

Editorial

Get Congress To Rebuild the Country!

The defeat of Dick Cheney's attempted coup d'état on May 23 didn't come a moment too soon. The General Motors/Ford crisis has ratcheted into a new phase, posing the demand that the U.S. Senate immediately take up Lyndon LaRouche's proposal for strategic bankruptcy reorganization, to save the core of the nation's productive industry, notably its vital machine-tool capability. Now that the Senate has been saved as an institution, it has to be pushed, and supported, and educated, to do its job. That means that citizens too have to be mobilized to understand what is at stake, and to back LaRouche's call.

We have now entered a new manifold of the auto-sector collapse. The second downgrading of GM's credit to junk bond status—first by Standard and Poor's Rating Service on May 5, then by Fitch Ratings Company on May 24—has activated a provision that all mutual funds and pension funds, which by law cannot hold below-investment-grade bonds, must now sell them. This has triggered another wave of selling of GM bonds and other paper, causing tremors in the world's \$400 trillion derivatives market, and pushing the bonds of the world's largest automaker to below the level of most Third World nations. Over the recent period, GM bonds have lost \$60 billion in value, and the announcement of May sales at the end of the month is expected to bring new shocks.

But this is not the final insult. It has emerged that the top officers of GM, collaborating with Wall Street firms, are working on a plan to hive off General Motors Acceptance Company—GM's money-making financial arm—to a group of financier sharks, who would gorge themselves on GMAC's most profitable components: its real estate, insurance, and non-auto financial business. GM would retain the automotive production operations, which it would carve up, shutting down priceless machine-tool capacity and firing skilled workers by the thousands. Then the GM carcass would be dumped into bankruptcy court. In a replay of the Enron looting operation, GM would be picked clean, before being disposed of in bankruptcy. This is the kind of criminal operation for which some people should go to jail.

The vultures are also circling Visteon, a parts sup-

plier spin-off from Ford, which forced through a wage freeze and benefit cuts on its workers at the end of May, as the first phase of a distress sale/austerity program. Rumors are circulating hot and heavy in Ohio that bankruptcy preparations are being made by Visteon, Delphi, and GM itself.

On the financial side, the chain-reaction repercussion from the Standard and Poor's downgrading of GM's and Ford's debt to junk-bond status was pronounced. Not only did the value of GM and Ford bonds tumble, but derivatives issued upon these bonds, which were incorporated into derivatives contracts called Collateralized Debt Obligations (CDOs), also tumbled. Simultaneously, hedge funds that had bought these CDOs, using large volumes of leverage, now faced a fast track to insolvency. One mid-sized hedge fund, the London-based Bailey Coates, with \$500 million under management, shut down its American operations, and fired staff in London, imploding in public view. The May 22 *Los Angeles Times* depicted the upheaval in an article that concluded, "The possibility of a derivatives meltdown induced by hedge fund failures no longer seems as farfetched as it might have seemed a few months ago."

What can be done? Back in February, Lyndon LaRouche warned of the attempt to dismantle GM. To counter this, he proposed on April 13, in an Emergency Action memorandum to the Senate, that it take urgent measures to save the auto sector. LaRouche invoked the precedent of President Franklin D. Roosevelt, who dealt with the economic and financial collapse in the interest of the General Welfare. The Senate today must intervene to ensure the retooling of the advanced machine-tool capacity of GM, Ford, Delphi, Visteon, and others in the auto sector, redeploying their skilled labor force to produce a diversified array of capital goods, especially for rebuilding infrastructure. This would start with overhauling the nation's dilapidated rail grid with modern high-speed and maglev. Without such forceful national action, LaRouche warned, the take-down of the auto sector would occur not over years, as predicted by "analysts," but within months and weeks.

This is the subject that a newly invigorated Senate has to place at the top of its agenda.