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# Personal bankruptcies devastate U.S. households

by Richard Freeman

In 1996, some 1.125 million American households, more than one in every hundred, filed for personal bankruptcy protection, the highest level in U.S. history. As **Figure 1** shows, 1996's level is 30% higher than 1995's, and three times the annual level of personal bankruptcies that prevailed prior to 1986. Based on first-quarter figures, personal bankruptcy filings in 1997 will be higher still.

Pushing the rate of household bankruptcies upward has been the condition of personal credit card accounts: More and more households have fallen behind on their credit card payments, engendering a record delinquency rate (payments 30 days or more past due). Many of these delinquencies, especially those 60 to 120 days past due, enter into default. This has resulted in a significant, and growing, amount of charge-offs for credit card lenders.

The growth in personal bankruptcies, plus the growth in troubles with credit card accounts, has sparked a national debate. The oligarchical financiers, grouped around Britain's royal House of Windsor, can't deny the irrefutable trend under way, but somehow can't fit it neatly into their public claim that the economy is in the greatest economic upswing since the end of World War II. But, if everyone is doing so well, why are so many people going broke? This viewpoint was expressed in a front-page story in the Aug. 25, 1996 *New York Times,* headlined "Personal Bankruptcies Surging as Economy Hums." In the same vein, on May 3, 1997, in San Diego, U.S. Federal Reserve Board Chairman Alan Greenspan stated to the conference of State Bank Supervisors, "We don't know why personal bankruptcies have soared as sharply as they have, especially considering the fact that the economy is doing so well and consumers in general are doing well."

In order to preserve the "everyone is doing well" myth, the oligarchical financiers have resorted to two lies. First, that American households have large credit card debts solely because they bought things they shouldn't have, that Americans were profligate with easy credit. In effect, every household bought dozens of Gucci shoes, gold-plated handbags, and several VCRs. Second, that even with these large credit card balances, American households are not broke—they are faking it. They could pay off most of their debts if they chose to, and only about one-tenth of the bankruptcy petitions filed in bankruptcy court are legitimate.

The bankers are now trying to get their friends in Congress to pass legislation that would severely restrict a household's access to Chapter 7 bankruptcy protection, which is the most commonly used, and allows a bankrupt household to write off most of its debts. Instead, the bankers would make households file under Chapter 13, wherein after bankruptcy, a household is still liable for most of its debts. The banks have a golden goose—lending on credit cards and consumer loans at 15-25% interest rates—and they won't tolerate the loss of it by having families simply go broke on them.

Yet, the City of London and Wall Street financiers' allegation that "households' financial mismanagement" is the cause of the record number of bankruptcies, is a monstrous hoax. It is no more true today than when the bankers used the exact same argument during the 1970s and 1980s to explain away the farmers' and machine-tool builders' record bankruptcies occurring then.

## The reality

The reality is that the record number of household bankruptcies is a function of the 50% collapse of the consumer market basket, and thus of household purchasing power, dur-



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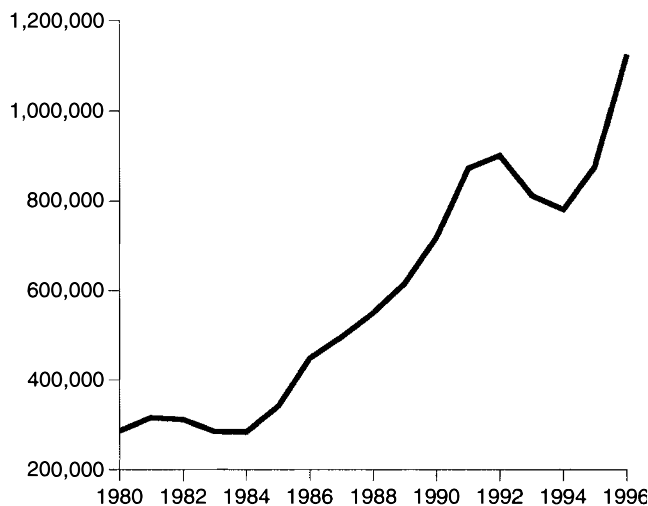
FIGURE 1
**Personal bankruptcy filings, 1980-96**




Source: Administrative Office of the U.S. Courts, "Annual Report of the Director."

ing the 30 years since the post-industrial society was first imposed on America in the mid-1960s. Even working three or four jobs, families cannot survive. Families compensated for the collapse in living standards by stretching their borrowing to the limit. They contracted record amounts of household debt, which by the end of 1996 had reached a total of $4.875 trillion. Over the recent period, families were forced to use their credit cards (an instrument largely for convenience or luxury purchases) to buy necessity items that they could not afford to pay for out of their bank accounts: food at the grocery store, rent, car repair, and growing medical bills uncovered by medical insurers.

This is an unstable condition that cannot continue. Indeed, the more that incomes fall, the more families will borrow, and the more their debt, swelled by usurious interest rates, will grow. Thus, an expanding household debt bubble is drawing from a contracting real income base, paralleling the situation in the economy at large. The interest charges further push down the living standard.

In an April 22 interview, Stephen Brobeck, executive director of the Consumer Federation of America, told *EIR,* "While I'm concerned about those 1.1 million families that filed for bankruptcy in 1996, I'm just as concerned about the families that haven't filed. Many families have as much as $15,000 to $20,000 in credit card debt, which is the level that families often have when they file for bankruptcies. But take the families with that level of balance [on their credit cards], which haven't filed for bankruptcy. At the current interest rates, they could owe $3,000 to $4,000 per year in interest. Compare that to an after-tax income of maybe $20,000 per year. How long can that last?"

This situation obtains for millions, perhaps tens of millions of families, when their total household debt profile is taken into account. Given a financial crisis, the numbers of household bankruptcy filings will become a flood tide. The United States is inches from such a development.

This article shows the true state of household finances, based on actual household living standard. We examine the explosion of household debt, and the expanding "subprime" lending market, which lends to households that have lost their credit worthiness, but at interest rates of 20-165%. Finally, we explore the implications of what the bursting of the consumer credit bubble will mean for the banking system and U.S. households.

## Plummeting living standards

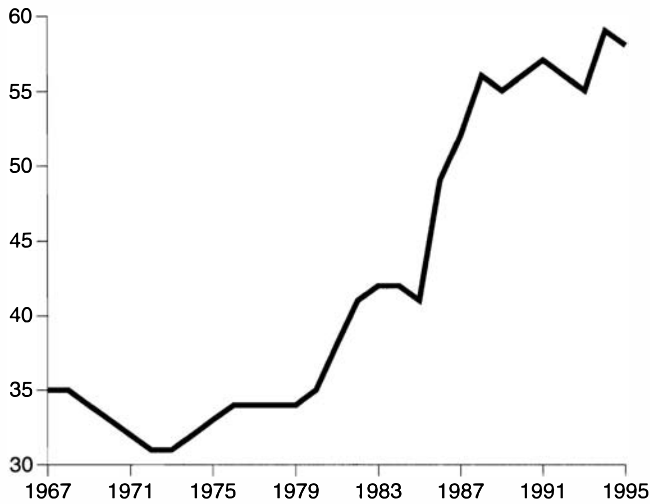
The average household today receives a market basket that is half of what it received 30 years ago. This market basket is measured as the essential consumer goods, as well as hard and soft infrastructure—ranging from water management, power generation, and transportation, to medical and educational services—whose consumption enables a household to maintain and improve its material and cultural condition of existence. This includes the nurturing and raising of the next generation of the labor force.

Economics is not the measurement of monetary values. It begins from the premise that man's creative power of reason, making new, revolutionary scientific discoveries of principle, is the source of all economic wealth. These discoveries are transmitted to the economy through the Machine-Tool Principle and basic infrastructure (see *EIR,* Feb. 7, 1997). As man's power to create new ideas and positively alter nature is increased, this produces a rising rate of potential relative population-density.

But in the mid-1960s, the British financier oligarchy imposed the policy of the post-industrial society on the United States. This fostered speculation, while causing production to wither. A giant speculative bubble was launched. Economist Lyndon LaRouche, in his Triple Curve Function, has explained that financial aggregates grew at a hyperbolic rate, as did the monetary aggregates needed to keep the financial aggregates liquefied. And, as they grew, they caused the physical economy to contract—since the late-1960s, at the rate of approximately 2% per year. We are now at the brink of the disintegration of the entire financial system.

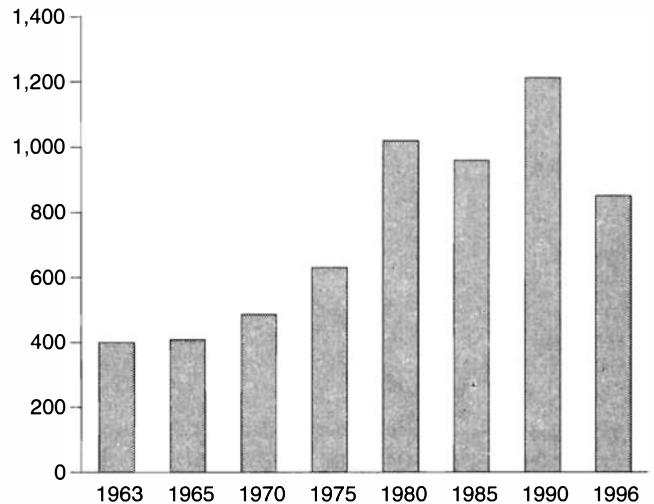
*EIR* has documented the collapse of the U.S. consumer market basket (see *EIR,* Sept 27, 1996, "U.S. Market Basket Is Half What It Was in the 1960s"), and showed that it now requires three full-time jobs to earn the equivalent purchasing power that one full-time manufacturing job provided to a family during the 1950s. This is very important in the growth of household debt. *EIR* also documented the fall in household purchasing power, by showing the increased number of paychecks required to purchase basic consumer goods. **Figures**

FIGURE 2
### Number of weekly paychecks required to purchase a new car, including financing




Sources: American Automobile Manufacturers' Association "Facts and Figures," various years; Department of Labor, Bureau of Labor Statistics, "Employment and Earnings," various years.

FIGURE 3
### Number of paychecks required to purchase a new home




Sources: National Association of Homebuilders; Department of Labor, Bureau of Labor Statistics, "Employment and Earnings," various years.

**2** and **3** show, respectively, the number of paychecks required to buy a new car and a new home. In 1967, it required 35 weeks of an average worker's paycheck to purchase a new car (including financing charges); today, it requires 58 paychecks. That is, a worker must work another 25 weeks, or 65.7% longer, to acquire a new car. Stated inversely, a worker's standard of living has fallen 39.7%, compared to 1967, relative to the ability to purchase a car.

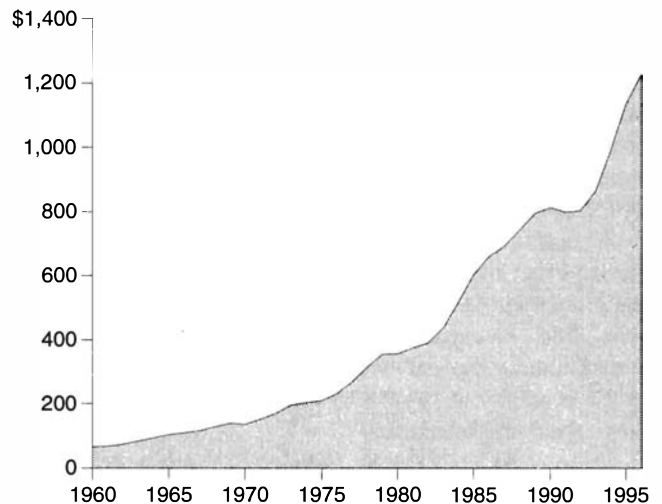
How did the worker compensate for the loss of purchasing power? The answer is, by sharply increased borrowing. In the case of auto loans, one of the principal constituent parts of "consumer credit" (the other major part is credit card borrowing), the maturity of an average loan went from 36 months in the late 1960s, to 52 months today.

Under this impetus, the growth of consumer credit (see **Figure 4**), especially since the 1980s, has been steep. For example, auto loans are financed at interest rates varying from preferred status (currently about 8.5%), to less preferred status (up to 13%), to "subprime" status, which ranges up to 25%. One-fifth of all auto purchases are currently financed at "subprime rates," highlighting both the deteriorated credit quality of American borrowers, as well as the added interest charges which are impelling the consumer credit bubble toward a blowout.

Consumer credit constitutes approximately one-quarter of all household debt, and it is by far its fastest-growing portion. The other three-quarters is home mortgage debt (see *EIR,* Dec. 13, 1996, "Housing People in a 'Post-Industrial' U.S.A."). Driven by consumer credit expansion, overall household debt has soared (see **Figure 5**). **Figure 6** shows the volume of household debt expressed on a per-household basis, which in 1996 reached $48,317.

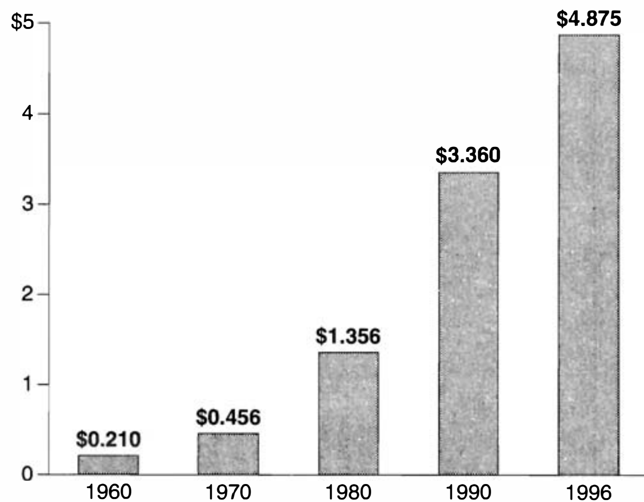
To grasp how large this $48,317 figure is, we look at the

FIGURE 4
### Consumer credit, 1960-96
(billions $)



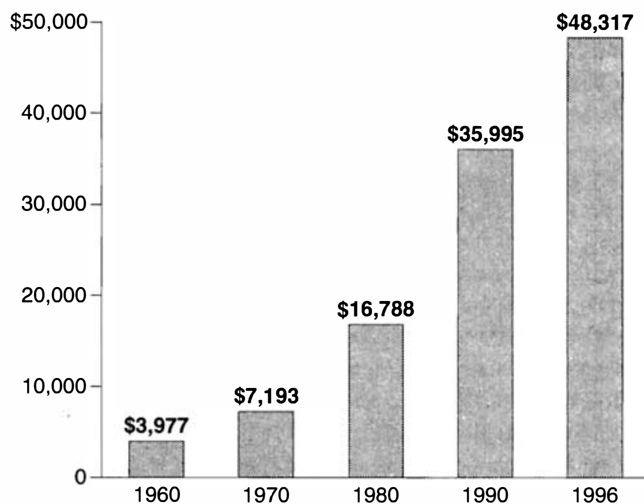

Source: Board of Governors of the Federal Reserve System, "Flow of Funds Accounts of the United States," "Household Table," various years.

FIGURE 5
**Total household debt**
(trillions $)



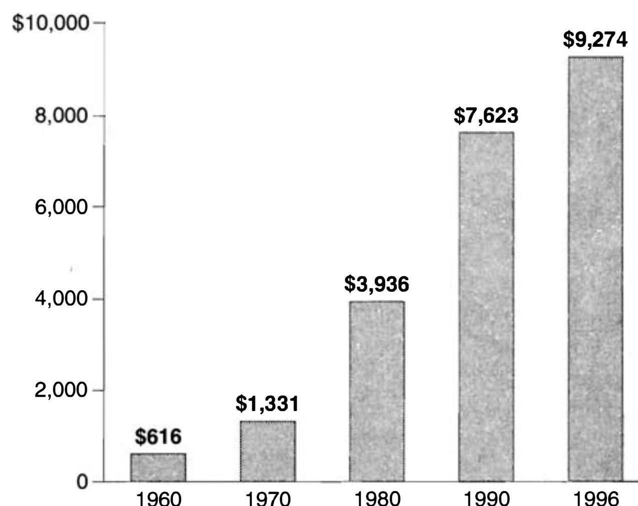

Source: Federal Reserve Board, "Flow of Funds Accounts," "Household Table," various years.

FIGURE 6
**Household debt per U.S. household**
(dollars)




Source: Federal Reserve Board, "Flow of Funds Accounts," "Household Table," various years.

FIGURE 7
**Average annual debt service paid per household on household debt**
(dollars)




Source: Federal Reserve Board, "Flow of Funds Accounts," "Household Table," various years.

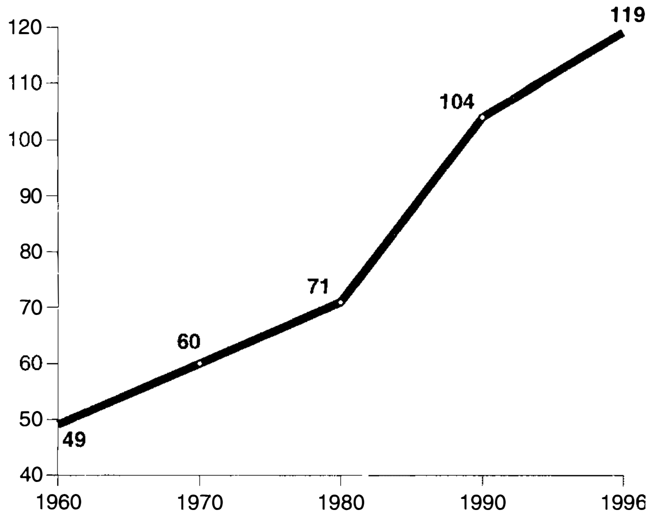
associated debt service charges, and the number of paychecks it would require to pay it off. **Figure 7** shows that by 1996, the annual per-household debt service (interest and principal repayment) charge on the average household debt of $48,317, was $9,274 per year. Much of this charge is due to mortgage payments, but a sizable part of it is due to consumer credit, and almost 40% is due to excessively high interest rates. **Figure 8** shows that were one to devote an average worker's weekly paycheck exclusively to paying off household debt, it would require more than double the paychecks it required in 1960—again verifying that a household today possesses less real income with which to service its debt.

## The credit card debacle

Consumer credit is the fastest-growing element in household debt, and credit card debt is the fastest-growing element, and is now the biggest portion of consumer credit. **Figure 9** reveals the level of credit card debt from 1970 through to the present. In absolute volume terms, half of all the growth occurred during the last six years, with the following annual growth rates in credit card debt: 1991, 9.9%; 1992, 5.2%; 1993, 10.9%; 1994, 18.4%; 1995, 22.1%; 1996, 11.9%. (Most analysts simply use the Federal Reserve Board's figure for revolving credit as a stand-in for consumer credit, but that figure is too large; *EIR* has made adjustments which more accurately reflect the real level of credit card debt.)

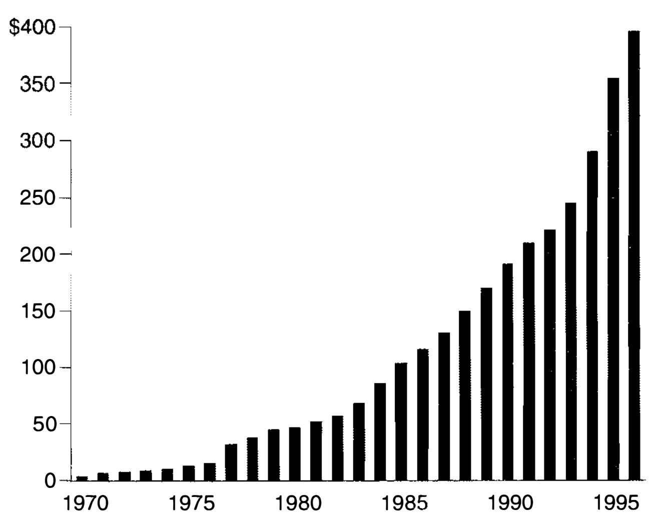
Just as important as the growth rates of credit card debt, is the level of balances owed by those credit card holders who maintain balances. Today, approximately 80% of U.S. households own one or more credit cards, and of these, approximately 25-30% pay off their balances when due, i.e., they don't carry a balance. This means that 56 to 60% of

FIGURE 8
**Number of weekly paychecks required to pay off household debt**




Sources: Federal Reserve Board, "Flow of Funds Accounts," "Household Table," various years; Department of Labor, Bureau of Labor Statistics, "Employment and Earnings," various years.

FIGURE 9
**Outstanding credit card debt, 1970-96**
(billions $)




Sources: Federal Reserve Board, "Flow of Funds Accounts," "Household Table," various years; EIR.

households carry credit card balances. In 1996, there were approximately 100 million households, so that means 56 to 60 million households carried credit card balances. If one divides the total amount of credit card balances outstanding by the number of households carrying balances, one obtains the average balance that the latter household carries on its credit card (**Figure 10**).

The figures indicate a tremendous leap in credit card debt per household carrying balances, from $1,235 in 1980, to $6,826 in 1996. At the annual interest rate of 15.9%, the interest charge in 1996 would be $791, which is about what the average household spent in 1994 on its electricity bill ($861), telephone service ($690), car repair ($680), or car insurance ($690). But here's the rub: These balances are not distributed evenly. Approximately 15 to 20 million card-holding households carry balances ranging from $15-20,000, up to $50,000 or more. On a $20,000 balance, at the prevailing interest rate, the annual interest fee is $3,180. For a household earning $30,000 gross per annum, with one-quarter of income going to tax and social insurance, and an after-tax annual income of $22,500, the $3,180 represents one-seventh of the household income. If the household rolls over the interest, the next year it will owe $23,180, with a still larger interest charge, and so on. This puts 15 to 20 million households potentially on the road to bankruptcy.

As a result, the delinquency rate on credit cards is soaring. In fourth-quarter 1996, credit card delinquencies in the United States reached the highest level since 1973, when the American Bankers Association began tracking the rate. The delinquency rate increased to a record 3.72% of all accounts in the fourth quarter, up from 3.48% in the third quarter (see **Figure 11**). However, based on the dollar balances outstanding of all credit card accounts, the delinquency rate in the fourth quarter reached a record 5.45%, meaning that 5.45% of all the dollar balances owed on credit cards are delinquent.

## Why purchases are made

As for the claim by the banks that credit card balances are largely run up for the purchase of extravagances, undoubtedly, persons exist who either ran up exorbitant credit card costs for frivolous purchases, and/or who walked out on credit card debt that they might have paid had they made the effort. Perhaps, when a serious detailed analysis of bankruptcy filings is completed, it will be found that these two factors account for 15 to 30% of all bankruptcy filings. But to claim, as do the London financiers and their coterie, that these two factors account for most, or even the majority of bankruptcy filings, is a travesty.

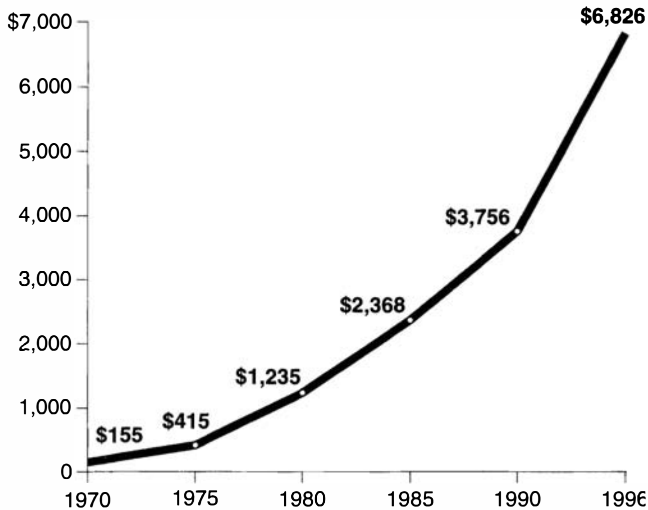
The evidence presented on the collapse of the consumer market basket by 50%, devastates the financiers' premise. Furthermore, a sifting through of public record information provides sufficient anecdotal evidence and supplementary substantial proof, to shatter the bankers' contentions. The depression-induced collapse in living standards is the determining factor.

For example, consider the case of Irene, an 84-year-old

FIGURE 10

**Credit card balance, per household carrying a credit card balance**

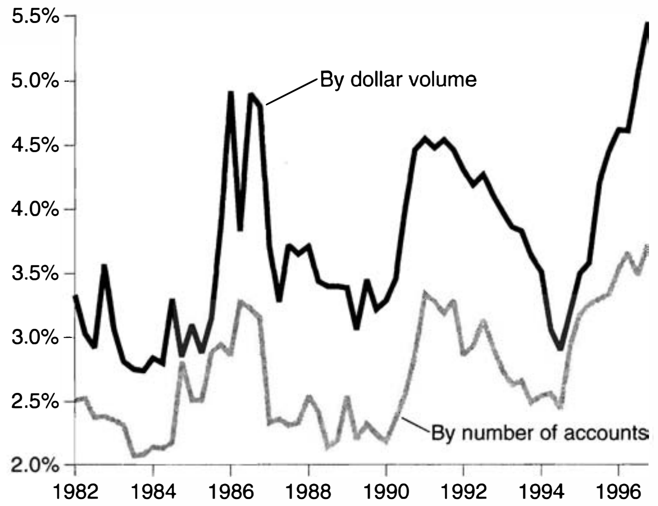
(dollars)




Sources: Federal Reserve Board, "Flow of Funds Accounts," "Household Table," various years; EIR.

FIGURE 11

**Rising rate of credit card delinquencies, 1982-96**




Source: American Bankers Association, March 13, 1997, "Consumer Delinquency Bulletin."

resident of Bogota, New Jersey, who was interviewed for the Aug. 25, 1996 *New York Times* article on credit card debt, on condition that her last name not be used. She first went into debt in 1988, when her husband was found to have Parkinson's disease. Her insurance would not cover the $300 a month in drugs he needed, so she used her Visa account. Over six years, the couple ran up a debt of $16,000, using their combined Social Security checks to make the required monthly minimum payments. When her husband died in February 1996, Irene filed for bankruptcy protection. "I don't like the idea," she said. "But I had reached a point where we weren't even able to make the minimum payment."

The *Times* listed cases of those who lined up before a bankruptcy court in Newark, New Jersey one morning: "A doctor hit by the plummeting value of his $300,000 home. A salesman who plunged into debt when his company took away the 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."

Jonathan Kohn, a bankruptcy trustee who represents the bankruptcy court in Newark, reported, "Downsizing is the current theme here. People who have been let go from good-paying jobs have to settle for jobs paying much less. They start using their credit cards to meet ordinary living expenses."

There are millions of Americans who are scraping by to make medical payments, especially for copayments or medications which their managed-care medical insurer won't cover, by using their credit cards. There are millions of persons who lost their jobs, and who, unable to survive on their combined unemployment insurance and spouse's income, charge household expenses on four, five, even as many as 10 different credit cards. According to one financial journal, in some sections of the Washington, D.C. area, $1 out of every $7 charged on a credit card is for the purchase of food at the grocery store. Of course, for some people such charges are conveniences, but for others, it is the only way to afford the monthly food bill.

The credit card crisis has reached the very poor. Nearly one in every three families whose household income is below $10,000 now has credit card obligations that exceed 40% of its income, reports David Wyss, an analyst for DRI/McGraw Hill.

But the evidence of the dire economic straits that cause a majority of the household bankruptcy filings can be gleaned even from the bankruptcy court records themselves. The Credit Research Center at Purdue University released a survey of personal bankruptcies for 13 cities. It found that the average annual after-tax income of Chapter 7 bankrupts (the most common) was $19,800, while these bankrupts held credit card debts averaging $17,544. An after-tax income of $19,800 does not represent an upper-income scam artist. It is barely enough for one person to live on, and for two, three, or more people to survive on such an income is difficult, if not impossible.

The point is further confirmed. In a recent study, Visa

International reported that whereas in 1988, the average household filing for bankruptcy had debt that was 3.5 times its income, in 1997, the debt had risen to 5.3 times its income. Thus, the debt-to-income ratio rose 50% for those filing for bankruptcy. In real terms, it was the debt level, not the income, that did the rising.

## The 'subprime' market

But even after a household has fallen into bankruptcy, the City of London and Wall Street financiers will resign it as a customer, but now at interest rates that could go to twice as high as before.

This is the "subprime" market, a kind of "junk bond"-rated market for households. Duff and Phelps, a credit-rating agency based in Chicago, rates customers who are prospective borrowers, on the basis of A through D. An A customer has a good credit rating; B through D are subprime. A B-rated prospective customer is someone who *may have experienced bankruptcy within the last three years.* A D-rated prospective customer, is someone who may have experienced bankruptcy within the last 12 months.

The subprime market has exploded in size: Billboards across America and late-night television advertisements trumpet their wares. Its stunning growth signifies two developments: first, how desperate households are to obtain credit, at whatever cost. Most subprime borrowings are for car or home purchases, or hospital bills. Most frequently, a customer does not enter the subprime market just to get an extra pair of Gucci shoes, not when it will cost him or her a 20 to 35% interest rate charge (there are exceptions). Second, it signals how shaky and close to implosion the consumer debt bubble is. On top of the highest level of credit card delinquencies and defaults in history, financial institutions are making loans to people who have been through bankruptcy once, or even multiple times, or who have impaired credit ratings, which makes lending to them risky.

The nature of the $4.875 trillion household debt bubble is that the bankers must feed it with new lending, bringing in temporary (and fictitious) earnings, just to keep the bubble aloft. This has increased the risk factor of the bubble many times over.

Subprime lending is most advanced in auto. At the start of the 1980s, its size was minuscule. By the end of 1996, subprime auto loans were approximately $70 billion outstanding. This represents 18.5% of the nation's $378 billion outstanding auto loans. Moreover, in 1995, it represented 21% of new auto loans, and has even extended to the car leasing market. In 1995, of all new auto leases, 14% were in the subprime market. When it comes to used cars, the ratio is higher: In 1995, of the vehicles sold from used-car lots, 52.8% carried subprime loans. (Some of these subprime loans are bundled together, and bonds are issued against them—a process called securitization—which are then hawked to the financial markets.)

The volume of subprime housing loans is estimated to be $50-120 billion. This is still less than 3% of the total volume of all home mortgages in America, but the growth of this subprime part of the market is brisk.

As for the credit card market, a number of leading banks compete to offer credit cards to subprime customers—but at a price. A financial analyst explained how it works. For a customer, coming out of bankruptcy, to get a new $2,000 subprime line of credit-card credit, he will be asked to put $500 to $1,000 on deposit in a savings account at the bank or financial institution issuing him the subprime credit card. He will also be told to pay a $25 annual fee. The interest charge on his new credit card will be 20 to 30%. But a percentage of the money that the bank lends him on the new credit card, is money that the subprime customer deposited in a savings account at the bank, as a condition for the loan, but on which he is only earning about 3% interest. Assume the customer draws out $500 on his new credit line—this is not new money, he already put that money in the bank; but. he will now have to pay 20 to 30% interest on the $500. When all the different features are added together, the subprime customer could be paying an effective interest rate of 30-35%.

There are some who think that this rate is not high enough. Robert Johnson, the founder of the Center for Consumer Research at Purdue University, told *EIR* on May 2 that the inter-

## Credit card issuers wage terror campaign to collect

Banks and other issuers of credit cards are resorting to terror campaigns to collect their debt. For example, the Sears Roebuck retail firm, which issues a store credit card, is sending out letters to customers to pay off their Sears cards, even if the customers have already declared bankruptcy. It is not legal to ask a Chapter 7 bankrupt to pay off his old debt.

Sears sends out a "reaffirmation letter" to the bankrupt customer, which declares the Sears debt to be "non-dischargeable." Sears threatens to prosecute customers with credit card fraud if they refuse to sign the letter.

A federal bankruptcy judge in Boston ruled in November 1995, and then again in February 1996, that Sears's method of collecting debt from bankrupts was illegal. Until recently, Sears continued the practice. Similar practices, which are legally a little more refined, are routinely engaged in by other credit-card-issuing financial institutions.

est ceiling (that is, the usury ceiling) for credit card interest charges in Indiana, is 36% for the first $700 loaned, and then 18% thereafter. Johnson, who is a free-enterprise deregulator, is seeking to have all state interest ceilings eliminated. Johnson stated, "By not allowing a financial institution to charge what it wants, it may force a financial institution to choose not to make a loan to a prospective customer, and then that customer will have to go to a loan shark." If a 36% interest charge is not loan-sharking then what is? Johnson explained, "In Texas, there are places that will make you loans for a few hundred dollars at a 165% interest rate. It's legal." According to Johnson, borrowers who are ignorant or who don't have a credit rating, and are desperate for money, will go to such loan houses.

The reason that banks are attracted to credit card lending is the gigantic interest rates they can charge. Even the "average," plain vanilla credit card interest currently charges 15.9% (this is the blended rate, including the introductory 5.9% rates that banks charge to get you to transfer your account to them). By contrast, the cost of the bank's funds—what it will have to pay to attract money on either a savings account or a CD—runs, at most, 7%, and usually is less than 5%.

The increased number of household bankruptcy filings has led to increased charge-offs. Visa and MasterCard claim that there were $8 billion in credit card charge-offs last year.

Stephen Brobeck pointed out in Congressional testimony in February that if the banks really believed that they were being taken advantage of by unscrupulous customers who file for bankruptcy at the drop of a hat, the banks could tighten their eligibility requirements, and restrict the amount of credit they extend. While this has happened on a small scale, the larger reality is that in 1996, banks and related financial institutions mailed out 2.5 billion credit card applications. This comes out to 25 per household. A household would be receiving an application every other week.

## Crossing the line

The household/consumer credit bubble is on the verge of popping. It was inevitable that the record levels of personal bankruptcy filings and credit card delinquencies would make themselves felt in the credit card sector itself. During the past two years, in particular since the beginning of 1997, banks and financial institutions that engaged in the credit card business, have experienced an increasing density of large-scale failures, some of which have led to bankruptcy filings.

Perhaps the biggest failure—it has not been declared a bankruptcy, lest there be panic—is Advanta Corp. of Spring House, Pennsylvania. Advanta built itself into America's eighth-largest credit card issuer, with a credit card loan portfolio of $12.4 billion. In the process, it became a poster boy for the credit card sector. Advanta developed a "fail-safe scheme" to seek out more affluent customers, offering "gold cards" with greater credit limits. According to the March 18 *New York Times,* "The company . . . developed complex computer models intended to sift millions of tidbits of information about prospective customers to find those it believed would run up big balances while still being able to repay them." It offered a 5.9% introductory interest rate, for new customers to shift their balances from other credit cards charging higher interest rates, to Advanta. But after the introductory period, when Advanta attempted to shift these new customers to a 15% interest rate, the customers either shifted their balances to another credit card company, offering a low introductory rate, or fell behind on their balances and defaulted. Advanta could not sign up enough new customers to cover its surging losses on new and existing balances.

Advanta announced first-quarter 1997 losses of $20 million. But the shocker came when Advanta announced that it was taking gigantic charge-offs of $820-860 million on its $12.4 billion credit card loan portfolio, an amount equal to 6.6-7% of its entire portfolio, in just one quarter. The financial press is filed with stories of attempts to find a company that Advanta could be merged with to prevent its bankruptcy filing.

Two years ago, Mellon Bank and Mercantile Bancorporation chalked up "unexpected losses" from their credit card operations. Today, Dean Witter, Discover, First Chicago NBD, and Banc One, all credit card sector leaders, are experiencing escalating losses. Banc One had to take the extraordinary step of bailing out bonds backed by its credit card loans, because losses were higher than investors in the bonds expected.

The burgeoning, and credit-risky subprime market is suffering casualties. On Feb. 6, the Dallas-based Jayhawk Acceptance Corp., a large player in the auto subprime market specializing in used-car loans, filed for Chapter 11 bankruptcy. During the last week of January, Mercury Finance Corp., the giant in the auto subprime lending market with $1.5 billion in loans and 300 branch offices, announced that it was taking a $100 million write-off. While analysts pointed to internal fraud (alleged padding of figures), the real culprit is the weakness of the subprime market. Mercury's stock has since plunged more than 80%; potential investors are being sought to purchase part or all of Mercury's operations to prevent a catastrophe in the subprime market.

The conditions for meltdown are ripe. The household debt market, at $4.875 trillion, is so huge, that a failure of even a significant part of it could bring on a worldwide systemtic financial collapse. The underlying problem is the same as that producing the record rate of household bankruptcies: the pyramiding of a growing debt load upon a shrinking household living standard, in the context of a collapsing economy.

In this environment, to attempt to stem the tide of financial disintegration, the financiers may proclaim that the economy is doing fine, and put the blame on "profligate consumers." But it is time to face reality.