

## Bursting Housing Bubble To Take 1.5 Million Jobs

by Richard Freeman

From 1992 to 2005, former Federal Reserve Board chairman Alan Greenspan built up the U.S. housing bubble to dizzying heights, a prime prop for both the speculative and physical sides of the economy. Especially from the start of 2001—when Greenspan threw this process into high gear—through October 2006, the housing bubble created 1.5 to 1.7 million housing-related jobs, directly and indirectly. That was *half of all the jobs created in the United States in that nearly six-year period.*

The process is now going into reverse. The rupturing of the housing bubble has already begun to throw these 1.5-1.7 million workers out of work, and the majority will go within the next 12 months. Already since February, 93,000 direct residential construction jobs are gone, along with others dependent on them; the reversal is accelerating, as **Figure 1** shows. They will join the former workers in auto and steel, and other manufacturing sectors, who continue to be laid off. These combined layoffs will ravage the physical economy and the financial sectors too. They will be accompanied by crises in the bloated mass of housing financial paper, derivatives and hedge funds. The financial disintegration will intensify the physical-economic collapse, and vice versa.

### Greenspan's Fantasy

To construct the housing bubble, Greenspan deconstructed the function of the home. The purpose of a home ultimately is to raise creative and productive human beings, providing a family with a place to live, to nurture and educate children, etc. Greenspan transformed the home into a speculative instrument, to which a mortgage of \$350,000 to \$5 million is attached. Several levels of speculation, including trillions of dollars of mortgage-backed securities and derivatives, were built upon this. The housing sector became the underpinning of both the entire physical economy and the



EIRNS/George Hollis

*An unfinished and abandoned McMansion in Virginia's Loudoun County—until recently, one of the nation's hottest housing markets, which Lyndon LaRouche had dubbed "ground zero" for the blowout of the speculative bubble.*

speculative financial system, a position it cannot sustain. The housing bubble saturated every pore of the economy. By dint of that process, a rupture of the housing bubble will no longer just eviscerate the housing sector; it is pulling down the entire economic system.

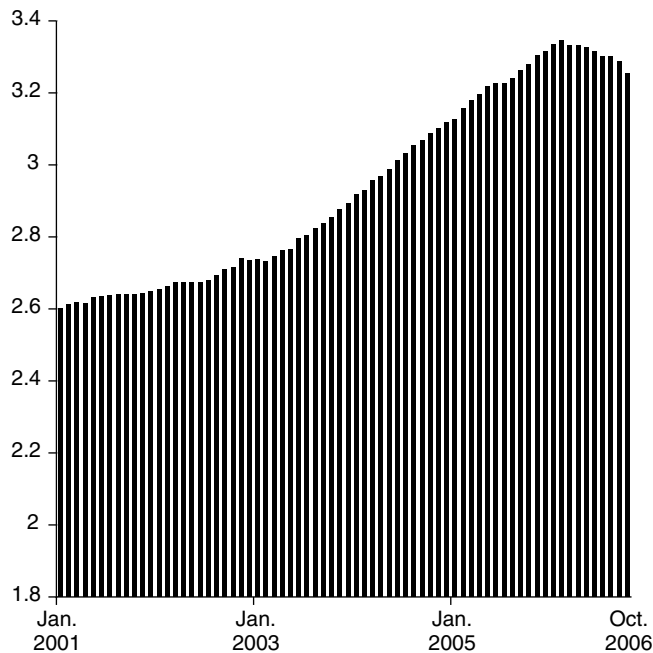
On the financial side, through such risky gimmicks as cash-out refinancing, the housing bubble provided an enormous percentage of consumer spending, and turned out trillions of dollars of speculative instruments. (We will examine that in a forthcoming issue.)

The pace of layoffs of housing-related workers will speed up in late January, as the new Democratic-controlled Congress takes office. Democrat Lyndon LaRouche, the world's leading economist, has stated that only bankruptcy-reorganization of the *systemically* failed world financial system—in

FIGURE 1

**U.S. Residential Construction Employment: Combined Building Workers, and Specialty Trade Contractors**

(Millions of Workers)



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

which a plan for restarting the U.S. economy is spelled out—can salvage the situation.

**Residential Construction Job Creation**

In March 2000, the Information Technology bubble blew to Kingdom Come, sending the NASDAQ crashing by 64%. (It still has not recovered.) A scrambling Fed chairman Greenspan began cutting the Federal funds rate (the overnight interbank lending rate) with a fanatic fervor at Federal Open Market Committee meetings. Home mortgage rates fell, and households began either buying new homes, or remodeling their existing ones on a level never seen before. (Between 2001 and 2005, the number of new home sales leapt by 42%.)

The residential construction and remodeling boom fostered a dramatic expansion of the housing-related workforce. Figure 1 shows that the level of residential construction employment increased from 2.60 million workers in January 2001 to 3.25 million workers in October 2006, an increase of 650,000. This category of employment represents a combination of two different sets of workers:

- those who, according to the U.S. Department of Labor’s Bureau of Labor Statistics (BLS), “construct buildings.” In October 2006, the BLS reported there were 985,000 workers who “construct buildings”; they made up 30% of all residen-

TABLE 1

**Volume of Cement and/or Concrete in Construction of a New Standard Single-Family Home**

Use	Tons
Basement/Crawl Space/Foundation Wall	2.8
Basement Floor	1.6
Foundation Footings	1.9
Above Grade Walls	1.1
Slabs & Floors	3.9
Concrete Products	2.7
Fireplaces, Hearths & Chimneys	0.1
Landscaping and Paving	5.1
<b>Total</b>	<b>19.1</b>

Source: National Association of Home Builders.

tial construction employment displayed in Figure 1.

- those labeled “residential specialty trade contractors” by the BLS. This second group is composed of roofing contractors, siding contractors, electrical contractors, plumbing and HVAC contractors, and so forth. Usually, contractors work as self-employed shops of one or a few people. In October 2006, the BLS reported there were 2.32 million residential contractors, who comprised 70% of all the residential construction employment displayed in the figure.

(It’s important, however, to note that the reliability of the BLS data is questionable; the overview we are presenting here should be seen as an approximation.)

**Bubble’s Second Layer of Jobs**

The construction of a home is, of course, a physical process: There is an ordered array of materials involved, called a bill of materials. There is also a list of services that accompany construction of a home. For example, **Table 1** shows the amount of cement and concrete that goes into constructing a standard new single-family home of about 2,000-2,200 square feet.

The National Association of Home Builders concluded a recent study, “Home Building’s Direct Impact on the U.S. Economy,” which looked at how many jobs the construction of a new single-family home generates (see [www.nahb.org](http://www.nahb.org)). This study used primarily industry accounts published by the U.S. Commerce Department’s Bureau of Economic Analysis (BEA), as well as a housing input-output table supplied by the BEA. Using the NAHB study, *EIR* constructed **Table 2**, which shows, for example, that for every 100 residential construction jobs, 40.1 manufacturing jobs are directly created in producing cement, wood products, copper products, and so forth.

Using these relations, *EIR* concluded that in the period January 2001-October 2006, the housing-bubble growth of

TABLE 2

### Direct Job Creation for Each 100 Residential Construction Jobs

Sector	Jobs
Manufacturing (cement, wood products, copper products, etc.)	40.1
Wholesale and Retail (construction materials and inputs)	24.4
Professional/Business Services (architects, engineers, landscapers, etc.)	16.9
Transportation, Communications & Utilities	7.6
Agriculture, Forestry, & Mining	5.2
Real Estate, Finance, & Insurance	2.9
Other	4.7
<b>Total Jobs Created</b>	<b>101.7</b>

Sources: National Association of Home-Builders; U.S. Department of Commerce, Bureau of Economic Analysis; *EIR*.

TABLE 3

### Principal Areas of Housing Bubble Jobs Increase, January 2001-October 2006

Area	Jobs Growth
Residential Construction	653,000
Residential Construction-Dependent	500-550,000
Financial/Cash-Out Refinancing	400-500,000
<b>Approximate Total</b>	<b>1.45-1.7 million</b>

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

650,000 new residential construction jobs, created approximately 500-550,000 additional new jobs that directly depend upon residential construction. Normally, there would be an almost one-to-one relationship between new jobs created in residential construction and new jobs created that depend directly upon construction. But (considering a number of constraints) *EIR* has chosen to be conservative. This 500-550,000 new jobs appears in **Table 3**.

### Cash-Out Refinancing Holds Sway

There remains one other area where the housing bubble held full sway in creating jobs: the increase in the cash-out refinancing, and other methods by which homeowners borrowed against their homes, or used their homes to extract a tremendous amount of cash.

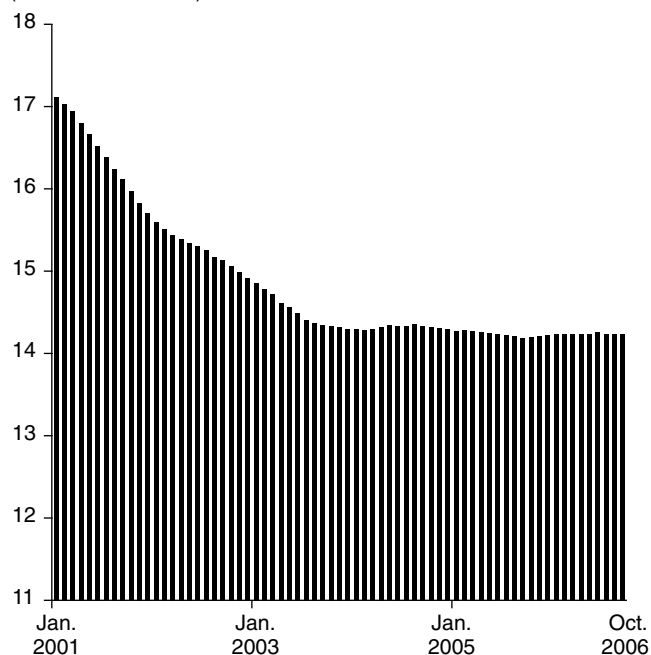
This housing-based cash extraction permitted new purchases, and created new jobs providing the goods and services purchased. *EIR* estimates conservatively, that this method, and a cognate method, created 350-500,000 new jobs.

Thus *in toto*, between January 2001 and October 2006, the housing boom created in the range of 1.5 to 1.7 million

FIGURE 2

### U.S. Manufacturing Employment

(Millions of Workers)



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

new jobs. The residential construction industry has a useful role to play, but since January 2001, Greenspan had hyped it to a level far beyond that. During the same period, the U.S. economy reportedly created 3.37 million jobs. The inflated housing bubble was responsible for creating roughly half of all the new jobs in the economy.

During the same January 2001 to October 2006 period, through globalization, America's manufacturing base was shrunk by the *elimination* of 2.92 million jobs, shown in **Figure 2**. In fact, were it not for the housing bubble, which created manufacturing jobs, the loss of manufacturing jobs would have been even worse.

### Job Liquidation

The research firm Economy.com has reported that during the 1990-91 recession, which involved a housing collapse, 825,000 housing-related jobs disappeared. Double that loss can happen now, in as short a time, or shorter.

The U.S. Bureau of Labor Statistics announced on Nov. 3, that during the month of October alone, the construction sector slashed 26,000 workers' jobs. The process has begun to accelerate, which could lead to the liquidation of 1.5 million housing-related jobs within a year. The devastation of the physical economy would be completed in the process.

To reverse that devastation, will be Lyndon LaRouche's subject in a webcast from Washington Nov. 16.