AIG-Gate: The World's Greatest Insurance Heist

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Rumor has it that Timothy Geithner is on his way out as Treasury Secretary, due to his involvement in the AIG scandal that is now unraveling in hearings before the House Oversight and Reform Committee. Bob Chapman writes in The International Forecaster:

> Each day brings more revelations of efforts of the NY Fed and Goldman Sachs to hide the details of the criminal conspiracy of the AIG bailout. . . . This is a real crisis on the scale of Watergate. Corruption at its finest.

But unlike the perpetrators of the Watergate scandal, who wound up looking at jail time, Geithner evidently has a golden parachute waiting at Goldman Sachs, not coincidentally the largest recipient of the AIG bailout. At least that is the rumor sparked by an article by Caroline Baum on Bloomberg News, titled "Goldman Parachute Awaits Geithner to Ease Fall." Hank Paulson, Geithner's predecessor, was CEO of Goldman Sachs before coming to the Treasury. Geithner, who has come up through the ranks of government, could be walking through the revolving door in the other direction.

Geithner has been under the House microscope for the decision of the New York Fed, made while he headed it, to buy out about $30 billion in credit default swaps (over-the-counter derivative insurance contracts) that AIG sold on toxic debt securities. The chief recipients of this payout were Goldman Sachs, Merrill Lynch, Societe Generale and Deutsche Bank. Goldman got $13 billion, roughly equivalent to its bonus pool for the first 9 months of 2009. Critics are calling the New York Fed's decision a back-door bailout for the banks, which received 100 cents on the dollar for contracts that would have been worth far less had AIG been put through bankruptcy proceedings in the ordinary way. In a Bloomberg article provocatively titled "Secret Banking Cabal Emerges from AIG Shadows," David Reilly writes:

> [T]he New York Fed is a quasi-governmental institution that isn't subject to citizen intrusions such as freedom of information requests, unlike the Federal Reserve. This impenetrability comes in handy since the bank is the preferred vehicle for many of the Fed's bailout programs. It's as though the New York Fed was a black-ops outfit for the nation's central bank.

The beneficiaries of the New York Fed's largesse got paid in full although they had agreed to take much less. In a November 2009 article titled "It's Time to Fire Tim Geithner," Dylan Ratigan wrote:

> [L]ast November . . . New York Federal Reserve Governor Tim Geithner decided to deliver 100 cents on the dollar, in secret no less, to pay off the counter parties to the world's largest (and still un-investigated) insurance fraud — AIG.

> This full payoff with taxpayer dollars was carried out by Geithner after AIG's bank customers, such as Goldman Sachs, Deutsche Bank and Societe Generale, had already previously agreed to taking as little as 40 cents on the dollar. Even after the GM autoworkers, bondholders and vendors all received a government-enforced haircut on their contracts, he still had the audacity to claim the "sanctity of contracts" in the dealings with these companies like AIG.

Geithner testified that the Fed's hands were tied and that the bank could not "selectively default on contractual obligations without courting collapse." But if it was all on the up and up, why all the secrecy? The contention that the Fed had no choice is also belied by a recent holding in the Lehman Brothers bankruptcy, in which New York Bankruptcy Judge James Peck set aside the same type of investment contracts that Secretaries Paulson and Geithner repeatedly swore under oath had to be paid in full in the case of AIG. The judge declared that clauses in those contracts subordinating other claims to the holders' claims were null and void in bankruptcy.

> "And notice," comments bank analyst Chris Whalen, "that the world has not ended when the holders of [derivative] contracts are treated like everyone else." He calls the AIG bailout "a hideous political contrivance that ranks with the great acts of political corruption and thievery in the history of the United States."

If you tell a lie big enough and keep repeating it, said Joseph Goebbels, people will eventually come to believe it. The bailout of Wall Street initiated in September 2008 was premised on the dire prediction that if major counterparties in the massive edifice of derivative contracts were allowed to fall, the whole interlocking house of cards would collapse and take the economy with it. A hijacked Congress dutifully protected the derivatives game with taxpayer money while the real economy proceeded to collapse, the financial sector choosing to put their money into this protected form of speculative betting rather than into the more mundane and risky business of making loans to struggling businesses and homeowners. In the end, $170 billion of federal funds went to AIG and the banks feeding at its trough. Meanwhile, a survey of state finances by the Center on Budget and Policy Priorities think tank found that state governments face a collective $168 billion budget shortfall for fiscal 2010. If the money used to bail out AIG and the banks had been used to bail out the states instead, the states would not be facing insolvency today.

There is no law against gambling, but there is a law against fraud. In Watergate, a special prosecutor was appointed to bring criminal charges; but times seem to have changed.

Ellen Brown developed her research skills as an attorney practicing civil litigation in Los Angeles. In Web of Debt, her latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her eleven books include Forbidden Medicine, Nature's Pharmacy (co-authored with Dr. Lynne Walker), and The Key to Ultimate Health (co-authored with Dr. Richard Hansen). Her websites are www.webofdebt.com, www.ellenbrown.com, and www.public-banking.com.

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