

As long-term interest rates rise, and as a gloom sets in on the economy, housing sales have slowed, and, as analysts have noted, this market is not built to withstand even a limited slowdown. At some point, the growing inventory of expensive new homes will collide with the reality of an expanding inventory of older homes, producing a logjam—and a blow-out. However, such a blowout can occur even before that, if over-leveraged homeowners perceive a crash coming, and seek the nearest exit from the market, at any price. That perception is growing, and even realtors, with their notoriously thick rose-colored glasses, are becoming alarmed.

3. The likelihood of a blowout of the huge derivatives market, and a collapse of a few of the various hedge funds that have played it. One immediate trigger to such a crisis could be the collapse into bankruptcy of General Motors.

According to the Federal Deposit Insurance Corporation (FDIC), the volume of derivatives held by banks and others continues to grow, even if the rate of growth has slowed a bit. The numbers are so large as to set one's head spinning: \$101.9 trillion in notional amount for U.S. commercial banks, and the Office of the Comptroller of the Currency (OCC) reported

\$105 trillion for the top 25 U.S. bank holding companies with derivatives at the end of 2005. Internationally, the numbers are even more staggering: an estimated total for 2005 of around \$365 trillion, which "official" figures are reportedly far lower than the actual amounts.

What alarms many bankers is that the sector of this market showing the most explosive growth, is also the most vulnerable to any financial or other shock—the credit derivatives, which reportedly rose by more than 16% last year.

It will not take much to blow this entire house of cards over. As LaRouche insisted, the bankers might think that they are riding this tiger, but the tiger is out of control. Only fools now believe that the monetary system can muddle through; but equally foolish are those who believe that they control the pace and timing of its collapse. What the Fed and other bankers are doing won't work; the system will come down when it is ready—and that will be soon.

LaRouche urged those who want to save humanity from a New Dark Age to join him in preparing a workable solution to the crisis, in which sovereign governments assert their power over financial policy in the interests of their citizens.

GM's Sale of GMAC Worsens Crisis

The conditions of the announced sale by General Motors of 51% of its financial unit GMAC, to a combine led by the giant hedge fund Cerberus Capital Partners, show GM's desperation for cash to pay for the effects of its drastic ongoing shrinkage as a productive company. No policymaker or union representative should think that the sale will slow down that drastic shrinkage, even if it goes through in late 2006.

Immediately after the announcement on April 3, all three major credit rating agencies said that they would *not* change GMAC's current junk-bond rating. Thus, GM's stated purpose in planning the sale—to enable GMAC to escape GM's deep-junk debt status—is not being met. And despite reports of a "\$14 billion sale" in the press, when one sets aside projected transfers of cash and assets from GMAC itself to GM, General Motors is receiving just \$7.5 billion for the majority share of GMAC, universally estimated last Fall to be worth \$11-15 billion, and a unit which was paying GM a \$2.5 billion-or-so dividend yearly. Cerberus, grown to huge asset size in just a few years, is a global private-equity shark, not the kind of major bank or financial-services institution to which GM wanted to sell control of its financial division; thus, both the stocks and the bonds of GM have *dropped sharply in value from the*

announcement of the sale, with GM 30-year bonds reaching a low of 71.75 cents on the dollar. There are multiple conditions—most strikingly, that the deal is off if the Federal Pension Benefit Guaranty Corp. (PBGC) doesn't agree that GMAC now has no liability to the General Motors employee pension funds. PBGC may, in fact, try to compel GM to invest at least part of the sale proceeds into the pension fund, which it considers underfunded by \$30 billion.

Under the blows of globalization and bankruptcy, the outsourcing of what remains of U.S. auto sector work, is now an official, general stampede, led by Delphi's move to use bankruptcy to transform itself into a global holding company, with very little auto supply work remaining here. One group of GM suppliers in Michigan leaked a memo to them from GM, *requiring* they be at least 30% outsourced to a list of countries including China, Brazil, and Namibia, in order to keep GM work. The company pathetically called the memo "a purchasing manager's error," even as it announced April 6 it is outsourcing more engineering/design work to Brazil, Mexico, and India.

That Congress is denying the gravity of auto's shrinkage, was clear when New York Senators expressed "relief" on April 4, that Delphi had listed its Lockport and Rochester plants among the few it would keep open. But it became known from union sources within days, that the Lockport plant itself was to be "consolidated" in a single building and part of its work outsourced to Ciudad Juárez, Mexico, promising the loss of at least hundreds, perhaps over a thousand jobs there.—Paul Gallagher