'The Real State of the U.S. Economy'

This is an outline of the Dec. 2 presentation by EIR *Intelligence Director Jeffrey Steinberg at the Canon Institute in Tokyo, based on his notes. A transcript is not yet available.*

If you follow the mainstream U.S. media, or the pronouncements of the Obama Administration on the state of the U.S. economy, you are being fed a totally false picture, with claims of a gradual recovery and almost robust job creation. Nothing could be further from the truth, and I will give you a brief picture of what has actually happened to the U.S. economy, under the Obama Administration and the preceding Bush Administration.

Every month, the Labor Department's Bureau of Labor Statistics (BLS) provides an in-depth statistical report on employment. Mainstream media and the Obama Administration spokesmen cherry-pick a small fraction of the data and present a rosy picture of declining unemployment. But a more careful look at the very same data paints a very different, devastating picture of Depression-level unemployment and underemployment.

Seven Truths the Obama People Hide

1. The BLS hides the real unemployment and underemployment picture. Ninety-four million working age (16-65) Americans are not counted in the labor force. Working-age unemployment is more than double the official figure. Forty percent of the employed workforce earns under $15,000 per year, which is a minimum-wage full-time salary. Twenty-three million employed Americans earn under $5,000 per year.

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Collapsing industry: Detroit's Fisher Body 21 and Packard Car Plant today. In 1960 a thriving auto industry gave Detroit the highest per capita income in the country.

2. The collapse in earning power and wages is related to the changing character of the American economy. Only 12.8% of the employed labor force is engaged in goods-producing activity, which is mining, construction, and manufacturing; 8.2% of the total workforce is engaged in manufacturing; and 79.9% is employed in the service sector, which includes 15% who are employed by the Federal, state, and local governments. While not all service jobs are a net loss to the real economy, it is still a fact that almost 80% of those employed are part of overhead costs, and are not directly involved in producing anything that can be held, used, or sold.

Ten percent of U.S. manufacturing is defense production. Since 2001, 42,400 factories have been shut down. Ninety thousand additional factories are in jeopardy of

Marc A. Hermann/MTA New York City

Infrastructure collapse: A water main break in April 2015 floods the New York City subway.

being shut down in the coming decade. While some manufacturing job loss can be attributed to technological advances, including robotics, new generation computerized machine tools, and the like, the factory shutdown data makes clear that some of the loss of manufacturing jobs is not based on such advances. The 2005 shutdown of much of the U.S. Midwest auto sector is the clearest example of this factor.

Another true measure of the manufacturing decline is the dramatic collapse in the U.S. machine tool sector, where there was a 23% decline in output from 1998 to 2009. During the same period, China's machine-tool output increased by 714%. Today the United States accounts for only 5.1% of global machine-tool production. There was a period, not so long ago, when the United States, Germany, and Japan were the giants of the machine tool sector, worldwide. That is no longer the case.

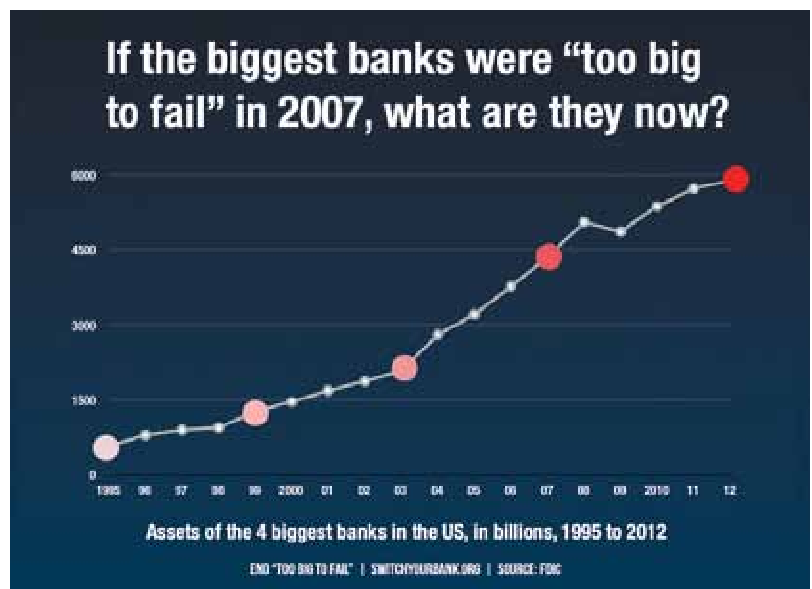
3. **The nation's infrastructure is in horrible shape.** The American Society of Civil Engineers produces an Infrastructure Report Card every four years (the latest report card was in 2013). Overall, the ASCE gave the U.S.A. a "D" (an improvement over the "D-" of four years prior). Between 2015 and 2020, to maintain infrastructure at a stable level would require a $3.6 trillion investment. The ASCE projects that there will only be $2 trillion spent, deepening the deficit. This does not even take into account the need for improvements, just maintenance.

4. **The Too-Big-To-Fail banks are 40% bigger, and are more exposed now to a looming derivatives blowout, than they were at the time of the September 2008 Lehman Brothers collapse.** The Richmond Federal Reserve Bank reports that another bailout like 2008, would cost taxpayers $26.5 trillion, more than the 2008-2010 bailout. Thomas Hoenig, Vice Chairman of the Federal Deposit Insurance Corporation (FDIC), says that unless there is a return to Glass-Steagall, a new and bigger blowout is inevitable.

As the result of the quantitative easing (QE) bailout

FIGURE 1

Ready for the next blowout



program, the Fed now holds $5.2 trillion in assets, over half of which are troubled. Just prior to the 2008 crash, the Fed's assets portfolio was $800 million.

The Fed cannot do another QE without triggering a hyperinflationary blowout, and the Fed does not dare sell off any of its portfolio for fear of triggering a collapse.

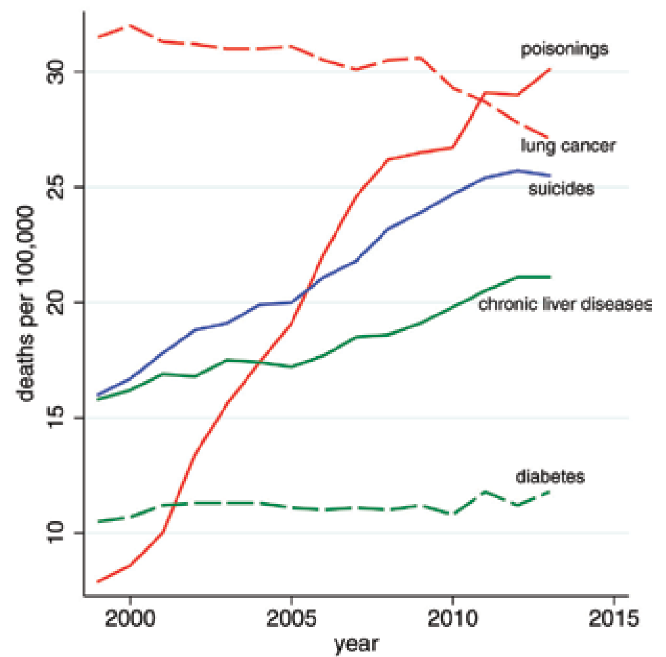
The Fed's zero interest rate policy, now in its seventh year, has robbed retirees and those saving for retirement, of interest earnings, forcing them to either enter into more risky stock market investments, or lose interest earnings. This means they either live off of savings or face serious austerity choices. One analyst estimates that the zero interest rates have robbed retirees of $10 trillion dollars, a fact which has also seriously impacted the consumer economy.

5. Commercial banks are over-exposed to junk debt, especially in the energy sector, which is largely tied to the cycle of bankruptcies and defaults occurring in the capital-intensive fracking industry, due to the collapse of the oil price globally.

For example: The *Energy Intelligence Briefing* of Dec. 1 cited an S&P report that 77% of oil exploration and production (E&P) companies have junk debt ratings, out of 153 such companies which have ratings at all. Furthermore, banks have cut their credit to the oil/oil service sector by only 10% in 2015 so far. So it's about to happen. Their debt service share of operating cash flow is now over 85%. Forbes forecasts that the next significant oil companies to fail will be Goodrich Petroleum (GDP), Swift Energy (SFY), Energy XXI (EXXI), and Halcón Resources (HK), among others. These companies have all lost more than 90% of their market value since 2014.

6. **Social consequences:** The Centers for Disease Control declared a heroin epidemic in August 2015, with the greatest growth in heroin addiction among households earning $50,000 a year or more—middle class income. Among those households, heroin abuse rose by 60% in the last four years where data is available. A recent Princeton study found that middle age death rates have also skyrocketed since 2001. While every other advanced sector nation has experienced a continuing decline in the death rate, the United States has gone into a death spiral, largely driven by the psychological fallout of a collapsing economy: drug abuse, depression, suicide, despair.

FIGURE 2
Drug poisonings lead the death surge



Proceedings of the National Academy of Sciences

Wages of despair: The astronomical rise in mortality among white non-Hispanics aged 45-54, documented the a study by Princeton professors Anne Case and Angus Deaton, is led by poisonings, which consists heavily of drugs.

7. Youth are hardest hit by the economic consequences of the policies of the last two administrations. In 2013, there were 30 states out of 50 where youth unemployment and underemployment was greater than 30%. In five states—Nevada, Illinois, Mississippi, California and North Carolina—the rate was over 40%.

What Can Be Done

The solutions are at hand:

• Reinstate Glass-Steagall banking separation, which will wipe out taxpayer bail-out/bail-in obligations.

• Launch Federal capital investment in vital infrastructure, including high-speed rail and water management.

• Revive NASA.

This means the United States becoming fully engaged with the 'One Belt, One Road' World Land-Bridge project. Establish either a Hamiltonian National Bank or an equivalent, such as the Reconstruction Finance Corporation (RFC), which FDR used to generate the rebuilding of the U.S. economy from the last great depression.

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