

Reverse the 35-Year Devastation of America's Industry and Labor Force

by Richard Freeman

The following is the excerpted transcript from a class given to a LaRouche Youth Movement cadre school in Redford, Michigan on Jan. 18, 2003.

On Jan. 7, President Bush announced his "stimulus package," and in the course of this, he said, "We are the most creative, powerful economy in the world," talking about the United States. In fact, at this stage of its development, the United States' economy is not creative, it is not powerful—and I will show you that it's not even an economy. We're not functioning any longer as an economy. And what has happened, is that this is the result of a policy that started in the mid-1960s, called the post-industrial society, in which certain policies were imposed on the United States. And as a result of those policies, there has been a degeneration in the process of the U.S. physical economy, where we can no longer even supply our own physical existence.

We are right now, like Imperial Rome, where we import \$440-470 billion more in physical goods than we produce in exports. That's our trade deficit. And we live off the tribute of others around the world. Only we have credit cards—they didn't have that in Imperial Rome. But that's not going to succeed in this process.

And this problem, is that we have a financial speculative bubble, which has grown—it is now sucking the life out of the physical economy, out of labor conditions, out of household income, out of everything that we need. Plant and equipment: They are collapsing. Forget the figures you read about Gross Domestic Product (GDP). They're worthless. They're made up. The Nintendo games that 13-year-olds play are more accurate than the projections or statements about GDP. And therefore, this collapse-process, as we will see, is what is leading us to a breakdown, a complete breakdown.

Now this is a very interesting question for all of us. Lyndon LaRouche has put it this way: It is a question of leadership. It is a question of economics—we're going to discuss economics, but you *cannot* simply put it in terms of economics, or even program. If you do not have leadership, no program will come to fruition. . . .

Now, let's take a look at a couple of the features of this, and we will return at the end to what this principle is. And I will just say that this principle of leadership was understood by Franklin Roosevelt; it was understood by Lincoln—*abso-*

lutely understood by Abraham Lincoln. It was understood by Alexander Hamilton and George Washington and Benjamin Franklin. And it is very well understood by Lyndon LaRouche, that this is a transmittable principle.

I'm just going to show you this (**Figure 1**): The dollar has been collapsing. First I'll show you the dollar against the euro, the currency of Europe. This is the value of euros in dollars. On Jan. 2 of last year, the euro was worth 90¢, and now the euro is worth \$1.05. So the euro has gone up in value by 14%. Simultaneously, the dollar has collapsed by 14%. It has also fallen against the Japanese yen; it fell 11.1% last year.

While this was happening, gold has increased against the dollar (**Figure 2**). This is the price of a troy ounce of gold. It went from just under \$280, to, by the end of the year, Dec. 31, 2002, it hit \$347. It rose last year by 24.6%. That is the largest yearly increase, in percentage, of gold in two decades.

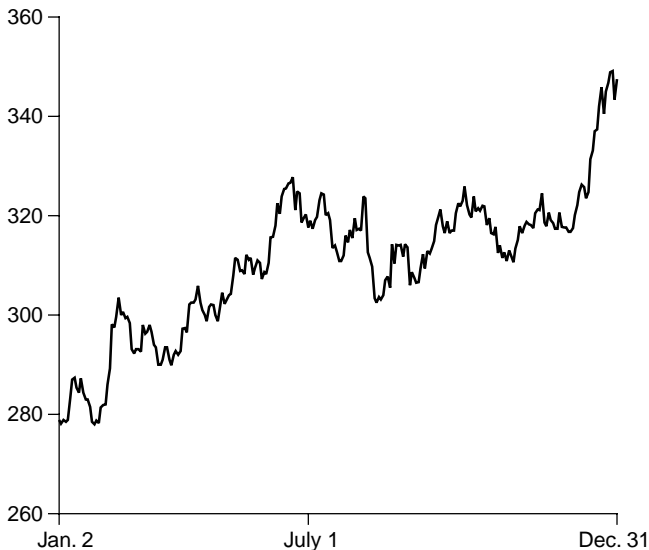
Now, we will see why the collapse of the dollar, both against other currencies and against gold, is a very good indi-

FIGURE 1
U.S. Dollar Collapse Against Euro in 2002
(Dollars Per Euro)



FIGURE 2
Gold Price* Surges in 2002

(Dollars/Oz.)



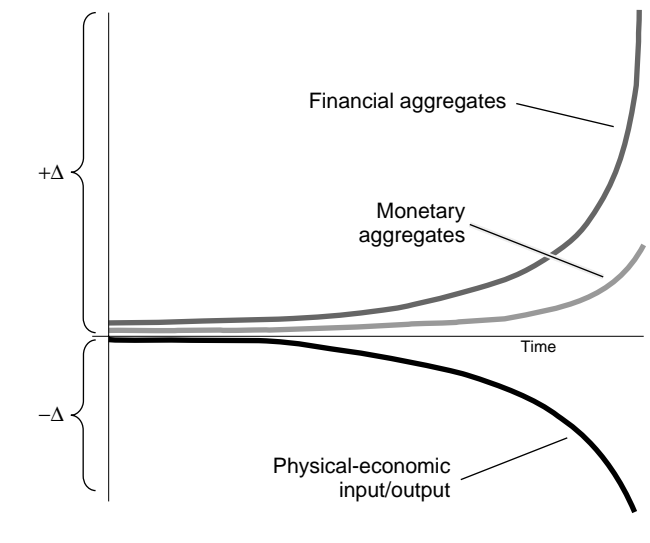
* price of gold on New York Commodity Exchange

cator that the financial system has come apart entirely. And we'll return to that.

What I want to introduce to you is something that LaRouche developed, which is called the "Triple Curve: A Typical Collapse Function" (Figure 3). The collapse function is a simultaneous equation. The upper part of the curve is called the "financial aggregates." Now the financial aggregates are the mass of all financial instruments: stocks, bonds, the value of your home mortgage, derivatives and so forth. The middle curve is called the "monetary aggregates." That's basically the money supply. You can measure the money supply in different ways. You can do checking accounts, plus savings accounts; you can measure it by different measures. And the bottom curve is the physical-economic output. This curve is the real physical economy, the economy by which we exist. This has no time on it, as you'll notice, but it's a representation of a real process. And the principle is, that the upper curve has been growing, at what's called a "hyperbolic" rate. That means it's almost growing straight up. But, it's very unstable.

And to support it, there is an attempt to increase the monetary aggregates to circulate the increasing financial instruments. For example, when the stock market started declining in March of 2000, Federal Reserve Chairman Alan Greenspan started pumping money in—money supply—so it could go into the stock market to support the financial aggregates. So the monetary aggregates would increase the support of the financial aggregates.

FIGURE 3
A Typical Collapse Function



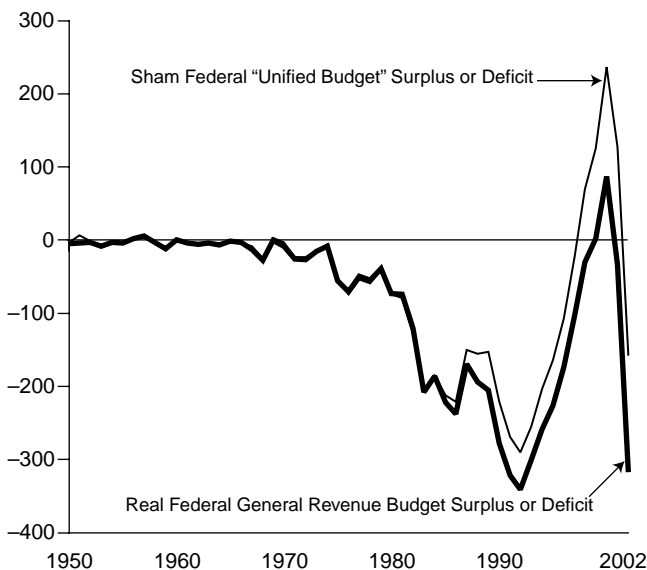
This third curve is the real economy. And what happens is this: As your mass of financial aggregates grows, they each have a rate of return. If it's a stock, a dividend has to be paid out. If it's a bond, it's the yield. They all have rates of return. Those rates of return become so great, that they *suck out* the ability of the physical economy to grow, and therefore, the physical economy contracts. Think of a situation like a leveraged buy-out. Company A takes over Company B. Company A has \$10 billion in debt. Company B has \$5 billion. But Company A borrows another \$10 billion to effect the takeover of Company B. So you have \$10 billion and \$5 billion, and then another \$10 billion to effect the takeover. That's $10 + 10 + 5 = \$25$ billion. What happens if the \$25 billion is more than the company can sustain in its annual and monthly interest and principal repayments?

Let's say the debt service requirement is to pay \$250 million a month, and the entirety of the cash-flow that they generate is only \$200 million. You have a problem. So what does the company do? It fires some workers. It cuts back capital spending. It cuts back research and development.

Now think of that being done for an entire economy, where the rate of real-wealth generation is insufficient to meet the debt-service and other types of requirements of your financial instruments. And so it starts sucking out the life of the underlying physical economy. But here's the problem: What supports real existence? Is it the financial paper? No. It's this: You've got cancerous, speculative instruments, with a growing rate of demand on the physical economy, causing the physical economy to shrink. And the more that the upper curve grows, the more the bottom curve shrinks, to the point that the bottom curve cannot support even continued human existence. If that's the case, then the upper curve cannot be

FIGURE 4
**Real U.S. General Revenue Deficit
 Has Swelled**

(\$ Billions)



Sources: U.S. Office of Management and Budget; U.S. Treasury Department.

supported either. And not only does the physical economy collapse, but the economic activity to sustain the financial aggregates and monetary aggregates collapses as well.

Think of the cancer, growing, that sucks more and more out of its host, until the host is no longer able to live. Now you've got the relationship between the financial aggregates, on the one side, meaning the cancer, and the physical economy, meaning the host, on the other side. This cannot be sustained. . . .

The Debt Disaster

Now, let's look at a couple of situations in this context, because what I want to show you is what is really happening with the debt situation in the United States and what's happening with the physical economy. But first I want to show you something on the U.S. budget. This is the U.S. budget deficit (**Figure 4**)—the light black line. This thinner line is what the government reports. The thicker black line is the actual deficit. The reason it's different is this: The government has concocted something which they call the "unified budget." There's a real budget in the United States, the general revenue budget, which we spend for defense, education and so forth, on infrastructure. There's also Social Security, which was created by Franklin Roosevelt in 1935, with its own dedicated source of revenue. You pay a separate Social Security deduction every week from your paycheck. It should not be mixed with the general revenue budget. What has been done, since

at least the 1960s, is that they take the Social Security, which, under law has to run a surplus—they take the surplus and use it to cover some of the deficit from the general revenue budget. That means some of your Social Security money is no longer there.

But, however you look at this, last year, the United States ran a general revenue deficit, in the fiscal year 2002, which ended on Oct. 1. So we're already in FY 2003. The 2002 fiscal year budget deficit was already—the real general revenue deficit was \$316 billion last year. FY 2003, which we're in right now, the budget deficit is projected by us, *Executive Intelligence Review*, to hit \$400-500 billion. That's unprecedented. It will be the largest budget deficit in the history of the United States. And George Bush has no idea what to do about this—doesn't have a clue. He doesn't have a clue what to do about the real economy.

State Budgets: 'Cut to the Bone'

Now, let me give you one other thing on this. And I know some of you are not from the state of Michigan, but whatever I'm saying about the state of Michigan—if you're from Pennsylvania or Maryland, whatever—there's a budget crisis going on, because out of the 50 states in the United States, 46 have severe budget crises, and it's getting worse in most of them.

Before he left office, Michigan Gov. John Engler announced that there would be a budget cut of \$460 million. Then he left office, and he was a Republican, and Governor Granholm comes in, Jennifer Granholm, who is a Democrat. And she then looks at a deficit of potentially \$1.8 billion. So this is what she says at the end of December: "We're going to have to cut into the bone, maybe amputate a limb or two." And then, Granholm set up, what she called "budget SWAT teams." And she said, "Just because a Democrat is in office, doesn't mean that manna will fall from Heaven. We're going to cut, and it may be painful for the first couple of years." She's already thinking two, three years. "They will be lean, but not mean."

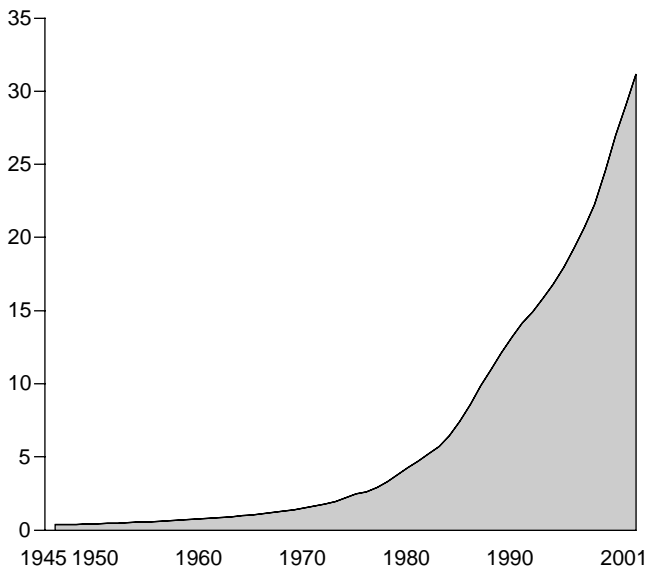
Now, what has she cut? Well, as a result of Engler's cuts (the Republican), and Granholm's cuts (the Democrat), they are going to be cutting community health programs: \$83 million; state police: \$4.3 million; higher education: \$52.3 million; Department of Corrections: \$12.6 million; Family Independent Agency: \$8 million, and so forth. This is going on across the country. In California, the budget deficit is \$34.8 billion. In Texas, the deficit is \$8-12 billion. And cities across the state are facing the same situation as the state is in Michigan, and in every place across the country.

Now, why is this happening? Because the revenue base collapsed. Because as we're now about to see, the economic-activity level dropped; if people are not employed, guess what? They pay smaller income tax, or none. If corporations are shutting down, guess what? They pay less corporate taxes, and so forth. Now, how are you going to solve this by budget

FIGURE 5

Total U.S. Debt

(\$ Trillions)

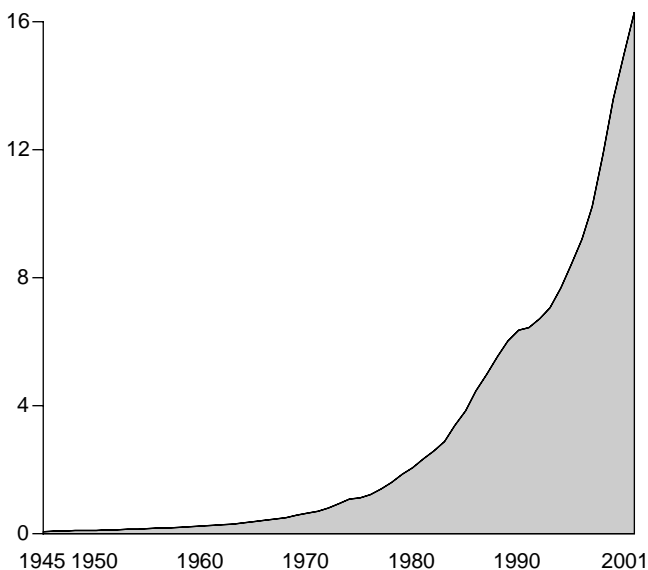


Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; Office of Management and Budget, "Budget of the United States"; *EIR*.

FIGURE 6

**U.S. Business Debt
(Non-Financial and Financial Businesses)**

(\$ Trillions)



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; Office of Management and Budget, "Budget of the United States"; *EIR*.

cutting? The Economics 101 textbooks tell you: "Cut the budget." They are incompetent. They are genocidally incompetent. Because to the extent that you have a Federal or state or city budget, it keeps economic activity alive, and keeps people alive. If you cut that, the economic activity will drop further! Which means, your revenues, that you get from taxing people from their jobs and businesses, will fall further. So you can't solve it that way.

How do you, in the state of Michigan, however, solve the crisis? What do you do? You can't. You have to generate revenue across the country. You have to regenerate factories, regenerate farms. That cannot just be done on a statewide basis.

Deeper in Debt

So, let's take a look at a few features of the economy. This is total U.S. debt (**Figure 5**), at the end of 2001: It was \$33 trillion. It's now slightly higher. This is all types of debt. This is business debt (**Figure 6**). Business debt in the United States is \$16 trillion. This is all types of government debt: state, local, Federal (**Figure 7**). This is over \$7.5 trillion. And the third part of debt is household debt, and household debt is \$8.4 trillion (**Figure 8**). So American households have \$8.4 trillion of debt. As you can see, a good part of this is mortgage debt—people borrowing to buy homes. And I'm just going to highlight the mortgage debt for you.

This is U.S. mortgage debt—\$6 trillion. Now, this reflects something that's not necessarily healthy. Because what's been happening is, you have a housing bubble. In Northern Virginia, where I'm from, there's a county called Arlington County. And in late 2000, the average price of a house in Arlington County was approximately \$240,000. Today, the average price of a house in Arlington County is \$420,000. Now, the value of the house has really not gone up \$180,000. You're not going to tell me that the beams in the floor have really gotten that much better, or the sink faucet functions that much better that it's worth \$180,000 more in the course of two years.

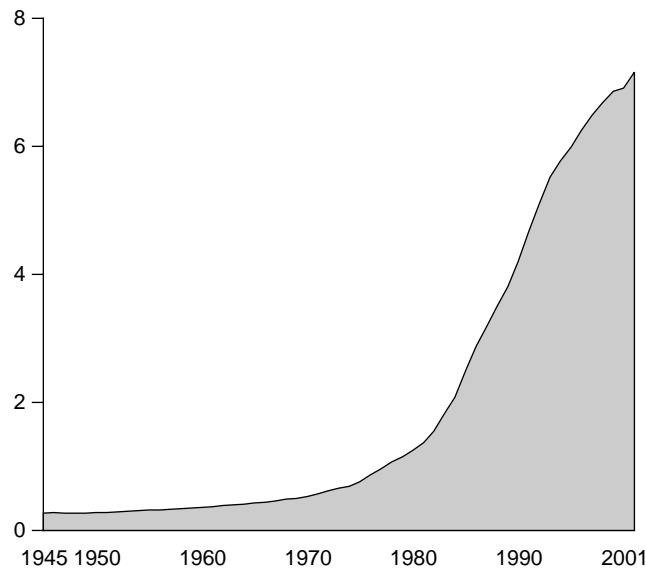
Now, two things: A lot of people can't afford these houses, clearly. If a house payment is supposed to be 27-28% of your income, and you're receiving the average income in America, which is annually about \$35-42,000 per family, that would consume 44% of your income. So you can't move into a \$420,000 house. You'd have nothing left to pay for clothing, for food, and anything else. So, this is priced out of range for most people.

But what's happened is, car sales and housing, are two of the only elements that are moving in the U.S. physical economy. We're about to see that almost everything else is collapsing. And Alan Greenspan is very intent on making sure that the housing market is kept going at all costs, not only to

FIGURE 7

All Government Debt (Federal, State and Local Gov't)

(\$ Trillions)

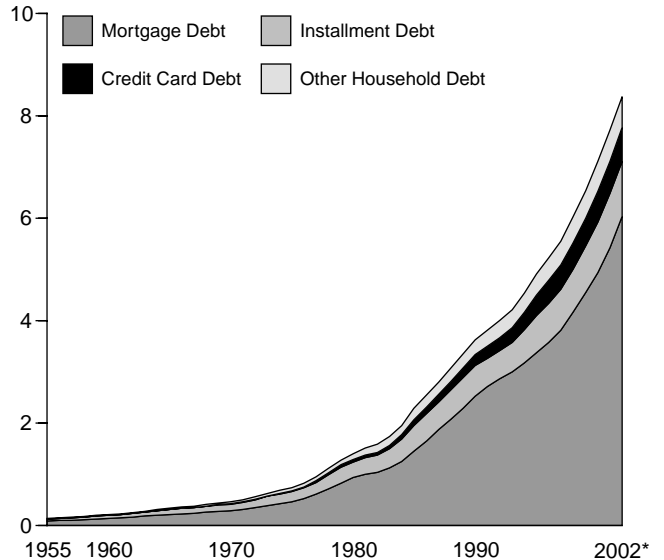


Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; Office of Management and Budget, "Budget of the United States"; *EIR*.

FIGURE 8

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

(\$Trillions)



*Projection, based on first three quarters

Sources: Federal Reserve Board of Governors *Flow of Funds*; *EIR*.

keep housing going, but as we're going to see in a second, people are borrowing against their houses—what's called "cash-out refinancing"—to get loans, which they use for consumer spending. . . .

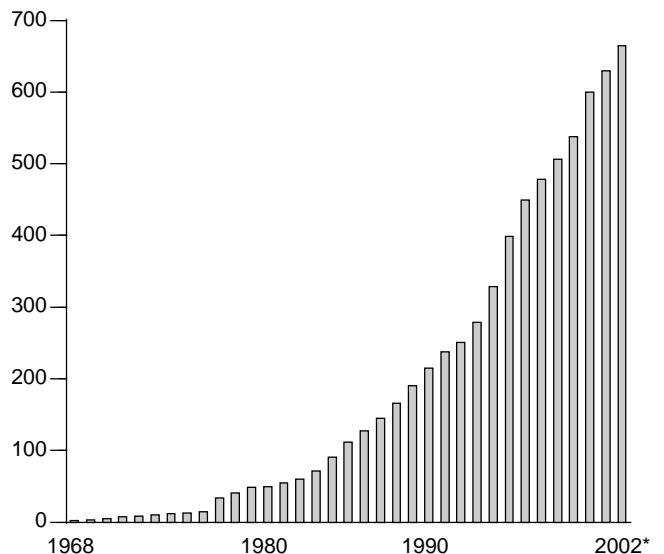
Now, let's just look at credit-card debt (**Figure 9**). Credit-card debt didn't even exist before 1968. And we'll see, in 1990, it was approximately \$234 billion. It is now \$660 billion. It has tripled. Now, there's a myth about credit-card debt. It is true: Some people will buy very expensive things; that is *not* however, what most people use credit cards for. Most people use credit-card debt to survive. There was a study done by Harvard, and they studied bankruptcy filings involving credit-card debt. And they found, that in the year 1999, of the filings, 40% were medically related. Because what tends to happen is, you either don't have medical insurance, or you get hit by an expense that's \$10,000 or \$15,000 above what your health maintenance organization (HMO) is going to cover. You put it on your credit card. You try and survive. . . . For most people, in the 80% lower-income bracket in the United States—they're using credit-card debt to pay, sometimes, their mortgage debt; to pay medical expenses; they bought their car on a credit card; some people buy their food on a credit card, not just because it's a convenience: That's the only way they can buy food.

So, let's look at how much of a balance you have when you

FIGURE 9

U.S. Credit Card Debt Tripled Since 1990

(\$ Billions)



*Projection, based on first three quarters

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

TABLE 1

Credit for Consumer Spending Rises Sharply, 1991-2002

(\$ Billions)

Year	Credit Card Debt	Combined Installment Debt and Other Household Debt	Cash from Cash-Out Refinancing	One-Half Value of Home-Equity Loans	Real Consumer Spending Credit Level
1991	\$22.6	\$-34.6	\$10.0	\$10.2	\$8.2
1992	13.2	-8.1	10.0	-0.4	14.7
1993	28.3	28.3	16.1	-3.7	69.0
1994	50.1	71.6	11.7	8.1	141.5
1995	69.8	65.6	11.1	12.5	159.0
1996	50.2	39.0	17.2	24.4	130.8
1997	28.9	29.1	23.1	39.0	120.0
1998	28.3	46.2	41.8	30.3	146.6
1999	31.7	67.1	36.7	28.0	163.5
2000	62.0	82.3	20.6	48.9	213.8
2001	29.9	77.4	83.7	34.4	225.4
2002*	34.9	52.1	115.0	66.8	268.9

*Projection, based on first three quarters of 2002

Sources: Federal Reserve Board "Flow of Funds Accounts"; Federal National Mortgage Association; Federal Home Loan Mortgage Corporation; *EIR*.

have a credit card (**Table 1**). Eighty percent of the population have credit cards, and a certain percent of them always pay it off on time. Well, in 1980, the average outstanding balance was \$1,700 per household. It's now \$11,784. The interest on that is \$1,600 a year, and if you're poor, you usually can't pay it. Which means you borrow on another credit card, fifth or sixth credit card. And you "capitalize" the interest. So if you owed \$11,784, and you had \$1,600 in interest, next year you owe \$11,784 plus \$1,600—that is roughly, \$13,300. It just keeps accruing.

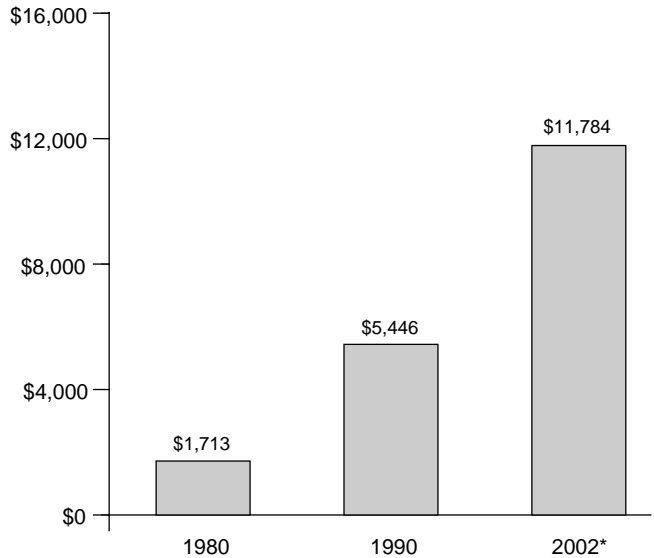
When You Can't Pay

Now, what I want to show you, is that this all has a limit. We'll discuss the post-industrial society in a second, but I want to get you a sense of this debt. Our nation has \$33 trillion in debt. America will say, "Ah, Brazil—they're so irresponsible. They have \$550 billion in debt." We have *\$33 trillion!* We're the grandmother of all debt in the world. And we can't pay it! What happens when individuals can't pay their debt? They file for bankruptcy.

This is the total debt that you borrowed on your credit card (**Figure 10**), and the total debt that you borrowed from installment loans, like when you buy a car, say, for 48 months. This is the debt from cash-out refinancing, and the last column is a home-equity loan, which is not cash-out refinancing, because you're not borrowing new debt, you're borrowing against the equity in your home. You're not refinancing your

FIGURE 10

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*.

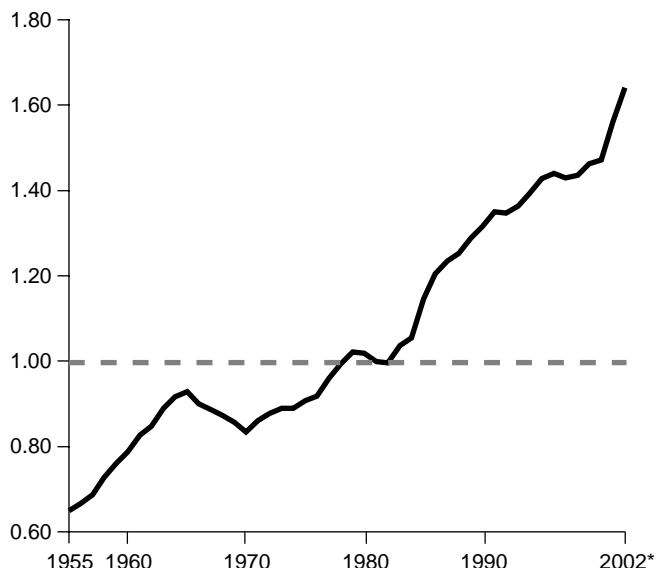
old mortgage. And Greenspan has admitted that half of all the borrowings that people get when they get a home-equity loan—they don't spend for home improvements. And the bank knows that. Households are using it for consumer purposes. It's a cheaper method than going to a credit card. In other words, if your house is worth \$150,000, and \$80,000 is in debt, then \$70,000 is free and clear. That's called equity. So you borrow against the \$70,000, but you don't use a lot of that for your home; you use it for other purposes.

So, working on the assumption that half of all the home-equity loans were for consumer spending, we counted that. These four categories: credit-card debt, installment debt, cash-out refinancing, and half of home-equity loans, total \$8 billion in 1991. Last year, they totalled \$268.9 billion. Just a huge amount of credit going into keep this economy going. People's incomes are falling, so they're borrowing against their homes; they're borrowing any which way. But you have a bubble. It's a huge bubble. The more you borrow, the more you're into debt.

Now, most of these figures I'm showing you, I got from the Federal Reserve—the basic numbers—from the Federal Reserve, the Commerce Department, the Department of Labor, and so forth. All of these are out there. You can get them, and I could show anyone who wants to, where you can get them, where we get them from. That's not a mystery. These things could be done by competent economists, but they don't do it, for the most part, because if they said, "Where are we

FIGURE 11

Ratio of U.S. Household Debt to Total Wages and Salaries

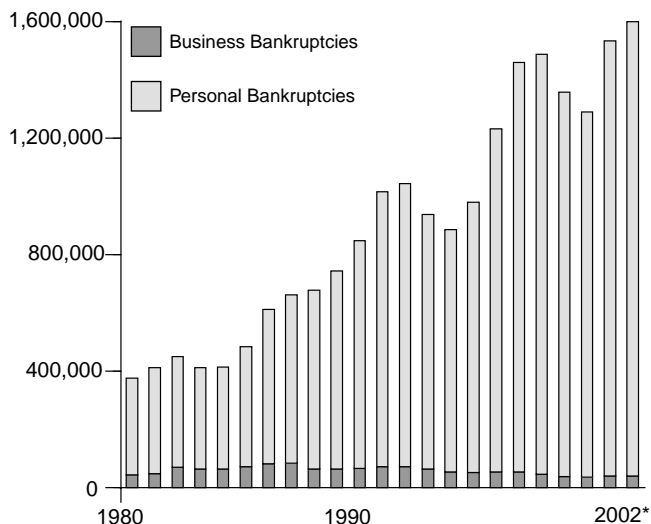


*Projection, based on first three quarters

Sources: U.S. Federal Reserve Board of Governors; U.S. Department of Commerce; *EIR*.

FIGURE 12

Bankruptcies Swell Five-Fold Since 1980



*Projection, based on first three quarters

Source: American Bankruptcy Institute.

in the economy?" they might get very frightened. And then it would require a solution, which is not the simple, standard, stock solutions that they usually resort to.

The point is, you have to face the truth first, so that your mind is freed up, so that you make comparisons like this, because you know they're important. If your mind is not freed up to do it, you won't do it.

This is a ratio of household debt to wages and salaries (**Figure 11**). In 1995, we had 65¢ of debt for every dollar in household income, wages and salaries. Now we have \$1.67 in debt for every dollar in wages, meaning the debt is larger than your wages. The total debt balance is now bigger than the wages that you have. And what's the result of that? Well, here's the result: bankruptcy (**Figure 12**). These are business bankruptcies, and they're not unimportant—this is a number, so it doesn't give you the dollar amount. Some of these bankruptcies like WorldCom, Enron, Adelphia, Kmart—they'll only count as one—so this is a number; it's not dollar value. But you can see, this year we only had the first three quarters of 2002—I project we're going to have 1.5 million people file for bankruptcy in 2002. In the last 12 years, one out of every ten American households filed for bankruptcy.

Now, I want to show you that for the whole economy. I showed you the total debt: \$33 trillion of debt; \$8.4 trillion household debt; and I gave you the breakdown of household

debt—credit-card debt, and so forth, mortgage debt—\$8.4 trillion of that \$33 trillion in total debt is household debt. Seventeen trillion dollars is business debt; \$7.5 trillion is government debt. Those three levels of debt each have payments. When the U.S. government goes into debt, it issues a Treasury Bond, which will have a yield of maybe 4%, maybe 5%. The government has to pay interest, on top of the principal. That's what it needs. You have a mortgage. Your mortgage has a certain level of interest payment that has to be paid. In fact, it has a very considerable level of interest payment that has to be paid.

How much is the debt service? Now, debt service is the interest you have to pay every year, plus a portion of your principal. The way to think of it is this: Let's say you have a 15-year mortgage on your house. On average, you have to pay 1/15th of the principal back every year, so that at the end of 15 years, you've paid it all back. It's not scheduled that way. You pay more of the principal at the end, more interest in the beginning. But effectively that's how it works.

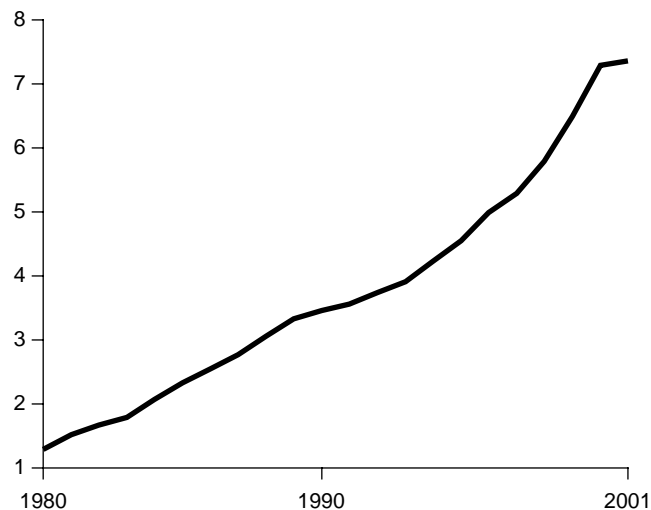
So, I showed you the \$33 trillion of debt the U.S. economy has. This is the debt service that it has (**Figure 13**). Principal and interest have risen from slightly over a trillion in 1980; last year, it was \$7.36 trillion. Now, \$7.36 trillion in interest and principal. *That's 72% of GDP.*

This is debt service as a percent of GDP (**Figure 14**). In other words, the interest and principal has to be paid each year by households, by business, and by government, expressed as a percent of GDP. Seventy-two percent. That means, that

FIGURE 13

**U.S. Debt Service, Per Year
(Principal Repayment, plus Interest)**

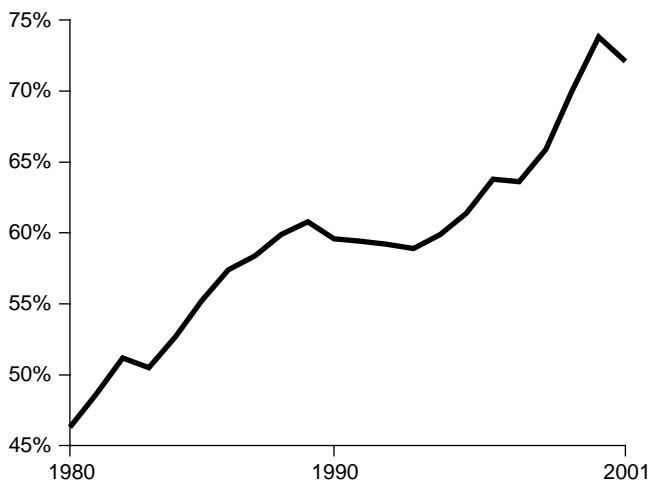
(\$ Trillions)



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; Office of Management and Budget, "Budget of the United States"; Mortgage Bankers Association; Thomson Financial Services; *EIR*.

FIGURE 14

U.S. Debt Service as a Percent of U.S. GDP



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; Office of Management and Budget, "Budget of the United States"; Mortgage Bankers Association; Thomson Financial Services; *EIR*.

if this debt were actually to be paid back, you would have to take three-quarters of all the shoes, the clothing, the cars—everything produced in America—and take it, and simply transfer it for debt payment. There would be very little left for human existence. This debt cannot be paid, and human existence continue. Remember that Triple Curve I showed you in the beginning, where I told you that the financial aggregates was growing, and sucking out the life of the underlying physical economy? That's what's happening. It's a cancer.

Post-Industrial Society

Now, how did we come to this? And then I want to show you the physical effects.

This is what's called the "post-industrial society." This was a policy by the same utopians who are pushing for war, not just war against Iraq, but war against Iraq, against Syria, against Lebanon, against Iran—same group. And in fact, this breakdown crisis which we are looking at here is the driving force behind that war. . . .

Now, the people behind that utopian strategy, which launched this, are the same people who launched the post-industrial society. This was done out of the Ford Foundation and other groups of people. . . . The Ford Foundation came out with a document in the '60s. And they called it the "Triple Revolution." Here's what it said: America is so developed economically, so developed industrially, and so developed agriculturally, we don't need an agricultural or manufacturing

economy any more. We'll become a post-industrial society. We're past the phase of industry. And we will then use financial services and other services—we'll become a service economy, principally financial services.

This was a blueprint, and they instituted it. And they instituted it through a series of measures. One of those measures was, when President Richard Nixon, on Aug. 15, 1971, took the dollar off the gold-reserve system. Which meant that now the dollar was no longer a currency that was tied to something. Gold is not a magical anything, but it gave a certain discipline to the dollar. You couldn't issue unlimited amounts of dollars before then. After Aug. 15, 1971, you could. And the dollar started flowing around the world into various speculative instruments. It also meant that Nixon was putting an end to the Bretton Woods system which Roosevelt had put together in 1944 for the development of the world. That's Aug. 15, 1971.

October of 1979: There is a policy group called the Council on Foreign Relations. It's a group of East Coast bluebloods. It's supposed to be a liberal establishment. And they come up with policy formulations. In the 1970s, they did a study called *Project 1980s*—they put out a volume called *Alternatives to Monetary Disorder*. And in the volume, which was written by a guy named Fred Hirsch, former editor of the London *Economist*, they used the phrase "controlled disintegration." And what it says, is that the economy will disintegrate, and there will be price-shocks; there will be interest-rate shocks; and it will disintegrate to zero growth, and ultimately, negative growth. But from the standpoint of the oligarchy, it will be controlled. . . .

Now, this *Project 1980s* was like a crystal-ball gaze: What

will the 1970s and 1980s look like? However, this was a very powerful group. They weren't just crystal-ball gazing. They had the power to institute what their blueprints said. Who were some of the people in the *Project 1980s*? Cyrus Vance, Zbigniew Brzezinski, Michael Blumenthal, Paul Volcker. In 1977, perhaps the worst President of the 20th Century—or certainly up there—Jimmy “Cah-tah,” peanut farmer, was just picked up. You’ve got to remember, in 1976, Gerald Ford was tarred and feathered with the Nixon Watergate scandal.

So, what do you remember about Jimmy “Cah-tah”? He smiled, he walked around smiling. He didn't say much. He just smiled. He was not Nixon. That was the way he ran his campaign. But he was picked up by David Rockefeller, put in by David Rockefeller. Who was Carter's cabinet? Cyrus Vance: Secretary of State, *Project 1980s*. Zbigniew Brzezinski: National Security Advisor, *Project 1980s*. Michael Blumenthal: Treasury Secretary, *Project 1980s*. And then, in 1978, one year into office, he appointed Paul Volcker, *Project 1980s*, as Federal Reserve Board chairman. Now, in England, in November of '78, Paul Volcker began his speech quoting Hirsch's statement: “I believe controlled disintegration in the world economy is a legitimate objective for the 1980s.”

The Final Phase

And then, in October of '79, Volcker begins raising interest rates through the stratosphere—which the Federal Reserve can do. Greenspan's lowering them—they can lower or raise them, as they see fit. So that by December of 1980, the prime lending rate was 21.5%. Now, he said he was fighting inflation. But, what happens with a 21.5% interest rate? Industry buckles. You can't run a steel industry borrowing at 21.5%. You're not going to get a profit rate of 23% so you can borrow at 21.5% and pay back the money. You can't run a machine-tool shop, borrowing money at 21.5%.

The Third World just completely buckled, because their debt is pegged to the U.S. prime rate. And they don't even get prime. They pay above prime. They were paying 23-24%! Do a simple calculation: At 24% interest rates, in three and a half years, your entire debt doubles! That's why the Third World debt doubled in the 1980s. The bankers say, “Oh, these Third World countries—they're all so lazy. These non-whites—they're all so lazy.” This was because of Paul Volcker!

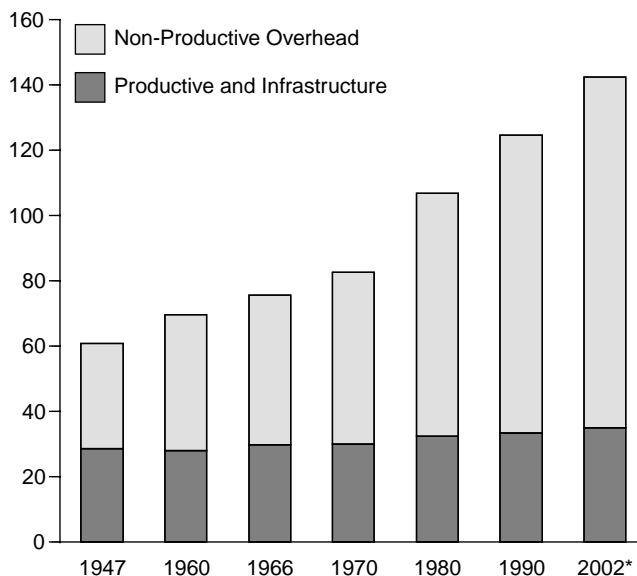
But what happened in America is crucial. The U.S. industrial belt just collapsed. The machine-tool concentration in the United States is in New England—Vermont, Massachusetts, Connecticut, and the Midwest—Michigan, Indiana, Ohio, Pennsylvania, Illinois. That's where we produce machine tools, and they are the most critical section of your economy. Between 1979 and 1985, some 53% of all machine-tool shops in the Midwest closed their doors, *and never reopened*. You would see pictures of steel plants being blown up. They would just blow up the blast furnaces. This was controlled disintegration, by Paul Volcker, the Federal Reserve Board chairman, under President Jimmy “Cah-tah.”

Then, the last phase of this is Reagan, who reminded peo-

FIGURE 15

U.S. Labor Force: Non-Productive Overhead Grows

(Millions of Workers)



* Estimated

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

ple of their grandfather. He's going to be very decent with the Strategic Defense Initiative in 1983, to render nuclear weapons impotent, but he knew nothing about economics. He was an ideologue. If you just simply said, “free enterprise,” his eyes would glaze over and he would sign anything. So, they passed the Kemp-Roth tax bill in 1981, which creates all these speculative bubbles for real-estate partnerships. In 1982, you have the Garn-St Germain bill, which deregulates the banking system, which means anything goes in our banking system. That produced the savings-and-loan crisis of the 1980s.

Carter had also deregulated, between 1977 and 1980, the rail industry, the airline industry, and the trucking industry, industries which are now all undergoing disintegration from deregulation.

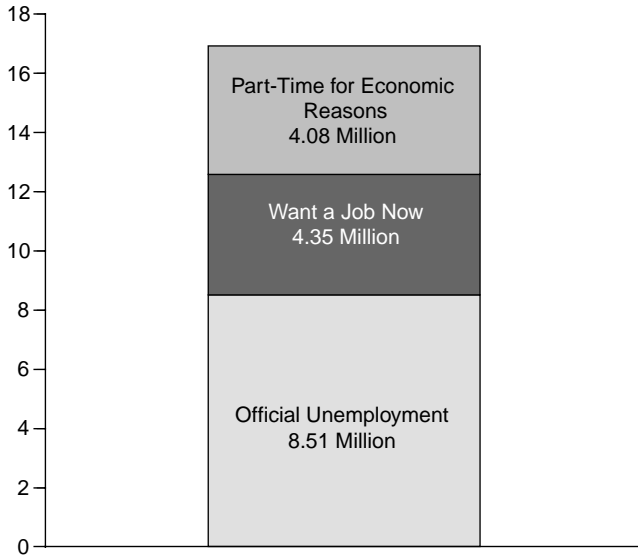
So, what you have is a policy, a post-industrial society. But then you take the dollar off the gold-reserve standard in 1971; '79: raise interest rates through the ceiling; banking deregulation in '82, and so forth; and you've instituted it.

Just take a look at what really happened to the U.S. economy. Here's the U.S. labor force (**Figure 15**). Now the thing you have to understand about a labor force is this: This is your productive and non-productive. What's crucial in economics? Prices? Demand? Supply? Okay. What's crucial in economics is the human mind. That's the starting point of all economics, because it's the human mind which creates, that cognitive

FIGURE 16

Real Unemployment Was at Least 16.94 Million, November 2002

(Millions of Workers)



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

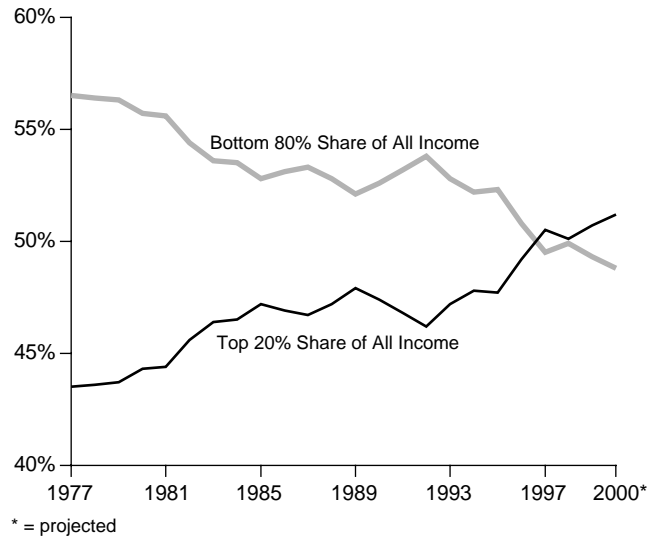
ability which is educated, and educated properly, to develop new conceptions which did not exist before. New conceptions about science, new discoveries of scientific principle, new conceptions in art, in music. Look at the work of Beethoven: one discovery after another. In poetry: Shelley, Keats, Schiller. And so forth. It is man in the image of God in the best sense. And there was a void. And out of nothing, God *created* the world. He is the Creator, the Composer. And the part of man which is like God is not the fact that we have a beard or something. What makes us in His image then? That ability to *create*, as in the beginning, God created the universe. You create a conception which did not exist, which has importance to the contribution of the human race. And you create entire technologies where none existed before. . . .

Real Unemployment

This is the unemployment rate; this is official unemployment (Figure 16), 8.5 million, as of November. But you have two other categories. There's a group at the Department of Labor—the Bureau of Labor Statistics—and that's who puts out the unemployment rate figures. And they have a category that they call "Want a job now." Here's how that works: Let us say you worked at GM, assembly work. You earn \$23-25 an hour, plus health benefits and so forth—your total package came out to about \$35-38 an hour. You get laid off. A BLS surveyor comes to your house, and says, "Have you looked for work?" You say, "Well I did, the previous eight weeks,

FIGURE 17

Top 20% of Population Have More Than Half of All After-Tax Income



Sources: Congressional Budget Office; *EIR*

but the only thing I found was McDonald's and Wal-Mart, and I'm really not interested in doing that. I have a certain skill, and I also have a certain income level I need."

"So, you looked for eight weeks, but the last three weeks you haven't been looking." What's the secret of "Want a job now"? It's in a category called "Not in the labor force." To be "unemployed," you have to be in the labor force. So they take you, and they say, well, if the person's not actively looking, that person is "not in the labor force." The Catch-22 is, you have to be in the labor force to be counted as unemployed. So they don't count you as unemployed. It's like they put you on a chute to oblivion. You're out of the labor force.

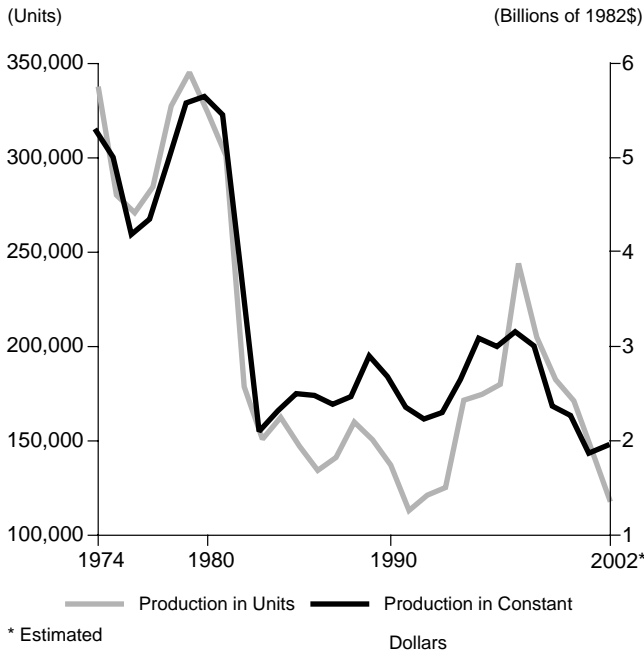
There are 4.35 million people in November who "want a job now," of the type I described in "others," who are not counted. There's another 4.08 million who are part-time for economic reasons: That means, if you want a job, but you cannot work 35 hours, you may be working two or three hours, or five hours a week—they call you part-time for economic reasons—meaning your job's not there. If you got a job for five hours a week, they count you as employed. If you work one hour a week, you're counted as employed. Well you're really not employed if you're working five hours a week. You're not going to pay the mortgage on the \$430,000 home in Arlington, Virginia. . . .

Now, on income: This shows you that the top 20% of the population, after taxes, earns more income than the bottom 80% (Figure 17). That's how income actually works in America.

Now, let's get at this question, which I think is essential.

FIGURE 18

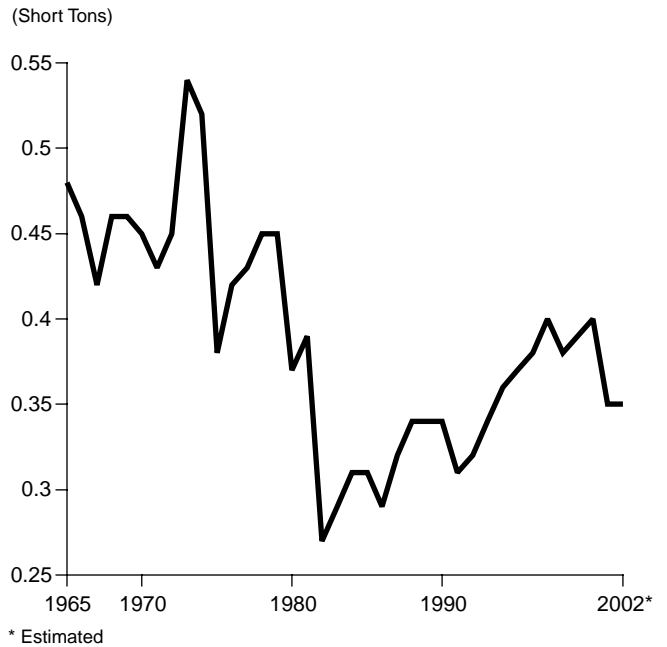
U.S. Machine-Tool Production



Sources: Association for Manufacturing Technology; EIR.

FIGURE 19

U.S. Finished Steel Production, Per Capita



Sources: U.S. Iron and Steel Institute; U.S. Department of Commerce; EIR.

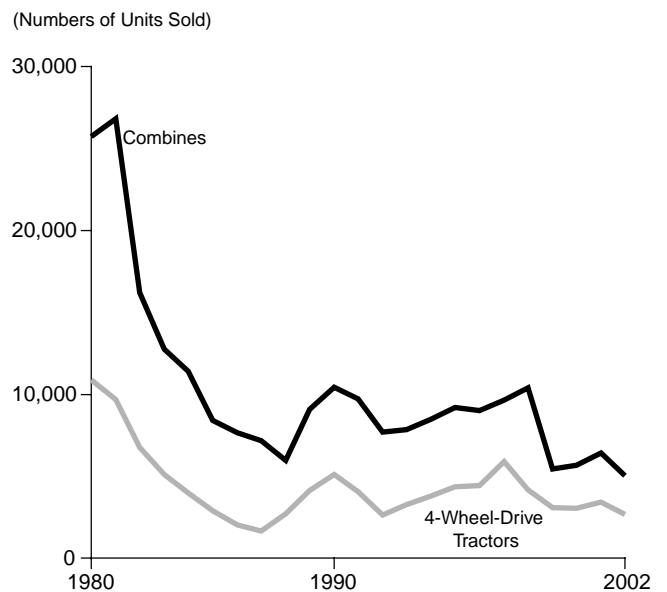
Let's look at U.S. machine-tool production (**Figure 18**). This follows a very interesting pattern. In 1979, with a delay of 18 months, look what happens: This is machine-tool production in units; this is machine-tool production in dollars, constant dollars. I did both, because someone could say, well, you know, we're producing fewer machine tools, but they're of a more high-technology quality, which means that they're more expensive. And that should show up in dollars. The fact that both dropped tells you what's going on. We were producing 350,000 units. Here's the Volcker action, October of 1979 through '80 and so forth. We are now producing 140,000 units. Our production has fallen over 60%, almost two-thirds.

Machine-tool production is one of the best barometers of an advanced economy. What is a machine tool? A machine tool is a machine that makes other machines. Like a stamping machine, a boring machine, a drilling machine. But what is it really? When Roosevelt wanted to build up the war economy in '39-40, he couldn't do it immediately. Or, when he knew we were going to enter the war, because we didn't have enough other machines. But you have to make those other machines first, and for that you need a machine tool. At the highest level, a machine tool is a conception. It's a means by which you can take the most advanced scientific conception, incorporate it into a machine, and transmit that conception to the rest of the economy.

In other words, let's say you're a scientist, or an engineer,

FIGURE 20

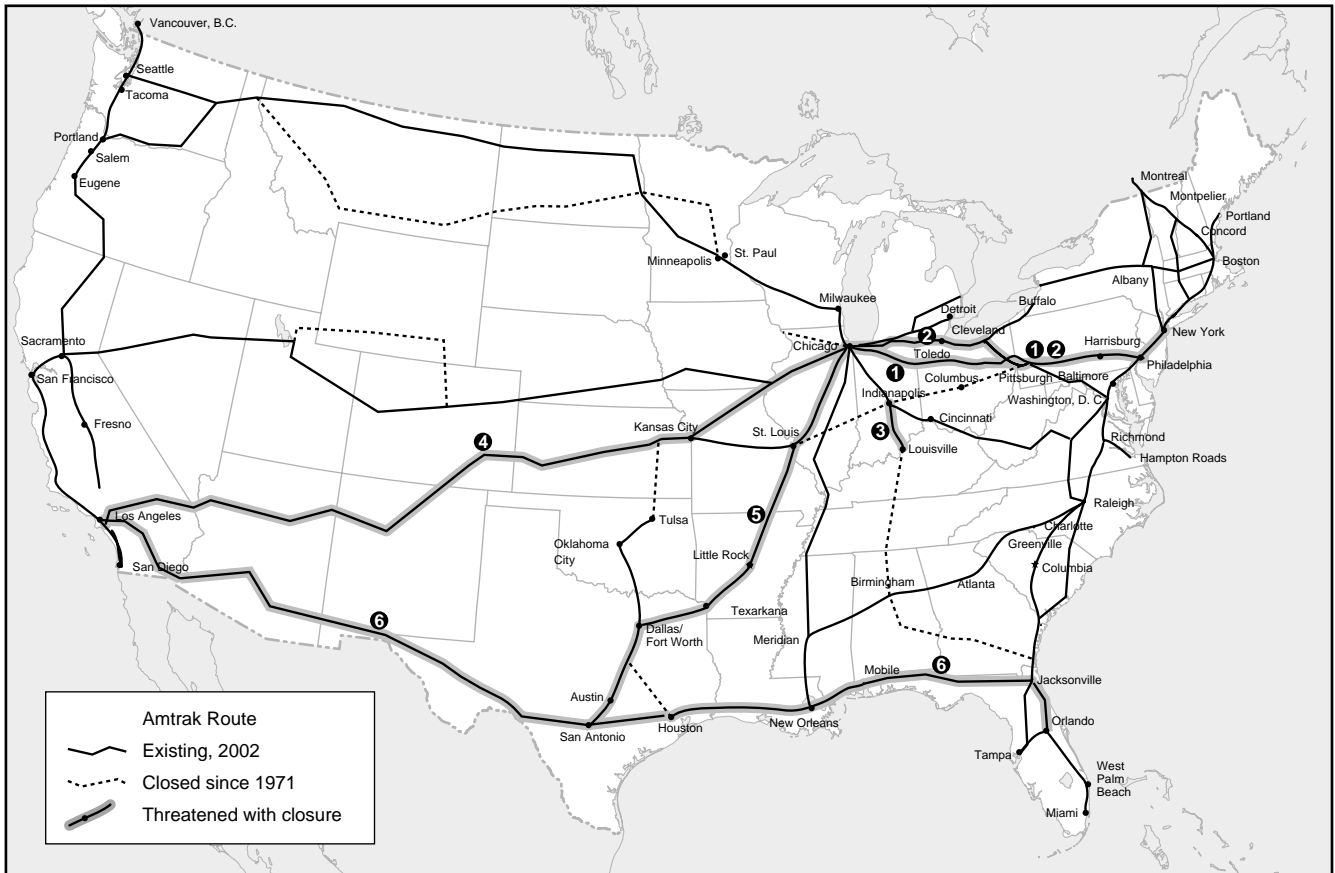
Sales of 4-Wheel-Drive Tractors and Combines



Source: Association of Equipment Manufacturers.

FIGURE 21

Major Amtrak Routes—Close and Threatened with Closure



Source: Amtrak (1971, 2002); EIR

and you have a very advanced idea. How do you get it into the physical economy? Through the machine-tool-design sector. It's the most critical sector of the economy. Because you literally design the machine tool, which has this sort of capability, and then it physically impresses into other machines this advanced scientific conception. And for America to have its machine-tool design sector fall by *two-thirds* tells you what I started to say in the beginning.

Now, this is finished steel, per capita (**Figure 19**). You can see that it's fallen by over 40%. Let's take the production of something that's crucial for farming: combines and four-wheel-drive tractors (**Figure 20**). The number of combines has gone from about 27,000 down to about 8,000. Completely collapsed.

So, what you have, is that the U.S. physical economy has completely collapsed. GDP is a total fraud. What GDP measures is revenues. But if you increase the speculative side of the economy, your finance, your insurance, your real estate, that's what grows. So, as the cancer grows, GDP grows. But

your *physical economy*—the economy on which human existence depends, is collapsing. That's the reality of the United States.

The Infrastructure Gap

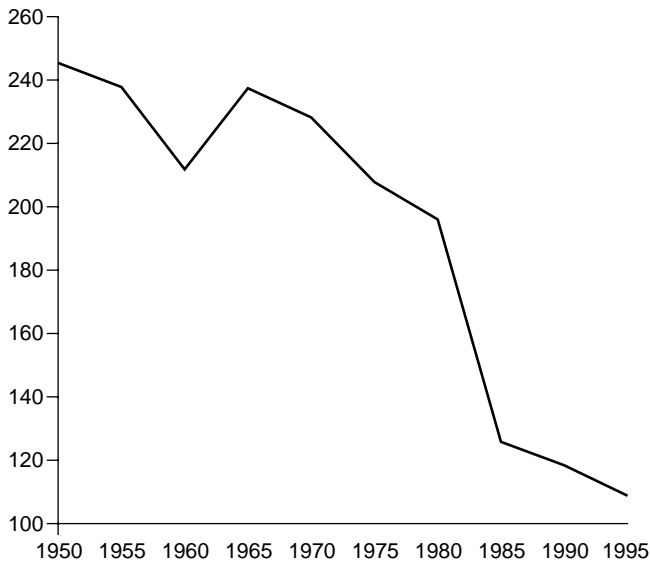
Now, what about our infrastructure? Let's look at rail. In the United States, our rail network has simply been ripped apart. And that's something you can't import. In 1980, after the deregulation of the railroads, and after the Volcker actions, in 1980, we had 458,000 rail workers. Today, we have 168,000, a drop of 63%. In 1980, there were 164,000 miles of rail trackage in the United States. Today, there's less than 99,000. That is, the railroads had literally been ripped up, so that we have lost more than 40% of our rail trackage. In 1980, there were 1.1 million freight cars; today, 560,000. A fall of 50% . . .

Our passenger rail: This is Amtrak (**Figure 21**). They're now proposing to cut this (marked routes). Those routes may be eliminated.

FIGURE 22

U.S. Per-Capita Industrial Water Use, 1990-1995

(Gallons per Day)

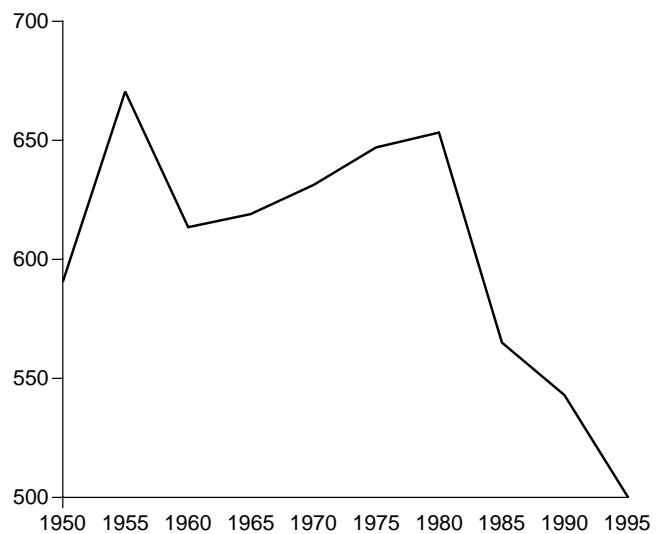


Source: U.S. Geologic Survey.

FIGURE 23

U.S. Per-Capita Irrigation Water Use, 1950-1995

(Gallons per Day)



Source: U.S. Geologic Survey.

Look at our ports, locks, and dams. Forty-five percent of our dams are over 50 years old. They do not function. You cannot move certain goods through our lock-and-dam system in the United States.

Water use: This is the per-capita use of water for industrial purposes (**Figure 22**). This has just completely collapsed. This is the water used for irrigation (**Figure 23**). Completely collapsed.

Hospitals: This is the number of beds per person (**Figure 24**). During the period of the Hill-Burton law, which was passed in 1946, as part of the Roosevelt thrust, which started building up the number of hospital beds—since this time, and the post-industrial society, hospital beds per capita are below where they were in 1950s.

Schools: According to the National Education Association, three-quarters of the school buildings in the United States are inadequate, physically.

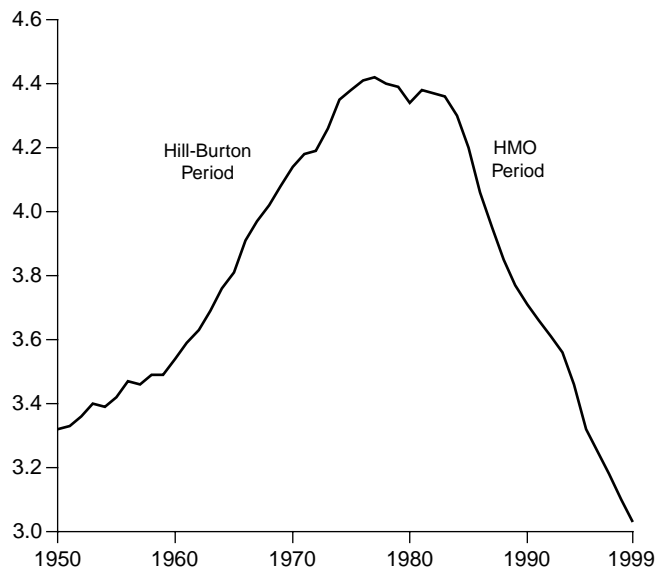
So, schools, hospitals, our airline system—United went under, second-largest airline in America; US Airways went under last year, seventh-largest airline. . . . The entire grid of infrastructure is collapsing. . . .

At this point, in this crisis, everything is coming down. LaRouche’s solution is not one of five or six solutions that may sound great. LaRouche’s solution is the *only* solution. And therefore, if you see it that way, then you will see what’s so important about his candidacy for President of the United States.

FIGURE 24

U.S. Community Hospital Beds, 1950-1999

(Per Thousand Persons)



Source: U.S. Statistical Abstract.