Matthew Ogden

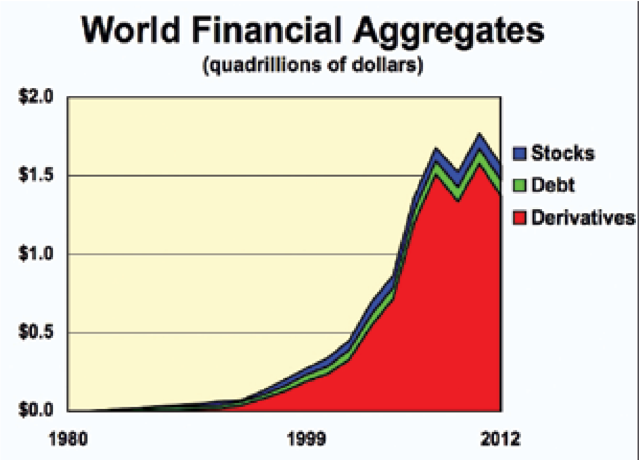
The Collapse of The Physical Economy

At the regular Friday LaRouchePAC webcast on Nov. 15, Matthew Ogden presented the documentation excerpted here, to complement Lyndon LaRouche's "Worse than Weimar" article (above).

What we intend to do, is to illustrate the collapse of the physical economy of the United States, and the growth of a hyperinflationary, worse than Weimar, bubble since the repeal of Glass-Steagall in 1999, and the election of Barack Obama in 2008.

There are different estimates for the magnitude of the world financial aggregates presented in **Figure 1**. Financial aggregates are made up of, on this slide, three different categories: so-called stocks; debt; and then, derivatives. And you see, the derivatives are the vast

FIGURE 1

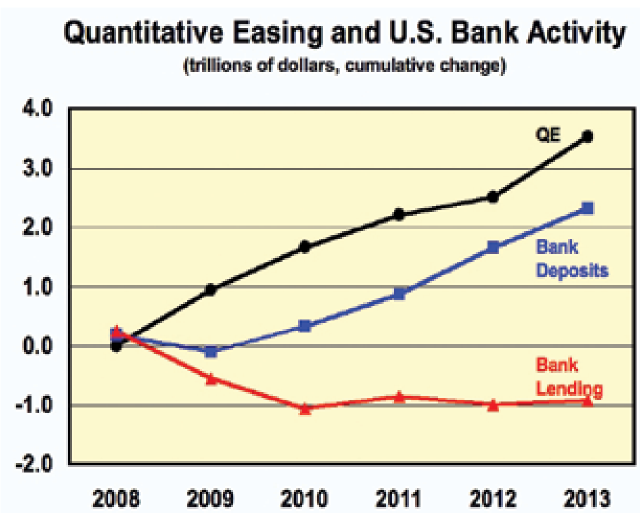


Source: Bank for International Settlements, *EIR*

majority of the world financial aggregates that are presented here. According to Bank for International Settlements (BIS) statistics, derivatives total around $700 trillion. However, according to other estimates, including estimates by *EIR*, they could very well be double that number.

What you see here, is that starting in 1980, there was already growth of the derivatives bubble, going into 1999, which was the year of the official repeal of Glass-Steagall; however, remember during those two decades prior to the repeal, Glass-Steagall was being continuously eroded by the actions of Alan Greenspan at the Federal Reserve. But after 1999, after the official repeal, the derivatives bubble exploded. That goes all the way up to that slight dip there that you see, the crash of 2007-08.

FIGURE 2



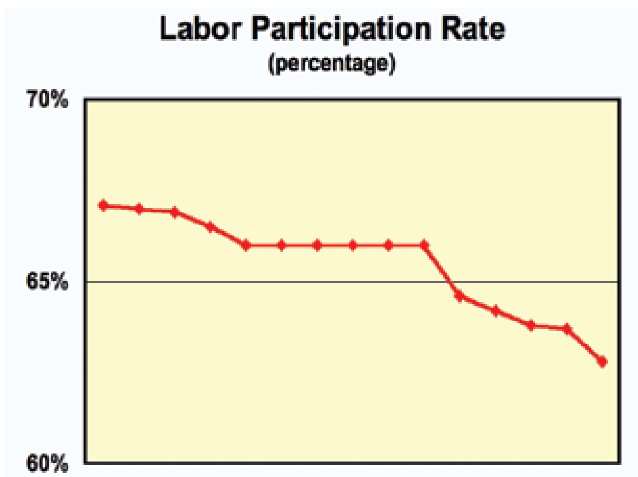
Source: Federal Reserve Bank

Now what should have happened at that point, is that the entire derivatives bubble, that entire fictitious monetary bubble, should have collapsed. The entire thing should have disappeared. But instead, beginning with the George W. Bush Administration, continuing with the Obama Administration, the policy of quantitative easing [QE] was adopted, and that led into the support and continuation, the perpetuation of that derivatives bubble.

Figure 2 shows that starting in 2008, with the growth of QE (the top line), cumulatively, we've reached the point that, because of the asset-purchasing program of the Federal Reserve, there has been almost *$4 trillion* in fictitious money pushed into the United States economy. What you see in conjunction with that, is that bank deposits, indeed, have skyrocketed in parallel to the quantitative easing spending; however, those bank deposits have in no way been reflected into the real economy. There has been no growth in activity in the real economy during the quantitative easing regime, during the five years of the Obama Administration. Instead, what you've seen is that bank lending into the real economy crashed beginning in 2008, bottomed out in 2010, and has remained at that level ever since.

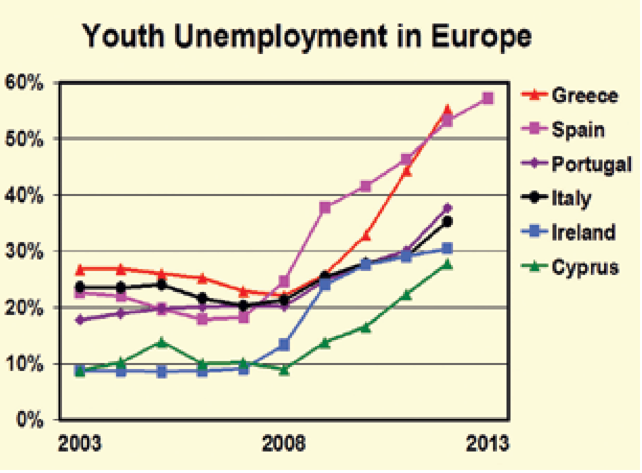
Figure 3 shows what has actually happened in the real economy. While the regime of quantitative easing has reigned since 2008, and even going back to 1999, which was the repeal of Glass-Steagall, you've seen a constant decrease in the labor participation rate—the percentage of the eligible workforce who are actually either employed, or are actively seeking employment. You saw a slight decrease beginning in 1999, but look at what happens when Barack Obama is elected in

FIGURE 3



Source: U.S. Bureau of Labor Statistics

FIGURE 4



Source: Eurostat

2008: It crashes precipitously and continues to crash. This is significant, because if you look at the number of people actually in what's called the civilian labor force—those who are either working or are actively looking for work—that number hasn't changed at all. Those are the so-called "employment numbers" that Obama is always trumpeting about.

But the point is, there has been actually *no growth* in the active labor force since Obama was elected. It was 155 million people in January 2009, and it's 155 million people now. However, the working-age population has grown over that period by close to 12 million people.

So where did all of those potential workers go? Where did that 12 million person increase in the labor force go? They never appeared in the labor force. So while the total number of the civilian labor force stayed exactly the same, the number of working-age adults who either dropped off the rolls because they've been out of work too long, *or* who have never entered the labor force in the first place—those who graduated from school and never actually went into the labor force—that number grew from 80 million people at the end of 2008, to 91.4 million people now. In other words, you have an *invisible* 12 million people out there, who essentially do not exist as a part of the United States labor force.

So what you see here, is a declining proportion, with that proportion taking a nosedive as soon as Obama entered office, and then falling continuously every year since. And, what we know from the studies, is that *real* unemployment in the United States during the Obama Administration has reached nearly 26 million people: That's the 22 million people who are officially unemployed—unemployed, underemployed, or "discouraged from seeking work"—*plus* another 4 million who never entered the workforce in the first place, during the last five years. And that is increasingly becoming what you could call a "lost generation" of youth.

Figure 4 shows youth unemployment in Europe. Everybody has heard about the dramatic numbers of unemployed youth in Greece, in Spain, in other countries in Europe. This chart shows that since 2008—again, the beginning of the Obama Administration, and the beginning of the bailout-austerity regime of Europe—you had the percentages of real youth unemployment doubling if not tripling in these countries. This is calculated for those between the ages of 16 and 24. Cyprus has doubled from 9% to 18%. Ireland has gone from 10% to 20%. Italy and Portugal have gone from 20% to almost 40%. And then you've got Greece and Spain *tripling* from 20% to almost 60%.

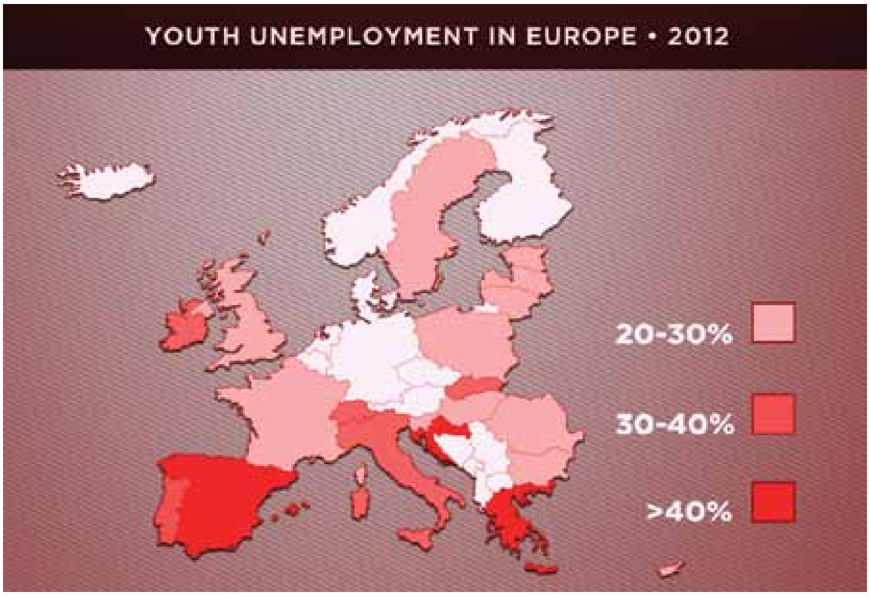
These numbers do not even include those who are discouraged from finding work, who are forced to be part-time underemployed, nor does it include the massive exodus of young people who are emigrating from these countries, in a desperate search for work.

Figure 5 is a representation of the same data in a

FIGURE 5

Source: Eurostat

FIGURE 6



Source: Eurostat

map. You can see here, in 2008, the first year of the Obama Administration—you have six countries in Europe that had greater than 20% youth unemployment.

Figure 6 shows youth unemployment in Europe in the year 2012. Eleven countries have youth unemployment of 20 to 30%. Five countries have youth unemployment of 30 to 40%. And three countries have youth unemployment *greater* than 40%.

So, lest anybody say, "Yeah, well, that's Europe, that's over there, that's across the ocean. That could never happen here," take a look at the same period of time, the five years since the beginning of the Obama Administration, in the United States (**Figure 7**). This is the year 2008, and you have three states that had greater than 30% *real* unemployment, and by "real" I mean in this case, including those who are forcibly underemployed and those who are marginally employed, or marginally connected to the labor force, including those who are discouraged from finding work. Those states are Michigan with 34%; Rhode Island with 31%; and California with 30%.

FIGURE 7

Source: Bureau of Labor Statistics, *EIR*

Now, in 2013—five years into the Obama Presidency (**Figure 8**)—*30 states in the United States have greater than 30% youth unemployment or underemployment*, so-called "real" youth unemployment. Fourteen are between 30% and 35%; 10 are between 35% and 40%; and 5 are greater than 40%: Nevada, Illinois, Mississippi, California, and North Carolina.

So you can see that the picture on both sides of the Atlantic really reveals what is becoming a lost generation of young people, very similar to what we saw before the Great Depression, in the years before Franklin Roosevelt took office, just looking at the collapse in employment alone.

But if you take a look at **Figure 9**, showing the *type* of work that those who are still employed are engaged in, as a percentage of the total labor force employed, you see that the situation *now* is even worse than what

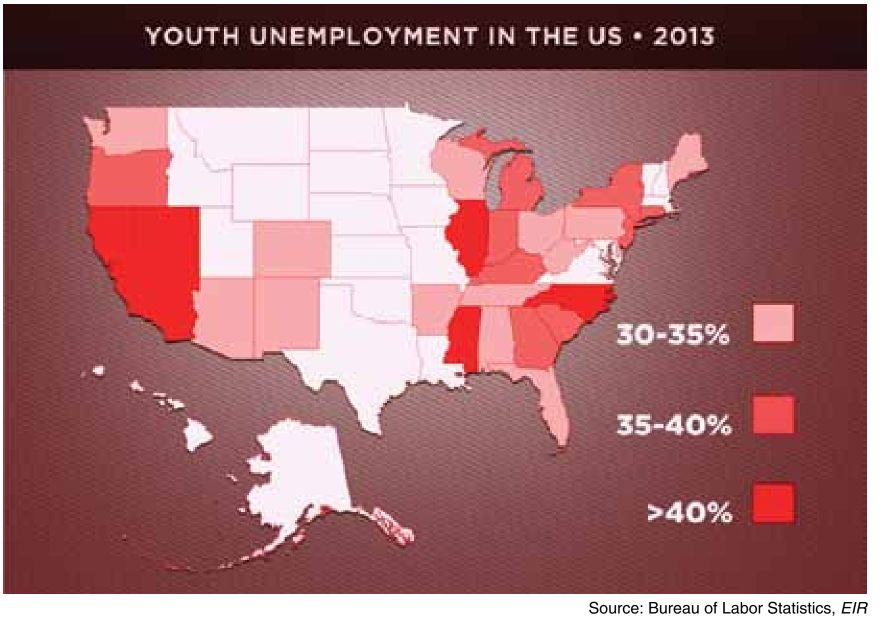
Franklin Roosevelt confronted then. Right there at the beginning of the graph, 1940, during Roosevelt's third term, the number of workers that were engaged in productive work was increasing as a percentage of the workforce as a whole. And of course, this was during the war mobilization, the [building of the] "Arsenal of Democracy."

However, as soon as Roosevelt died, and Truman took over, that increase began to reverse itself, and instead of blue-collar, skilled productive work, you had an increase in white-collar and unskilled service-sector work.

And the ratios between those two types of employment began to reverse themselves until after President Kennedy and Robert Kennedy were assassinated, going right into the beginning of the 1970s. Ironically, in 1971, which was the very year that Mr. LaRouche had uniquely forecast the crisis that hit the financial system and the economy at that time, under Nixon, you see right there—1970, 1971—the percentage of people employed in the service sector surpassed the number of people, for the first time, employed in producing goods. And ever since, you've had a steady decline in the real economy, a net decline which has never reversed itself, while services, so-called, including financial services, have steadily increased and all but taken over the entire U.S. labor force.

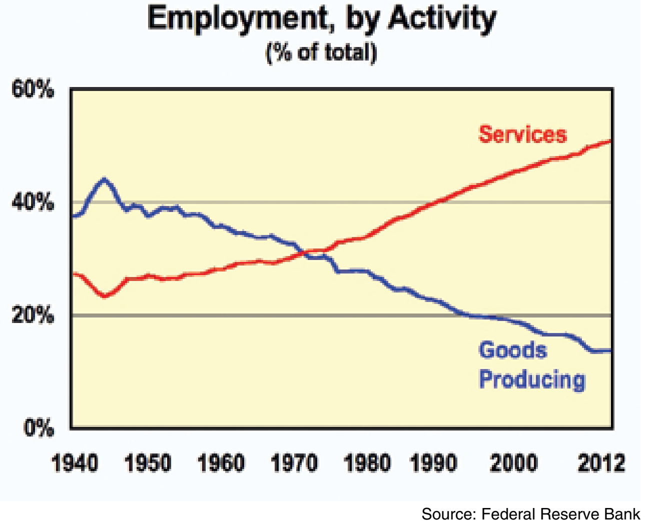
So, this is the picture of the post-Glass-Steagall financial speculation, all-about-money, Wall Street economy that's taken over this country today, and which Mr. LaRouche has characterized in this newest report as being, truthfully, worse than Weimar, by far.

FIGURE 8



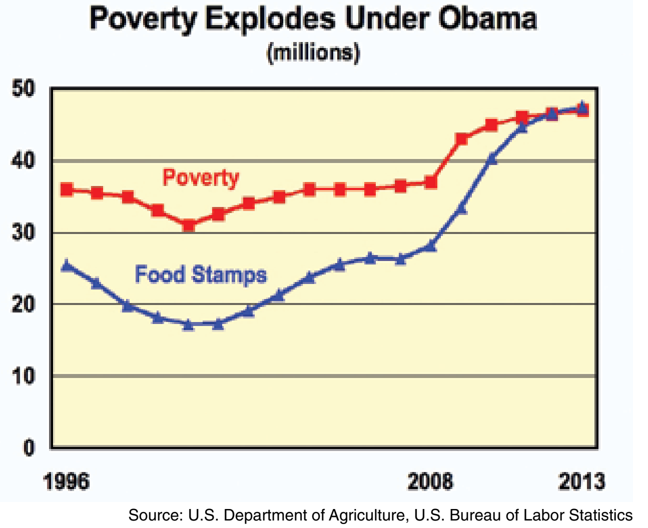
Source: Bureau of Labor Statistics, *EIR*

FIGURE 9



Source: Federal Reserve Bank

FIGURE 10



Source: U.S. Department of Agriculture, U.S. Bureau of Labor Statistics