END THE BAILOUTS!

New 'Pecora Hearings' Now! GMAC 'Bank' Deal Is Blackmail

by Paul Gallagher

Jan. 2—Ever since the September 2008 wave of popular revulsion against a $700 billion bailout of banks, Americans' anger has been building against what is now $8 trillion—and rising—in bailout commitments to financial firms, while the economy plunges faster and faster from underneath the people. Worse than the bailouts themselves, are the pervasive evasions and lying by government agencies about the huge and scandalous losses and frauds which supposedly "leave the nation no choice but" these bailouts. Congress, with the heads of its major financial committees essentially taking orders from the Treasury and Wall Street, has not started a serious investigation yet.

That is about to change, and the turnaround needs to be immediate, to enable the incoming Obama team to attack the worst financial collapse in history at its root, and put a "firewall" between that collapse and the big job of trillions in new investments to rebuild the productive economy.

The equivalent of the 1932-34 "Pecora hearings," which laid the House of Morgan's 1920s crimes bare before the American people, is necessary *this month*, to stop the bank bailouts so that real economic investment can begin.

On Dec. 30, economist Lyndon LaRouche, outraged that the bankrupt derivatives pile called General Motors Acceptance Corp. (GMAC) LLC has been anointed a "bank" by the Federal Reserve, and instantly bailed out by the Treasury, renewed his demand for "new Pecora hearings" by Congress in January, to investigate the swindles that have triggered the greatest financial breakdown crisis in history. LaRouche called for House Resolution 1452, "Establishing the Select Committee on Financial Bailouts," of Reps. Marcy Kaptur (D-Ohio) and Scott Garrett (R-N.J.), to be taken up and passed immediately.

LaRouche PAC TV produced a nine-minute video on the crucial role that hearings like those headed by New York District Attorney Ferdinand Pecora played in launching President Franklin Roosevelt's "100 Days." The video was posted at www.larouchepac.com on New Year's Day (see p. 68).

"This GMAC scandal shows the need for an immediate creation of a 'Pecora Commission,' right now," LaRouche said. He denounced as blackmail, any idea that the GMAC bailout will "save a single auto sector job," and therefore has to be tolerated by Congress. "What you run up against in this auto thing, is people say, 'We need to save the jobs.' But there is *no* intent to save any jobs. There is only the intent to bail out financial interests. GMAC shows that luridly. They're talking about a commitment of government bailout funds, that the Congress doesn't know anything about."

The famous 1932-34 Senate Banking Committee hearings, in which New York City District Attorney Ferdinand Pecora was the chief investigator, probing the


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Sen. Christopher Dodd's (above) Banking Committee hearings, from the Bear Stearns collapse onward, have been a whitewash of Wall Street, effectively guided by Treasury Secretary Hank Paulson (right) from Goldman Sachs.

GMAC

The swindle of the "GMAC Bank" bailout echoes the 1931 blowup of Samuel Insull's electric utility holding company empire. It's not meant to stop the collapse of auto jobs, just the collapse of GMAC's bad debt and derivatives.

swindles of the J.P. Morgan and Insull holding companies, helped make possible President Franklin Roosevelt's bank reorganization and New Deal. It exposed the criminality of the speculation which caused the financial collapse of 1929-32; Samuel Insull, and J.P. Morgan's Edward "Jock" Whitney, wound up in prison; and the American people knew what FDR was fighting.

Stinking Blackmail

The scandal of the GMAC bailout stinks to high Heaven. The creation of this phony "bank holding company" was done through the manipulations of the big Cerberus Capital Partners' Wall Street hedge fund—and also by manipulating GM itself, Chrysler Corp. (which Cerberus owns), Delphi Corp., and Lear Corp., major auto suppliers. It evokes Samuel Insull's infamous 1920s, Morgan-financed holding company empire, which was the Pecora hearings' first investigative target.

Today's Treasury is run by a moonlighting Goldman Sachs CEO, Hank Paulson. Having used up the $350 billion first tranche of the so-called TARP bank-bailout funds authorized by Congress, the Treasury proceeded to capitalize the GMAC LLC "bank" with funds which Congress has not agreed to, and which most Congressmen oppose.

GMAC LLC became a "bank" with $161 billion in debt it can't pay, all of it junk debt, failed mortgage assets, and failing car-loan assets, and losses of $8 billion over the last seven consecutive quarters. The Federal Reserve declared GMAC a "bank" on Dec. 26, despite its repeated failure for two months to meet Fed criteria that were specially tailored and promulgated to enable it to become a bank! And one weekend later, on Dec. 29, the Treasury capitalized "GMAC bank" with $6 billion—"The deal is concluded, and the GMAC bank already has the money," was the Treasury announcement on Dec. 30. An anonymous Treasury source told the *Detroit News*—also quoted by Bloomberg News—"Congress will simply have to authorize the other $350 billion."

"That's blackmail against Congress," LaRouche noted, "and against their constituents who overwhelmingly oppose these bailouts. This happened before. The Pecora hearings investigated it and stopped it. It's the same swindle. Pecora investigated Insull and Morgan. Today the GMAC/Cerberus swindle is just like that of Insull and Morgan. It's the same corruption in government today, by the outgoing Bush Administration."

The biggest holders of the mass of GMAC debt have wound up, in this swindle, with *repayment priority over the Federal government's preferred stock*, if and when "GMAC Bank" goes under.

Madoff Bundler Runs GMAC

The GMAC "bank" swindle overlaps the scandal of Bernard Madoff's $50 billion Ponzi scheme. The head of "GMAC Bank"—installed as CEO of GMAC by Cerberus Capital Partners 30 months ago—is a hedge fund operator, Ezra Merkin, who runs Ascot Partners. Merkin threw virtually all of his Ascot investors' money—$1.8 billion—into Madoff's scheme, collecting 1.5% himself for the "service." Ascot Partners is registered in the British Crown's Cayman Islands, which should be the focus for any serious investigation of Madoff's Ponzi scheme. How much in GMAC-based derivatives bets did Merkin throw into Madoff's black hole? Word on "the Street" is that Merkin, "completely discredited," will have to resign as head of "GMAC Bank." Resign or stay, he should be a witness called by a Select Committee on the Bailouts.

But bad as the GMAC scandal is—making a "bank" insolvent at its creation, a bank whose CEO is a big Bernie Madoff enabler, purely to bail out the junk debt of that "bank"—LaRouche stressed that the investigation could start with derivatives bubbles, with Madoff's Ponzi scheme, ratings agencies, Wall Street's lying mortgage securitization wave, with the swindling of states and municipalities on their bonds, or with GMAC. What's crucial is to expose "who bought whom, and when?" to set off the wild speculation and 50-to-1 "leveraging" of the cash flows of "globalization"; to leave it all unregulated, and devastate national economies. In short, how was history's biggest and most destructive financial bubble created?

LaRouche spoke directly of local constituencies' strong interest in "Pecora hearings." "The swindling of states and municipalities around the country by these Wall Street banks—as in the case of Birmingham, Alabama, sent into bankruptcy by financial derivatives sold to them by JPMorgan Chase—is another powerful reason for a new 'Pecora Commission' today. So also is the Madoff scandal.

"Given the horrible condition that states and cities find themselves in," LaRouche said, "I call on my friends in the state legislatures, the city councils, the mayors' and governors' offices, to contact your Congressional delegations and get them to act, now."

LaRouche noted that his LaRouche Political Action Committee had mobilized widespread constituency pressure on Congress in support of his Homeowners and Bank Protection Act (HBPA) of 2007, which would have put up a "firewall" protecting the economy from the banks' breakdown crisis. Congress was blocked at the brink of introduction of the HBPA, and panicked into futile bank bailouts instead. "Now the entire system is collapsed, the economy is facing ruin. We must mobilize those constituencies to get a Congressional 'Pecora hearing' going immediately. This is the way to break [Speaker Nancy] Pelosi's grip on the Congress."

Tell the Bankers: 'Straighten Up Your Pecker, Face Reality'

LaRouche PAC TV's video, "Straighten Up That Pecora!" dramatically shows how the 1932-34 "Pecora hearings" shackled the power of J.P. Morgan's bank empire—"a formidable rival to the government itself," as Ferdinand Pecora later wrote. Such a spotlight today can create the outrage needed for solutions to the economic collapse.

Stirred up by the new President Franklin Roosevelt's inaugural words about "the money changers [who] have fled from their seats in the high temple of our civilization," the American people learned the black truth about whom FDR was fighting to save the U.S. economy, in the hearings of the Senate Committee on Banking, Housing, and Urban Affairs. They became "the Pecora hearings" due to the incisive and relentless investigation and questioning of the leading bankers, by former New York District Attorney Ferdinand Pecora.

Without the revelations of the Pecora hearings—at their most dramatic before and after Inauguration Day 1933—FDR would not have been able to follow up his immediate banking reorganization, TVA, and public works legislation, keeping Congress in session to produce regulation: the Securities and Exchange Commission, the FDIC, and Glass-Steagall. Sen. Carter Glass, although fighting with Pecora over his brutal questioning of bankers, was pushed into crafting the crucial Glass-Steagall Banking Reform Act of 1933, which separated commercial and investment banking, and thus regulated bank "leveraging" of debts into "assets." Its 1999 repeal facilitated the orgy of "leverage" which triggered today's collapse; its reinstatement is urgent now.

A Republican, Pecora was appointed by a Republican Banking Committee in 1932, which then sat on his investigations, until FDR's election and a Democratic sweep of Congress sounded the gun. By his inauguration, the President and the investigator were conferring regularly. Their plan was "pitiless publicity," in FDR's words, to reduce the power of London-Wall Street bankers who had cowed the U.S. and other governments. They effectively put Wall Street in the dock. It was FDR who suggested that the panel call J.P. Morgan, financier of the currency operations of the Bank of Eng-