

Forget AIG Bonuses-The Next Bailout is Here

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Democrats from Andrew Cuomo to Barney Frank to Barack Obama are demanding that the 418 AIG employees who received bonuses give them back. Sure, it's outrageous that the very people who drove AIG off the cliff, along with a whole lot of other financial firms, walked away with million-dollar bonuses paid with taxpayer bailout money. But as the [Wall Street Journal opinion page](#) points out, "Taxpayers have already put up \$173 billion, or more than a thousand times the amount of those bonuses, to fund the government's AIG 'rescue.'"

And there is more to come.

The Obama Administration is putting the finishing touches on another big bank bailout. Called the Public Private Investor Partnership (PPIP), it is the brainchild of the Treasury Secretary from Wall Street, Tim Geithner. Under the plan, the government will give our money to hedge fund managers to buy "toxic" assets for more than they are worth. The banks that created these toxic turkeys will use the money from the sales to recapitalize themselves. Everyone comes out ahead except, of course, the taxpayers, who are essentially funneling money to hedge funds to buy bad assets for more than they are worth. The other bonus for the banks in this plan, as [Yves Smith points out](#), is that they get to avoid giving the toxic assets any real market value. Less transparency and more transfers of wealth from taxpayers to hedge fund managers.

So much for the "free market."

[Yves Smith writes](#): "This is what readers ought to be upset about. The AIG bonuses are rounding error, and a done deal. This (the PPIP) is billions to avoid price discovery . . ."

\$750 billion, to be precise-plus what remains of the \$700 billion bank bailout Congress already approved.

Smith reports that the bailout will likely have two parts: a subsidy to the hedge funds that buy the bad assets, and another one for the banks that sell them, to make up for the low prices investors are willing to pay. It's socialism for bankers and hedge fund managers.

Meanwhile, as AIG CEO Edward Liddy testified on Capitol Hill Wednesday, members of Congress were up in arms about the bonuses he says he was "contractually obligated" to pay executives. Liddy once claimed he had to pay the money in order to retain the talented financial products executives who helped run the company into the ground. The fact that 52 of them left AIG, cash in hand, dampened that argument. On the Hill today, Liddy called on AIG employees to "do the right thing" and return "at least half" of the money if they got a bonus of more than \$100,000. I guess a \$50,000 bonus is what passes for punishment on

Wall Street for putting your company into bankruptcy-or what would have been bankruptcy had the government not bailed out t AIG.

And speaking of bankruptcy, Liddy told Congress that had AIG gone bankrupt and been put into receivership, the contracts that awarded those bonuses would have been void. Bankruptcy would have saved the taxpayers not only \$165 million in bonuses, but also the latest \$30 billion in AIG bailout. Liddy pointed this out to the Fed a month ago, according to [Brad Sherman, Democrat of California, in the Washington Post](#).

Begging Barney Frank not to subpoena the names of the executives who got bonuses, Liddy read aloud a death threat from an outraged citizen who would like to strangle AIG execs with piano wire.

The Obama Administration and Congressional Democrats are responding to outpouring of anger.

But the truth is, the bonuses to greedy execs are just a sideshow. It's the government's willingness to give away hundreds of billions of dollars in yet another massive bailout that people should be shouting about.

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