

Hyperinflationary Price Explosion in Housing Is Sweeping the U.S.

by Richard Freeman

A hyperinflationary spiral is sending U.S. home prices skyward; the prices bear no relation to what most Americans can afford. Rather, this reflects the debt-ubiquitous policy of the British-American-Commonwealth financier oligarchy, and the crossing over of this process, through a critical boundary condition, into a Weimar Germany-style hyperinflationary spiral. This has turned the U.S. housing market into one of the biggest speculative markets in the world.

This makes a mockery of U.S. government lies, that “core inflation” in the United States is only 2.5%. Look at California, which has 34 million people, 12% of America’s population. In nine California counties, between second quarter 1999 and second quarter 2000, the median price of an existing home increased a whopping 15 to 39%. In one of them, Santa Clara County—where most of Silicon Valley is located—between June 1999 and June 2000, the median price of an existing home shot up from \$402,000 to \$559,000. Just the amount of that increase of \$157,000, is more than the median price that homes used to cost in the United States two years ago.

As a result of this process, the market price of all housing in the United States escalated from \$7.6 trillion in 1995, to almost \$11 trillion in 2000—which is more than the



An expensive Virginia home, partly constructed, sold, foreclosed and abandoned in short order, confirms Freeman’s forecast.

There could be . . . a second disaster: The valuation of the housing market will burst; trillions of dollars of fake appreciation will be wiped out. The foreclosure rate will soar, and millions will join the homeless.

capitalization of the stock markets of Britain, France, Germany, and Italy combined. This is part of a total U.S. real estate valuation of \$16.8 trillion.

The usurious bankers and real estate speculators are sucking the population dry. Housing at inflated prices exists primarily for the wealthy upper 20 to 30 percentile of the population, by income. But for the lower 70% of the population, there is an intensifying housing crisis, which has given them only two choices. First, they must spend more than they can afford to get housing. The U.S. government, as well as the National Association of Homebuilders, estimate that a household should spend about 28% of its gross (pre-tax) income for housing—either for a mortgage or rent (either an apartment or house). But in order to have a place to live, with affordable housing becoming non-existent, households spend a prohibitive 35 to 40% of their income on housing, leaving them less for other expenses, and to live on.

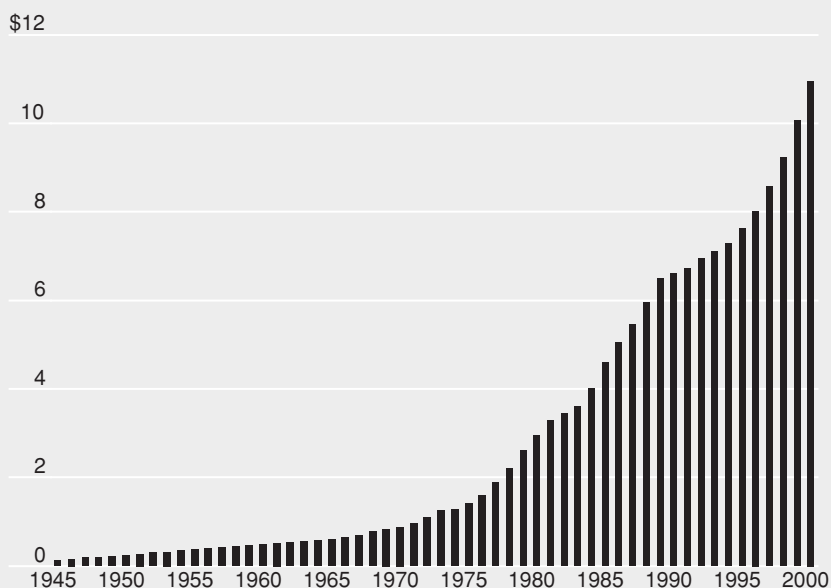
Moreover, for the lowest 40% percentile of the population, by income, the housing crisis has become acute. They spend 40% to 60% or more of their income on housing. They live in housing that is often squalid and unfit for human beings. Some families live doubled up in quarters intended only for one family. In New York City, in some cases, people live 10 to 12 people in a room. Then, there are at least 7 million people who spend part or all of the year homeless, sleeping in shelters, cars, or out on the street.

But this situation has recently become worse, to the point that 60 million Americans live only one or two missed paychecks away from foreclosure and homelessness. The final phase of the onrushing financial disintegration will have the effect of throwing millions of people out of their homes, and leaving empty hundreds of thousands of the overpriced houses currently being built.

The Real Estate Bubble's History

This is not a natural crisis. Following the assassination of President John F. Kennedy in 1963, the City of London and Wall Street financier oligarchy imposed on the United States a "post-industrial society" policy, which withered production in manufacturing, agriculture, and infrastructure, but fostered the growth of wild speculation. As part of this process, in 1971, President Richard Nixon took the U.S. dollar off the gold reserve standard, severing links between financial flows and real processes of production. In October 1979, Federal

FIGURE 1
Hyperinflation in Home Market Valuation, 1945-2000
(Trillions \$)



Source: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts."

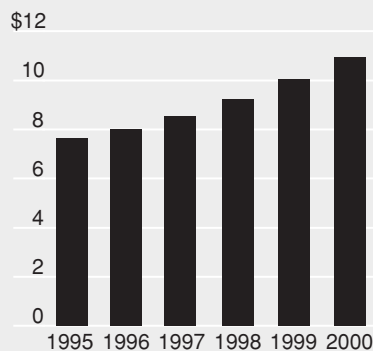
Reserve Board Chairman Paul Volcker instituted a policy of "controlled disintegration of the economy," as a variant of the post-industrial society. This policy had been devised at the New York Council on Foreign Relations, as part of its "Project 1980s." Volcker raised interest rates so that by December 1980, the prime lending rate charged by banks had been forced to 21.5%. Industry and agriculture buckled; in this hot-house atmosphere, speculation took off. Entire sections of America's machine tool, farm implement, and steel production shut down, never to open up again.

Continuing this process, in 1981, the Reagan-Bush administration signed into law the Kemp-Roth Tax Act, which gave tax breaks to speculation in real estate and the stock market; and in 1982, it signed into law the Garn-St Germain Act, which deregulated America's banking system, increasing non-productive financial flows.

These and other policies, each more ruinous than the preceding one, deliberately caused the physical economy, upon which human existence depends, to contract at the rate of 1 to 2% per annum, for the last three decades, and at the same time, built up gigantic financial bubbles.

Figure 1 shows the total value of all homes in America, called the total market

FIGURE 2
Home Market Valuation Rises Sharply, 1995-2000
(Trillions \$)



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

valuation. Were the current trend to continue, it would reach \$10.95 trillion this year.¹ Figure 2 shows the increase in valua-

1. The figures used in this report for the year 2000, unless specified for a particular month or

tion—representing asset inflation—during just the last five years. This speculative process has produced an asset inflation and increase of debt in other sections of the economy (see box).

This cumulative value of the mass of combined property titles, while sucking the economy dry, also works to the effect of one bubble building the other. The stock market is responsible, in part, for the run-up in home prices. The stock market, under its fake appreciation, is now generating more than one-half trillion dollars in capital gains per year. As much as one-third of

quarter of the year, are projections, usually based on the first six months' economic performance.

that—nearly \$200 billion per year—is pumped into the housing market, creating a huge speculative financial flow for home purchases, which bid up home prices. (In addition, the “High Tech”/Information Age sector also pumps as much as \$150 billion per year into the housing market.)

Federal Reserve Board Chairman Alan Greenspan and Treasury Secretary Larry Summers attempted to hold up this speculative mass of fictitious property titles. In the period of August-October 1998, they responded with desperation to the financial crisis unfolding, and instituted a wildly disastrous policy. They turned on the printing presses full steam. On Aug. 17, 1998, the Russian government declared a 90-day moratorium on short-term Treasury debt,

called GKO's, and other categories of debt. On Sept. 23, 1998, the Long Term Capital Management (LTCM) hedge fund, effectively failed on \$1.25 trillion of derivatives contracts. The world financial system was on the verge of melting down. During the next two months, Greenspan cut the Federal funds rate three times, and pumped large volumes of monetary aggregates into the economy, to prevent collapse. Each time over the next two years that part of the financial system threatened to go, such as the February 1999 so-called Brazil crisis, Greenspan, assisted by Summers, responded by throwing up a wall of money.

This had a dramatic effect, which to understand, one must begin from the standpoint of Lyndon LaRouche's Triple Curve,

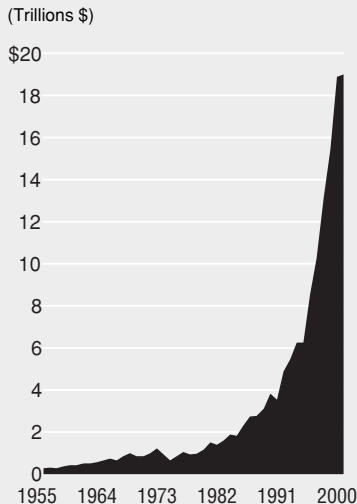
Financial Aggregates Soar

The growth of the speculative process has generated hyperbolically growing cancerous bubbles. **Figure 3** shows the effect of the speculation-driven stock market mania, where the American stock market valuation has vaulted to \$19.0 trillion. **Figure 4** shows the actual debt

level of the United States—including Federal, state, and local government debt; business debt; and household debt—which rose from \$14.9 trillion in 1990, to \$29.9 trillion in 2000. **Figure 5** shows the outstanding level of derivatives in the United States, which now totals about \$57.5 trillion.

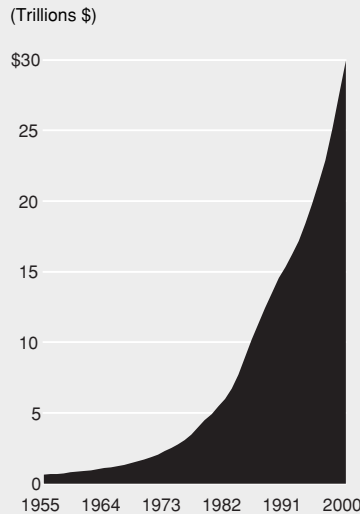
These three are prime parts of what is called the financial aggregates in the United States, and together total \$106.4 trillion. The rates of return on this financial aggregate—which are claims against the economy—total approximately \$3.5 to \$4 trillion per year.

FIGURE 3
U.S. Stock Market Capitalization, 1955-2000



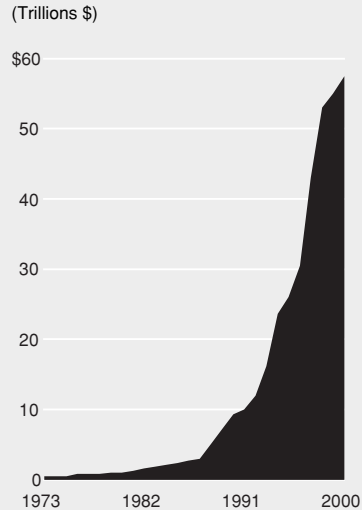
Source: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts."

FIGURE 4
Total U.S. Debt Obligations, 1955-2000



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; Office of Management and Budget, "Budget of the United States"; *EIR*.

FIGURE 5
U.S. Derivatives Outstanding Valuation, 1973-2000



Sources: U.S. Federal Deposit Insurance Corp.; U.S. Comptroller of the Currency; Bank for International Settlements; *EIR*.

FIGURE 6

A Typical Collapse Function

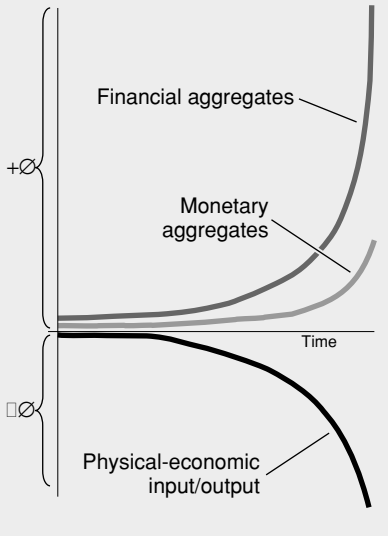
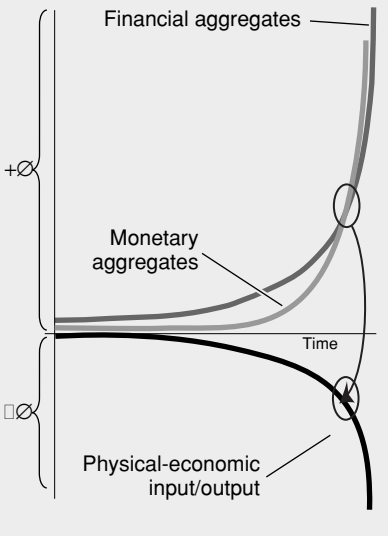


FIGURE 7

The Collapse Reaches a Critical Point of Instability



1999 and the second quarter of 2000, represents the leading edge of the hyperinflationary explosion of home prices in California, which, in turn, is driving the hyperinflationary explosion for the nation as a whole. In nine counties in California, the increase in home prices has been between 15 and 39%, over the past year.

Table 2 shows the median sales price for an existing, detached single-family home for the nine counties: It shows the median home price in the second quarter of 1999, and in the second quarter of 2000, and the increment in the home price over that period. (The median home price is the point above which half the homes are more expensive, and below which half the homes are less expensive.) These nine counties are very important: They have more than a third of California's population of 34 million, and more than a third of its roughly 8.5 million owner-occupied housing units. California has 12% of the population and owner-occupied housing units in the entire country. **Figure 8** shows the explosive increase in the price of homes in these nine counties.

The table shows that in the counties of Monterey, San Francisco Bay, and Santa Clara, the median price of an existing, detached single-family home zoomed up to \$398,830; \$465,410; and \$558,920, respectively. To put the absurdity of this into perspective, on a \$558,920 home, the annual mortgage cost (of interest and principal repayment) is \$45,000. This exceeds the projected median annual income of a U.S. household of \$42,000. That is, the annual mortgage charge on such a home is greater than the annual income of half the households in America, and even if such a household spent nothing on food, clothing, transportation, gas, and electricity, and other necessities, it still would not have enough income to afford such a home.

As a result of the upsweep in home prices in these nine counties, the median price for an existing home in the state of California as a whole, has shot up to \$240,760, an increase of 9.2% over last year. How many households in California, outside the very wealthy, can afford to fork over a quarter of a million dollars to buy an existing home? For a *new* home, the price would be higher still, by about 15%.

But California is the leading edge, though not alone in the price explosion, which is breaking out in hundreds of regions from coast to coast. For example, in Westchester County, New York, in June 2000, the median price of an existing home

or Typical Collapse Function. In this function, there is one process expressed by three curves (**Figure 6**). The upper curve represents the financial aggregates, the mass of speculative paper financial instruments and property titles, which have grown at an hyperbolic rate. The middle curve represents the monetary aggregates, principally the money supply, which have been increased to prevent the financial aggregates from collapsing. The lower curve represents the real physical economy, which the financial claims of the upper two curves have looted, causing its contraction.

In September-October 1998, Greenspan pumped up the money supply so that it headed toward a boundary condition, where "the rate of monetary expansion rises more rapidly than the rate of financial expansion," as LaRouche presented this in his paper "Regional Organization Under a New Bretton Woods" (*EIR*, June 9, 2000) (see **Figure 7**). This is what happened in Weimar Germany, producing the hyperinflation of 1922-23 which ripped Germany apart. This process is governed by a Riemann shock front, as LaRouche has described it (see LaRouche's speech in this issue).

This generated a phase shift, so that an asset inflation was changed into a hyperinflation of commodity prices and other instruments.

This is reflected in the price of a home in Santa Clara County, California. There is a housing shortage in parts of California,

but a shortage would increase home prices by \$1,000, or \$2,000, or \$5,000—not by \$157,000 in one year. The \$157,000 jump is a stark indication of the broader hyperinflation.

This hyperinflationary spiral is beginning to break out in other areas, as indicated by **Table 1**.

This can become a hyperinflationary process that will, at some phase, require wheelbarrows full of currency to buy a loaf of bread, pulverizing the economic fabric of society.

There could be, at the same time, a second disaster: The valuation of the housing market will burst; trillions of dollars of fake appreciation will be wiped out. The foreclosure rate will soar, and millions will join the homeless.

We document the process of hyperinflation of home prices, including the immense debt bubble the bankers have built up in the home market to loot the population. We then look at the true, destroyed state of housing in America.

I. The Bloated Housing Market Bubble

The leap in the median price of a home in Santa Clara County, California, from \$402,340 in the second quarter of 1999, to \$558,920, between the second quarter of

TABLE 1

The Commodity-Price Inflation Spiral

Product or Raw Material	Period Covered	Unit Price	Initial Price	End Price	Percentage Increase
Metals*					
Hot-rolled steel sheet	May '99-May '00	\$/ton	270	325	20%
Aluminum (primary ingot)	May '99-May '00	cents/lb	65	76	17
Copper (wirebar)	May '99-May '00	cents/lb	70	89	27
Nickel (melting cathode)	May '99-May '00	cents/lb	275	373	37
Pulp, Paper*					
Pulp (bleached softwood)	May '99-May '00	\$/metric ton	425	660	67
Boxboard	May '99-May '00	\$/metric ton	470	590	25
Chemicals*					
Benzene (spot)	May '99-May '00	cents/lb	73	132	81
Chlorine	May '99-May '00	\$/ton	161	249	55
Sulphuric Acid	May '99-May '00	\$/ton	38	52	37
Plastics*					
Polypropylene	May '99-May '00	cents/lb	30	49	63
Poly vinyl chloride	May '99-May '00	cents/lb	22	48	118
LDPE (liner grade)	May '99-May '00	cents/lb	29	58	100
Ethylene (spot)	May '99-May '00	cents/lb	19	35	84
Electronic components*					
Capacitors	May '99-May '00	cents/each	2.5	7.5	200
Memory (4M Flash)	May '99-May '00	\$/each	4.75	6.50	37
Housing					
Home in Santa Clara County, California	2nd Q '99-2nd Q '00	thousands \$	402	558	39
Condominium in New York City	July '99-July '00	thousands \$	601	855	42
Agricultural inputs					
Ammonia	May '00-June '00	\$/ton	110	190	73
Energy					
West Texas Crude Petroleum	Jan. 1, '99-Aug. 31, '00	\$/barrel	12.33	33.33	170
California Utility Cost of Purchasing Electricity	July '99-July, '00	\$/megawatt	30	175	480
San Diego Customer Monthly Electric Bill	July '99-July '00	dollars	55	110	100
Iowa home heating propane	July '99-July '00	cents/gallon	44	84	91

* Prices that U.S. industrial managers pay for goods used in production.

skyrocketed to \$611,000, an increase of 14.5% over the previous year.

The same process is taking over the market for apartments, whether for rental or purchase. **Figure 9** shows that in 2,257 condominium and cooperative apartments that were surveyed in Manhattan and parts of Brooklyn, two boroughs of New York City, the average price escalated from \$601,904 to \$854,000, between June 1999 and June 2000, an increase of 42%. Prices of less grandiose apartments are following this upward trend.

What must be recognized is that during the last decade, there has been a rigging of

the housing market, so that the only homes that are brought to market are the most expensive ones, upon which the speculators can make huge amounts of money, while the housing that is decently priced and desperately needed by the lower-income groups, has been taken off the market. This deliberate policy of making affordable housing scarce has been exacerbated by the hyperinflationary spiral of the past two years. The next three figures illustrate this point. **Figure 10** shows that between June 1990 and June 2000, the percent of all existing homes sold in the United States that are \$250,000 or above in median price, has

soared from 8% to 20%. **Figure 11** shows that, during this period, the percent of all existing homes sold in the United States that are \$1 million or above in median price, has soared from 1% to 5%. However, **Figure 12** shows that, during this period, the percent of all existing homes sold in the United States that are \$100,000 or below in median price, has fallen from 54% to 26%.

If a household wants housing, it is going to pay through the nose. For the speculators, it's like the medieval road and bridge-tolls: "Give us this money because you have it, and if you don't, you're out on the street."

TABLE 2

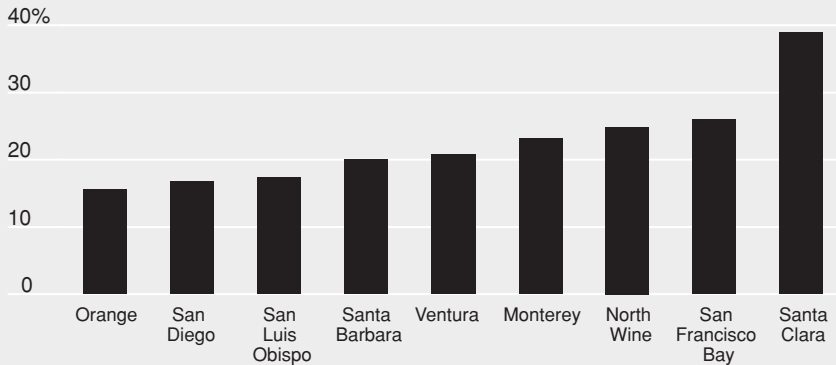
Median Home Prices Skyrocket in 9 California Counties

County	Second Quarter, 1999 (dollars)	Second Quarter, 2000 (dollars)	Amount of Increase 2ndQ,'99 to 2nd Q,'00 (dollars)
Orange	\$278,610	\$321,720	\$43,110
San Diego	231,150	269,890	38,740
San Luis Obispo	207,310	243,100	35,790
Santa Barbara	253,150	303,850	50,700
Ventura	250,610	302,780	52,170
Monterey	323,700	398,830	75,130
North Wine	244,150	304,900	60,750
San Francisco Bay	369,500	465,410	95,910
Santa Clara	402,340	558,920	156,580

FIGURE 8

Hyperinflation of Median Price of Existing Homes, 2nd Quarter 1999-2nd Quarter 2000

(Percent)



Source: California Association of Realtors.

FIGURE 9

Average Price of Condos and Cooperatives in Manhattan and Parts of Brooklyn

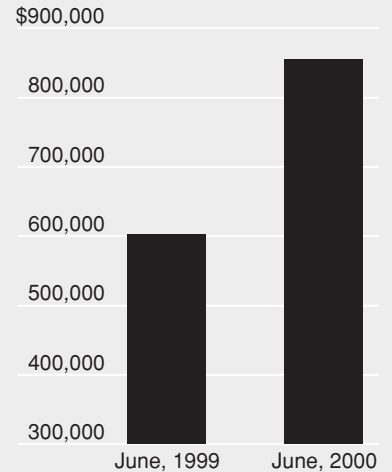
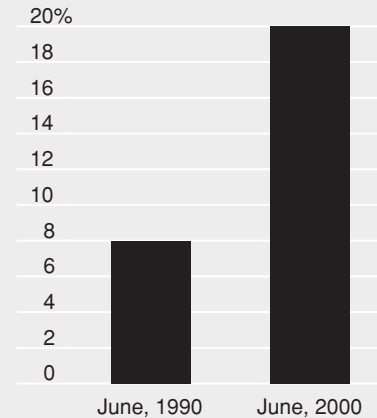


FIGURE 10

Percent of All U.S. Homes Sold That Have Median Price of \$250,000 or Above

(Percent)



Source: National Association of Realtors.

Fictitious Value in the Housing Market

This escalation in home prices has collectively led to the increase in the valuation of the housing market.

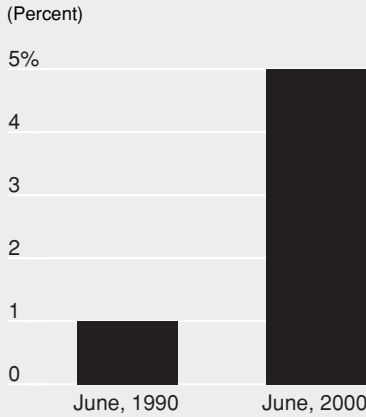
Figure 1 shows the total valuation of the housing market. Figure 13 shows this same process in a special way, by comparing the growth of the number of owner-occupied housing units versus the growth of the total valuation of housing. This provides a basis to determine the fictitious, i.e., completely artificial, level of valuation in the home market. Between 1945 and 2000, the number of owner-occupied housing

units rose from 19.4 million to 70.5 million, an increase of 3.7 times. In the same period, the total valuation of homes rose from \$130 billion to \$10.95 trillion, a staggering increase of 84 times. During this time, the rise of the prevailing rate of inflation, as measured by the Consumer Price Index, for the U.S. economy as a whole, was 9 times. With the number of owner-occupied housing units rising by a factor of 3.7, and the prevailing inflation rate rising by a factor of 9, then between 1945 and 2000, the valuation of homes should have risen 33 times (3.7 times 9). But, instead, it rose 84 times.

Compare the ratio of the number of times the home valuation should have risen,

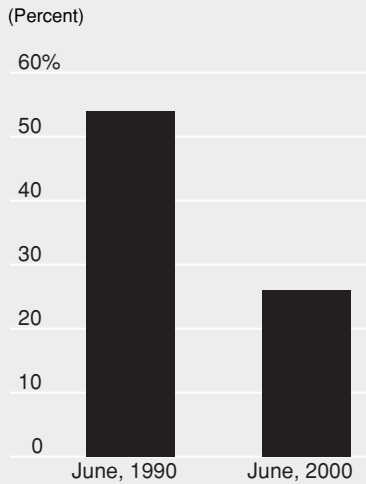
at 33, to the number of times it did rise during the housing bubble, at 84; the ratio equals 39%. An acceptable level of rise was 39% of what actually did happen. Thus, in turn, 61% of the rise that did happen was fictitious. This means that 61%, of the official valuation of the home market of \$10.95

FIGURE 11
Percent of All U.S. Homes Sold That Have Median Sale Price of \$1 Million or Above



Source: National Association of Realtors.

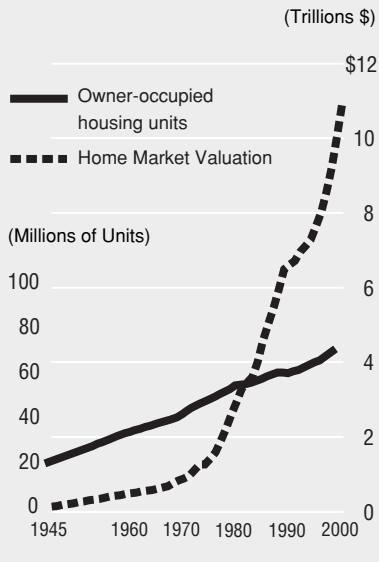
FIGURE 12
Percent of All U.S. Homes Sold That Have Median Price of \$100,000 or Below



Source: National Association of Realtors.

trillion in the year 2000, or \$6.68 trillion, is fictitious. This represents pure hot air, manufactured out of the hyperinflationary process that has overtaken the housing market. All this fictitious value in the housing bubble, built up over several decades, but especially during the last five years, will

FIGURE 13
Home Market Valuation Versus Number of Owner-Occupied Housing Units



be wiped out during the onrushing financial disintegration.

The bubble extends to the entire U.S. real estate market. **Figure 14** shows the valuation of the three major elements that make up that market: the home market (discussed above); the real estate holdings of nonprofit organizations (which includes foundations such as the Ford Foundation and the Rockefeller Foundation, as well as churches and private partnerships); and the real estate holdings of nonfinancial corporations, mostly in the form of commercial real estate holdings. **Figure 14** shows the sharp rise in total U.S. real estate holdings' valuation, especially over the last five years, so that by the year 2000, it reached \$16.76 trillion. It is now approximately as big as the entire U.S. stock market bubble. (*EIR* will have, in a future issue, an article on the crisis in the commercial real estate market, which totals \$4.64 trillion.)

The Grinding Mortgage Debt

The bubble of housing valuations is immense. With home prices at such exorbitant levels, and rising so rapidly, most households cannot afford a home.

The financiers have built a mortgage debt bubble, by extending record levels of mortgage debt for purchase of homes, in

order to finance and circulate the fictitious value that has been built into home prices. From the standpoint of the home purchaser, the mortgage allows the household to acquire a home, though the household may be paying 35% to 60% of its annual income to cover the mortgage cost.

The mortgage debt, while temporarily lubricating the housing mortgage market, and keeping it from collapsing in on itself, nevertheless demands usurious interest charges that sow the seeds of its own demise: It multiplies the amount of interest payments that are looted from the standard of living of the population.

The bankers are committed to keep in operation this immensely profitable housing bubble, to the point that they are making loans which two decades ago they would have condemned. Twenty years ago, banks demanded that prospective buyers make down payments equal to 20% of the purchase price of a home, before the bank would extend the buyer a home mortgage loan. Today, bankers are making mortgage loans requiring only a 5% down payment. Prudence is abandoned; buying a home becomes almost like buying clothing at the department store.

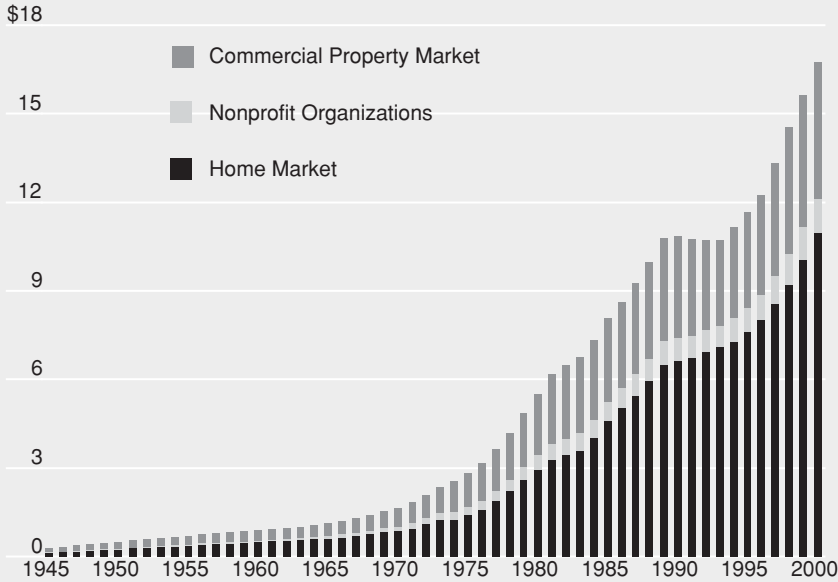
But some mortgage-loan-issuing financial institutions are so irrational that they have taken the last step: They have eliminated the down payment. Morgan Stanley investment bank, a pioneer in this area, is making home loans against a pledge of stocks. This ties the home market directly to the stock market. Morgan Stanley structures a loan so that the borrower pledges stocks, as collateral, worth 33% to 40% of the value of the purchase price of a home. If this is done, Morgan Stanley will require no down payment.

Under the impress of the need to circulate the fictitious value, exploding at a hyperinflationary rate, of the housing market, conjoined with the new imprudent lending policies, the level of home mortgage debt has grown hyperbolically.

Figure 15 documents that America is crushed under a burden of home mortgage debt. The level of home mortgage debt did not exceed \$1 trillion until 1981. By 1995, it totalled \$3.510 trillion. Then, over the next five years, it exploded to a projected \$5.232 trillion in 2000, an increment of \$1.722 trillion over the five-year period.

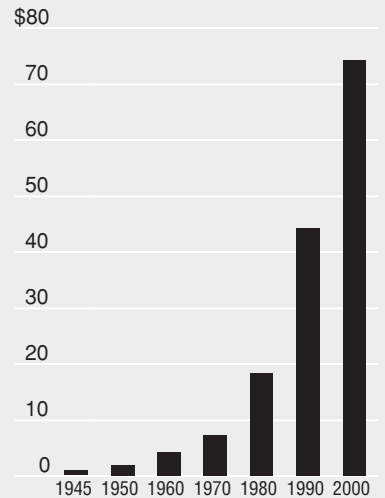
The level of debt per household zoomed as well. **Figure 16** shows the mortgage debt per household of households that have a home mortgage, which shot up to \$74,212 per such household in the year 2000.

FIGURE 14
Valuation of Total U.S. Real Estate Market, 1945-2000
 (Trillions \$)



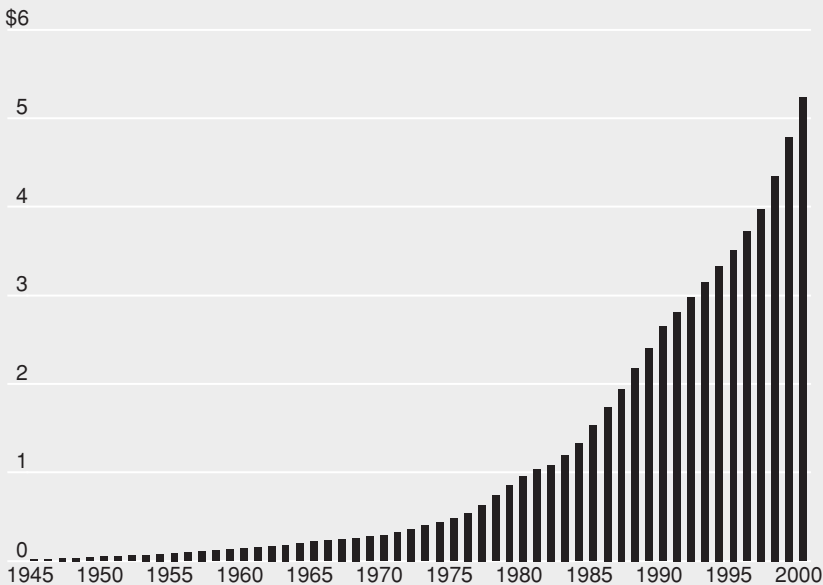
Source: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts."

FIGURE 16
Mortgage Debt per Household, for Households That Own Homes
 (Thousands \$)



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

FIGURE 15
Hyperbolic Growth of Home Mortgage Debt, 1945-2000
 (Trillions \$)



Source: U.S. Federal Reserve Board, "Flow of Funds Accounts."

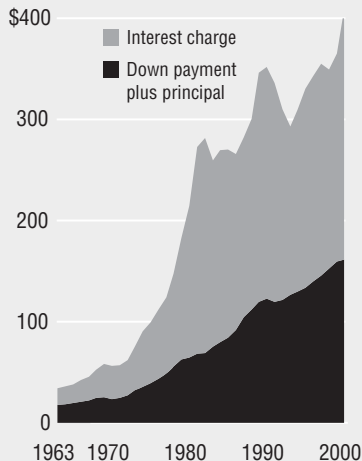
The Interest Charge Means More Paychecks Needed

The debt now burdens the household buying a home with two charges: first, the initial purchase cost of the home, and second, the interest on the mortgage. Since the home price is escalating in a hyperinflationary spiral, there is more of the home purchase cost to finance. The greater the amount of principal to finance, the greater the total interest cost. That is, if one home costs \$150,000, and a second home costs \$300,000, and loans are taken out against each home, and the interest rate on both loans is the same, the \$300,000 loan will have double the interest charge, because there is double the amount of original principal that must be financed. Today, though interest rates are lower than during the 1980s, the amount to be paid in interest charge on a mortgage loan, because of the speculative build-up in home prices, is much greater.

Figure 17 shows the total cost of purchasing a new home, on a 30-year mortgage. When someone buys a home, he or she puts down, say 20% of the purchase cost of the home, and finances the rest of the purchase with a mortgage. The amount

FIGURE 17
Total Cost of New Home, Driven by Bankers' Interest Charges on Financing, Has Soared

(Thousands \$)

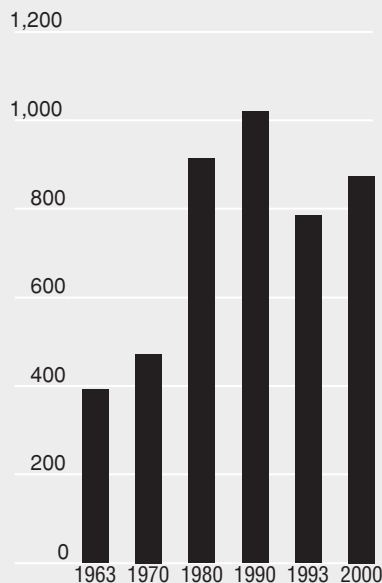


Sources: Federal Housing Finance Board; National Association of Home Builders; U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; *EIR*.

of the mortgage loan is simply the median purchase price of the new home, minus the amount that the home buyer paid as down payment. In 1963, the total cumulative cost to buy a new home on a 30-year mortgage, was \$34,616; over the 30-year life of the loan, \$18,000 was paid in down payment and principal, and \$16,616 was paid in interest. In 2000, the total cumulative cost to buy a new home on a 30-year mortgage leapt to \$408,724; over the 30-year life of the loan, \$161,400 was to be paid in down payment and principal, and \$247,324 was to be paid in interest. So, as a result of the interest paid, today the cumulative interest cost is 1.5 times the original \$161,400 purchase price of the house. Thus, the bankers rake in a huge sum for lending for the financing of home prices at such high, and rising levels. The housing market bubble is a blessing for the banks. *EIR* calculates that the banks will take in approximately \$315 billion in 2000 in interest costs on home mortgages in the United States. They will fight to keep this bubble going.

Thus, the total mortgage debt bubble translates directly into devouring a household's paycheck: Either the household cannot buy a new home, or if it does, the

FIGURE 18
Number of Weekly Paychecks Needed To Buy a New Home



Sources: U.S. Department of Labor, Bureau of Labor Statistics; National Association of Home Builders; *EIR*.

monthly finance charges are so large that it affects the household's ability to survive. To appreciate the significance this, we will compare, for selected years, the value of an average worker's paycheck, and the cost of a new home, including financing costs. Although both the paycheck and the home's costs are expressed in dollars, we haven't the slightest interest in dollar values; rather, we are concerned with the ratio between the paycheck and what it buys. The paycheck is the average weekly paycheck of a "non-supervisory worker employed in private non-agricultural industry," as reported by the Bureau of Labor Statistics of the Department of Labor. Most workers in the economy are of this type.

As **Figure 18** shows, in 1963, it required 373 weeks of an average worker's weekly paycheck to purchase a home, inclusive of financing costs. In 2000, it requires 793 paychecks. Relative to a worker's real purchasing power, the price of a home has more than doubled since 1963. That is, today, a worker must work 420 weeks, or 112.6% longer, to acquire the home than in 1963. Therefore, in physical terms, it

costs the worker 112.6% more to buy the same new home. This proves why many homes are priced out of the affordability of tens of millions of households.

But the flip side of this is equally powerful: A worker's standard of living has fallen 53.0% today, compared to 1963, with respect to his ability to purchase a new home. This is critical, because to purchase a new home at the national median price of \$161,400, a household earning the annual median income would have to pay 36% of its income in home mortgage payments, taxes, and insurance. This is 8% above the 28% of annual income that is considered normal. In a financial collapse, households will not be able to keep paying such a high level of their income for their home.

II. The True Ruined State of Housing

There is an expanding part of the population, that under these conditions, cannot afford the price of housing. This is the underside of the housing market bubble. For tens of millions of households, adequate housing stock does not exist. These households usually live either in broken-down housing (which nonetheless is expensive, relative to their income), or are squeezed into crowded and frequently squalid rental units, or they are homeless.

Many here spend 40% up to 60% of their income for dwelling units that have poor ventilation, inadequate fire-safety features, often no sink or stove, and are rodent-infested. Their alternative is to be out on the street.

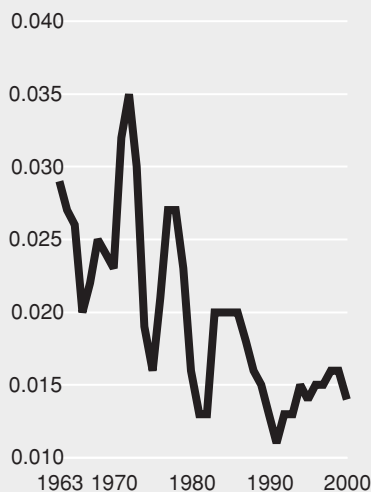
This underside of the bubble needs to be brought out into the open.

First, let us take an overview of the nation's housing stock. **Figure 19** shows the number of housing starts, per household. In 1963, the United States produced 0.029 housing starts per existing household; today, it is producing 0.014. This is slightly less than half the 1963 level.

Housing is a critical element of the consumer market basket of commodities. Housing is sometimes thought of merely as a shelter; it does shelter a family against the elements, but it does much more: It is a place for family life, family discussions, where a child is materially and culturally developed, along with the school, both to develop the child's cognitive powers, and to enable the child to become part of the productive labor force. There is an objec-

FIGURE 19

U.S. Housing Starts per Household, 1963-2000



Sources: National Association of Home Builders; U.S. Department of Commerce, Bureau of the Census.

tively necessary standard for the quality of the home. It cannot just be what the “free market” will yield. For example, if a family has five children, it will likely need three bedrooms for the children, and one for the adults, for a total of four. The developing child needs a place to concentrate, to think, and cannot do that, if there are three other children in his bedroom “bouncing off the walls.” The house must meet other similar requirements.

The homes of today have several glaring problems. The new homes that sell for \$300,000 to \$750,000 are frequently made with the shoddiest material. They are built with doors made of cardboard cores instead of wood; no cross-braces under the joists of floors to support them and prevent shaking, and the proverbial 2 by 4 piece of wood shaved down to 1.5 by 3.5. Whereas 50% of the siding in a house in the 1970s was made of brick (in the 1950s, entire homes used to be made out of brick), today less than 30% of house siding is made of brick, replaced often by a cheap plastic compound. Moreover, the material placed between the house frame and the siding, called the sheathing, is usually made from either aluminum foil or foam. Both are good insulating materials—one of the functions of sheathing—but they have no racking strength, that is, the ability to stand up

TABLE 3

States in which One-Quarter or More of Housing Stock Was Built before 1939

	Housing Units (Thousands)	Percentage Built before 1939
Massachusetts	2,472	38.9
District of Columbia	279	37.7
Vermont	271	36.5
New York	7,227	35.7
Pennsylvania	4,938	35.1
Iowa	1,144	35.0
Maine	587	34.9
Rhode Island	415	34.0
Nebraska	661	30.5
South Dakota	292	30.4
Wisconsin	2,056	28.5
Illinois	4,506	27.1
Ohio	4,372	25.8
Connecticut	1,321	25.5
North Dakota	276	24.7
New Jersey	3,075	24.6
Minnesota	1,848	24.5
Kansas	1,044	24.5
Indiana	2,246	24.2
West Virginia	781	23.7
U.S. total	102,264	18.4

Source: U.S. Department of Commerce, Bureau of the Census, “Decennial Census of the U.S., 1990;” *EIR*.

to high winds. As one contractor put it, “The aluminum-foil-covered sheathing has about as much racking strength as hanging down a few strips of tin foil.” This is one of the reasons that so many homes disintegrate in hurricanes, floods, or even very strong winds. Yet, the home is equipped with a gold-plated faucet in the bathroom.

Further, there is the age of the structures. **Table 3** documents that in 20 states (including the District of Columbia) one-quarter or more of the housing stock, including single- and multi-family dwelling units, was built before 1939, or more than 60 years ago. In Massachusetts and the District, nearly two-fifths of the housing stock was built before 1939. The national average of housing stock built before 1939 is 18.4%. Some of the pre-1939 housing stock is well-constructed, but there is a significant amount that needs replacement or overhaul. (This information comes from the 1990 Decennial Census of the Bureau of the Census of the U.S. Commerce Department. The

census is done once every ten years, and the 2000 Decennial Census results will not be released until 2001, or perhaps 2002. The 1990 Decennial Census is the best that is available. It is expected, nonetheless, that there will not be a very great difference between what the 1990 Decennial Census and the 2000 Decennial Census report as the stock of housing built before 1939.)

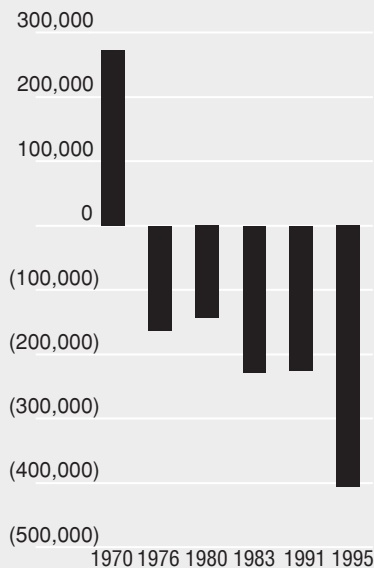
No Housing

With the poor quality and aged condition of housing as backdrop, there are tens of millions of families that cannot get decent housing.

Consider the New York City situation, where the crisis is acute. **Figure 20** shows that in 1995, the number of extremely low-income renter households exceeded the number of available low-cost apartments by 405,000, according to a study by the New York Coalition for the Homeless. By the late 1990s, this deficit of low-cost apartments widened to half a million. As Figure

FIGURE 20
New York City's
Widening Affordable
Housing Gap, 1970-95

(Number of Low-Cost Rental Housing Units,
 Minus Number of Extremely Low-Income
 Renter Households)



Source: New York Coalition for the Homeless.

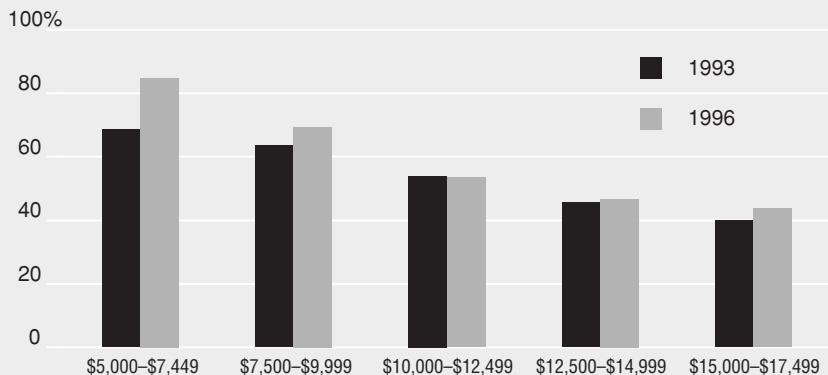
19 shows, this is in sharp contrast to the situation in 1970, when New York City had a surplus of 270,000 low-cost apartments relative to the number of extremely low-income renter households.

There are a few major reasons for this deficit, among them that New York City's 1 million rent-stabilized apartments, where rents had been kept low, have had, as a result of changes in the law, growing rent increases, and many of these apartments are no longer affordable by New York's extremely low-income renter households. Another reason is that the housing supply shrank: From 1993 to 1999, when the population of New York City grew by 100,000, the city lost more than 30,000 rental apartments (the level of demolition and abandonment of apartments exceeded the limited number of new apartments that were built by 30,000).

These households had to move into apartments where they paid rents that were considerably above the normal standard, according to which a household should pay no more than 28% of its gross income for either rent or, in the case of owning a home,

FIGURE 21
Median Rent Burdens in New York City by Household
Income, 1993-96

(Percent)



Source: New York Coalition for the Homeless.

for mortgage principal and interest, plus insurance and taxes. In 1999, more than 500,000 renter households in New York City paid more than half of their income for housing: This represented 27% of all New York City renters paying more than half of their income for housing. Households cannot survive on that basis.

Figure 21 shows for New York City, the percentage of annual income paid for rent by level of annual income. So, for example, in 1993, New York City households that earned an annual income of \$5,000 to \$7,499 per year, paid 58.6% of their annual income for gross rent (the cost of rent and utilities). In 1996, these New York City households that earned an annual income of \$5,000 to \$7,499 per year, paid 84.7% of their annual income for gross rent. This reflects skyrocketing rents. In some cases, these households received some Federal or local housing assistance, but even counting that assistance many still paid 40-60% of their annual income for rent. Several in this income group got no assistance, and had to pay 84.7% of their annual income for gross rent. Among households that earned \$7,500 to \$9,999 per year, in 1996, they paid 69.4% of their income for gross rent, and so forth.

At the same time, according to a survey conducted by Miller Samuel, Inc. that covered 2,257 apartments, this year the average price of condominium and cooperative apartments in Manhattan and choice spots in Brooklyn, rose to \$854,704, a 42% in-

crease in one year. Thus, the hyperinflationary housing spiral is sweeping up the prices of condominiums, cooperatives, and select apartments. But more critically, it pulls up all rents across the city.

For the 500,000 households in New York City that pay 50% or more of their annual income for gross rent, let us see how they live, using case studies provided by a *New York Times* survey of a few years ago:

- Maria Pagan, an 83-year-old retired cafeteria worker, who lived in a collapsed room in the Bushwick section of Brooklyn. "Because the bathroom sink did not work, Miss Pagan had to scoop water from her toilet to wash her hands and brush her teeth." Pagan's landlord was New York City; the city took over and poorly runs tens of thousands of housing units abandoned by delinquent landlords (the city has since moved Miss Pagan out of the building).

- "Mr. Zheng, 35, [who emigrated from the Chinese coastal province of Fujian], is still working off a \$30,000 debt to the smugglers who secured him passage on a series of ships. He can devote very little of his meager busboy's salary to rent, so he has 11 roommates. They share a studio bracketed by triple-tiered bunk beds, with a narrow passage like a gangplank between them." The inhabitants keep their belongings in plastic bags above their mattress. This exists for immigrants all over the city. For example, Mr. Zheng's den is one of two dozen "bachelor complexes" squeezed into three low-rise buildings on Allen

Street, in Lower Manhattan.

• Miss Ana Nunez and her three children, Kenny (18 years old), Wanda, and four-year-old Katarin, are stuffed into an illegal apartment in lower Manhattan. This is a \$350-a-month rectangle, which has no sink and no toilet. They must go down the hall to share a tiny bathroom with five strangers. The two older children share a bunk bed, while Miss Nunez squeezes into a bed with Katarin. One winter, Kenny got tuberculosis, and he spread it to his mother, who then spread it to Kenny's two sisters—a picture right out of the 1910s.

Cases like these three, are occurring all over the country.

In Philadelphia, citizens are losing homes in mortgage foreclosures, at the rate of 7.25 homes per day. In 1997, 1,411 homes of Philadelphia citizens were sold in mortgage foreclosures, as the citizens could not meet the mortgage payments; the Aug. 4 *Philadelphia Inquirer*, basing itself on Philadelphia Sheriff's Office figures for the first six months of this year, projects that home foreclosures in the city will reach 2,664 in the year 2000, a doubling in three years. Homeowners in poor neighborhoods are the victims of a large number of the foreclosures.

In Philadelphia, the banks decided to extend the housing market to the poor, in order to accelerate the sale of houses. This may sound altruistic, but in reality the banks were interested in gaining a rich harvest in interest. The banks made loans to people who had impaired credit ratings, having defaulted on some loans in the past. This is called the "sub-prime" lending market. In the sub-prime market, the lenders charge higher interest rates—typically, 2% to 4% above what "prime" borrowers with good credit would pay. But, in addition, the financial institution charges fees of hundreds or even thousands of dollars for making the loans—which fees the lenders take up front. The extra-high interest rates overwhelm the borrowers, many of whom are elderly or poor, and a good percentage of whom are minorities. Hundreds of billions of dollars in loans have been extended in the housing sub-prime market. Now, this could start to unravel.

Finally, for the tens of millions of households that cannot afford decent, moderately priced housing, there is the last step in this process: homelessness, living in shelters, or being out on the street. While homelessness has proliferated, the U.S. government reports fraudulently that U.S.

homelessness is "only 600,000-700,000." In 1993, a study by Dr. Bruce Link of Columbia University, released by the U.S. Inter-Agency Council on Homelessness, showed that during the latter part of the 1980s, on average, 7 million Americans experienced homelessness per year, ten times the official government figure. Though no broad-term study has been released on the 1990s, the level of homelessness today is at least equal to 7 million.

For tens of millions of households, the housing market is like playing Russian roulette: They cannot afford a home whose median price is \$300,000-750,000; in many cases, a home in the \$150,000 range is beyond their means. They squeeze into rental units, charging 40-70% of their income for gross rent, or they borrow on the sub-prime market for a home mortgage that charges 2-4% above prime interest rate, or they do something similar. Ever present in the back of their minds, is that they face homelessness. One or two missed paychecks, or even the inability of their current, inadequate paycheck to cover clothing, food, and medical expenses, with enough left over to meet rent or home mortgage charges, means that they will be out on the street.

Thus, the hyperinflationary housing spiral is directly driving the lack of supply of decent, affordable, and structurally sound housing.

How Will the Housing Bubble End?

The explosion of prices in the housing market is a component of the hyperinflationary spiral that has gripped the world as a whole. We are on the identical path as the hyperinflationary process that ravaged Weimar Germany, especially during March through November 1923. During this period, people's pensions and savings evaporated, and the economy was ripped to shreds.

Under this process, prices will first climb heavenward, and then the unsustainable housing bubble will crumble.

The key to the hyperinflation is Fed Chairman Greenspan's late-1998 decision to pump up the money supply, in order to prevent the impending chain-reaction deflationary collapse of the financial aggregates (see Figure 7). The rate of expansion of the monetary aggregates would rise more rapidly than the rate of expansion of the financial aggregates. This groundbreaking singularity, generates a shock front, which operates according to non-linear laws, com-

parable, in the domain of mathematical physics, to the shock wave front as described by Bernhard Riemann. It functions like the transonic front when a plane exceeds the sound barrier. The Riemann shock front determines all economic activity, including that of prices. Prices are not determined by "individual factors" acting pairwise upon one another, which is how price inflation is wrongly explained.

The Riemannian shock front operates in such manner as to tear apart both the economy and the standard academic explanation of inflation. Take the hobby-horse of the so-called law of supply and demand. Under this false idea, if something is in short supply, its price goes up, and if it is too abundant, its price falls. Consider the case of the increase in the median price of a home in Santa Clara County, California, which includes most of Silicon Valley. It is said that homes are in short supply there, and this forced up prices. It is true that there is a housing shortage in Santa Clara County, but can this explain the rise in the median price of an existing home in Santa Clara from \$402,340 in the second quarter of 1999, to \$558,920 in the second quarter of 2000, an increase of \$156,580 in one year? Under normal circumstances, were housing in short supply, under "supply and demand," the home price would rise by a few thousand dollars in one year; if there were an acute shortage, by \$5,000. But the median home price in Santa Clara County rose by more than 30 times the rise of \$5,000 that could be expected in an acute shortage, according to the "law" of supply and demand.

The home price is governed by the interaction of the "high-tech" sector bubble (which operates in Santa Clara County); the stock market bubble; and the housing market bubble—all feeding one another, and all governed by the hyperinflationary spiral launched by Greenspan in the fall of 1998. The conditions in Santa Clara and other counties do not determine the price of housing, except in a tertiary way.

The shock front's advance sets prices from the top down; prices are not set from the bottom up.

This Riemannian shock front has sharply accelerated the bloated valuation of the U.S. housing market, fuelling its advance from \$7.63 trillion in 1995 to \$10.95 trillion in 2000. This over-valued market will come down, dispossessing millions and creating one of the greatest existential crises in the history of the United States.