DOLLAR FACES EARLY COLLAPSE-THREAT

A Narrow Band of Decision

by Lyndon H. LaRouche, Jr.

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So far, the prevailing mood in the U.S. Congress is a grimly hysterical, Chamberlainesque mood of wishful confidence, the wish-driven obsession with the hope that no great financial collapse will actually happen "in our time."

Since economic processes are reflections of human voluntary choices of actions, or inactions, the exact timing of the onrushing threat of a global, general breakdown-crisis of the present world monetary-financial system is not to be found in the statistical sediment of any Cartesian tea-cup. Nonetheless, the characteristic of any current form of global monetary-financial system predetermines the destiny of that system; delays which do not radically change the axiomatic rules of the existing system, may delay the onset of the crash slightly, but only by making the slightly postponed crash more deadly, less susceptible of correction, than had the systemic issues been faced earlier.

There are cures for this onrushing collapse. The problem is, that time is running out for that opportunity. We must act soon, as President Franklin Roosevelt would have acted, or our ability to act, our ability to launch a recovery would be taken out of our hands.

The current state of the U.S.A.'s mortgage-based securities crisis illustrates the point.

1. The market for growth of the accumulation of new volumes of mortgages has been in a state of collapse for months. This is true not only in the U.S.A., England, and Spain, but is a radiating global trend within the present world system as a whole.
2. Nonetheless, the pressure to bring new mortgaged properties on line for sale is growing, since this is the only way in which the chains of stages of investment, between "beginning a development" to the bail-out of the investors by the creation of permanent owners' mortgages, can be brought off. This is the present threatening the U.S. banking system already rotted-out by a massive margin of excess real-estate paper in the banking system as a whole. Given the general state of the monetary-financial system as a whole, this state of affairs means increasingly strong "bearish" pressures through the later phases of the relevant investment cycle; the trend is toward an accelerating rate of decline of nominal values of mortgaged real-estate properties.
3. This situation is complicated by recent years' increase of the ration of absolutely freakish varieties of mortgage-agreements within the system. Thus, as the market descends, that descent intersects the point at which nominal home-owners and the like have less than zero-equity in those holdings.
4. One of the recently significant trends which have emerged, quite logically, amid this general financial mess, is the hysterical nominal home-owner who must sell to gain a slight margin of equity out of the sale of housing in a declining level of market-price of properties. The poor fellow, like the old Boston Braves baseball team of yore ("Spahn, Sain, and pray for rain"), keeps his for-sale house off the market, in desperate hope that he might receive a better offer "in case the market should turn up"; in the meantime, his net equity plunges toward somewhere below zero, while the level of actual collapse, and of rate of collapse of the market, by statistical reports which overlook this not-really-hidden, soaring mortage-bubble within the general mortgage-bubble.

In the U.S.A., for example, former Federal Reserve Chairman Alan Greenspan's Fountainhead of speculation in mortgage-based securities, a trick he used in his attempt to hide the actual net performance failure of his post-1987 Federal Reserve policies, became a drug on the market. The drug, like Colombian cocaine or Afghanistan's opium, makes some people rich, by destroying the economic productivity of the population of consumers of the stuff, and thus pushing the economy as a whole more and more toward long-time ruin. The ration of the total Greenspan bubble dependent upon the real-estate speculation promoted through channels such as "Y2K" and Fannie Mae, created the present situation, in which the onrushing collapse of the mortgage-based-securities system has become a major threat of collapse of the entire present world system as a whole.

That case of mortgage-based real-estate speculation, is only an important, typical example of the reasons why a general collapse of the entire world monetary-financial system, is headed toward a general physical-economic, as well as financial collapse, during the early future. The result is the all too typical member of Congress, or others, who says: "But, the Wall Street market is up!" just as many like those gripped by the current epidemic of gambling manias, said on the verge of the 1929 collapse, against which wiser minds had warned.

Out of the Past

Read an illustrative page from my past. During 1957 I spent the better part of a week in Havana, Cuba, in the company of another consulting executive visiting to advise the Banco de Fomento on the matter of physical capital improvement of Cuba's shoe manufacturing industry. The doom of the Batista regime was written everywhere, even in Havana itself. The moral rot was beyond belief. My concern was to promote action to save the relevant industry of Cuba, on the assumption that Cuba would exist as a U.S. neighbor once Batista were soon gone. My problem was to help the industry gain needed capital improvements, without letting Batista's gang simply steal any financial capital provided for the intended purpose.

To sense the situation, I walked around the core of the city, and included a part of an evening observing the behavior at Clark's gambling operations. I also visited the Copacabana, where I studied mature, bejeweled senior ladies in "basic black," helped to a position facing a one-armed bandit by liveried men, a lady who suddenly sprang into action, like a leopard at its prey, on that one-armed bandit. Such energy, the woman showed. The speed with which she attacked the machine, repeatedly, was astonishing in a person of her apparent age.

When I recall that experience there, then, I think of many of the elected officials of our political parties in a U.S. economy and political system, both steeped in an orgy of gambling psychosis, a gambling mania, called "the market," reigning where our farms and industries once stood.

Today, I recall my published general warning to the citizens of Virginia's Loudoun County. I warned against what was being called "development" even then. Without farms and industries to provide the generation of real income within the county, speculative real-estate speculation would create a terrible financial-economic catastrophe for the county and its inhabitants. Without emphasis on basic economic infrastructure, including a restoration of an efficient commuter transport system, and build-up of nuclear power, agriculture and industry could not thrive. Speculative "development" would leave the county at the point of becoming a hopelessly bankrupt hulk, at some point during the generation just ahead.

We have reached that shore today.

They call it a "real estate" boom. I call it gambling mania, lacking only those floating bordellos called gamblers' riverboats, sliding along the Potomac.

Problems of this type can be fixed. President Franklin Roosevelt set a precedent for the kinds of remedies needed, again, today.

The Prospect Before Us

With rare exceptions, the bankers who knew how to organize a successful form of economy are nearly all gone, for reasons of age, today. The generation of senior political and economic leaders in the U.S.A., for example, today, is limited to those who are willing to recognize two facts. First, that every change in U.S.A. policies since about 1967 was a crucially contributing cause for the economic disasters of the U.S.A., the American Hemisphere, and western and central Europe today. Second, that by going back to rebuilding the infrastructural basis for a return from the awfully failed, so-called "post-industrial paradise," to a capital-intensive, high-technology-driven agro-industrial, infrastructural basis, and adding "crash program" emphasis on nuclear and thermonuclear-fusion technologies, we can proceed, Franklin Roosevelt-style, to build the healthy economy of tomorrow.

The crucial obstacle in the pathway of such now desperately needed changes in direction of policy-shaping, is induced habits of the type associated, principally, with the "68er" variety of "white collar" generation. For them, their "68er" and related cultural legacy, provides the Cartesian-like set of definitions, axioms, and postulates upon which their ideological way of thinking is grounded. Concerned strata of this "White Collar Baby-Boomer" generation, are willing to introduce humane reforms, but they remain unwilling to overturn the "definitions, axioms, and postulates" of what they "feel" to be the work of their generation.

Because this stratum operates on that generational set of "definitions, axioms, and postulates," they have neither the knowledge, nor desire for any actual comprehension of the way in which a successful economic process has actually worked in the past. Only their active perception of imminent doom would open their minds to the real options available for halting a global collapse at this time.

There is nothing as urgent today, as getting across that point which I have just made. Our nation, and the world besides, has a very, very narrow band of options open to us to escaping the onrushing threat of a global new dark age of all humanity. The needed options exist, but those options will not save us, unless those options are both recognzed, and then, rather promptly, adopted.

Growing 'Bubble Within' The Housing Bubble

by Richard Freeman

In the preceding report, Lyndon LaRouche focuses on the "soaring mortgage bubble within the mortgage bubble." The growth of this process is an incontestable marker that the U.S. mortgage bubble has reached a desperate stage of instability; the continued enlargement of the "bubble within the bubble" would of necessity rupture itself and the larger $17 trillion Greenspan mortgage bubble within which it is intimately situated. That would bring down the U.S. financial system.

The "bubble within the bubble" refers, in particular, to those homeowners who, after first listing their homes for sale in 2006, *yanked their homes back off the market* when they saw that prices were falling. In the interim, they are losing $5-15,000 a month from the selling price of their homes as they keep them off the market. The more the market price of homes falls, the more they silently lose.

But the situation gets worse. Many homeowners in this situation had taken out a non-traditional, or "exotic" mortgage loans. The loans were at adjustable interest rates (ARM), and allowed borrowers to pay no principal, and in some cases, to pay only part of the interest. The amount of interest that they didn't pay was recapitalized into the loans, i.e., it made the outstanding amount owed even larger.

As the market price of homes fell, the mortgage-holders found that *they had negative equity, that is, they owed more on the mortgage loans than the market value of their houses.* These are called "upside-down" loans. The homeowners can't refinance the mortgages, because no bank will refinance a loan that has fallen into the "upside-down" condition. The homeowners can't sell their houses, because the market is plummeting. The individuals are caught. There are millions of people in, or soon to enter this situation. A portion of those who are "upside-down" are within the "bubble within the bubble." Another slice of the homeowners' lives is taken away each month that home prices fall, because they move even further away from being able to pay off the mortgage loans.

The "bubble within the bubble" is the dynamic that has governed the geometry of the U.S. real estate market during the past five months. U.S. government statistical reports overlook this phenomenon. But millions of people throughout the United States know the "bubble within the bubble" and its destructive potential personally. We examine this phenomenon, using the case study of Loudoun County, Va., which is

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Loudoun County, Virginia, which has the highest median household income in the country, is also "ground zero" for the explosion of the housing bubble. That process is now well under way. The photos show an unfinished, abandoned "McMansion" and desperate homeowners reducing the sale price of their property.

ground zero for the housing bubble's rupture, to show how it developed. Loudoun County indicates what will happen to a significant portion of the rest of the country.

The dynamic of the "bubble within the bubble" is rife with the potential for further damage, causing foreclosures. On Dec. 12, *RealtyTrac* reported that the number of American households whose homes entered some stage of foreclosure, climbed to 1.2 million for the first 11 months of 2006, a leap of 43% over the comparable period of 2005. That is one in every 100 households. The popping of the "bubble within the bubble" will turn that into a flood.

Loudoun County's Hidden Bubble

Consider that from 2000-04 in Loudoun County, there were on average 1,500 "active listings" (homes listed for sale) a month. During the hot housing market of 2005, the number of active listings jumped to, on average, 2,500 a month. During 2006, there was a phase-shift in the Greenspan housing bubble. In the first phase of this process, as the number of days that homes were unsold on the market jumped nearly five-fold, there was an acknowledgment that the bubble was about to burst. In this atmosphere, a herd mentality took over, as people moved to put their homes on the market lest they be left out of the last phase of the bubble, and not get the top price. This is shown in **Table 1.** Listings increased by 80% in only five months.

There was mass hysteria. In some areas, there were five or six homes for sale, on each street. But, already home prices began to break; "For Sale" signs stayed on the front lawns of homes month after month. It dawned on the homeowners that the more homes they put on the market, the faster and further home prices would fall. So, ruled by the same herd mentality, they began taking the homes off the market. This began the second phase.

TABLE 1

Loudoun County, Va., Home Active Listings, 2006

Month	Active Listings
Phase #1	
January	2,745
February	2,982
March	3,734
April	4,313
May	4,718
June	4,907
Phase #2	
July	4,747
August	4,437
September	4,173
October	3,806
November	3,386

Sources: Dulles Area Realtors Association; U.S. Department of Commerce.

TABLE 2

Loudoun County: Newly Produced Homes and Housing Units Listed, as Multiple of Homes Sold

2000	2.81
2001	3.36
2002	3.36
2003	2.88
2004	2.18
2005	3.39
2006*	9.82

*First 11 months through November

Sources: Dulles Area Realtors Association; U.S. Department of Commerce; Loudoun County Government.

From June's level, listings plunged by 31%. From June through November, 1,521 homes were taken off the market. These 1,521 unsold and "unsellable" homes constitute the "bubble within the bubble." They have *not* been sold (home sales are still falling), nor are they any longer listed for sale. Where are they? Look for the person with the twisted smile, as he watches his home price plunge.

Loudoun and the National Picture

To situate the deeper dynamic, on Dec. 17, Lyndon LaRouche said, "And this is really fantastic. Because if you take the total number of [new] units produced, against total number sold, and add the total number which had been put on the market but have not been sold, then you get a more accurate picture of the explosive potential and the way it is building up, with the secondary factor of the held-back part."

This method is fruitful. In what follows, we take the combined total of a) the number of housing units newly produced, and b) the number of existing housing units put/listed on the market. This total is roughly what housing is being supplied to the market. We compare that to the number of housing units sold.

What this multiple-ratio shows is that in Loudoun County, during the period 2000-05, there was a normal band of between 2.18 and 3.39 homes offered for sale, for every home that actually sold (see **Table 2**). But during 2006, this process went into another domain: an explosive build-up of 8.9 housing units for sale, for every unit that was sold.

This touched off a corollary dynamic. From June-July 2006 onward, each month, more homeowners removed their homes from listings for sale, increasing the ranks of those in the "bubble within the bubble" (as shown in Table 1). However, the number of homes that sold also continued to decline.

TABLE 3
U.S.A. Inventory of Unsold Homes That Are Listed on the Market, 2006

Month	Inventory
January	2,883,000
November	3,820,000

Source: National Association of Realtors.

TABLE 4
Loudoun County Assessed Residential Property Values
($ Billions)

Year	Assessed Value
2000	$10.8
2001	13.8
2002	17.6
2003	20.9
2004	25.7
2005	33.3
2006	47.3

Source: Loudoun County Government.

Thus, even if the number of homes offered for sale, and the number of homes that actually were sold, were both shrinking, the multiple-ratio of homes offered for sale to homes sold, stayed high—in the range of 9. Nothing significantly improved the situation.

Panic took over. Those who *keep* their homes listed on the market for sale, are cutting their home prices a second, third, or fourth time, without an appreciable increase in sales. Within a housing downturn, there is a nasty cycle: The number of those who take their homes off the market increases, but home sales do not increase, and prices fall. The grouping who are trapped in the "bubble within the bubble" grows larger monthly. They would lose $5-$15,000 a month, which comes out to from $60,000 to nearly $200,000 a year.

Can one determine a national bubble within the bubble? To approximate this, keep in mind, that Loudoun County is an extreme, but what is happening there, foreshadows what will happen in numerous pockets throughout the country, by six to nine months.

Nationally, starting January, people scrambled to put their homes on the market lest they be left out of the last phase of the housing bubble, and not get the top price. **Table 3** demonstrates that between January and October, the inventory/active listings of homes placed on the market grew by 937,000, or 33%. Were the United States as a whole to follow the trajectory already traced by Loudoun County, by May 2007 almost 700,000 homeowners will have plunged into the "bubble within the bubble." And because national averages distort what is really happening, it is likely that in pockets of the country where the real estate bubble had once been hottest, but now is shattered, that there are 100-200,000 households already in that trap.

'Let Them Eat Shingles'

The case study of Loudoun County was selected because it exemplifies what would happen if a county were *planned for the purpose of a real estate bubble,* with little other consideration. As its real estate bubble breaks, the strange concoction known as Loudoun County will melt away. Loudoun is a mythical construct, in which people live fantasy lives. The value of residential real estate constitutes 77% of the county's total assessed values, which total is comprised of residential, industry, commercial, agricultural, and public utilities. There may be no other county among America's 3,077, where residential real estate is such a high percentage of all assessed valuations.

Loudoun is one of the ten fastest-growing counties in America, and in 2005, had the highest median household income, at $98,483. It was once agriculturally based, but that is today a vestige.

In the 1980s, Lyndon LaRouche proposed a county plan for real high-technology-vectored development, but the oligarchy, featuring Mellons and other families of celebrated wealth and power, rejected it. Instead, it followed a plan that is the wet dream of post-industrial Baby Boomers. Consider:

- Manufacturing employment as a percent of total employment in Loudoun County is a nearly invisible 3.7%
- In some areas, there is no central sewage system; several individual "septic tank-mounds" are so poorly developed that effluvium bubbles up through manicured lawns.
- Morning commutes from Leesburg, the county seat, to Washington, D.C.—only 39 miles—can take two hours.

Aside from a few companies such as AOL, what is the principal reason people move into Loudoun County? To buy a home. What is the principal "industry" of Loudoun? Building homes, to build a housing bubble.

The assessed value of Loudoun County dwellings—overwhelmingly homes—leapt 4.5-fold in only six years. (See **Table 4.**) Whereas in 1993, residential assessed valuation represented 55% of the county's total assessed valuations of all kinds of properties, in 2005, it represented 77%. The tax base is totally dependent on the housing bubble. On Dec. 14, LaRouche noted that as county home prices fall, officials will have to increase the rate on real estate property taxes to maintain the tax revenues to pay for vital social services.

Loudoun exists as a case *in extremis;* but a similar housing bubble functions in thousands of counties across the country. Loudoun County, with its enlarged "bubble within the bubble" which is on the verge of rupturing, represents in microcosm what will happen throughout the nation.