Why The U.S. Debt Bubble At Last Had To Explode

by Richard Freeman

It is being recognized more and more, that although the world economy itself could be revived, the present monetary and financial system cannot be saved.

Rescue would require uprooting the post-1971 monetary-financial system, which made the terminal collapse of the world's present system inevitable.

Driving forward the world financial-monetary system's collapse, are the convulsions of the bankrupt U.S. financial-monetary system, and here one of the most dangerous elements, is the inflated, still swelling, level of U.S. debt. A $31.5 trillion debt bubble towers over the United States: $29.5 trillion in domestic debt, and at least $2 trillion in foreign debt, which has financed, in part, America's massive physical goods imports during the last decade.

American officials like to complain about the size of the Third World's foreign debt: The total of developing and emerging nation foreign debt is $3-3.5 trillion; but America's domestic and foreign debt is nearly ten times greater. By far, the American economy has created the largest and most dangerous debt bubble in world history.

Leverage And Default

The United States' gigantic debt bubble is unsustainable; along with instruments such as derivatives, it must be subject to a Chapter 11 bankruptcy reorganization, directed to establishing a New Bretton Woods monetary-financial system, centered on great infrastructure projects, as proposed by 2004 Presidential pre-candidate Lyndon LaRouche.

The very attempt to pay off this debt, while it may temporarily keep the debt bubble afloat, actually accelerates the collapse of the financial-economic system. The attempt to pay off the debt forces the looting-contraction of the underlying economy, from household living standards, to farms, factories, and infrastructure projects—i.e., it kills off the physical economy, and this kills off the financial-monetary system, whose existence depends on the physical economy. Debt cannot be collected from a dead system.

At this point, debt becomes the transmission system for financial instability and breakdown. Debt becomes the agent for the *de-leveraging* of a system, which has survived by depending upon *leverage* (debt). This process is punctuated by default. During the last five years, there was an increased density of debt problems, concluding in defaults, or going up to the limit of default. This should have set off an alarm, for anyone paying attention.

- In the area of consumer debt, households have had difficulties paying off their credit card payments, doctor bills, mortgage payments, and other financial obligations. Based on projections from the first six months of 2001, the full year will have the highest number of personal household bankruptcy filings in history.
- In the area of business debt, during the past 12 months, companies have gone bankrupt, ranging in size from big companies, such as Xerox and Finovia Financial, to dozens of dot-coms and telecommunications firms.
- In the area of government debt (Federal, state, and local), Moody's, a credit rating agency, has downgraded some states' credit ratings, after these states experienced sharp revenue falls, because of the deepening economic collapse.

In each area of debt—household, business, or government—there is a confluence and spread of the problem, from one area to the other.

On Sept. 11, the covert strategic action against the United States, which involved attacks on the World Trade Twin Towers and the Pentagon, created a new level of instability in the U.S. and world financial system, including the debt market. The Sept. 11 attack was not a financial action, though it did represent damage to infrastructure and financial transactions. But it constituted a destabilization of an economic system that was already very fragile. The aftermath of the Sept. 11 events has created various market problems which could bring to the fore all the stored-up major problems embedded in the debt market, making obvious its potential for breakdown.

Post-Industrial Society Propels Debt Growth

The British financier oligarchy's imposition of a shift toward a "post-industrial society" policy upon the United States in the mid-1960s, has propelled the level of U.S. indebtedness to such monstrous heights. That policy deliberately withered manufacturing, agriculture, and infrastructure production, while a speculative bubble was built, which sucked the underlying economy dry. It emphasized the growth of services, particularly Information Age and financial services. This kicked off a debt explosion, over the past 30 years.

There are nodal points in the step-by-step implementation of this post-industrial society paradigm-shift which are necessary to know, and the important thing to note, is the characteristic of change from one bad policy to a worse policy.

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On Aug. 15, 1971, President Richard Nixon took the U.S. dollar off the gold reserve standard, on advice from London-Wall Street oligarchical forces. This severed U.S. financial flows from physical goods flows. The dollar could be moved anywhere around the globe without any connection to financing hard-commodity goods trade or industrial processes. The floating-exchange-rate system which Nixon instituted, meant that financial speculation could take off.

During the week of Oct. 6-12, 1979, President Jimmy Carter's Federal Reserve Board Chairman Paul Volcker unleashed a policy that he called "controlled disintegration," as an extreme variant of the post-industrial society policy. Volcker sent interest rates into the stratosphere, so that by December 1980, the prime lending rate charged by commercial banks shot up to 21.5%. Volcker kept interest rates at double-digit levels for years. Production was intentionally collapsed, and speculation grew further.

In 1981, the Congress passed the Kemp-Roth Tax Act, which contained provisions encouraging real estate and stock market speculation; in 1982, it passed the Garn-St Germain Act, which disastrously deregulated the bankruptcy system.

By the late 1980s, the junk bond debt financing of leveraged buy-outs of companies, administered by Drexel Burnham Lambert's Michael Milken, was in full swing.

Especially since the 1997-98 so-called "Asian crisis," the Aug. 17, 1998 Russian declaration of a 90-day moratorium on categories of Treasury debt, and the Sept. 23, 1998 failure of the Long Term Capital Management hedge fund, which nearly melted down the world financial system, Federal Reserve Board Chairman Alan Greenspan turned on the printing presses, pursuing a wild-eyed policy of issuing huge amounts of liquidity to prop up the bankrupt financial system.

Taken as a sweep, the more than three-decade post-industrial process fostered the leap in debt. The more it collapsed production and fostered speculation, the more this process directly necessitated a two-fold growth in debt.

To understand this two-fold nature, it is necessary to make a distinction between productive and non-productive activity. Productive activity is man's activity engaging in manufacturing, agriculture, construction, transportation, mining, and infrastructure, which alters nature and manufactures goods for man's advancement. As a result of the post-industrial society policy, productive activity, and, in parallel, living standards, have fallen by 1-2% per year, during the past three decades. Though the Wall Street-controlled media would have the average citizen believe that the United States has been in an economic expansion for the last 15 years, the opposite is true. *EIR* has documented this collapse exhaustively (for the collapse in living standards, see, for example, "America's Growing Income Gap: There Is No 'Economic Boom,' " *EIR*, Feb. 11, 2000).

In that context, many households went into debt in an attempt to offset their falling living standards, and with the borrowed money, paid for clothing, medical bills, furniture, and even food. Similarly, many productive industrial companies and farms had to borrow money, to keep from going under and to pay for new equipment, raw material supplies, and even payroll.

On the other hand, under the post-industrial society policy, the non-productive side of the economy had a growth in debt. For example, many of the highly speculative leveraged buy-outs/acquisitions of companies of the late 1970s, 1980s, and 1990s, were financed with debt. The foolish expansion of the dot-com and telecommunications sectors involved a mountain of debt. Many households in the upper 20% of households by income class, used all sorts of debt to buy expensive cars, homes, and luxury goods. They are now using gimmicks such as "cash-out refinancing" to use their home—which has artificially appreciated in price—as an investment instrument against which to borrow, and to use the extra money to splurge on purchase of other consumer goods.

Thus, the post-industrial-society policy fostered both types of debt, for different but complementary reasons; the two types of debt merged, sending total debt spiralling upward.

The post-industrial society build-up of debt, played itself out in real life experiences, in the three principal sectors where debt has accumulated: households, business, and government. We examine how the resultant debt skyrocketting in each of these sectors has set off specific patterns of pillaging and destruction of the underlying economic activity, and placed a time bomb in each sector that is overly primed to explode, which will topple the total U.S. debt bubble, and the U.S. and world financial system.

The Surge In Household Debt

The U.S. economy has come to depend upon the totality of household debt to sustain itself, by inducing a high level of consumer spending, which at least prevented the economy from plunging uncontrollably below a certain level.

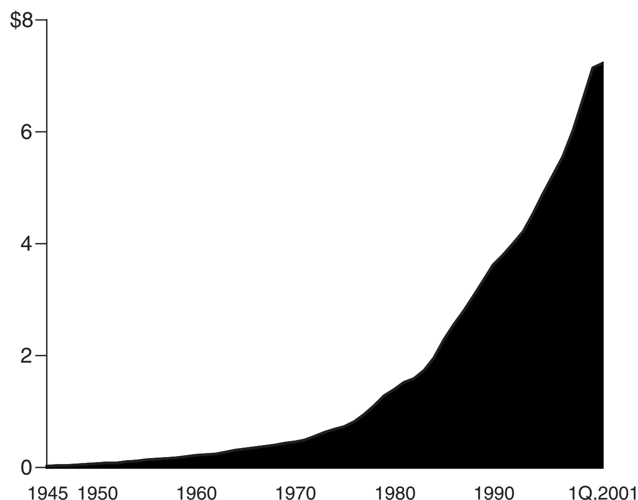
The economy was permeated by different cancers—in this case, excessive household debt—but depended upon an increasing rate of growth of just that cancer, apparently to "avoid" its certain death. But a cancer devours its host, hastening the cancer's own death.

From that perspective, we look at the explosion of total U.S. household debt over the past three decades; within that, at the two primary components of household debt: consumer credit and home mortgage debt; and then, at the most rapidly metastasizing element of consumer credit: credit card debt, which was virtually unknown before 1980.

It should be noted that in a healthy economy, there will always be an element of debt, which of itself, is not a problem. The problem is when such debt grows as a substitute for what should be the increasing income streams of households, manufacturing, and farms. In that case, debt is used by households and businesses to offset a fall in real income levels, caused by the depression induced by post-industrial-society policies.

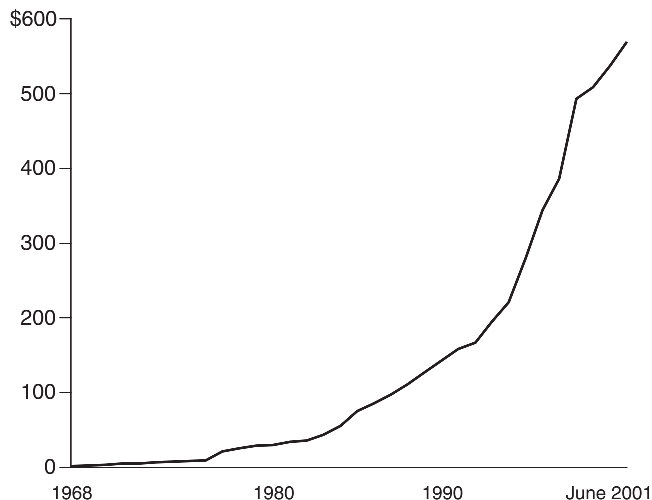
Further, as the post-industrial-society policies foster the non-productive, speculative side of the economy, the rising

FIGURE 1
U.S. Household 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 2
Credit Card Debt
($ Billions)



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

levels of debt are used in a second way, to finance the burgeoning speculative, non-productive side of the economy. Once the debt crosses the threshold to being excessive, then it can be serviced only by greater issuance of debt.

We start by looking at the total U.S. household debt, how it has permeated the pores of the economy, and ultimately why it is unsustainable.

Total U.S. Debt, And Credit Card Debt

Figure 1 depicts total U.S. household debt growth from 1945 through the first quarter of 2001, and illustrates how, under the impress of post-industrial society policy, total U.S. household debt followed a hyperbolic trajectory. Notice that in the period from 1945-70, it was very small, and it did not exceed the level of $1 trillion until 1978. Then, under the force of Paul Volcker's high-interest-rate regime to enforce "controlled disintegration," it shot upward. By 1990, it was $3.625 trillion, and today, it stands at $7.228 trillion.

The increase in total U.S. household debt of $3.6 trillion during the last 11 years, financed the purchase of many consumer goods, as well as over-priced homes. It also left the population more burdened with debt than at any time in its history.

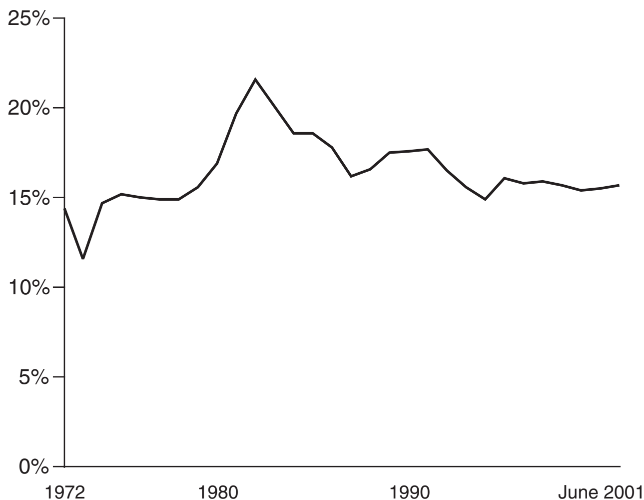
The debt that is most talked about, but least understood, shrouded in some nasty myths, is credit card debt. The use of "plastic" certainly has effected a change in behavior. **Figure 2** shows the growth of credit card debt since 1968. Credit cards were not much of a force until 1980, and the great growth of this debt characterized the 1990s. In 1990, its level stood at $158 billion; today, it is $570 billion, a nearly fourfold increase—the fastest growth of any type of debt during that period.

Today, of all types of lending, the banks make the greatest level of profit off credit card debt. **Figure 3** depicts the "blended" average interest rate that banks charge on credit cards. It blends in the introductory "teaser" rates with the regular interest rates. Currently, the average blended rate is 15.7%. The bank's cost of funds (what it pays to obtain the funds which it then lends) is about 3 to 5%. Thus, the spread between what it pays for funds and what it charges for its credit card loans is between 10 and 12%. This spread more than covers the loan charge-offs that it suffers in personal bankruptcy filings. The lucrativeness of the lending would explain why banks and financial institutions mail out 2.5 billion credit card applications every year, enough to provide 25 to each household per year.

Yet, when credit card borrowers can't repay their credit card loans, the bankers and their controlled media invent the wildest stories about why the customers don't pay. In fact, the bankers have gotten Congress to sponsor laws for reforming bankruptcy, that would set the most draconian conditions, if customers don't pay back their credit card loans.

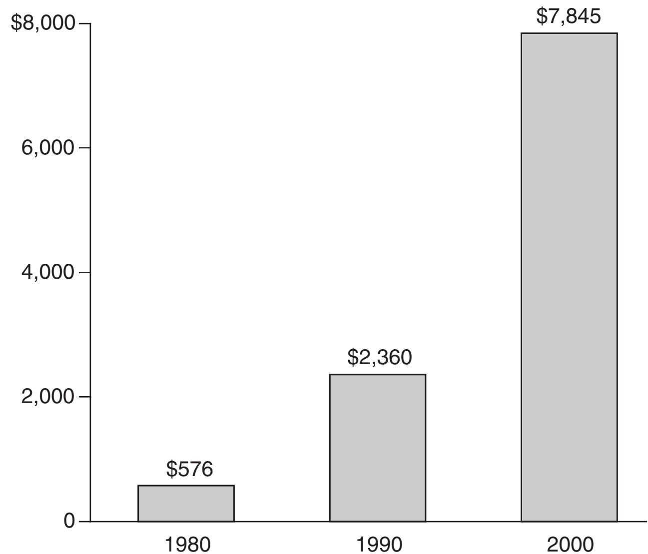
This gets at the lies about credit card borrowing, and allows us to understand how credit cards actually function. The general outline of the bankers' myth is this: Most households are profligate spenders, with no sense of responsibility, and once they get their hands on credit cards, they buy wasteful things. Thus, the impression is that most households use credit cards to buy two or three pairs of Gucci shoes, gold-

FIGURE 3
Average Annual Interest Rate Banks Charge On Credit Cards



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts" and Consumer Credit Survey; *EIR.*

FIGURE 4
Credit Debt Balances, Per Household Carrying A Balance



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts" and Consumer Credit Survey; *EIR.*

lamé handbags, and several VCR players. While some households do use credit cards for expensive items they may not need, the majority are forced to use credit cards to pay for necessary items, such as food, clothing, or medical bills, that they could not afford to pay for out of their wages or their shrunken or non-existent bank accounts.

Two pieces of evidence, among many, begin to rip apart this oft-told lying myth. First, in an Aug. 25, 1996 article, the *New York Times* listed some of the people who lined up to file for bankruptcy at the main bankruptcy court in Newark, New Jersey: "A doctor hit by the plummeting value of his $300,000 home. A salesman who had plunged into debt when his company took away his commissions. A man who could not pay his taxes after his divorce. A young woman . . . whose long struggle with the disorder lupus bankrupted first her parents and now her. . . ."

Bankruptcy By HMO

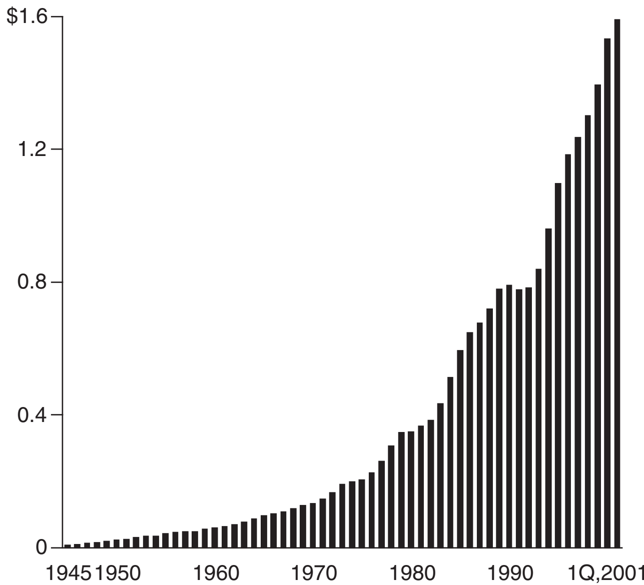
Moreover, it has been increasingly pinpointed that a major cause that throws people into bankruptcy is rising medical costs, which the health maintenance organization-dominated insurance industry does not cover. In 2000, the Consumer Bankruptcy Project, co-headed by Elizabeth Warren of Harvard Law School, released a study, "Medical Problems and Bankruptcy Filings." Based on its survey, and projecting those results for the whole nation, it estimated that in 1999, a total of 341,441 bankruptcy filings were related to an illness or injury to the filer, or a member of his or her family. It found that 267,575 filers said that they had "substantial medical bills"—the questionnaire specified this as "medical bills not covered by insurance in excess of $1,000 during the past two years." Since someone responding to the survey could cite each of the two reasons, it is estimated that, eliminating double counting, 450,000 to 500,000 filers had either an illness/injury, or substantial medical bills, as a major reason for filing for bankruptcy protection. In 1999, there were 1,281,581 households that filed for bankruptcy. Nearly 40% of these cases were wholly, or in part, due to medical crises.

There are other, similar causes.

Today, approximately 80% of all households own one or more credit cards, and of these, approximately 35% pay off their balances when due. This means that 52% of all households carry credit card balances month-to-month. In 2001, there were approximately 105 million households, so that means 55 million households carry credit card balances, If one divides the total amount of credit card balances outstanding by the number of households carrying balances, one obtains the results shown in **Figure 4.** The average credit card balance of the cardholder carrying a balance has, since 1980, grown more than twenty-fold, to a current level of $7,845. At the current interest rate, the annual interest on this average balance is almost $2,000 per year. If that average household pays less than $2,000 in interest, its credit card debt will rise.

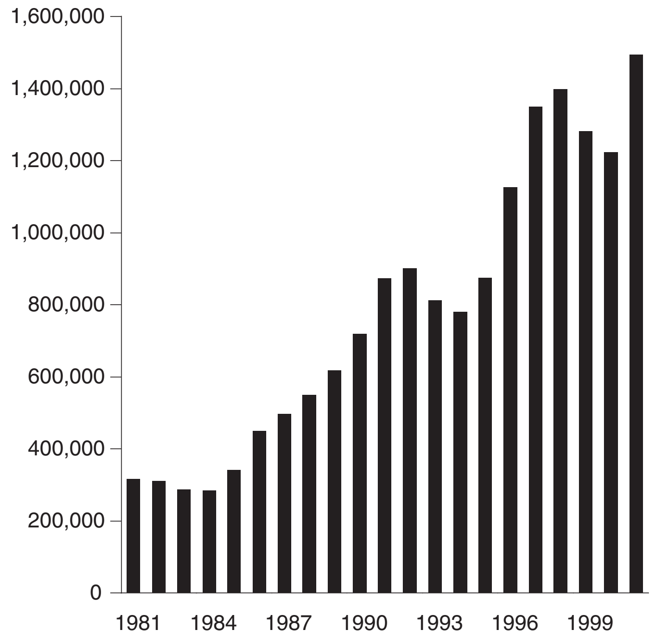
Such a balance, while burdensome to anyone, creates an especially serious problem for the more than 60 million U.S. households with annual household income of $25,000 or less. Once taxes are paid, and rent/mortgage and food and clothing expenses are deducted, such a household has very little to pay

FIGURE 5
U.S. Consumer Credit
($ Trillions)



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; and Consumer Credit Survey; *EIR.*

FIGURE 6
U.S. Personal Bankruptcy Filings, 1980-2001*



* bankruptcies from first half of 2001, on an annualized basis

Sources: American Bankruptcy Institute; Administrative Office of the U.S. Courts.

the interest, let alone the outstanding debt balance. It is such families which are falling into bankruptcy in droves.

Under current bankruptcy laws, such families can file under Chapter 7, allowing them to be freed of most of their debts. Under the "bankruptcy reform" bill, written by bankers, and pushed in Congress by the likes of Sen. Phil Gramm (R-Tex.), most declaring personal bankruptcy would be compelled to file under Chapter 13, which requires that they draw up a plan to pay off most of the debt. This would enact a new form of "debtor's prison without walls."

Consumer Credit And Mortgage Debt

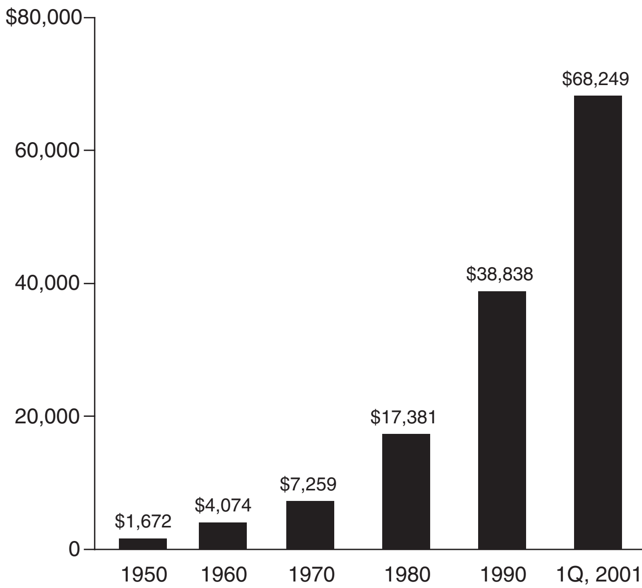
The credit card component of consumer credit, metastasizing at such a fast rate, has caused overall U.S. consumer credit to shoot up (**Figure 5**), reaching a level of $1.56 trillion today.

Consumer credit's principal components consist of credit card debt, other types of revolving credit, and non-revolving credit. Non-revolving credit consists of auto loans, and the financed purchase of appliances, furniture, etc. that is not done by credit card. In the case of an auto loan, because a worker is less able to afford the car today, with today's standard of living, than he was 40 years ago, the terms of the loan have gotten longer. In 1960, the average auto loan had a maturity of 36 months; today, it has lengthened to 52 months.

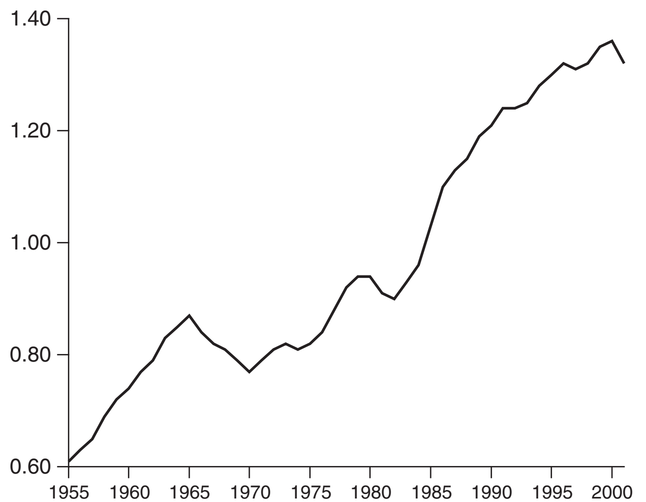
But most of the maturities and interest rates cited, are for people in "normal" circumstances. Many people are driven to the "sub-prime market," if they have poor credit ratings. There, they pay 20 to 30% for a credit card loan, and 15 to 20% for an auto loan. Worse, people are compelled to take out "pay-day loans," from pawnshops and liquor stores. These loans, which allow an individual to live pay-day to pay-day, charge interest rates as high as 400% annually. According to one report, the United States has $14 billion in pay-day loans outstanding.

But this process has physical limits: When people have insufficient income to service their debt obligations, they file for bankruptcy. Merely putting the level of the first half of the year on an annualized basis, 1.49 million American households will file for bankruptcy in 2001. **Figure 6** shows that this is the highest level in U.S. history, and four times the level that prevailed until 1986. These are people who could not pay off their consumer credit debt. During the past decade, disregarding those who have filed for bankruptcy more than once, over one-tenth of all American households have filed for bankruptcy. This is already a very strong warning about the condition of the nation's debt.

In parallel with the rise in consumer credit, the level of household mortgage debt also went shooting through the ceiling. The level of mortgage debt jumped from $935 billion in 1980, to $2.532 trillion in 1990, to $5.092 trillion at the end of the first quarter of 2001: It roughly doubled once a decade, for each of the last two decades. The increase simultaneously reflected and facilitated the housing market bubble that the



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



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

oligarchy created in America. Without the growth in the mortgage market's size, homes priced at $250,000 could not be sold.

The functioning of the housing market bubble can be seen in the fact that between 1997 and 2000, the value of home real estate rose by $2.5 trillion.

However, as the U.S. stock market tanked, and no longer generated the same frantic level of capital gains, home-owners flocked into a relatively new, very risky gimmick to extract cash for consumer spending. It is called "cash-out refinancing." Under this arrangement, a home-owner takes out a new, larger mortgage on his home, whose value on paper has risen with the home real estate bubble. With the new cash, he pays off his old mortgage, and some existing credit card debt, and then pockets the difference in cash. An example reported in the July 26 *Wall Street Journal* is the case of Richard Fawley, Jr. of Scottsdale, Arizona, whose home price rose in a year and one-half, from $425,000 to $535,000. After paying off some debts, Fawley snagged $55,000 in cash, which he used to invest in a vacation property. Others who have used "cash-out refinancing" have used the cash extracted to buy $2,000 home theaters, or other luxury items.

Thus, a consumer bubble has been built on top of an existing housing bubble. But what happens as unemployment now increases, and people cannot pay $1,200 to $2,500 monthly mortgages on their $250,000 to $3 million homes? The housing mortgage bubble of $5 trillion-plus pops. Crashing, it also causes a collapse of the consumer bubble based on cash-out refinancing, which had been built on top of the housing bubble. One gets a double-bust.

Unpayability Of Total Household Debt

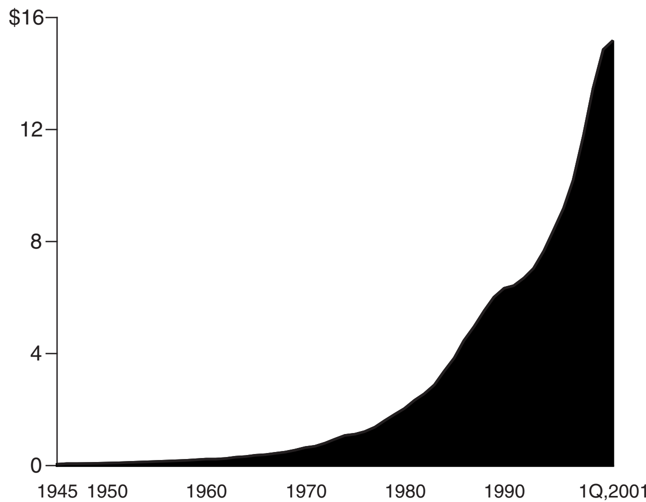
There are two examples that demonstrate that the inflated total household debt bubble (shown in Figure 1), which has sustained spending for homes and other consumer items for at least the past 15 years, cannot possibly be sustained.

First, **Figure 7** demonstrates the level of U.S. household debt, per household (that is, total household debt divided by the number of households in America). Presently, each household carries $68,000 in household debt, more than 40 times the level of 50 years ago.

Second, we get a sense of how much the explosion in household debt has become a growing burden against household living standards. As a basis of comparison, the U.S. Commerce Department makes comparisons of household debt (specifically, the debt service on this debt) to the category of "personal income." Personal income includes wages and salaries, but also household income from 1) interest, 2) rentals, and 3) capital gains. But almost all of the interest, rental, and capital gains income goes to the upper 10% of the population, by income class. Therefore, to get a more representative comparison, *EIR* concentrated on comparing household debt to wages and salaries, which is the lion's share of the income that most of the population earns and lives on.

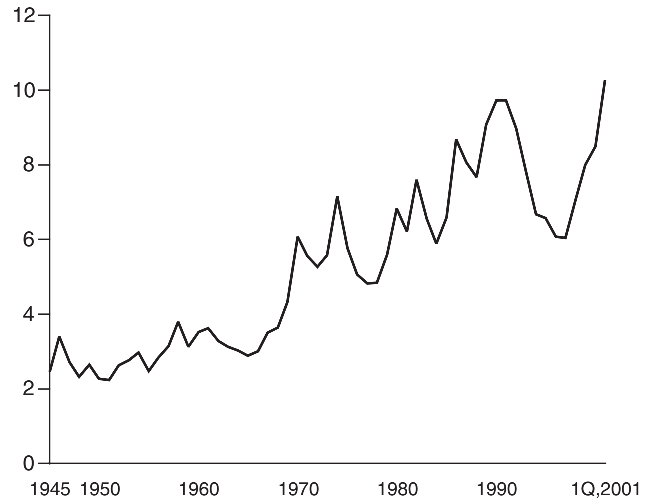
Figure 8 shows that in 1955, the level of household debt was only 61% of the level of wages and salaries; thus, the ratio was 0.61. It took until 1985, for the level of household debt to become larger than the level of wages and salaries;

FIGURE 9
U.S. Business Debt
($ Trillions)



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

FIGURE 10
Ratio Of Non-Financial Corporations' Market Debt To Profits



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

thus, for the ratio to become larger than 1.0. Today, the ratio is 1.36.

This debt is an enormous burden. According to the U.S. Commerce Department, American households pay approximately 35-40% of their *personal income* solely to on mortgage payments and in paying off their consumer credit. Preliminarily, *EIR* estimates that American households pay approximately 40-50% of their *wages and salaries* solely in mortgage payments and in paying off their consumer credit. This process has a physical boundary condition: Households contracted enormous amounts of credit in order to "stay alive," but, the increasing debt sucks the life out of households, which slashes living standards, and the debt becomes unpayable.

Business And Government Unstable

Under the guidance of the post-industrial-society policy, the debt of the U.S. business sector likewise headed skyward. **Figure 9** shows that U.S. business debt, which stood at $2.05 trillion in 1980, rose to $6.35 trillion in 1990, and to $15.18 trillion at the end of the first quarter of 2001.

The debt of U.S. business consists of two principal components: the debt of Nonfinancial Businesses and of Financial Businesses. Nonfinancial Business includes corporations, farms, etc. Financial Business includes commercial banks, insurance companies, estates, the Federal National Mortgage Association (Fannie Mae), etc.

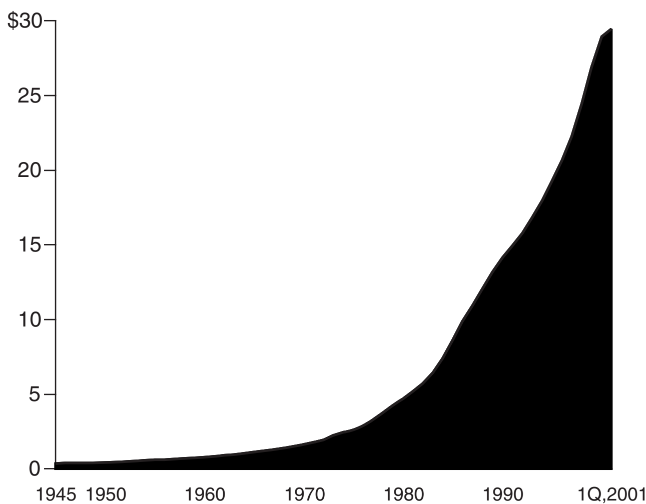
During the past decade, a major transformation occurred in the U.S. economy: The debt of U.S. Financial Business leap-frogged ahead of the debt of Nonfinancial Business. This reflects the Financial Businesses' dominance in the economy; the banks, insurance companies, etc., have incurred more debt, through borrowing, in order to rev up increased speculation in the economy.

Nonfinancial corporations, however, have more to do with the real economy—manufacturing, transportation, and public utilities, wholesale and retail trade, and so forth. To get a sense of the alarming level of debt growth, we compare the relationship of the Domestic Nonfinancial Corporations' Market Debt, to Domestic Nonfinancial Corporations' Profits. **Figure 10** shows that between 1945 and 1960, there was between $2.50 and $3.50 of Nonfinancial Corporation Debt for every $1.00 of Nonfinancial Corporation Profits. Then with the imposition of a post-industrial-society policy upon the United States, the ratio started to explode upward, reaching the ratio of $9.73 in debt for every $1 in profits in 1990. During the 1990s, this very high ratio only nudged downward, as corporations "creatively" padded profits. However, in the first quarter of 2001, as profits plunged, the ratio reached twice its 1970, and thrice its 1960 level. The more profits drop, the more oppressive the debt service becomes, until instabilities trigger an explosion.

Businesses can borrow debt in three ways: from a bank; by issuing bonds; and by issuing commercial paper. The danger of the instabilities inhering in business debt erupting, is coming to the surface:

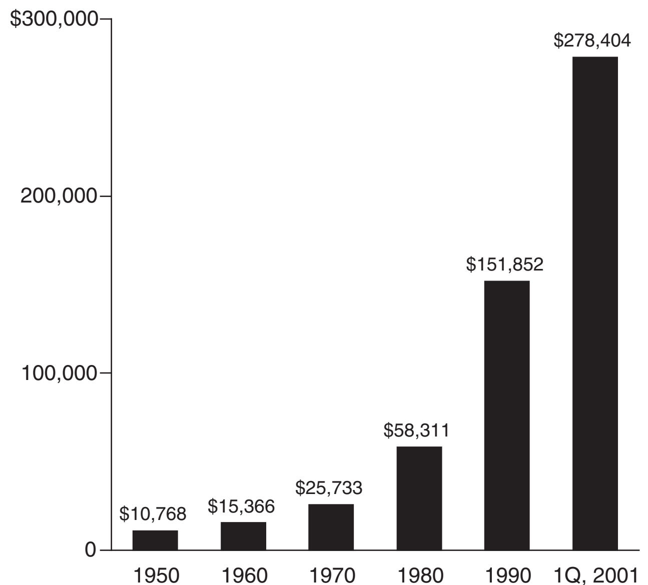
- For the first quarter of 2001, 41 U.S. companies, including two California utilities, and a barrage of telecom, food, and retail companies, defaulted on a record of more than $35 billion in corporate debt.

FIGURE 11
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 12
Total U.S. Debt, Per Household



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; Federal Deposit Insurance Corporation; U.S. Comptroller of the Currency; *EIR.*

- According to Moody's Investors Services, in the first half of 2001, ninety-three U.S. corporate junk bonds were defaulted on a record $34 billion in debt. Junk bonds—high-yield, high-risk bonds—are a highly volatile subsector of corporate bonds. During September, the premium that ten-year junk bonds must pay above comparable ten-year U.S. Treasury bonds, rose to 7.50 percentage points, a very large and alarming spread. Thus, both U.S. regular corporate bonds and U.S. high-yield junk bonds are experiencing severe difficulty.
- The U.S. airline industry is heavily leveraged, with $26.1 billion in debt. In the aftermath of the Sept. 11 deadly covert operation against the United States, which struck the airline industry's financial structure very hard, the airlines may default on a significant amount of this debt. Already, on Sept. 15, as a small step—but potential only the first of several—Continental Airlines announced that it would default on $70 million in debt payments.

The implementation of the post-industrial-society policy unleashed the same process in government debt levels, which stand, at the end of the first quarter of 2001, at $7.08 trillion. The debt of government consists of two principal components: the debt of the U.S. government, including the debt that is traded on the credit markets and the debt that is not traded on the credit markets; and the debt of state and local governments. The disastrous trajectory of government debt is very close to that of U.S. household debt.

Ultimately, the ruinous effect of the post-industrial society policy caused the total cumulative U.S. debt of all principal sectors—households, business, and government—to fly upward. **Figure 11** shows that total U.S. debt, which stood at $4.71 trillion in 1980, escalated to $14.17 trillion in 1990, and $29.48 trillion at the end of the first quarter of 2001. Thus, in the ten years-plus since 1990, $15.31 trillion of cancerous debt was pumped into the U.S. economy—an amount, in one decade, five times larger than all of the Third World's foreign debt outstanding.

Now, we look at the totality of all debt circulating in, but also drawing resources from, the U.S. economy. We see that all the instabilities operating in the debt of business, households, and government, that brought the debt of each sector to its physical limits of survival, are now operating in a multiply-connected way upon the system as a whole.

Earlier, we determined the strictly household debt, on a per-household basis. The total U.S. debt of $29.5 trillion, on a per-household basis, is shown in **Figure 12.** Each U.S. household must support more than a quarter of a million dollars of total U.S. debt. Using very conservative assumptions, *EIR* estimates that debt service on the present $29.5 trillion debt—principal repayment and interest—will be $4.23 trillion during 2001. This is equivalent to 40% of U.S. Gross Domestic Product, and is *greater than the entirety of the physical goods production of the U.S. economy.*

The debt parasite is sucking the U.S. economy dry. The continued operation of the U.S. debt bubble cannot co-exist with the durable survival of human existence. Either the debt is put through a Chapter 11 bankruptcy reorganization, or its implosion, brought on by instabilities in the U.S. and worldwide, will bring down the world financial system with it.