



Fed Takes Over AIG

According to Bloomberg, through 2008 AIG's losses surpassed \$18 billion. On September 16, shares of the company's stock dropped 60 percent when the markets opened as plans to stave off the failure of the company appeared to be faltering. That led to the Fed offering an outright takeover of the company.



In a statement later that day, AIG announced that it had accepted the Fed's bailout plan. "The AIG Board has approved this transaction based on its determination that this is the best alternative for all of AIG's constituencies," the company said in a press release. Despite the imminent failure of the company, the press release continued: "AIG is a solid company with over \$1 trillion in assets and substantial equity."

In exchange for the \$85 billion bailout, the Federal Reserve has taken a 79.9 percent stake in the company, something the company attempted to put in rosy terms in its press release. "In return for providing this essential support," said the company statement, "American taxpayers will receive a substantial majority ownership interest in AIG."

The bailout was welcomed by many financial analysts. "It's an enormous relief," David Havens, a credit analyst for UBS AG told Bloomberg.com. "Nobody really knows what it would have meant if they would have been allowed to fail."

The Associated Press, however, was more balanced in its view of the transaction. According to AP, the move was "not just another bailout. This one's more like a government seizure."

The bailout does amount to another vast expansion of government into the private sector, something that conservatives have traditionally opposed. The Bush administration, thought to be the epitome of conservatism by many, again proved that it prefers the expansion of government rather than the workings of a free and private market. According to the Associated Press, the White House "backed" the Fed's decision.

"These steps are taken in the interest of promoting stability in financial markets and limiting the damage to the broader economy," said White House spokesman Tony Fratto.

Apart from the economic implications of nationalizing formerly privately held corporations, there are also constitutional matters to consider. In a blog post entitled "The Fed obliterates the Constitution" retired finance professor Michael S. Rozeff notes: "We now have UNELECTED government in action. The Fed's actions are as serious a blow to the Constitution as any other serious blow in the past."



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