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# Economics in Brief

## *Fraud*

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### **SEC's Goldman Case The Tip of the Iceberg**

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April 16—The U.S. Securities and Exchange Commission has finally decided to lift the veil from a tiny corner of the massive fraud at Goldman “Sucks,” by charging the company with an \$11 billion securities fraud against its own customers in 2007. Hedge fund bandit John Paulson had figured out that the shakiest parts of the subprime mortgage market were about to take a dive, and went to Goldman to find a way to make money by betting that the mortgage-backed securities (MBS) based on them would collapse.

Goldman let Paulson pick a package of those MBSs which he thought would tank the quickest, and then turned around and sold them to its own customers among “foreign banks, pension funds, insurance companies and other hedge funds.” These investors were told that the securities they were buying had been selected by an “independent, objective third party,” while actually John Paulson had chosen them as those most likely to fail the fastest, and was using Goldman to bet that they would fail. The suckers lost billions of the \$10.9 billion they invested, and the money they lost was passed through to Paulson, after Goldman took its cut.

This is just the tiniest part of the fraud at Goldman which a Pecora Commission-style investigation, as LaRouche has demanded be established, would find. What Goldman did is paradigmatic of the entire fraudulent system, which must be replaced.

## *European Union*

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### **German Professors Will Sue Against Bailout**

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April 15—The four German professors who initially sought to stop Germany's adoption of the euro in 2001, have announced that they will be ready to bring

their challenge against the European Union's bailout of Greece to the Federal Constitutional Court within days. In an interview with *Daily Telegraph* columnist and City of London mouthpiece Ambrose Evans-Pritchard printed today, they said they will ask for an injunction to block the transfer of German funds until the court has ruled.

While Greece has not yet requested funds from the European Union, it is expected to do so imminently.

The author of the complaint, Dr. Karl Albrecht Schachtschneider, law professor in Nuremberg, said he will ask the court for an expedited procedure. A ruling could occur within a week, but may take as long as six months. He will argue that the deal represents an illegal rate subsidy, threatens monetary stability, and breaches the “no bailout” clause of the EU's Maastricht Treaty. “It is a question of law. The duty of the court to defend the German constitution. They have no choice other than reaching a lawful decision. This may cause a great crisis in Europe, but we already have a crisis,” he said. He will ask the court to freeze rescue aid while the case is pending.

Schachtschneider said the court tends to split 4:4 on EU matters, but could come to a definitive decision, as it did on the Lisbon Treaty when it ruled that the treaty could not be implemented by Germany in any way that violates the German constitution.

## *Real Estate*

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### **New Phase of Housing Blowout Is on the Way**

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April 14—U.S. properties subject to foreclosure action in the first quarter of 2010 rose 16% from the year-earlier quarter, the highest level the monitoring agency RealtyTrac has seen since it began reporting such data. Foreclosure filings—default notices, scheduled auctions, and bank reposessions—were reported on more than 932,000 properties in the quarter, meaning that one in every 138 U.S. housing units received such a filing.

Six million households are more than 60 days delinquent on their mortgages now; 4 million of them are more than 120 days delinquent, and will almost certainly lose their homes—the only question is how soon.

With this huge foreclosure overhang, and 11-12 million households owing more mortgage debt than their house is worth, experts on the housing market are waiting for another crash in home prices, and mortgage securities values, to hit. “Values” of *trillions* in near-worthless mortgage-backed securities have been kept from collapse only by government changes in accounting rules to save the banks, and by multitrillion-dollar bailout purchases of these MBSs directly by the Federal Reserve and Treasury.

## *Banking*

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### **Major U.S. Banks Fail Glass-Steagall Test**

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April 18—J.P. Morgan Chase and Bank of America both reported multibillion-dollar profits for the first quarter of 2010 last week, so EIR decided to examine those profits in the context of the Glass-Steagall Act (the FDR-era law that separated commercial banking and investment banking, and was repealed in 1999). It appears that both banks lost money on those aspects of their business that would be legal under Glass-Steagall, and made all their profits from the sorts of speculation, manipulation, and gambling which would be outlawed.

J.P. Morgan Chase reported a profit of \$3.3 billion for the quarter, all of it from the speculative side—investment banking, asset management, Treasury and securities services, and corporate/private equity. The banking side—that is, that part which would be permitted under Glass-Steagall—reported a loss of \$44 million.

Bank of America reported similar results: \$3.7 billion in income from its investment banking and money-management activities, and \$406 million in losses from its traditional banking activities.