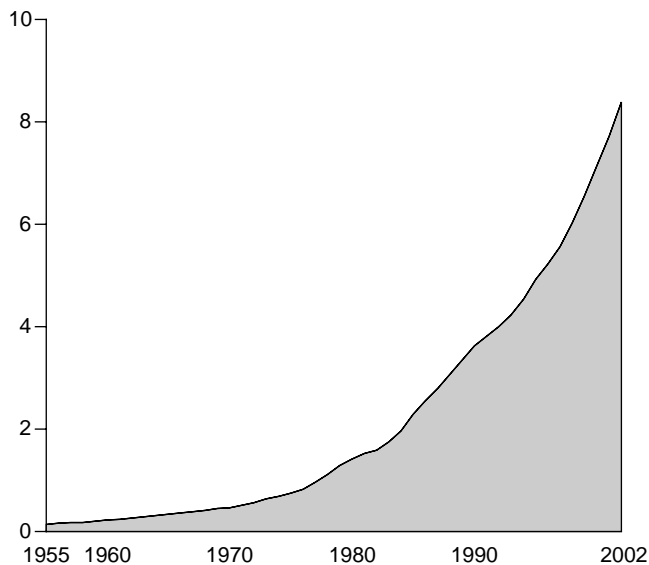
The collapse in living standards of the past three and one-half decades also produced a demographic collapse. This, in turn, has further undermined living standards, and raises the question whether the United States can continue to exist as a nation. Demographers speak of the total fertility rate, and the population replacement rate. The total fertility rate represents, for women of child-bearing age (ages 14-49), how many live children they will bear in their lifetime. The population replacement rate for developed-sector countries, is a total fertility rate of 2.1 children, or above, per woman of child-bearing age. This is the rate needed for a population to reproduce itself biologically over time (the rate is 2.1 and not 2.0, to account for those youth who will die before reaching adulthood).

During the early part of the 20th Century, the U.S. had a total fertility rate of more than 4.5 children per woman of

FIGURE 10

**U.S. Household Debt Surges to \$8.4 Trillion**

(\$ Trillions)



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts."

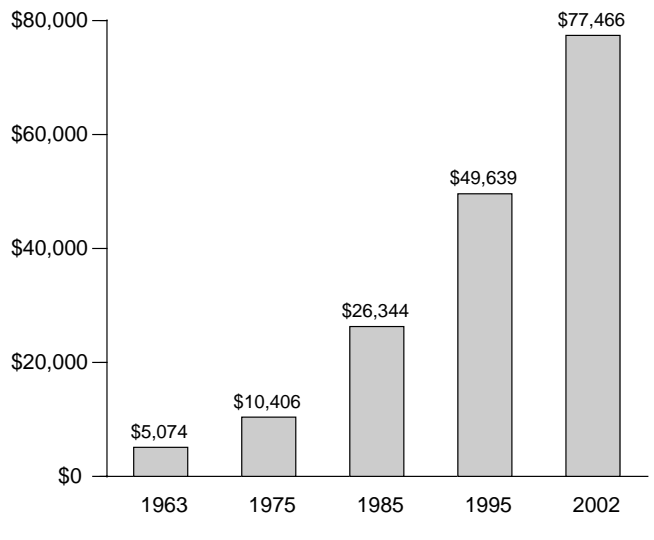
child-bearing age. Even in 1963, the total fertility rate was 3.3 children per woman. **Figure 9** shows that starting in 1972, the U.S. total fertility rate fell below 2.1 children per woman of child-bearing age. It scarcely returned to the population replacement rate of 2.1 in 2000 and 2001, but has not exceeded it. *So, based on natural births, the U.S. has been a zero-growth nation, barely able to biologically and physically reproduce itself.* Two major reasons are economic: Families have less purchasing power, and thus less economic ability to raise more than one or two children; and second, millions of women are forced, whether they will or no, to work to make up for the drop in income. The increased work time gives them less time to raise children.

Shrunken fertility has gravely shrunken households. In 1963, each American household had 3.33 people; in 2002, each household had 2.62 people, 21% smaller than in 1963. This means that even if the purchasing power of the paycheck had not fallen between 1963 and 2002, but had remained the same, the living standard would have fallen by 20%, because the household can only afford to support one-fifth fewer people.

**Decline of Economic Infrastructure**

The collapse of the household market basket since 1963, when the decimation of infrastructure is accounted for, exceeds 50%. Infrastructure consists of five major types: power generation, water management, transportation, health and hospital service, and education. Infrastructure is critical to an

FIGURE 11

**Household Debt Burden per Household**

Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; U.S. Department of Commerce; *EIR*.

economy: it positively transforms the biosphere, and increases the productivity of the entire agro-industrial economy.

U.S. infrastructure is breaking down. Start with medical care. So far, we have looked at how the paycheck's ability to purchase of medical care has fallen, by 35%; but the deeper problem is that the medical infrastructure may not be there. What happens when an individual has an acute illness or a bad accident, and needs emergency treatment, and the hospital he or she needs to go to has been shut down? Since 1975, over 1,000 out of America's 5,900 community hospitals have been closed down and boarded up. What happens if one needs an emergency procedure, and one's genocidal health maintenance organization will not cover it? This is occurring across the United States, and increases the death rate. What happens if the proper inoculation for childhood diseases are not occurring in urban centers?

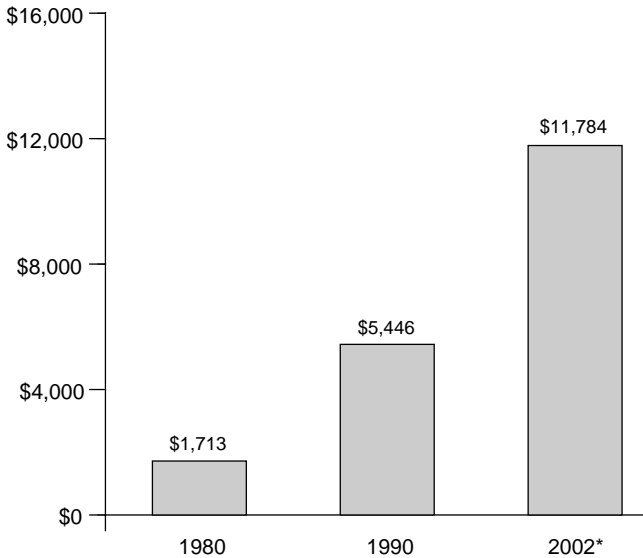
The same problem applies to the transportation sector, and amplifies the problem of the paycheck being less able to buy a car. Consider that the airline industry is bankrupt and slashing flights. Over the years, Amtrak, the major national inter-city passenger rail system, has eliminated routes. The rail grid is being decimated. In many cities across America, mass transit is either grossly insufficient or does not exist. Citizens are forced to travel by car; and often, to travel 20 miles, one sits in traffic for an hour and a half or more. This is a deduction from one's life's functioning, and the functioning of the economy.

The same problem exists, in an intensified form, with regard to education. The cognitive powers of the student



FIGURE 12

**Credit Card Balances Outstanding, Per Household With a Credit Card Balance**



\*Projection, based on first three quarters

Sources: Federal Reserve Board of Governors, *Flow of Funds Accounts*; U.S. Department of Commerce; Consumer Federation of America; *EIR*.

should be developed, through re-enacting and rediscovering fundamental discoveries of universal principle. The opposite of that is happening.

The breakdown of functional infrastructure is an additional deduction from the standard of living and purchasing power. When the breakdown of infrastructure is included, the collapse in the household purchasing power and living standards, since 1963, is greater than 50%.

**Debt Burden and Bankruptcy**

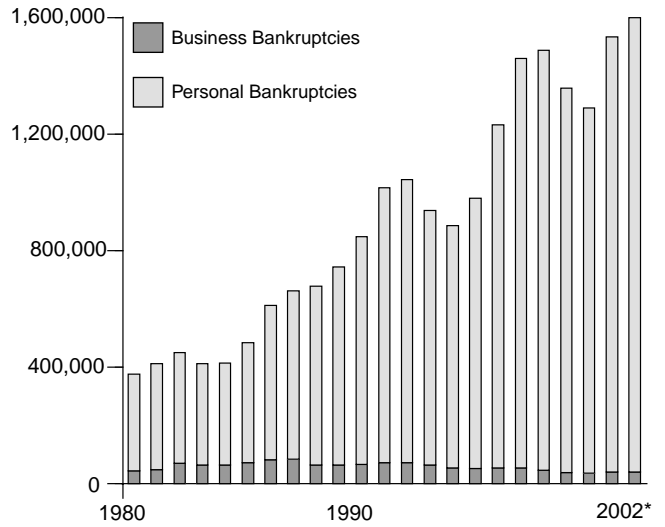
In response to the downward spiral in purchasing power, households resorted to borrowing more. But the debt carried increased interest charges. The increased borrowing and concomitant debt-load, ultimately acts like a siphon drawing living standards down.

**Figure 10** shows that household debt increased from \$280 billion in 1963, to \$8.4 trillion in 2002. The household debt includes home mortgages, car loans, credit card debt, etc. Home mortgage loans represent the lion’s share of household debt. It should be stressed that home mortgage borrowings occur for two purposes: to buy a house; and for consumer-spending, using one’s home essentially as collateral (such loans include “cash-out refinancing” and a portion of home equity loans). In 2002, such borrowing for strictly consumer-spending purposes zoomed to a record \$290 billion.

**Figure 11** shows that debt per household jumped from

FIGURE 13

**Bankruptcies Swell Five-Fold Since 1980**



\*Projection, based on first three quarters

Source: American Bankruptcy Institute.

\$5,074 in 1963, to \$77,466 in 2002, an astonishing 15-fold increase. **Figure 12** shows that credit card debt balances outstanding, per household that has a credit card balance, leapt from \$1,713 in 1980, to \$11,784 in 2002. But ultimately, as households borrowed to get some cash to offset the sharp loss of purchasing power, the debt plus interest payments becomes a growing burden. In 2002, households had to pay an unprecedented \$1.1 trillion in debt service (interest and a portion of the principal). Against collapsing purchasing power, households cannot bear this payment.

As a final act, the households that can no longer cover their debt and their bills, file for bankruptcy protection. **Figure 13** depicts that in 2002, an unprecedented 1.5 million households filed for bankruptcy, five times the 1980 level. According to a study, 40% of all personal bankruptcy filings are triggered by unpayable debt related to medical expenses. During the past decade, eliminating double-counting, one of every ten American households were forced to file for bankruptcy. While the bankruptcy eliminates some or all of the household’s debt, it does not change the underlying reality that households are still under the pressure of collapsing living standards. Thus, the process of debt build-up will begin again soon, or the family will be extinguished.

This pressure is now being intensified by outright Nazi economics, in which wages and benefits are slashed. This is the destruction of labor power. Either the economic depression process that has given rise to this, is stopped, or America won’t have a labor force—and an economy—that survives.