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Shocks Still Spreading From Bush April 2 Jobs Fakery

by Paul Gallagher

The global plunge in bond markets, since the Bush White House's April 2 manic celebration of a blatantly faked March jobs report, drove U.S. long-term bond interest rates three-quarters of a point higher in less than two weeks, and was getting uglier by mid-April. While "the dumbest President" careened onward to other, explosive blunders on Iraq and the Middle East, the further shock-wave effects of his whooping-up the jobs fraud on April 2, were spreading. Ominously for the $35 trillion U.S. debt bubble, Federal Reserve Governor John Parry, on April 12 in San Francisco, talked about the Fed raising U.S. short-term interest rates by 2.5% over some unspecified near term. These effects are corroborating Presidential candidate Lyndon LaRouche's immediate public assessment on April 2, that Bush's besotted celebration that day would immediately backfire, triggering a financial-economic phase shift, and threatening a general crash not only before Election Day, but before the July Democratic nominating convention.

Above all, the huge U.S. housing-price and mortgage-credit bubble has a knife point pressed against it. Within a week of the White House attempt to trumpet a "jobs recovery," the Freddie Mac national benchmark mortgage rate had gone up nearly half a point and was pushing toward 6%; the mortgage refinancings which make the U.S. consumer economy go 'round, had fallen by over 30%. "Nationwide, residential foreclosures have steadily risen," to a 14% leap in March, a tracking firm reported. "That [housing] bubble is likely to burst, and when it does, it may take the American economy down with it," concluded an analysis in *Washington Monthly* for April. The same alarm bells were sounded in *Business Week* on April 12 ("Why Housing Is About To Go 'Pop' ") and by economist Robert Samuelson in *Newsweek*'s April 19 issue.

'Imputed' Jobs and Falling Wages

Of the 308,000 new jobs reported, by the Bureau of Labor Statistics (BLS), to have been created by the U.S. economy in March, half—153,000—were actually created by a BLS computer program called X-12 ARIMA. This program calculated that those jobs had come from startups of new firms, though the BLS "Establishment Survey" had not shown any such thing. The number was arrived at by applying statistics from 1998-2002—a five-year period including frenetic telecom and dot.com startups—to derive the number of new firms being started in 2004, from the number of bankruptcies of small firms occurring. This "jobs death/jobs birth ratio," as the BLS calls it, produced the "imputed" 153,000 new jobs in March, and also upward revisions in job creation for February and January. These "imputed jobs" were then assigned to different economic sectors, such as construction, for example. *New York Post* analyst John Crudele pointed out that from its January to March reports, the Labor Department had drastically shifted its *assumptions* about small business job creation, from negative to positive; "Suddenly the government thinks lots of companies are being incorporated and that these new outfits created 153,000 of the 308,000 new jobs for the month." Financial analyst Lou Barnes noted that this shift in assumptions had suddenly added 107,000 "invisible" jobs to the previously published January and February reports, and that the March assumptions "may be as high-side wrong"; however, the Federal Reserve and bond markets will act now to raise rates, without waiting to find out.

The total job creation in construction in the March report, surveyed and "imputed" combined, was 71,000, actually *below* the seasonal average for that industry. In addition, at least another 21,000 of the 308,000 "new jobs" were simply West Coast grocery workers going back to work after a long strike.

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In manufacturing, no jobs were created for the 44th straight month. The American adult population's participation in the labor force remained at its 16-year low of 65.7%, reflecting at least 1.5 million workers who are out of the labor force because they have given up and stopped aggressively seeking work.

The BLS' separate "Household Survey" for March actually showed a decline in jobs, and the official unemployment rate rose.

The actual March picture becomes worse when wages are considered. *New York Times* columnist Louis Uchitelle reported on April 11 that the supposed 277,000 private-sector jobs created were "a mirage. Most . . . were cancelled out by a decline in total hours worked and total weekly pay." In fact, the BLS reported, 10 days after its jobs report, that the average, inflation-adjusted weekly paycheck in the American economy had fallen by 0.7% in March. For the 12 months since March 2003, average weekly pay, even before inflation, has risen by only 1.2%, while the average household's debt has gone up 11%, according to the Federal Reserve. Even the BLS' Consumer Price Index, which is rigged by Quality Adjustment Factors and other means of hiding most inflation, rose by 0.5% in March. A much better sign of the raging inflation actually building in the U.S. economy, is that the Commodity Research Board index of prices of all raw materials, has risen 55% over the last two years (see *EIR,* April 16)—not to mention healthcare's costs' 10% annual rise, college tuition's 27% national increase over the last three years, transportation costs, and so on.

By far the greatest inflation is in house prices, rising at 10% *per quarter.* In Britain, from the analyst known as "Dr. Doom," Tony Dye, to the government's own economists, everyone sees a housing crash coming, with average house prices having reached five times the mean annual salary. But in the United States, in eight states which have half the nation's total housing "value," the average ratio of house price to salary has reached 8:1 to 10:1. The late-1980s real estate, stock market, and savings and loan collapse hit before such ratios were reached, and without interest rates rising. But now, the entire U.S. economy is driven by this debt bubble, which the bond market plunge will destroy.

Phase-Shift to Deflation

Bush and Treasury Secretary John Snow's dumb rooster-crowing on April 2, unconsciously set off a clash between two desperate imperatives of U.S. monetary authorities and financial circles: the need for a money-printing, low-interest-rate debt expansion policy to inflate assets, especially real estate assets; and the need to pull $2-3 billion a day of the world's money into U.S. markets—to pay for the $600 billion Federal budget deficit, the import of the world's cheap-labor goods, and to feed the growth of that same debt bubble. The Fed and the big U.S. banks were desperate for rising interest rates, but month after month of job losses blocked the Fed, politically, from even speaking of higher rates in the future.

Then, on April 2, the blundering President struck—proclaiming a recovery with his 308,000 largely computer-imputed jobs, collapsing the bond market by a backlash effect, and opening the door to a sharp rise in long-term rates; the Fed will follow with short-term rates at the earliest opportunity. For a few days, the wing-ding pulled European and Asian capital into the U.S. stock and financial markets at an even greater rate than the $900 billion-a-year pace of December-March. But the idiot President had triggered a phase shift from the going policy of money-printing and hyperinflation, toward a policy of deflation—interest rate hikes and spending austerity. Sen. John Kerry, in an economic policy speech at Georgetown University April 7, disastrously said, "Me too," because the banking circles of Felix Rohatyn, who are backing Kerry and controlling his current campaign line, want the same deflationary policy, and no "FDR-style" job creation policies permitted. This is a Hoover-like formula for an early financial crash and depression.

Rate Hikes Will Blow Out Ibero-American Debt

by Gretchen Small

Even a small increase in U.S. interest rates, of the sort now widely expected from Alan Greenspan's Federal Reserve, will blow out the entire debt bubble of the Ibero-American nations, along with the rest of the Third World. While significantly smaller, in financial terms, than other bubbles which are also about to be detonated by the interest rate hike—the combined real foreign debt of Brazil, Argentina, and Mexico totals, for example, some $1 trillion, as compared to a U.S. mortgage market bubble estimated conservatively at $12 trillion—this debt bomb's explosion would have scarcely less significant *political* consequences. Should governments not intervene to take charge, a regionwide disintegration looms, more dramatic in impact than the 1998-99 bankruptcies of the Russian GKO and Brazilian debt markets. It would surpass, in social horror, even the destruction wrecked by the collapse of Argentina's banking system and government, and subsequent default, in December 2001.

EIR's Feb. 27 issue warned that Brazil's debt will blow the moment the conditions which favored Brazil's creditors in 2003, end (low U.S. interest rates, a devalued dollar, a low country-risk rate, high foreign investment, and the Lula government's honeymoon with expectant voters, who were willing to tolerate his even more brutal austerity than his predecessors'). That reality is here. With over $500 billion in real foreign debt, Brazil is the Third World's largest debtor. And when it goes, the whole neighborhood follows.