



Fed Bailouts More Outrageous Than AIG Bonuses

All of the feigned outrage in Washington over the millions that AIG has been doling out in bonus payments, and the tens of billions in bailout monies that it sent directly to major creditors, fails to impress. Beyond the smokescreen of How-dare-they's, emanating from Republican congressmen and the Obama administration alike, loom larger questions which no one seems willing to ask: how dare our elected leaders give almost \$200 billion taxpayers' dollars to AIG in the first place? And how dare they presume to nationalize a private company like some two-bit cadre of Marxist putschists?



In the first place, the federal government has neither the constitutional nor the moral authority to authorize such giveaways of taxpayer money, and in the second place, the feds have no business following socialist governments abroad down the path to nationalization.

When the Bush administration started the AIG bailout gravy train rolling last September, a prescient few warned that such actions would create what economists call "moral hazard," that is, they would provide incentives for AIG and other foundering mega-corporations to indulge in behavior they would not otherwise try, because they knew they could get away with it.

And just as the undisciplined child is quick to take advantage of indifferent or overindulgent caregivers, so AIG, the moment the first bailout was assured, spent huge sums of money on lavish retreats and celebratory hunting excursions.

The larding out of bonuses — to execs who presided over AIG's riskiest investments, no less — began late last year and, we are now learning, the incoming Obama Administration was well aware of the irregularities.

Yet AIG proceeded to post the largest corporate loss in history in the fourth quarter of 2008, and after running through the initial bailout money, came begging for more in February. This time around, emboldened AIG officials prepared and circulated a report among D.C. officials with clout at the Treasury and on Capitol Hill that warned that, should another bailout not be forthcoming, AIG would be forced into receivership and bring down the entire world financial house of cards. Panicked by such bluster, the Obama administration caved and upped the bailout ante to the tune of \$30 billion more.

Now comes word that around \$170 million of the bailout money has been awarded in executive bonuses, a mere bagatelle compared to the entire bailout package, to be sure, but still a very hefty sum of money.

Nor is AIG, caught yet again in the act, exhibiting any remorse. These bonuses are contractually required, AIG officials pleaded. Maybe so, but as New York Attorney General Andrew Cuomo pointed out, "you could argue that if taxpayers hadn't bailed out A.I.G., the contracts wouldn't be worth the



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paper they were signed on.” This is in addition to the fact that AIG is now roughly 80 controlled by the federal government.

As Representative Elijah Cummings, member of the House Committee on Government Oversight, pointed out, “In light of the biggest quarterly loss in history, you would think that A.I.G. ... would have been able to convince folks who were supposed to be getting these retention payments [i.e., the bonuses], based at least in part on performance, that they might want to voluntarily not take all or part of them.”

But all of the talk by congressmen who voted for bailing out financial institutions is so much malarkey. The government knew AIG would pay contractually obligated bonuses, and it did not require AIG to have its employees sign agreements to forfeit the bonuses as a condition for receiving the bailout funds. In fact, Democratic Senator Chris Dodd, who is garnering all manner of publicity by railing against the bonuses, actually added an addendum to the legislation that acknowledged and allows bonuses. Dodd’s rider gives an “exception for contractually obligated bonuses agreed on before Feb. 11, 2009.”

Congressmen and White House officials puff and bloviate with affected outrage, but they continue to shower corporate benefactors like AIG with other peoples’ money. In a few days, the latest melodrama will fade, and the behind-the-scenes glad-handing and quid pro quo will return to normal. Moral hazard, indeed.

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