calculates that private foreign capital going into the "emerging markets" overall, is running 22% less than last year.

The concern of the officials meeting in Washington was not Brazil, or Turkey, or any of the other debtors, but how to ensure top financiers get their money out, before the entire asset class of "sovereign emerging market debt" disappears. This will happen if Brazil defaults, Merrill Lynch analyst Tulio Vera reminded a Washington seminar. Thus, the various competing proposals—each more psychotic than the next—placed on the table at the IMF meetings by the U.S. Treasury and the IMF, for how to streamline bankruptcy procedures to maximize centralized control over the collapse. None of these proposals will work, but they do serve as an admission that bankruptcies are the order of the day.

In Brazil's case, the game had been, until July, to keep rolling the debt over, as it comes due. But, as the government and corporations found in September, "the market" is no longer willing to buy Brazilian paper. That means, they either pay them off, or default. Several large Brazilian corporations did default on payments due in September, "rescheduling" them with their creditors. The government had to pay off 57% of the dollar-indexed loans which came due, and could not get investors even to renew $8 billion in currency-hedge contracts which came due, because "investors" preferred to hold dollars.

Shutting Down Economic Activity

As more comes due, where will the money come from to pay the debt off? Reserves are finite . . . and diminishing. The Central Bank spent some $700 million in three days at the end of the month, to keep the real from dropping to 4 to the dollar. The government, like Argentina before it, has already gutted expenditures, in order to free up tax revenues for debt payments—simply not disbursing at least $10 billion worth of planned government programs in 2002. Brazil's participation in the International Space Station was cancelled, as were key river-dredging projects, a plan to create a national network of health clinics, needed national highway repairs, and on and on. Even basic yearly service for Army draftees was cancelled.

As uneasy Brazilians watching Argentina are constantly reminded, gutting the physical economy of the nation to pay an unpayable, usurious debt, is not a viable path to solvency, but rather leads to a Dark Age, to starvation, and death. Brazil, while still maintaining high-technology economic capabilities, has far greater portions of its population already living in abject poverty than Argentina had, before the spectacular *physical* implosion of the latter's economy over 2000-2002.

Today, thousands of desperate Argentine workers are seizing bankrupt companies to try to keep them operating—even if that means working for only 7¢ an hour, a hot meal, and a place to sleep—because their only other choice is to steal, to join the 40,000 people scavenging off garbage dumps, or to starve to death.

U.S. Credit Market Debt Grows by Record Amount

by Richard Freeman

American indebtedness exploded in the second quarter of 2002, taking the U.S. debt bubble to unprecedented, and unsustainable, heights. The leading sectors increasing their debt load were the Federal government, households, and financial businesses. Throughout the economy, this debt is papering over existing debt, feeding the housing bubble, and letting households and productive non-financial businesses survive. Lyndon LaRouche has warned that this process—led by Federal Reserve Board chairman Sir Alan Greenspan—is creating the basis for a powerful Weimar-style hyperinflationary explosion to shatter the world financial system.

U.S. total indebtedness combines three sectors: 1) business debt (the combined debt of non-financial and financial businesses); 2) household debt (combined household mortgage, credit card, and installment debt); and 3) Federal, state, and local government debt.

The Federal Reserve Board of Governors, which does most of the reporting of U.S. indebtedness, only reports debt on a "credit market basis," which represents nine-tenths of all debt. "Credit market debt" is that debt which can be purchased and sold freely on the credit markets. However, there is also "non-credit market debt." The U.S. government issues both credit market and non-credit market debt; the latter consists of special U.S. Treasury securities, which cannot be bought on the open market, and which are bought by U.S. government trust funds, principally the Social Security Trust Fund.

Table 1 zeroes in on U.S. credit market debt, and its major components. The table shows that total U.S. credit market debt increased from $29.234 trillion to $29.846 trillion from the first to the second quarter, a rise of $612 billion. But the Federal Reserve Board of Governors annualizes the quarterly data; that is, were the second quarter trajectory to continue for a full year, that second quarter increase rate would swell total U.S. credit market indebtedness by $2.448 trillion. *This would constitute the largest annual increase in U.S. credit market debt in history.*

There are three major components which drove overall credit market indebtedness higher. During the second quarter, U.S. Federal government borrowing increased by more than $112 billion—when annualized, it comes to a gigantic $451 billion increase. **Table 2** shows that the Federal government borrowed 11 times more during the second quarter 2002, than

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TABLE 1

U.S. Credit Market Debt Outstanding, by Leading Sector

($ Trillions)

Date	Total Credit Market Debt(a)	Federal Credit Market Debt(a)	Non-Financial Business	Financial Business	Household
1997	20.711	3.805	4.762	5.458	5.557
1998	22.831	3.752	5.322	6.545	6.012
1999	25.019	3.681	5.946	7.630	6.510
2000	26.725	3.385	6.533	8.457	7.070
2001	28.781	3.380	6.934	9.405	7.680
2002					
1Q	29.234	3.390	6.967	9.623	7.856
2Q	29.846	3.502	7.017	9.852	8.033

(a): does not include more than $2.5 trillion in U.S. Treasury bonds, which the Treasury has issued and which are now held by the Social Security Trust Fund.
Source: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; *EIR.*

TABLE 2

Change in U.S. Credit Market Debt

($ Trillions)

Date	Total Credit Market Debt(a)	Federal Credit Market Debt(a)	Non-Financial Business	Financial Business	Household
1998	2.130	–0.053	0.560	1.087	0.455
1999	2.188	–0.071	0.589	1.084	0.498
2000	1.706	–0.296	0.588	0.815	0.541
2001	2.056	–0.006	0.400	0.950	0.610
2002(b)					
1Q	1.812	0.040	0.132	0.875	0.703
2Q	2.448	0.451	0.201	0.916	0.706

(a): does not include more than $2.5 trillion in U.S. Treasury bonds, which the Treasury has issued and which are now held by the Social Security Trust Fund.
(b): first and second quarter data stated on an annualized basis.
Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; *EIR.*

during the first. The majority of this borrowing stemmed from the huge Federal tax revenue collapse—due to the collapsing economy—which the government had to cover by borrowing.

Second, financial businesses borrowed at an annualized rate of $916 billion during the second quarter. The category of financial business includes banks and insurance companies, but also Fannie Mae and Freddie Mac, the two giant agencies which dominate the secondary market in housing mortgages. More than half of the financial business sector's borrowing was done by bonds issued by Fannie Mae and Freddie Mac, meaning that funds were being sucked in to finance the American housing bubble.

And third, households increased their indebtedness at an annualized rate of $706 billion. Of that increase, $598 billion—85% of the total—was households' increase of their mortgage debt.

Thus, the U.S. increased its debt borrowings largely to cover the shortfall in tax revenues and to feed the dangerous housing bubble. Indiviudals and households also borrowed merely to survive.

There is one last element to consider: At the end of the second quarter, total U.S. credit market debt reached $29.846 trillion. At the same time, U.S. government *non-credit market* U.S. Treasury debt rose to $2.662 trillion. Total U.S. debt consists of both elements, so it surged to a staggering $32.508 trillion.

EIR's July 5 issue documented ("Rollover of U.S. Debt Will Yield Weimar Hyperinflation"), that the debt service burden (annual payment of interest and that portion of principal which is due) on total U.S. debt is greater than $7 trillion—the equivalent of nearly three-quarters of the Gross National Product. The debt service sucks dry households, businesses, and governments. Were Greenspan to rapidly increase monetary reserves to facilitate the financing of this debt, this would create a Weimar-style hyperinflationary explosion. But were the Fed—fearing hyperinflation—not to print considerably more money, this debt burden will further contract the physical economy, the basis of human existence, making service on this debt impossible. By either path, the insupportable burden destroys the financial system.