THE GREAT LEESBURG BUST OF 2006

Bankers Association Warns of Bust

by Lyndon H. LaRouche, Jr.

April 8, 2006

The world as a whole is currently teetering on the edge of the greatest financial collapse in modern history. In keeping with the nature of the freedom of the human's power of choices, there is no fixed date for this already onrushing event. However, since even the freest of human wills is bound within the limits defined by the reality of current processes, the crash will be soon, perhaps very soon. Nonetheless, most people will deny this reality until after the crash has hit with hurricane force; after the crash has come, even then, many of them will continue to deny what has occurred, that for a lapse of time of months, or, in some cases, as after 1929, for several or more years.

So today, when the basic economic infrastructure and industry of the U.S.A. have been eroding visibly since 1977: at a time, even now, when entire states and regions are already in a deep physical-economic, depression, there are many poor souls who continue to support an intellectually crippled President George W. Bush, Jr.'s insistence that our actually collapsing U.S. economy is growing. When the crash hits with full force, as it will soon, many of these protesters will fly into a rage, tearing themselves to pieces, as did the fabled Rumpelstiltskin, denouncing every statement and every thing which points out that the great crash has actually occurred.

I have observed, especially since January 1996, that, there was then, and, is still now, a strong tendency toward a virtually schizophrenic form of quality of disassociation in reaction to any hard "bad news" about the economy. This wishful neurotic tendency was widespread, and has spilled over even among those associated with me here in the U.S.A., and also abroad. I can report from such close experience, that the form this denial takes, has often occurred in the form of an emotional disconnection between the discussion of a forecast financial crisis, and the sense of the real world of personal daily life. Such is often the state of mind, among that generation of modern sophists born between the end of World War II

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Estates at "ground zero," just outside Leesburg, Virginia, the Loudoun County seat. These multimillion-dollar homes were built without benefit of access to the town sewage system, so they use septic tank drainfields—in thick, clay soil. The result is raw sewage bubbling up onto the manicured lawns of the mansions: "Eau de Loudoun County."

and the deep economic U.S. recession of 1957-1958.

Even forecasts presented by persons with the greatest relative authority in this field, as my record in this field is now an outstanding example of such success, are treated by today's popular sophists as "merely academic" matters, even when the forecast might involve a threatened extinction of entire communities. Such is the case in the, virtually doomed micro-societies represented by the mushrooming "Hollywood set"-style hamlets of Loudoun County, Virginia. Many, even in financial "ground zero," otherwise called Loudoun County, will protest that their mortgage is solid, even at the point assessable market value of the mortgaged property has fallen way below the marketable value of that item.

It is notable here, that I have made less than a dozen professional's forecasts in the course of my career as an economist. The first was my 1956 near-term forecast of a February 1957 recession. Each of these significantly less than a dozen forecasts, beginning Autumn 1956, have each and all either come true, or are now currently in the process of coming true in an appropriately timely fashion. There is no other person on the public record who has a more consistently successful record than I do on this account, not even a record which could approach my own nearly perfect performance in this matter.

The world is now threatened, during the immediate months ahead, with the most severe breakdown in global economy since the so-called "New Dark Age" crisis set off by the mid-Fourteenth-Century crash of the ultramontane Venice's tool, the "hedge funds" of that time, then known as the Venice-controlled Lombard League's banking system. What is rumbling now from under the burgeoning, saturated drain-fields of Loudoun County, Virginia, is a twitch of panic to come. Week by week, there is, an accelerating rate of a margin of unsold, empty houses, an ironical warning of a great crash of Alan Greenspan-created mortgage-based-securities bubble: a crash about to hit with panic force.

Some silly people will say that I am "threatening to talk the economy into a recession." Denying the existence of a crocodile already moving about in the children's bedroom will not make the hungry crocodile go away. Matters have reached the point, that some very responsible Federal and related banking circles are now issuing carefully crafted warnings to the witting, of the great U.S. real-estate crash about to strike, probably as early as this Summer, or even, perhaps, earlier.

Especially now: no relevant kinds of responsible agencies, here or in Europe, have any sane reason to doubt that my forecasts are to be treated as representing exceptional authority in such matters.

For example, my first long-term forecast was made during mid-1958: *that if the trends established over the course of the 1950s were continued during the sweep of 1960s, we must expect a series of monetary crises in the world system by the second half of the 1960s, followed by the arrival of a threatened breakdown of the Bretton Woods monetary system itself.* I reaffirmed that forecast, with some slight refinements during 1959-1961 and 1965. The 1967 Sterling and 1968 Dollar crises were typical of the developments leading into the 1971-72 dissolution of the Bretton Woods system.

My second long-term forecast, was first published in August 1971, in the immediate aftermath of the Nixon Administration's wrecking of the Bretton Woods system. I stated, at that time, and later, up to the present moment: *that the policies adopted by the Nixon Administration confronted us with the long-term prospect of a threatened fascist transformation of the world financial-political system.*

That transformation, as I described in that forecast of 1971, has shaped the long-term economic-policy trend in the Americas and Europe to date. For this nightmare, the role, in pushing deregulation, by Zbigniew Brzezinski as Trilateral Commission leader and Carter Administration National Security Advisor, has been more crucial in long-term effects than even the ruinous actions of the Nixon Administration. The role of Dick Cheney as Secretary of Defense under President George H.W. Bush, and as Vice-President under the nominal President George W. Bush, Jr., when compared with the ultramontane policies for Nazi-like privatization of the military, associated with former Pinochet-backer Felix Rohatyn, are the most notorious expression of the lunge toward an attempted global fascist tyranny under "globalization" today.

Now, the crash itself can be prevented no longer. In earlier times, there had been options for preemptive action by the U.S. government which might have changed the system itself in appropriate ways, before the full-scale panic-phase had actually occurred. President Clinton was thinking in such directions during September 1998, but the relevant political circles attempted to remove him by a Bush-circles-led impeachment campaign, and no effective action has been attempted by the U.S. government since September 1998.

As we should have recognized by the sudden, February 2006 backdown to Bush, Cheney, and Rohatyn, the Democratic forces of the U.S. Senate, the political system is no longer prepared, at this time, to take any of those effective forms of timely action which were under consideration in 2005. There is no significant current effort in either party, to take the needed action to deal with the onrushing general breakdown-crisis—until after the crash has actually occurred. Amelioratives of mass suffering of the suddenly unemployed auto-industry workers is like providing pain-killers instead of the surgery which is required.

You might have supposed that experts in the field, especially persons associated with me, would have recognized my forecasts as warnings of the conditions under which they, personally, might expect to live in the forecasted near-future time to come. Some did, but, until now, most of the relatively older generation in power have not acted, and do not consider themselves situated in a position of advantage in which they would attempt to launch competently preventive action.

In most circles, such as among the members of the U.S. Senate, for example, the post-January 2006 disassociation by the dupes of former Pinochet-backer Felix Rohatyn and his like, is more consistent and clearly manifest still today.

It is now, as typified by the statements of John M. Reich and others, that official and related U.S. banking institutions have issued a very sharp warning of a threatened crash of much of the U.S. mortgage market. The *Business* section of the ***Washington Post*** carried an accurate summary of this official warning. Yet, even the editors and readers of the ***Washington Post*** react, as if emotionally and intellectually disassociated, acting as if to say, "So what; it could never affect me"! Granted, the ***Post*** is noted for its adherence to sophistry; but, there should be a point at which even modern sophists in the tradition of Pericles' and Thrasymachus' self-doomed Athens bow to the unavoidable importance of the simple truth of their own situation.

Indeed, the ***Post,*** whose controlling interests are deeply involved in what might be deemed legalized real-estate scams in the region, is among the institutions which might be swept away in the outgoing monetary-financial tide.

I explain as follows:

John M. Reich's Warning

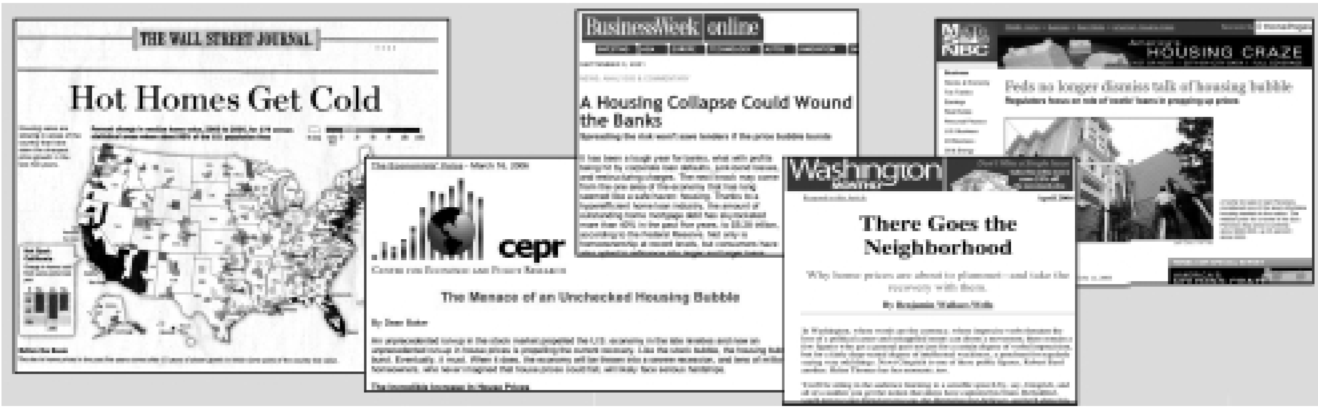
With delicious taste of irony on my tongue, I can report that page one of the ***Washington Post*** *Business* section of Friday, April 7, 2006, featured a warning to the such locations as the vicinity of Leesburg, Virginia, of a threatened major real-estate bubble collapse in certain parts of the U.S.A., especially the area of the real-estate bubble built up around the nation's capital. The ***Post*** account features the warning presented to the New York Bankers Association by John M. Reich, the director of the Office of Thrift Supervision.

The ***Post***'s account includes the following three paragraphs, which point accurately to that threat of the "Great Leesburg Bubble" against which I have warned publicly, repeatedly since the beginning of 1996:

"About two-thirds of all people who bought homes in the Washington [D.C.] area in 2005 used interest-only or option mortgages, many of which have adjustable interest rates, up from 2.5 percent in 2000, according to statistics compiled by Loan Performance, a real-estate information firm. These loans generally have lower monthly payment requirements than traditional fixed-rate loans, at least at the start, but carry the risk that payments could jump steeply.

"Local mortgage brokers say borrowers are taking out these loans because it is the only way they can afford to buy a home today. These loans allow borrowers to pay just the interest on the debt, not to pay down the principal, which reduces the monthly expense at the beginning of the loan term."

According to the ***Post*** account's third paragraph of these three, Christopher Cruise, a Silver Spring-based mortgage



A sampling of recent press coverage of the end of the housing bubble, nationwide.

trainer who runs classes for lenders and regulators around the country, stated, "Without these products, homes couldn't be purchased." That paragraph concludes by citing Cruise: "If they are taken off the market, it could precipitate a disaster of epic proportions."

There is nothing new to me or other leading U.S. economists of whose views I know, in the warning delivered by that edition of the ***Post.*** As I have warned repeatedly since the January 1996 beginning of the Democratic Presidential Primary campaign, the real-estate bubble described by Reich and others is simply a warning to the witting that the great financial bubble-collapse of 2006 has reached the point it is ready to burst almost any time soon, and that the Washington, D.C.-centered region is one of the most important areas to be struck by a financial-collapse disaster beyond the imagination of most among the many wishful citizens in the region still today.

Every leading economist of importance, and relevant financial specialists, have shared the expert knowledge for some time: *that the state of Alan Greenspan's cancerously layered U.S. financial bubble in mortgage-based securities, represents a monster which could suddenly bring down the U.S. economy, and, could, as well, set into motion a worldwide, hyperinflationary collapse of the present monetary-financial system outside the U.S.A.*

When the bankruptcy of leading banks behind the present global hedge-fund bubble is taken into account, the world monetary-financial system is presently in such a state, that nothing less than putting the IMF system itself into bankruptcy reorganization, would be indispensable for preventing the collapse of the world economy. This would be a collapse into a planetary new dark age comparable to that of Europe's Fourteenth-Century collapse of the Venetian system represented by the Lombard League's "hedge-fund" peddlers, such as the Bardi's infamous "Biche" and "Mouche."

The most significant thing about the ***Post***'s Business-section report, is that leading circles around the Federal Reserve System, have signaled, that now is the time to rush a warning to those insiders of the financial community who need to take action to minimize the damage this oncoming crash will deliver to their particular interests. Among such circles, the feasible economic goal of investors and managers in the wake of super-inflationary Alan Greenspan's departure, is no longer merely loss-minimization; it is now bare survival.

Therefore, I say again, that the center of the coming mortgage-crisis storm in the area of the nation's capital, is Loudoun County, Virginia, where the most extremely dangerous over-stretching of mortgage obligations has occurred. Not a whisper of a sense of appropriate reaction to that reality was overheard from the streets of Loudoun County as the ***Post*** report was being circulated in this area Friday and Saturday.

One thinks of a story about a woman who has cooked the meal and set the table for the husband who had deserted her a decade or more ago. "But, he deserted you more than ten years ago, Mom!" her daughter pled.

"I know that," her mother replied, but continued to set that same place at the evening table, at a measured, much rehearsed pace, as she had done so for thousands of desperate evenings before.

That is the way an all-too-typical Loudoun County resident, for example, responds to the reality of the onrushing crash of the super-inflated, John-Law-style, mortgage-based securities bubble.

It is not only the ordinary citizen in the middle to lower income-brackets, who reacts with indifference to plain evidence that the great housing bubble is about to pop. Look at the higher political ranks of society, where they ought to be better informed. Look at the rate of denial among these circles, despite the fact that the most important economists and financial circles know of my forecasting successes. For that reason, to understand the presently desperate situation, you must look at the state of hysterical, official and other denial of what has become, among serious professionals inside the U.S.A. and in many leading circles abroad, my widely known economic forecasting over more than four decades so far.

It is therefore important to reference, once again here, some of my now proven earlier published forecasts of this trend in this direction. My warnings of the Ponzi-scheme-like characteristics of recently retired Federal Reserve Chairman Alan Greenspan's role in a giant, cancer-like U.S. real-estate bubble, include the following warnings delivered by me in published statements focussed on a first-hand overview of the situation in the Leesburg-centered Loudoun County.

I Warned You!

I had already warned publicly, repeatedly of the threat to Loudoun County in a recent Washington, D.C. webcast. Consider several typical and prominent instances of this. (See box.)

1. The 'Triple Curve': What It Means

My first, and often repeated warning of the coming general financial breakdown-crisis of the world's current monetary-financial system, was the featured element of the address which I delivered at the 1996 public conference at which I launched my campaign for the Democratic Party's 2000

LaRouche's Forecasts on The Housing Bubble

Time and again, Democratic statesman and economist Lyndon LaRouche warned that swindler Alan Greenspan's housing bubble would come down, leaving foolish Americans who followed his "yellow brick road"-deals as the victims of the bankers' looting schemes. The excerpts below show LaRouche's incontrovertible record.

Oct. 22, 2003: *Webcast, "Preparing for the Post-Cheney Era."*

We have entered the acute phase of a general breakdown crisis, of the world's present monetary-financial system. . . . If you look at the current accounts deficit; if you look at our total foreign debt; if you look at our trade situation; if you look at our internal indebtedness, particularly in the area of credit-card debt; the housing bubble, about to break, in which suddenly we turn so-called nominal homeowners, into squatters, because the banks don't want them to leave. . . .

We've got all kinds of housing crises. You've got these funny shacks . . . , they're out there, priced at anywhere from, what is it, $400,000 to a million dollar mortgage apiece out there, all over the landscape around here. Part of the so-called mortgage bubble, or otherwise known as the mortgage-based securities bubble, and so forth. This thing is about to pop. . . . [You] see when you get the pressure of a collapse in the mortgage based securities market, you get a downward pressure, inflationary pressure, on the Fannie Mae, Freddie Mac system. This then goes back to the banks. This goes back, now, to a collapse in the market, the real estate market for housing. This results in a negative flow. People are cashing out on their, in a sense, on their appreciation of the nominal value of their property, taking the fact that the property had increased in nominal value according to real estate dealers, the banks will then issue credit to the mortgagees who would come in and get a cash out loan to buy groceries with, with this money. And now, what happens when that's reversed? Now, suddenly they are obliged to maintain, to cover the mortgage, they're required now to take extraordinary steps and they will be forced out. So we have a housing crisis in these areas, such as California, and such as Silicon Valley, a big crisis out there. We'll have a big crisis around Washington D.C. in these housing areas, where you see these shacks. You take a piece of material, you shrink wrap it, and you put some plastic coating on the outside, a couple of faucets on the inside, and call it a house, and sell it for $400,000, one next to the other. And this thing is coming down.

Nov. 20, 2003: *Webcast, "A People That Is Determined Not to be Slaves, Will Not be Slaves."*

Now, what happened? The people who moved away [from Detroit], in large degree—not all of them—would move in, as younger people, into jobs in areas in California, in Washington, D.C., other areas, where you have a *housing boom.* Now, this housing boom is rather disgusting: Because, they take a cow pasture; they put a bulldozer through it once or twice; they put a foundation on it, this area. They take a piece of tarpaper shack, virtually; they shrink-wrap it, with insulation; they paste some plastic on the exterior, to make it look like brick, or something else. They put a couple of faucets in it. They call it a house. . . .

Now, what happens is, these people are now losing money, because there is terrible inflation. Maybe some

Presidential nomination. I explained the nature of the oncoming general financial crisis of the world system by a rather simple chart, which I named "The Triple Curve" (**Figure 1**).

That chart, as shown here, has four explicit elements. First, there is an hypothetical straight line, which corresponds to the assumption that the U.S. economy had continued to operate in constant relative, per-capita value of financial, monetary, and physical values, comparable to the ratios of the early 1970s, until as late as 1977. The latter point, 1977, is the point at which the average *physical* income of the lower eighty percentile of the U.S. population's households had definitely proceeded to collapse over the 1977-1996 interval.

The three curves featured in the chart were; first, the declining of the real (physical) income of the households of the lower eighty percentile of the population, as measured in combined public and private components of net real income; second, the soaring rate of accelerating financial inflation; and, third, the soaring rate of the monetary inflation now being driven, most visibly, by the combination of real-estate bubbles and the so-called "hedge funds." This portrays a type of economic function which has current characteristics akin to those of the post-World War I Germany under Versailles Treaty terms over the 1921-1923 period, leading into the sudden explosion of hyperinflation during the second half of 1923 (**Figure 2**).

The particular feature of the 1996 Triple Curve presentation, was that by 1995-1996, the Anglo-American beneficiaries of the 1989-1991 collapse of the Soviet system had neared

of you know something about this terrible inflation. You may have experienced it someplace. So therefore, people have trouble getting by, even families where you have two people with fairly skilled jobs, working two jobs in a household: They're not bringing enough home to pay the rent or the mortgage. . . .

How do they get by? A swindle was pulled, by a swindler called Alan Greenspan. He's the head of the Federal Reserve System. What he did is, he pumped money, through Fannie Mae and Freddie Mac. He did it in concert with real-estate swindlers, who sell real estate. The real-estate swindlers in this area, say the area around Northern Virginia, would meet. And they would tell the bankers that the value of real estate in this area, has gone up! Therefore, these houses all are now worth more. Now the banks are willing to give a 90% credit, on the value of the mortgage, to the nominal house owner. So, they go down to the bank, and they get cash, by refinancing the mortgage based on the increase, the purely synthetic increase, in the value of the house. What do they do with the cash? They spend it for groceries! And "foolish" things like that, to get by.

What happens then, if a 1% or 2% increase in interest rates occurs? Boom! The real-estate bubble goes. Housing shacks go down to half the value.

July 30, 2004: *Webcast, "The Victory Margin We Will Add in November's Election."*

You see . . . a nation which has been physically destroyed, in which those who consider themselves wealthy are in the upper 20% of family-income brackets, and more and more concentrated in a few areas.

And the wealth these people represent is largely not real wealth; it's debt. People have a house: "Ah, they have a house!" Look at the mortgage, buddy! Look at the appreciation; look at the bubble, the housing bubble. We're at the point where the collapse in the housing bubble is going to transform millions of American so-called homeowners into either squatters, or homeless people. And it will happen very rapidly. We're on the edge of that happening.

June 16, 2005: *Webcast, "The Urgent Changes Needed in Monetary and Economic Policy."*

You have real estate bubbles, where you have shacks in the Washington, D.C. area, around it, where people have moved in from all over the world, to live in the D.C. area: And they pile into these places, and combine their incomes, and they put up money for a shack—put together, not with nails but tacks!—and this shack goes at a $600,000 mortgage up to $1 million. And these are just poor-class shacks, around the entire area. You have people tumbling into these places and out of them, living no regular family life, going to bad schools, with poor health care which is worsening all the time: These are the conditions of life!

And this thing is about to come down. . . .

Well, it's obvious to me, it's going to happen. I can see it in Northern Virginia. It's clear. We have Loudoun County, which is going to be a center of this catastrophe, because, it's been one of the areas that has been the most heavily built, with the least infrastructure, has been built up around this operation; as other parts of the whole area. . . .

This catastrophe *is going to happen.* It's not, "if" it's going to happen; it's just a question of "when"—and, "when" is soon.

Sept. 3, 2005: *Webcast, "Pulling This Nation Together Now!"*

This whole thing is going to go down! You can get, very quickly, a 60% collapse, or more, in mortgage values in this area, and this particular county, Loudoun County, is "ground zero" for the biggest mortgage bubble collapse in the United States! Right here! It's going to hit us.

FIGURE 1
LaRouche's Typical Collapse Function

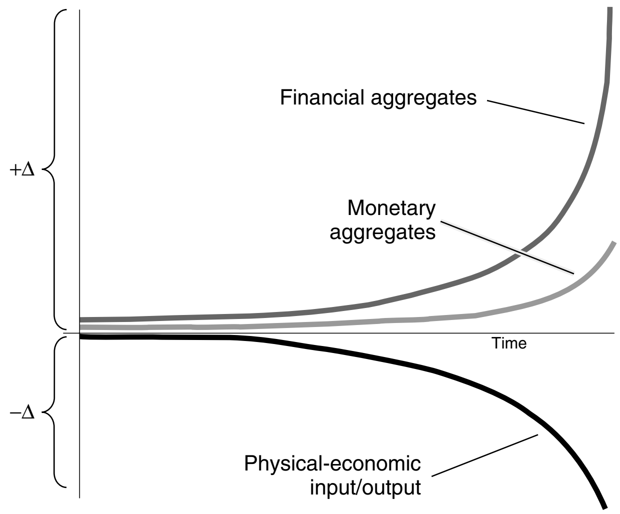
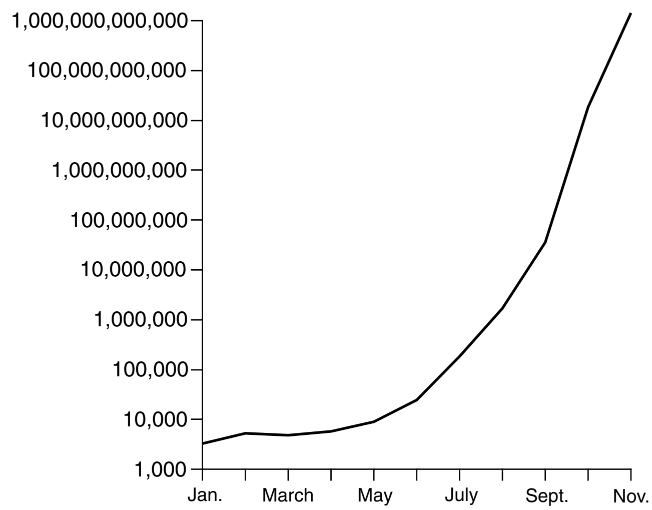


FIGURE 2
Weimar Hyperinflation in 1923: Wholesale Prices (1913 = 1)
(logarithmic scale)



the limits of the possibility of continued looting of the former system. In Western Europe, for example, the Maastricht conditions which Britain's Margaret Thatcher and France's President Mitterrand imposed on post-1989 Germany, induced a forced shrinking of the economy of Germany, while imposing a virtual paying of tribute, by Germany, tribute issued by Germany as tribute paid to imperial overlords, paid to support the declining economies of the United Kingdom, France, and others. Although the states of Eastern Europe have enjoyed political freedom from Soviet hegemony, the economic conditions in those regions of Europe today are usually far worse, physically and otherwise, than under Soviet hegemony!

The global monetary-financial crises of 1997 and 1998, the so-called "Asia Bubble" crisis and the "hedge-fund" blowout of August-September 1998 are typical of the kinds of trends against which I have warned in the January 1996 presentation of my Triple Curve.

In the aftermath of the August-September 1998 hedge-fund blowout, it was a relatively short run to the 2000 end of the Y2K sophistry, and with that, the beginning of a qualitatively new phase in the great financial bubble, the global financial-derivatives bubble, which Paul Volcker's successor Alan Greenspan had launched, in 1987, as his proposed solution for what I had precisely forecast, during the previous Spring, as the U.S. stock-market crash of that October.

What Greenspan launched was a descendant of the John Law "bubbles" of early Eighteenth-Century England and France. His immediate objective in this action was to bail out leading banks which had been drained by the process leading into the 1929-style stock-market crash of October 1987. The included result was the birth (and death) of the Enron which was to play a leading part in funding Texas Governor George W. Bush, Jr.'s campaign for the Republican Party's U.S. Presidential nomination and subsequent election. In effect, Greenspan legalized what had been considered the form of crime for which Enron was brought down. In effect, Greenspan's actions flooded the banking system, in particular, with a purely fictitious form of financial asset, an asset which he, in effect, legalized. This was used, among other purposes, to flood the emptied coffers of the leading banks of October 1987 with purely fictitious financial capital.

One of the pivotal features of Greenspan's operation was to transform Fannie Mae and Freddie Mac into engines of a mortgage-based-securities system of speculation, and to use that mechanism as a way of creating an intrinsically hyperinflationary form of apparent real-estate-mortgage boom: thus creating a new version of an Eighteenth-Century John Law-style bubble. That bubble has now reached the point at which it has been overstretched to the popping-point.

What has brought the Loudoun County real-estate wingding to the verge of catastrophe, is the global effect of Greenspan's blowing of bubbles. What has just happened in poor Iceland illustrates the point.

The possibility of preventing Greenspan's bubbles from popping during the 1990s, was chiefly the combination of post-1989 looting of the physical assets of the former Soviet Union and Comecon (and also Germany), and, above all, the willingness of the governments and banking systems to launch and sustain what is often identified as Japan's overnight zero-interest-rate lending policy.

Credit borrowed from Japan is used to buy blocks of currency which are then loaned, at significantly greater lending charges, to private firms and governments in other parts of the world. This practice of layering one stratum of fictitious assets on top of another, has become known as "the carry-trade." This "carry-trade" has become the principal engine of today's worldwide hyperinflationary impulses, as in the price of petroleum, and precious and other metals. All of this depends upon the use of a U.S. and British system of mortgage-backed securities, and risk-insurance hedges.

As long as the system depending upon the continued expansion of the carry-trade functioned, it was possible to maintain the mortgage-bubble in such locations as Loudoun County, Virginia. However, it is now recognized that Alan Greenspan's hyperinflationary games must be ended. The soaring prices of primary materials, shows us that the world has already entered the phase of growing, second-order, hyperinflation, a state of global affairs which must be fairly compared to what happened in Weimar, Germany, during the second half of 1923. The greatest single threat to the world's monetary-financial system today, is the onset of a Weimar, Germany-like, global, hyperinflationary spiral, a spiral which has now reached the point of over-ripeness at which it could blow out the entire world system during a short period of time, even within the remaining months of 2006, probably by the time of the U.S. mid-term elections, probably as early as Summer, if it were not triggered by a virtual accident, at almost any time between now and then.

Greenspan's actions to that effect must be compared with the way in which Weimar Germany led itself into the great hyperinflationary explosion of late 1923. There are differences between Germany then, and the world of the 1987-2006 interval; but, the principle is the same. There are some leading circles in the U.S.A. and elsewhere who are not so ignorant, or stupid, as not to recognize the fact of the current situation. If some of them do not maintain public silence on what they know, that is because they fear that no government, or leading political party of the U.S.A., the British Commonwealth, or western and central continental Europe would be willing, voluntarily, to take appropriate measures for bringing the crisis under control. Some among those leading circles consider the case a hopeless one. Even brave soldiers are not wont to fight when their governments, such as the Bush Administration today, have already surrendered the nation to the financier rogues of the hedge-fund system.

So, the effort to check the rate of increase of global hyperinflation impels well-informed central bankers and comparable others, to say, "Put the lid on hyperinflation, if you can!" This means, shutting down the mechanisms of hyperinflation on which Greenspan's mortgage-based securities inflation was based. This means a crushing of the hottest areas of investment in real-estate speculation. The wild-eyed gambles in the Washington, D.C. area, are the warning to shut off the spigot. Waves of bankruptcy are soon to be expected. Loudoun County beware!

2. How We Ruined Ourselves

The paradox is, that, whereas nothing could presently save a civilization which believed in the currently popular, taught beliefs about the meaning of money, there is no justification for the assumption that we must continue to submit to the influence of such misleading beliefs. In fact, while admitting the great suffering already built into the current state of economic affairs, *the crash of the present world monetary-financial system would be, in and of itself, a great boon to the future of all mankind, but only provided that we were prepared to replace the present, failed system by a global system based on the most recent precedent of President Franklin Roosevelt's great reforms.*

Despite the foolishness of reigning opinion on the subject of money, that among the most numerous of today's leading circles, the U.S. Constitution, from the beginning of its existence, had contained the implied solution for the present threat of a general physical collapse of a bankrupt present world economic system. *The essential reason for this distinction of the U.S. system, in contrast to the present systems of Europe generally, is that, under our Constitution, even despite recent practices of the Federal Reserve System, our system is a credit system, rather than a monetary system like those of a Europe, the latter in which private banking interests embodied in so-called "independent central banking systems," reign over what are, in the end, only nominally sovereign governments.* The role of the U.S. dollar in rescuing a ruined war-time world economy, under President Franklin Roosevelt's policies, is, still today, an example of this qualitative superiority of the U.S. constitutional system over the systems of Europe.

Therefore, the deadly crisis which grips the U.S. at this time, is not simply something which has happened. This crisis is the outcome of a current in European philosophy directly counter to these principles on which our U.S. constitutional system was premised. This defective current is rooted in thousands of years of European history; it represents the philosophical current against which the process leading to the founding of our republic has been pitted.

Therefore, for this reason, under present conditions of accelerating world crisis, simple, so-called "common sense" views of the issues posed by the presently onrushing collapse of the U.S. and other economies, are worse than absurd. Those erring Americans, like those others who have tended to consider the trends of policy-shaping during the recent four decades as more or less "inevitable," are being worse than childish in their tendency to tolerate monetarist forms of accountants' dogmas. The present plunge toward doom was never inevitable, if we had been willing to change back to the kind of sane alternative which President Franklin Roosevelt's policies had represented.

The policies which have ruined us, especially over the recent thirty-five years, were designed and unleashed by circles which were passionately determined to uproot and destroy those principles of practice on which President Franklin Roosevelt depended, to bring the U.S. out of the great depression into which his immediate predecessors had misled our nation. To this end, the haters of Roosevelt focussed on the generation born during the decade immediately following the close of World War II, with the long-ranging intent to destroy what the U.S. had represented during its leading role in securing victory over Adolf Hitler's regime.

Therefore, citizens who actually care about our nation's future, and who are also fully sane, will be willing to face up to some serious, and sometimes profound questions respecting the deeper causes and cure for the great world financial breakdown which threatens to destroy our nation, and others, during the few years immediately ahead. This is no time for opportunists who are wont to rely on childish sophistries of popular "common sense."

Therefore, the citizen who cares will be willing to "get serious" about the relevant ideas at issue in this presently threatened, onrushing general breakdown-crisis of civilization as a whole.

Recovering From the Disease

Although we must say, unequivocally, that the present U.S. monetary system is now doomed to early extinction, it is only the present world monetary-financial system, and its financiers, which are inevitably doomed; the U.S. itself could, and should survive.

There are efficient intellectual solutions for the crisis coming down upon us all today, but only if we are willing to return to the tradition of President Franklin Roosevelt's recovery. Any contrary view of the matter, such as the alien world-outlook of such haters of our Constitution as Felix Rohatyn and his like among vaulting arrogance in Boston, is both false and worse than absurd.

From that vantage-point, the principal cause for all of the suffering which our people are now about to endure, is that kind of popular belief, which most right-wing conservatives of today, and also many others, share respecting the assumed nature of money. For example, this is essentially the same delusion which Karl Marx adopted from his masters of the British imperial East India Company's Haileybury School. In short, *the dupes of both of those British and Marxist dogmas believe in a delusory, monetary theory of value.* It is the toleration of that insane, but stubborn belief in that notion of monetary "value," which could now ruin us all.

The key to freeing the minds of our citizens from the mental disorder which has led so many among them into the presently onrushing collapse of the U.S. and other economies, is to make clear to them, that the cause of this crisis is that almost all of our presently living adult citizens, at all levels of rank, have been duped into accepting the notion that a value of money defined in terms of so-called "free trade," is the necessary standard of practice of citizens and their government alike. Therefore, to define the needed remedies for such phenomena as the presently onrushing great real-estate collapse, we must show the silliness of the ideology of "free trade," and the beneficial nature of those contrary physical-scientific principles which had guided the U.S.A. toward prosperity in all earlier periods of rise of relative increase in general prosperity of the population and territory, as under President Franklin Roosevelt's leadership.

The popular delusion responsible for the present real-estate crash, that relevant delusion respecting money, shared among philosophical liberalism's conservative, Marxist, and other common varieties of economists of today, is that same belief shared among the respective followers of Bernard Mandeville, François Quesnay, Turgot, Adam Smith, Jeremy Bentham, and Karl Marx—then, and still today.

That delusion is expressed, typically, by the belief that there exists some magical, statistical agency through which "free trade" must bring prices, as if asymptotically, to a correspondence between price and a statistical approximation of some natural determination of true relative value among exchanges within a system of circulation of commodities. The most frankly evil of these arguments, that of the Mont Pelerin Society of Friedrich von Hayek and Milton Friedman, is that of Mandeville's 1734 ***The Fable of the Bees, or Private Vices, Public Benefits.*** This lunacy on Mandeville's part is the essence of the beliefs shared among the duped followers of the Mont Pelerin Society, the American Enterprise Institute, and existentially unfortunate, mean-spirited mental cripples such as President George W. Bush, Jr.

This popular delusion is merely typified by Marx's own fascination with the idea of capital as the outgrowth of a primeval sort of original hoard of money, which dupes of that view might have assumed to have been the great apple which led to the expulsion of Adam and Eve from Eden. That common legacy of the British East India Company's and Marxist tradition's notions of money, that monetarist doctrine of "free trade," is the great intellectual threat which we must defeat, if we are to become capable of a successful mastery of the onrushing catastrophe which grips our nation now, as similar Marxist views ensured what became the systemic economic collapse of the Soviet system.

The root of the current, modern form of this common belief of both the so-called extreme right and wild-eyed left, is the evolution of continental European ideology since the Paris events of July 14, 1789 and its Jacobin and Napoleonic consequences. The French Revolution and its Napoleonic outgrowths, are the root of a doctrine which came to be known as *synarchism* (i.e., anarcho-syndicalism), which is the common matrix from which both the contemporary radical right and radical left have taken their origins since that time.

Typical of this anarcho-syndicalist doctrine, is the celebrated doctrine of the Synarchist Alexander Helphand, a.k.a. "Parvus," the famous, actually London-steered revolutionary and war-monger, and Coudenhove-Kalergi-linked fascist, best known for his indoctrination of duped L.D. Trotsky in what has become the Cheney-Rumsfeld doctrine of "permanent war/permanent revolution." Since the French Revolution and the Napoleonic tyranny, this doctrine has always been the medium of intellectual influence employed by a certain Venetian type of private banking collation, as in the organizing of either fascist or socialist revolutions. This wild-eyed dogma has been the preferred source of the perverted attempt to define all political currents as respectively "right" or "left."

This is not to deny that some such revolutions were addressed to legitimate issues, even extremely significant ones. It is only to emphasize that those revolutions' notion of resistance to tyranny, has often proven a disgusting failure, or a new kind of tyranny of its own likeness. Regime change as an exported foreign policy of the U.S.A., is a form of practice of imperial tyranny which would always be inherently a crime against humanity.

However, the crucial strategic fact which most commentators on these points of history overlook, is that the revolutionaries are willing to drive an existing society into a state of chaos, as a means for creating the preconditions on which their intended revolutions depend. No fascist (e.g., synarchist) is ever actually a patriot; his game is to fool the people of his own, or other targetted nations, by relying, as Felix Rohatyn does, on the cow-like stupidity which he, like any mafia-boss, hopes will prevail among those of his intended victims he slyly identifies as his "collaborators."

Synarchism's Historical Root

This paired, right-left misconception of modern political history, is based, in either case, on the rejection of a form of constitutional government regulated by universal physical and matching moral principles. That existentialist quality of aversion to actual principles, is the root of its ultimate, self-inflicted doom.

These radical doctrines, of the type of "permanent warfare/permanent revolution" are of the same class represented by the Peloponnesian War-figure of Thrasymachus, both the historical Thrasymachus, and the same Thrasymachus as a crucial figure of reference in Plato's ***Republic.*** Thrasymachus is of the type we meet otherwise in the figure of the emperor in the history of European law: the arbitrary law-maker, whose expressed opinion is that of the only giver of law in those forms of society known as empires of the Babylonian, Roman, Byzantine, and ultramontane types. This type includes modern dictators such as France's "Sun King" regime of Louis XIV, or Napoleon Bonaparte's imperialism. It is represented by the type of ruler prescribed by the impassioned admirer of Napoleonic imperialism, that G.W.F. Hegel, who, together with his close associate Savigny, was the co-founder of that German school of Romantic law from which Carl Schmitt derived his legalization of the Adolf Hitler dictatorship, and, from which the doctrine of the Chicago-linked Federalist Society was derived.

"Napoleon Crossing the Alps," painting by Jacques-Louis David. Since the 1789-1815 developments in France, LaRouche writes, "notably the Jacobin Terror and Napoleonic tyranny, Europe has been unable, so far, to free itself from the awful cultural faults which modern Europe inherited from the imperial systems of the Roman empires, the medieval ultramontane system, and the religious warfare of 1492-1648."

For any American patriot, facing this crisis now, the efficient remedy to the crisis is found in the example of the way in which President Franklin Roosevelt conquered the global, 1928-1933 collapse which he inherited from the foolishness of Calvin Coolidge, Andrew Mellon, and Herbert Hoover. The solution lies implicitly in principles which underlie our Federal Constitution.

Unfortunately, even for relative sophisticates such as most of the members of the U.S. Congress (to say nothing of the current clutch of White House yeggs), that solution lies beyond the comprehension of such neo-conservative Federalist Society circles as those of Supreme Court Justices Scalia, Thomas, Roberts, and Alito. If we are to mobilize effective political action to deal with the nightmare of the onrushing real-estate collapse, the public must be educated into two issues on which nearly all citizens, including members of the Congress, are usually ignorant today. It is that widespread ignorance among our contemporary leaders which has permitted the ruinous trend in U.S. and other nations' economic policies during the recent forty years. It is those presently still popular beliefs among such circles which must be radically changed if civilization is to survive the presently onrushing global monetary-financial crisis.

Today, we, and our government have no choice left to us but to make this change back to the U.S. constitutional tradition traced most immediately to the memory of President Franklin Roosevelt.

That is the issue which underlies the way in which the present housing and related crises were generated by the trend of follies of the recent forty years.

The first problem to be clarified is the general ignorance of the nature of economic processes, among elected officials and other highly relevant circles, on both sides of the Atlantic. Once that problem, and its historical root, is clarified, the nature of the now urgently needed remedy can be, and must be explained.

Why the U.S. System Is Superior

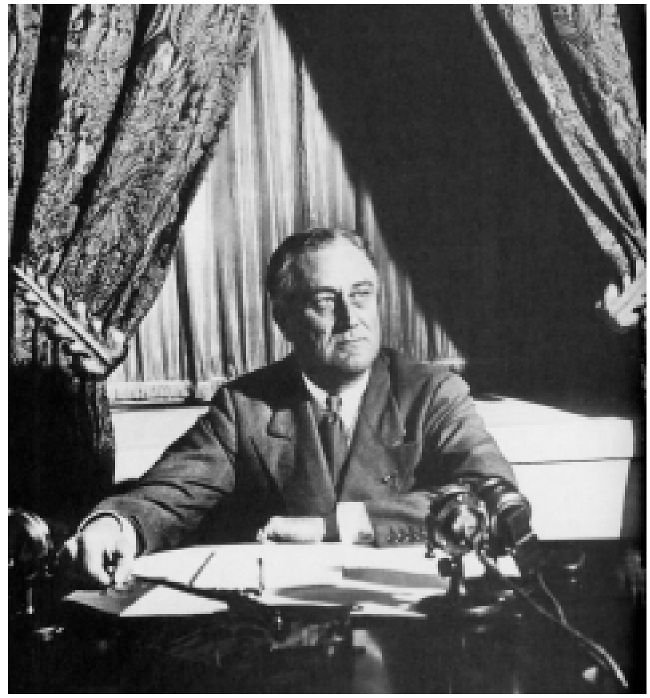
The superiority of the U.S. constitutional form of government as an economic system, over all others in the world, still today, lies in the principle of the political form of government defined by our Federal Constitution, the which today's nominal, Chicago School "Federalist Society" rejects fanatically. A similar failure is met in the forms of government which have continued to prevail through all but a few, rare decades of exceptions, in all of Europe from July 14, 1789 to the present day.

History has now reached the point, that if we do not change our current policies in the way U.S. history directs us, our republic, and your family, will probably not outlive the presently onrushing world crisis.

Many Europeans, especially among the literate population in Germany today, would recognize the ideology of that Federalist Society as the tyrannical misconception of executive powers by the architect of the legal system of the Nazi regime, the Carl Schmitt identifiable as the Crown Jurist of the Nazi system, the Schmitt who sponsored the original career of Chicago University's Leo Strauss, and whose teachings form the basis of the ideology of the Federalist Society.

The fact that both Carl Schmitt and Leo Strauss brought their particular varieties of fascist ideology of law into the U.S.A., reflects a certain still prevalent flaw in the European cultures which, like the production of Felix Rohatyn by Lazard Frères U.S. branch, produced these two personalities. This is a European cultural flaw from which the initial founders of the North American republic fled, in bringing the best of European culture to found a republic on American shores.

On this account: since the 1789-1815 developments in France, notably the Jacobin Terror and Napoleonic tyranny, Europe has been unable, so far, to free itself from the awful cultural faults which modern Europe inherited from the imperial systems of the Roman empires, the medieval ultramontane system, and the religious warfare of 1492-1648. Despite the great legacy of the 1648 Treaty of Westphalia, most leading Europeans, still today, do not yet understand the crucial difference between our American system of government and their own mixed systems of democracy and oligarchical traditions, especially the financier-oligarchical systems inherent in a system of "independent central banking systems" set as higher authorities than governments.



"Today, we, and our government have no choice left to us but to make this change back to the U.S. constitutional tradition traced most immediately to the memory of President Franklin Roosevelt."

That is why the U.S.A., and only the U.S.A. presently, could be capable, in a timely fashion, of leading the rest of the world out of the presently onrushing breakdown-crisis of the world system as a whole. That is the key to the way in which President Franklin Roosevelt's U.S.A. played the crucial role in preventing the triumph of Adolf Hitler's system; that European pro-oligarchical cultural tradition from which Roosevelt's leadership had rescued Europe, is the reason, that post-Franklin Roosevelt, European and like-minded influences, have sought to destroy the Roosevelt legacy, in defense of their residual pro-oligarchical cultural legacies.

To understand the deep difference in principle between the ways in which typical Europeans think about money, and the view of money implicit in our Constitution, we must, at the least, summarize the relevant highlights of the trans-Atlantic history of European culture, since ancient, Classical Greece.

The former potential superiority of European culture over the usual traditional systems of Asia, for example, was rooted in the special influence of Egyptian culture in prompting the pre-Aristotelean Classical culture associated with such leading intellectual figures of Greece as Thales, Solon of Athens, the Pythagoreans, Aeschylus, Socrates, and Plato. Despite the self-destruction of Classical Greek culture caused by that influence of Sophistry which lured the Greece of the age of Pericles into its culturally suicidal Peloponnesian War, the legacy of pre-Aristotelean Classical culture, as continued within the body of Apostolic Christianity, with the help of the Baghdad Caliphate's Arab Renaissance, preserved the knowledge of Classical culture, despite such nightmares of decadence as those represented by the rotted-out reigns of Rome, Byzantium, and the Venetian-Norman Crusades.

The rebirth of civilization in the Italy-centered, 1439, great ecumenical Council of Florence, is typified by the influence of Cardinal Nicholas of Cusa's ***Concordantia Catholica*** and ***De Docta Ignorantia.*** These are the two most crucial, founding works upon which the best distinctions of modern European civilization were premised. The Fifteenth-Century, Italy-centered Renaissance, was the birth of modern European history from the ashes of the bankrupt *ultramontane system* represented by the medieval Lombard League. It was the developments centered around the great ecumenical Council of Florence, which were, the founding of the modern sovereign nation-state republic, and the birth of modern science and its progress. It was this impact of the Fifteenth-Century Golden Renaissance which spilled over into the most significant factors of the development of the branches of European culture established in the Americas, in the U.S.A. most emphatically.

The late-Fifteenth-Century and Sixteenth-Century attempts of the Venice-led feudal system, to retain its power in Europe, through the religious warfare of 1492-1648, and related means, prompted the boldest defenders of civilization to take Nicholas of Cusa's advice, as Christopher Columbus did, to look across the Atlantic, to found there a model of modern European cultural society which could be used to prompt similar reforms within Europe itself. The founding of the proto-republics in Seventeenth-Century North America, such as the Massachusetts Commonwealth, led, thus, into the American Revolution of 1776-1789, and the founding of the first modern republic, the U.S.A., based on a commitment to supersede the pro-oligarchical corruption, which still prevailed in England, the Netherlands, and generally throughout the continent of Europe itself.

How Europe's Hopes Waned

To state the case as simply as possible, the nightmare of the French Revolution, was orchestrated chiefly within France by the same apparatus of Lord Shelburne's British East India Company, against which we had fought our revolution. These British-steered continental assets of the Lord Shelburne's circles, included the Martinist freemasonry of Cagliostro, Casanova, Joseph de Maistre, et al. The combined effect of the imperial power of the British East India Company and the ruinous French Revolution and Napoleonic wars, spoiled the chances of Europe, from the July 1789 siege of the Bastille, through the Jacobin Terror, and, beyond that, the Napoleonic tyranny which ravaged the continent of Europe generally.

With some relatively brief exceptions, such as, most recently, President Charles de Gaulle's collaboration with Germany's Konrad Adenauer, Europe has never achieved the establishment of a true republic.

The most relevant of the resulting distinctions between the design of our republic, and designs similar to our own in some of the nations of Central and South America, such as Mexico and Argentina, are two. First, the legacy of the feudal and feudalistic oligarchical tradition embedded in the culture of European nations to the present day. Second, that, unlike the U.S. Constitution, the present constitutions of Europe have degraded government itself to a lackey of a quasi-feudalist, overreaching financier-oligarchical system of axiomatically usurious so-called "independent central-banking systems."

The typical expression of the European style of reign of financier-oligarchy, through central banking, still today, is the common form of monetarism typical of both the British system and its Marxist offshoots. The corrupting influence of that European monetarist tradition, is the key to the present, systemic mismanagement of our U.S. economy.

It is the presently continued existence of that submission of nominally sovereign European governments to the overreaching, private financier power of so-called "independent central banking systems," which is the principal source of vulnerability to self-destruction among the cultures of the European nations, once again, today.

For that reason, whereas the legacy of U.S. President Franklin Roosevelt represents the workable model of the U.S. constitutional form of economy still today, the prevalence of quasi-feudalist cultural influences and of the type of monetarism associated with so-called "independent central banking," assigns a uniquely contrary role, by default, to the U.S. leadership of any possible economic recovery of the planet today. Our constitutional system, the so-called Hamiltonian, or "dirigist" model, is presently the indispensable model for policies which are desperately needed, now, to prevent the planet as a whole from plunging, very soon, into a prolonged new dark age.

The greatest enemy of the U.S. today, is, therefore, its chief internal enemy, the form of sophistry typified by the "leftists" of the Congress for Cultural Freedom (CCF), a CCF which was used to indoctrinate the generation born, approximately, between 1945 and the outbreak of the U.S. 1957 deep recession. This contemporary form of sophistry, which runs rampant in its victims from among that 1945-1957 generation today, is the enemy within, which became the potential traitor who would lead our government into capitulating to unredeemed wretches such as the same Felix Rohatyn, the nominal Democrat, who, together with accomplices such as George P. Shultz and Henry A. Kissinger, performed a leading role in bringing the neo-Nazi Augusto Pinochet and the death-squads to power, in Chile and other parts of the Southern Cone in the 1970s.

The significance of 1957, lies largely in the effects of the tax and financial reforms which were introduced, during the 1954-1957 portion of the Eisenhower Administration, introduced by the virtual creator of the notorious Milton Friedman, Arthur Burns. Burns' reforms were used by the Wall Street operations against the U.S. automotive and other industries, to create a giant bubble of reckless credit expansion. This bubble popped in early 1957.

Thus, although the primary source of the corruption of those born between approximately 1945-1954, was the effect of the cultural warfare directed, as by the CCF, against the parents of those children, this initial conditioning of that latter, new generation was compounded by the spirit of John Law's bubble, as expressed by the cultural effects of the consumer-credit nightmare of 1954-1957. This initial conditioning of the suburban households of the 1950s in the spirit of credit-bubbles as a substitute for earned income, was embedded in the emerging young generation. This was the origin of the habituated, inflationary credit manias expressed in a more violent form by the credit-card and related lunacies of the post-1971 decades.

Thus, as a consequence of these and related conditions of the 1945-1957 interval, the present moral crisis underlying the economic-financial crisis of the U.S. and Europe today, is, in principle, as I have said earlier here, a modern descendant of that same sophistry which led the Greece of Athens' Pericles into the ruin of that entire ancient Greek civilization through the Peloponnesian War. The Federalist Society's pollution of the U.S. Supreme Court, is the expression of a modern form of the sophistry which ruined the ancient Greece of Pericles and his followers. This is, essentially, a modern sophistry echoing the doctrine of law of the Nazi Crown Jurist Carl Schmitt who is the forerunner of the Federalist Society of Justice Antonin Scalia et al.; but, the significance of that at this point in our account, is that it is also the expression of a form of *ultra-radical logical positivism* in the tradition of the Thrasymachus who is the leading forerunner of Nazism from out of the bowels of ancient Greek history.

The characteristic feature of the moral corruption which Europe's monetarist tradition has spread in the expressed form of credit-card and related monetarist manias, such as the "new suburbia" real-estate bubbles, inside the U.S. today, is a result of that form of induced belief in the magical powers of money, as distinct from, and opposed to the physical realities of production of physical improvements through scientific progress in basic economic infrastructure and production of goods. This is the key to that lunatic cult of "post-industrial society" which has been the crucial factor in bringing on the ruin expressed in such present forms as the crashing of former Federal Reserve Chairman Alan Greenspan's great real-estate bubble.

Thus, if we permit our nation to continue to be controlled by such forms of sophistry, then we are a self-doomed nation, whose moral and intellectual failure to act appropriately now, would assure the plunge of the planet as a whole into a more or less prolonged new dark age. So far, especially since the middle to late 1960s, the trends in policies of government and of popular opinion, have steered us toward the ruin which grips the fate of the world's nations today. The question to be asked today, is, "How many prospective Presidential candidates for 2008 are running, blindly, to become the President of what will have become, under present trends, an economic-political corpse?"

3. The Reign of Real Economic Value

Let us say, once again, that the unique achievements represented by the original design of our U.S. Federal Republic, are an expression of a principle affirmed in the founding of modern European civilization by the mid-Fifteenth-Century great ecumenical Council of Florence.

The ideas which were rallied there and then to this purpose, were not original to that time. They were the principled ideas traced from the Pythagoreans and Plato, ideas which were brought into the reshaping of modern European political systems through the channels of such Christian Apostles as John and Paul. Although these notions of universal principle were always present since those ancient times, it was only in Fifteenth-Century modern Europe that these principles were resuscitated for practice as the constitutional distinction of the modern sovereign commonwealth form of sovereign nation-state, such as the pioneering forms under France's Louis XI and England's Henry VII.

The fall of Constantinople was a crucial setback to the realization of the conceptions of the sovereign nation-state and scientific progress set into motion by the Renaissance circles associated with that extraordinary genius, Cardinal Nicholas of Cusa. Cusa responded by proposing transoceanic exploration to find a broader range of allies for the cause of the Renaissance. The promotion of transoceanic exploration and colonization was accelerated by the efforts to out-flank the domination of 1492-1648 Europe by religious wars. The development of commonwealth forms of society in the English colonies of North America were thus a distillation of the best conceptions for building a system of modern sovereign nation-states based on the core of the principles of the Fifteenth-Century Renaissance.

It is those universal principles, which are actually ground-principles of the universe itself, but no longer recognized in most university education today. Nonetheless, they remain in fact the competent notion on which a durably successful modern economy depends absolutely. The relevant distinction is most simply recognized from the standpoint presented by Einstein in that Einstein-Born correspondence which has been referenced by me and my associates in the Dec. 23, 2005 edition of ***EIR*** ("The Principle of 'Power,' " pp. 64-67). The distinction emphasized, in this case, by Einstein, is the key to understanding how we could be able to reverse the destruction of the U.S. economy which has occurred during the recent thirty-five years.

The single, essential proposition on which a modern science of physical economy must be premised is: *Were mankind a variety of higher ape, the human population of the planet would never have exceeded several millions living individuals of a terrible poor quality.* Today, over six billions live on this planet; until recently, most lived at a higher quality of existence, and lived longer, than at any time in preceding human existence. As scientist V.I. Vernadsky's rigorous definitions of Biosphere and Noösphere illustrate this, only life produces life, and only the individual human intellect can generate an experimentally valid discovery of a universal physical principle. It is this latter distinction of the individual human from all other living creatures, which has enabled mankind, as a species, to effect, and to employ those discoveries of universal physical principle by means of which society is enabled to increase the life-expectancy, fecundity, and the productivity of society per capita and per square kilometer of the Earth's surface. It is that set of distinctions emphasized with greater clarity by Vernadsky which account for the human progress which prevailed in most of the planet until recent decades.

To understand the potential of mankind, we must consider the three principled degrees of freedom to be considered in a science of physical economy. First, the simple apparent margin of relative free energy, expressed in form of gains in net physical productivity. This is expressed as consistent margins of output in excess of the incurred costs of producing that total output. Second, the gains in apparent free energy through the explicit effects of introducing the application of a new physical principle to the productive processes and basic infrastructure of society. Third, the rate of increase of the margin of attributable "free energy" of total production through the continuing development and application of discovery of successively higher orders of universal physical or comparable qualities of universal principles.

Were man a mere animal, such as a species of higher ape, our population of this planet, during any part of the recent two millions years of much-studied glacial cycles, would not have exceeded several millions individuals of very poor life-expectancy, Today, there are more than six billions of us. That distinction is specific to qualities of the individual human lacking in all inferior species, including the great apes. Thus, our relationship, as a species, to the universe we inhabit, is not a simply physical relationship of the type experienced by the lower species. The qualitative distinction lies in the sovereign power of the human individual to discover universal physical principles, as illustrated both by Johannes Kepler's uniquely original discovery of universal gravitation, and by Pierre de Fermat's rejection of the notion of simply linear time, by the universal physical principle of quickest time.

EIRNS/Stuart Lewis

Homes in Leesburg are staying on the market longer and longer, as owners desperately hold out for a sale. Many will still protest "that their mortgage is solid, even at the point assessable market value of the mortgaged property has fallen way below the marketable value of that item."

The distinction of the human individual from the beast, is not a simple relationship of matter-object to matter-object, but, rather, a relationship expressed in terms of discovery of universal physical principles and their application. It is the action expressed by such qualities of universal physical principles, in qualitatively transforming the physical state of a process *dynamically,* which points to the proper, higher meaning of "physical" in the application of a science of physical economy.

It is not the possession and use of physical objects of sense-perception which define economic wealth; it is the discovery and use of those universal, discovered principles of the physical universe which define the only competent meaning of "physical" within the domain of economic science. It is not the acquisition of objects which defines wealth; it is physical changes in the universe effected through discovery and use of universal physical principles which improve the quality, of mankind's relationship to the universe as a whole, and which increase man's power in and over the universe, per capita, and per square kilometer of the surface of the Earth.

It is the action of transformation of the physical state of a process, through the adoption for practice of discovered universal physical principles, on which the human species' power to exist at progressively higher levels, within the universe, depends. Thus, I have defined modern economic science as a physical science whose practice is measured in terms of relative population-density, of an increasingly long-lived, typical individual, per square kilometer. These general increases in relative potential population-density are not the product of simple physical activity, but of the increase in productive potential gained through means of the type of discovery of universal physical principles.

The act of discovery of such a principle is my definition of *cognition,* a quality absent in all lower species, including the apes. It is also a quality which is systemically excluded from all reductionist forms of what are claimed to be the mathematics of physical-scientific progress, such as the empiricism of René Descartes and the neo-Cartesians of the putative Newtonian persuasion, such as J. D'Alembert, A. de Moivre, Leonard Euler, J.L. Lagrange, P.S. Laplace, and Augustin Cauchy.

The issues so posed by the science of physical economy, are of the form and quality which I addressed in the Dec. 23, 2005 feature referenced above. The following argument is to be made.

This cognitive function of the individual human mind has two forms of expression. In one application, it is expressed by the individual mind's discovery of a principle governing physical objects. In another application, as in Classical artistic composition, cognition is expressed by taking social processes among human beings as the object of cognitive conception. The form of the cognitive act, is identical in both types of cases; in this respect, there is no division between Classical art and science. Gibberish in art, and in physical science, are equally gibberish, with matching consequences. If your music imitates the customs of chimpanzees, like much of such popular entertainment during recent decades, you are in that degree behaving as a representative of a lower species, as a humanoid simulation of a chimpanzee.

EIRNS/Stuart Lewis

What truly makes man human? The cognitive function of the human mind has two forms of expression: the discovery of universal physical principles, and Classical artistic composition. "The form of the cognitive act," LaRouche writes, "is identical in both types of cases; in this respect, there is no division between Classical art and science." Here, the Boston LaRouche Youth Movement chorus performs a Bach motet, "Jesu, meine Freude."

Human social progress, and also the development of human culture to higher levels of potential population-density and quality of individual life, is the expression of a combination of both Classical types of cognitive action, Classical science, as typified in ancient times by the work of the Pythagoreans and Plato, and Classical artistic science, as competent statecraft is typified by the Socratic dialogues of Plato.

Thus, the issues which separate the principles of the American System of political-economy from the leftover habits of feudalism in Europe, are located in the Eighteenth-Century conflict between the empiricists, such as Voltaire, D'Alembert, Euler, and Lagrange, on the one hand, and Leibniz, Carnot, Gauss, and Riemann on the opposite side. In the former, the heirs of reductionists such as Descartes, man adopts discovered physical principles, but treats them ignorantly, as if they were instinctive habits of higher apes, as the doctrine of Frederick Engels prescribes. In the alternative, the legacy of Plato, Cusa, Kepler, Fermat, Leibniz, Gauss, Riemann, et al., it is the act of discovery of a universal principle which is crucial. This applies to universal principles of physical science, such as Kepler's uniquely original discovery of universal gravitation, Fermat's discovery of the principle of quickest action, and Leibniz's uniquely original discovery of the infinitesimal calculus, the catenary-cued principle of universal physical least action.

So, any competent form of physical economic science, is implicitly Leibnizian, in the specific sense that Leibniz was the founder of the branch of physical science known as physical economy: a notion of economy as based, in principle, on the human individual's power to discover and apply discoverable universal physical principles which increase the power of the human species to exist in the universe. Whereas, all contrary forms of economic doctrine are systemically incompetent by definition. All attempted application of conventional accounting practice, which pretends to represent accounting as part of a science of economy, is intrinsically incompetent. *All competent economic science is a science of science-driver economic practice.*

These crucial distinctions signify that competent statecraft emphasizes a dynamic, as 1.) opposed to a Cartesian-Newtonian form of interdependency among development of basic economic infrastructure, 2.) the progress as measurable in increase of the intensity of applied discoveries of universal physical principle, and 3.) development of social systems in ways cohering with a Classical artistic comprehension of functional interactions among the developing individual minds of an economically progressive mode of society.

Therefore, What Is the Problem?

During the period since the change in the world monetary-system, away from the Franklin Roosevelt Bretton Woods system, to the floating-exchange-rate, "free trade"-based system of 1972-2006, we have destroyed the physical productive power of the Americas and Europe. This has resulted in a catastrophic decline of the physical standard of life, and mental and emotional health of the population, especially the physical conditions of life of the lower eighty percentile of the population. Productive labor has been replaced by low-paid, often useless services employment; the entirety of large regions of the U.S.A. has degenerated physically, especially over the recent quarter-century.

The present stage of the real estate crisis in the area around Washington, D.C., as notably in the case of Loudoun County, Virginia, is typical of the trend in many parts of the nation. The collapse of the former industrial powerhouse of the nation (western New York and Pennsylvania, Ohio, Michigan, and Indiana), is another example of a once powerful nation reduced to destitution.

Over the period since 1971-1972, this downward change in the direction of the U.S. economy as a whole has virtually eliminated the greatest portion of the sections of the national labor-force on which U.S. economic might had formerly depended. Most of an entire generation of scientific and skilled productive labor has been lost to attrition, and not replaced.

As a nation, we have been transformed, over the recent thirty-five years, into a piece of decadent economic and cultural wreckage.

This self-degradation of our nation did not occur through natural causes. It occurred as the outcome of an intentional commitment to destroying the kind of U.S.A. which had played the leading role in making possible the defeat of the Nazi aggression. This was done to our own, and to other nations, by powerful financier and related circles which hated the idea of a U.S. model of vigorously progressive nation-state, and sought, from the beginning of President Truman's government, to join Britain in preventing the world from securing the kind of partnership among sovereign nation-states which President Franklin Roosevelt had intended. It was not the physical power of production itself which these powerful ideological haters of the U.S.A. feared; it was the sturdy quality of citizenship of a U.S. based on high rates of gain in the standard of productivity and standard of living which a high rate of technological progress afforded.

The "post-industrial" cultural policy which erupted into a conspicuous role with the so-called "68ers," was the political mechanism which exploited a large portion of the emerging new adult generation as a force to turn back society from the course of science-driven technological and cultural progress. The goal of those who cultivated and exploited the relevant portion of the university population of "68ers," was to condition them to a perspective of destroying modern agriculture and industry, and transforming the planet into a minestrone of despair, a post-industrial, "globalized" minestrone.

So, the economies of the Americas and Europe were destroyed over the course of the period since 1971-1972. Another quarter-century of this current trend, and the planet as a whole will have been returned to the barbarism we are experiencing in the emergence of private armies, to replace regular military forces, as in the endless nightmare of 2003-2006 Iraq, and in proliferating targets beyond.

To manage this process of cultural and economic degradation inside the U.S.A. itself, we have been given the monstrous catastrophe exemplified by the current situation in the presently doomed post-industrial nightmare of Loudoun County: where the popular name for Hell has become "development." The idea of perceived appearance of riches, where this is not supported by an institution of physical production of durable wealth, has been the deluded image of the "good life," which is turning out to be an anteroom to economic Hell.

Yet, it was not the people who lived in Loudoun County who did this; it was foisted upon them through the ideology which was already radiated by the "68ers' " lust for an economy without agriculture and industry, for a "post-industrial, service-economy paradise."

Within another pair of decades, a U.S. which continued in a direction steered by the utopian fantasy of "globalization" would have crafted a wretched society in the likeness of the typical worst conditions of life in the poor regions of Asia and Africa. The ability to rebuild a healthy economy would have virtually disappeared. Civilization throughout the planet would have returned to conditions like those in the middle and latter part of Europe's Fourteenth-Century "New Dark Age." The world's total population would be converging toward, at most, less than one billion living persons. The biological conditions for continuation of any mode of human life, would become perilous, if not doubtful. At the very least, we would have virtually destroyed civilization.

Ape or Man?

Such reflections on the present perils of humanity should return our discussion to the topic with which this chapter of the report began: the essential distinction of man from ape.

The recent, presently accelerating soaring of prices beyond all rational determination of incurred physical cost of production per capita, expresses the inherent worthlessness of money as a standard of economic value. It was by regulating money, most notably as this was done in the post-1932 U.S. until the radical changes of the 1971-1982 interval, that a pattern of "fair trade" was induced to the effect of keeping the relative prices within ranges which did not depart violently from the ratios consistent with physical, as distinct from monetary values. It was deregulation, as launched during the 1971-1982 interval, which wrecked the U.S. economy in ways for which we are sorely paying today.

This contrast between physical and monetary values implicitly poses the question: What are the values which should govern the outlook of the individual and of the institutions of society? Money—price—can not meet that requirement. Therefore, what does?

The answer to that question is, essentially: What is the difference in value between an ape and a human individual?

1. Unlike the beasts, the apes included, the human individual's cognitive powers enable that individual to discover and to know universal physical principles, such as Kepler's discovery of gravitation, or the ancient Pythagoreans' knowledge of *Sphaerics.* These discoverable principles are universal in the sense that the universe is a finite universe, as Riemann and Einstein insisted, in which these discoverable universal principles, since they are universal, are thus extended implicitly to the limits of the universe, and bound the universe as a self-bounded universe.
2. These principles are not sense-objects, but they bound the universe in which sensed objects exist. It is through the application of the mastery of these principles, that mankind increases our species' power to exist, and raises the quality of human individual existence.
3. These principles are of two classes. Most simply, they are universal physical principles, as the ancient Pythagoreans and Plato understood this. They are also the universal principles associated with Classical artistic composition. In the first instance, as universal physical principles, the individual knowing mind addresses the domain of non-living and living processes as such. In the second instance, as universal Classical artistic principles, the subject of the individual person's creative powers is social processes as such. Otherwise, they are the same quality of principles of human cognitive activity.
4. The existence of these principles in human knowledge, defines the human personality as implicitly immortal, as an immortal being temporarily occupying an animal-like body. It is this sense of intimation of immortality which defines the normal standard for a moral human individual.

The moral individual does not act under blind compulsion of service to the mortal needs; but, rather, is motivated by a sense of bonds of trust between the living individual and both prior and subsequent generations. Hence, the passion which we rightly identify as patriotism, which is essentially a devotion to the interest of prior and future generations, as that interest is most immediately located in the sovereign society of which one is a part.

Therefore, it should be apparent, that the great problem of our society presently, is that it, like most of its fundamentalist cults, has lost a sense of obligation to the immortality of the human individual. It has thus lost a sense of connection to those immortal values, as typified by universal and fundamental principles of physical science and Classical artistic composition, on which the moral character of the individual member of society depends.

The characteristic of U.S. and European society, in particular, since the death of President Franklin Roosevelt, but, especially since the later 1960s, has been a radical shift in prevalent social values from a moral society, to a society, like the Athens of Pericles, which had doomed itself by that cult of popular opinion, which is otherwise named sophistry. The individual who can stand for truth, even in defiance of prevalent lies or merely follies of his contemporaries, is not a truly moral person, but a man or woman who has hocked his or her soul in today's great and grubby pawn-shop where popular opinions are bought and sold.

With the currencies of the world already rendered more or less worthless by the great waves of hyperinflation now in progress, to what shall the citizen cling as economic values? "Where can I put my money!?" the citizen cries. In what does one invest when money is about to become virtually worthless as a surrogate for value. The answer is, that society shall and can live on, when monetary systems die. A good sovereign government can always create a new currency, on a new basis, and can also manage the transfer of imputed value from what should be salvaged of the old to find its more durable, new incarnation in the new monetary system.

Mass evictions in Loudoun County, are an intolerable alternative. We must save the habitation, and thus the social structure of our functioning communities, despite the nominal bankruptcy of mortgages which have been wildly inflated to the point that the prices of the real estate are virtually worse than meaningless. We can do this without wrecking any of the essential, pre-existing institutions of our society; to see our way clear, morally, to make that necessary adjustment, we must arouse in our fellow-citizens a proper sense of the immortality of the human individual soul, the sense of the human individual as a creative soul in the likeness of the Creator and with the mission the Creator has assigned to men and women.

With that view, we can look the terrible in the eye, and conquer it.

Financiers Are Finally Warning of a Crash

Belated Establishment wailings about a financial blowout are getting louder than the booings of Viceroy Cheney at a Washington ballgame. A selected recent few:

• The mouthpiece of the City of London financiers, the *Financial Times,* lamented April 4 that were "the low interest environment" were to disappear, "the resulting sell-off [on the bond market] would make the recent price falls look like a picnic." Interest rates are on the rise.

• Three days earlier, the director of a large Danish public pension fund, Jeppe Christiansen, wrote a piece in *Berlingske Tidende* headlined "The global balance problems are so great, that the risk of a global financial collapse is much greater than usual."

• When New York Federal Reserve President Timothy Geithner addressed the New York Bankers Association on April 5, he said, in Greenspanspeak, "The more critical role played by hedge funds and other non-bank financial institutions in credit and other markets, has the potential to magnify the impact of distress in those institutions on market dynamics and liquidity if counterparty risks are not managed appropriately." Reuters didn't think it necessary to translate. This is the third time this year that Geithner has made such warnings.

• Vice Chairman of the Institute for International Finance Bill Rhodes was quoted in the *Financial Times* that same day, talking about the prospect of an Ibero-American market crash: "We are in a situation similar to that which existed in the spring of 1997, when threats existed to market stability and a lot of people didn't want to see it."

• A writer for the *Prague Post* noted that "oil price increases have preceded nine of the world's ten recessions since World War II." Oil, now hovering around $70 a barrel, will likely hit $100 by the end of the year, according to several petroleum analysts he cited.

• International Monetary Fund Director Rodrigo de Rato, speaking at Harvard on April 4, warned of growing "global imbalances." Some policymakers, he said, believe global imbalances can either persist indefinitely or dissipate over time. "I find these views optimistic to the point of willful blindness." said. The most visible problem, he said, is the large U.S. current account deficit. Should financial markets force an adjustment, the dollar could be sent sliding, and push up U.S. interest rates. He specifically mentioned a bust in the U.S. housing market as a trigger. To get his full remarks, go to imf.org.

• A report prepared by the Economic and Financial Committee, of the European Union finance ministries and central banks, warns of a systemic disruption of the world's monetary system. The report, which the April 7 *Bloomberg News* reported was "confidential," said that hedge funds can be "a source of systemic risks," and that regulators should "continue to monitor possible threats."

• In a working paper dated April 2006, the Federal Reserve Bank of Atlanta concludes "there is reason to be seriously concerned about potential future social costs associated with the systemic risk emanating from Fannie Mae and Freddie Mac and that this risk largely arises from the institutions' highly-leveraged investment portfolios" of mortgage-related debt. It describes the dimensions of the systemic risks posed by Fannie/Freddie's holdings, "the two largest portfolios of U.S. residential mortgage debt." "These portfolios are highly leveraged, subject to little market discipline, and concentrate the responsibility to manage a large amount of mortgage-related interest-rate risk in only two institutions." What's meant by highly leveraged? In this case, equity less than 4% of assets.

• The April 10 *San Diego Daily Transcript* reported on a Federal Deposit Insurance Corporation (FDIC) forum last month that focussed on "scenarios for the next U.S. recession." It cited three key risks: energy price spikes, a housing slowdown, and mounting housing debt.

• The recent warning of a dollar collapse by the Asian Development Bank continues to get coverage, most recently in an April 10 Internet posting by Reseau Voltaire. The ADB told East Asian nations to somehow prepare for a crash as the U.S. trade deficit grows, and interest rates climb.

• Citibank Vice President Michael Andrews on April 11 backed up former Treasury Secretary Robert Rubin's earlier warning that the United States must correct its economic policies. Speaking at a Washington conference on Thailand, Andrews was asked by *EIR* to comment on the recent speech by Rubin, warning that failed U.S. economic policies were driving the dollar towards a collapse. While the audience tittered, Andrews responded most seriously, saying that, while his friend of 22 years was not speaking for the Bank, Rubin was "sending out a warning shot, that U.S. economic policies must be reformed, to contain the debt, and deal with the imbalances."

• All this was gelled into a literary reference by Gerd Haeusler, head of IMF's International Capital Markets Department. The "dark side" of the housing sector bubble, he said at a Bank of England press conference on April 11, is the risk sharing, visible only when asset prices start to fall, and Mephisto asks for his side of the bargain. "We are talking about a mine field of potential conflicts of interest or worse," it "could discredit a capitalist and market based financial system," and "backfire in an unprecedented way."

"A low level of financial literacy, combined with extensive risk taking, is politically an explosive brew," the IMF official concluded.

Million Midwest Homes at Risk in '06: The Down, Downside of the Bubble

by Paul Gallagher

As the U.S. real estate bubble breaks, the "hottest" real estate markets of the past eight years, such as the Washington, D.C. area, northern and southern California, Florida, etc., are now cooling off the fastest. But the greatest devastation of households, by foreclosure, the loss of their homes, consequent personal bankruptcies, is occurring—so far—in the globalization-devastated upper Midwest states. It is the result of lost auto and other union jobs, family over-indebtedness, and highly speculative mortgage banking. Outside of the destruction of mortgaged homes in Louisiana and Mississippi by 2005's hurricanes, the nation's worst foreclosure rates are in Indiana, Ohio, and Michigan—and they are growing fast. The foreclosure rate in Michigan, for example, in January-February 2006 was running at more than double the 2.5% rate of all of 2005. This region is where the real estate bubble has already stopped growing, as in Ohio, where the statewide median price of a home has already fallen $6,000 (about 6%) below that of one year ago.

This is where the so-called "stable" markets, and the recently "hot" markets, are headed, soon. As of April 7, the target interest rate for a one-year adjustable-rate mortgage (ARM)—the original and most widespread way to cheat your own credit rating and buy an overpriced home, though many more "exotic" home-loan products have followed it—had jumped to just about 6%, and was conservatively forecast by the FDIC to be going to about 7% in 2006. Millions of homeowners bought homes in the past few years with ARMs starting at 3% or even lower, and as they are readjusted toward 7% and higher, the difference in payments due can easily be $300-500 a month, even for a moderately priced home.

Alan Greenspan strongly promoted ARMs throughout the second decade of his chairmanship of the Federal Reserve. Since 2000, still more overextended home loans—which don't require any principal payments for five years ("interest-only"), or initially don't require any payments at all, letting the unpaid interest increase the principal owed on the house—have ballooned to 24% of all new mortgage contracts nationwide. Under certain circumstances, steadily rising Treasury-bond and mortgage interest rates—clearly in evidence now—cause explosive increases in the mortgage payments required on these hyper-extended loans. Homeowners by the thousands are evicted in sheriff's sales, or give up trying to pay, and walk away; and the repo companies suddenly have more work than they can handle. This is the situation *now* in many parts of the former industrial heartland of the country.

In many "hot markets," homeowners who have been living on the wave of real-estate bubble appreciation, believe they still have means to handle the sudden increases in interest rates and mortgage payments now coming at them. If the market price of their house or houses is still rising, or if they have other saved wealth they can throw into the deal, they believe, their bank lender will always arrange for them to switch back into a reasonable fixed-rate mortgage (Californians by the tens of thousands are doing this now), or otherwise keep the interest rate on their home loans under control. *But,* if the giddy home-price appreciation has stopped, or gone into reverse, as in Ohio; if homes have suddenly become difficult to sell without further dropping the price; if many of the households involved have lost their good-paying jobs, are facing rising local taxes and costs due to industrial collapse, are using up their savings or have none; *then* there is no way out of this speculative, overextended bank debt except foreclosure, bankruptcy, or both.

Where the Sheriff's Sales Are

Several tracking firms have recently been reporting that mortgage foreclosures nationwide, which totalled about 880,000 in 2005, have been running at over 110,000 a month so far in 2006, with increases year-over-year variously estimated from 68-98%. These leaps in misery are concentrated in the Midwest manufacturing-loss belts.

Already in 2005, the owners of one out of 25 mortgaged homes in Indiana, one in 30 in Ohio, and one in 40 in Michigan were put into foreclosure proceedings, which generally begin when the mortgage payments are 90 days in arrears (the process does not always result in final loss of the home). The entire East North Central region of the United States, the upper Midwest states as a whole, had one out of 49 mortgaged homes in foreclosure in 2005. Ohio foreclosures statewide were 34,000 in 2000, but 64,000 in 2005.

But near the end of the first quarter of 2006, the foreclosure rates in Ohio counties were jumping about 20% a month, and the Michigan statewide foreclosure rate doubled from January to February. Indiana's 5,909 foreclosures in February were three times the number which occurred in February 2005.

The reason is that speculative lending (the driver of the national real estate bubble) has hit rapidly falling real wages and incomes. "We've lost high-paying manufacturing jobs, and replaced them with lower-paying service jobs. People were put into the wrong loans," admitted an Indianpolis mortgage banker to the *Indianapolis Star.* "The taxes kick in and the rates are rising, and now . . . they can't get enough equity out of their house to pay the bills."

The Reinvestment Fund, which has studied homeowner groups and locales at risk for mass foreclosures, reports that about 2 million homeowning households nationally are at high risk for foreclosure in 2006—about 2.5% of the national total. By comparison, 1.6% of homeowner households of *all* kinds were foreclosed in 2005. Well over a million of these at-risk-in-'06 households are in the upper Midwest. They are concentrated among the holders of ARMs, says the Reinvestment Fund, and particularly the borrowers of "sub-prime" loans: those whose credit and income did not justify the size of the mortgage, but were sold "exotic products" by real estate and mortgage bankers. "Subprime" mortgage loan payments go up faster when interest rates are rising. And as the Reinvestment Fund found in a 2004 study of low- and moderate-income new homeowners in Pennsylvania, these mortgage *principal amounts* are often more than the house is worth, because these home buyers often have to combine two or more mortgage loans to get the house.

According to the Mortgage Bankers Association on April 11: In Michigan, Missouri, Tennessee, and West Virginia, one-fifth of all homeowners with sub-prime ARMs were in mortgage arrears by at least three months—i.e., in foreclosure—in March 2006. In Michigan, the Association reported, these sub-prime ARM loans were 14.7% of all mortgages. Thus, this hyper-extended loan type alone, now has nearly 3% of Michigan's mortgaged homeowners in foreclosure proceedings—more than the total 2.5% foreclosure rate for all mortgages in the state last year.

In March, Wayne County, Mich. (including Detroit) alone had 3,300 homes in foreclosure proceedings, two and a half times the number in March 2004. Wayne County had lost a net 76,000 jobs from 2001-05, and was forecast to lose 12,000 more in 2006. Oakland and Macomb, the neighboring (also industry-based) counties, both have double the number of foreclosures they saw two years ago.

Or, take St. Joseph County, Ind. (including South Bend) as an example. There were 1,000 sheriff's sales in the county in 2002; some 1,600 in 2005; and 550 in the first quarter of 2006. Sheriff's Lt. Arthur Pletcher commented to the St. Joseph local newspaper on April 2, "You'll see a $30-40,000 house with a $60,000 mortgage. Somebody is lending somebody too much money." A union leader in Lafayette, Ind. reported, "There are sheriff's sales going on now all over this [Tippecanoe] county." Indiana had lost 100,000 manufacturing jobs from December 1999 to December 2005.

In Linn County (including Cedar Rapids), Iowa, there were 58 sheriff's sales in January 2006, and 48 in February, compared to a total of 212 in all of 2005. Capt. John Steulke of the county sheriff's department told the *Sioux City Journal,* "The adjustable-rate mortgages are starting to kick in. Somebody takes out an adjustable-rate mortgage three or four years ago at 4%, and now all of a sudden, they're up at 7%; and that's a big difference."

Fearful Forecasts

The big Federal mortgage company Freddie Mac forecast, in a report issued April 11, that all home sales in the United States will drop by 8% in 2006, from 2005's level. The National Association of Realtors current forecast is that new home construction will drop by 10.9%. This makes a strange picture with the following figures: Even as new home sales fell 5% in January, the unsold new homes inventory reached an eight-year high, and mortgage applications fell, housing starts and new building permits were *up* 4% from a year ago. In other words, by the sheer momentum of speculative investments into the now-ending bubble, builders were still building homes that they are not going to be able to sell. In Midwest states like Ohio, they were already heavily discounting those homes to try to sell them, accentuating the downward pressure on home prices. Even in Central Ohio around the state capital area of Columbus, big builders such as Centex Homes now have $50,000 discounts on the average new home. The median home price in Central Ohio dropped from $170,000 in February 2006 to $161,000 in March 2006, and there were 30% more unsold homes on the market. Ohio lost another 9,200 jobs, net, in January and February.

In Washtenaw County (including Ann Arbor), Mich., the median home price dropped from $218,000 in February 2005 to 205,000 in February 2006. Unsold homes were a third more numerous than a year ago. "It's a buyer's market, if you can find a buyer," one city councilman told the *Ann Arbor News.*

In other regions of the country, whose real estate markets are not—yet—in such distress, the prevalence of ARMs, subprime ARMs, and other forms of household debt hyperextension is just as great, or greater than in the Midwest. So far, nationally, only 3% of these "most vulnerable" mortgage loans were 90 days or more in arrears (in foreclosure) in February, compared to the 20% cited above for Michigan, Missouri, West Virginia, and Tennessee in March. Once housing prices start to fall in the "stable" and "hot" markets, and interest rates keep rising, the zooming foreclosure rates now seen in parts of the Midwest, especially, will spread around the country.

For an example, take a look at one recently "hot market." In Boston (where home prices are now faltering after meteoric rises), 27.1% of all homeowning households with a mortgage, spent *half or more of their 2005 gross income* on housing costs, according to the Census Bureau.