

The Real AIG Conspiracy

By [Prof Michael Hudson](#)

Global Research, March 18, 2009

18 March 2009

Region: [USA](#)

Theme: [Global Economy](#)

It may seem odd, but the public outrage against \$135 million in AIG bonuses is a godsend to Wall Street, AIG scoundrels included. How can the media be so preoccupied with the discovery that there is self-serving greed to be found in the financial sector? Every TV channel and every newspaper in the country, from right to left, have made these bonuses the lead story over the past two days.

What is wrong with this picture? Is there not something over-inflated about the outrage led most vociferously by Senator Charles Schumer and Rep. Barney Frank, the two leading shills for the bank giveaways over the past year? And does Pres. Obama perhaps find it convenient that finally, at long last, he has been able to criticize something that he believes Wall Street has done wrong? Even the Wall Street Journal has gotten into the act. The government's takeover of AIG, it pointed out, "uses the firm as a conduit to bail out other institutions." So much more greed is involved than just that of AIG employees. The firm owed much more to other players – abroad as well as on Wall Street – than the assets it had. That is what drove it to insolvency. And popular opposition has been rising to how Mr. Obama and Mr. McCain could have banded together to support the bailout that, in retrospect, amounts to trillions and trillions of dollars thrown "down the drain." Not really down the drain at all, of course – but given to financial speculators on the winning "smart" side of AIG's bad financial gambles.

"The Washington crowd wants to focus on bonuses because it aims public anger on private actors," it accused in a March 17 editorial. But instead of explaining that the shift is away from Wall Street grabbers of a thousand times the amount of bonuses being contested, it blames its usual all-purpose bete noire: Congress. Where the right and left differ is just whom the public should be directing its anger at!

Here's the problem with all the hoopla over the \$135 million in AIG bonuses: This sum is only less than 0.1% – one thousandth – of the \$183 BILLION that the U.S. Treasury gave to AIG as a "pass-through" to its counterparties. This sum, over a thousand times the magnitude of the bonuses on which public attention is conveniently being focused by Wall Street promoters, did not stay with AIG. For over six months, the public media and Congressmen have been trying to find out just where this money DID go. Bloomberg brought a lawsuit to find out. Only to be met with a wall of silence.

Until finally, on Sunday night, March 15, the government finally released the details. They were indeed highly embarrassing. The largest recipient turned out to be just what earlier financial reporters had said was rumored: Mr. Paulson's own firm, Goldman Sachs, headed the list. It was owed \$13 billion in counterparty claims. So here's the picture that's emerging. Last September, Treasury Secretary Paulson, from Goldman Sachs, drew up a

terse 3-page memo outlining his bailout proposal. The plan specified that whatever he and other Treasury officials did (thus including his subordinates, also from Goldman Sachs), could not be challenged legally or undone, much less prosecuted. This condition enraged Congress, which rejected the bailout in its first incarnation.

It now looks as if Mr. Paulson had good reason to put in a fatal legal clause blocking any clawback of funds given by the Treasury to AIG's counterparties. This is where public outrage should be focused.

Instead, the leading Congressional shepherds of the bailout legislation – along with Mr. Obama, who came out in his final, Friday night presidential debate with Sen. McCain strongly in favor of the bailout in Mr. Paulson's awful "short" version – have been posing as conspicuously as possible for the media to cover a deflected target – the AIG executives receiving bonuses, not the company's counterparties.

There are two questions that one always must ask when a political operation is being launched. First, cui bono? Who benefits? And second, why now? In my experience, timing almost always is the key to figuring out the dynamics at work.

Regarding cui bono, what does Sen. Schumer, Rep. Frank, Pres. Obama and other Wall Street sponsors gain from this public outcry? For starters, it depicts them as hard taskmasters of the banking and financial sector, not its lobbyists carrying water for one giveaway after another. So the AIG kafuffle has muddied the water about where their political loyalties really lie. It enables them to strike a misleading pose – and hence to pose as "honest brokers" next time they dishonestly give away the next few trillion dollars to their major sponsors and campaign contributors.

Regarding the timing, I think I have answered that above. Talking about AIG bonuses has effectively distracted attention from the AIG counterparties who received the \$183 billion in Treasury giveaways. The "final" sum to be given to its counterparties has been rumored to be \$250 billion, do Sen. Schumer, Rep. Frank and Pres. Obama still have a lot more work to do for Wall Street in the coming year or so.

To succeed in this work – while mitigating the public outrage already rising against the bad bailouts – they need to strike precisely the pose that they're striking now. It is an exercise in deception.

The moral should be: The wetter the crocodile tears shed over giving bonuses to AIG individuals (who seem to be largely on the healthy, bona fide insurance side of AIG's business, not its hedge-fund Ponzi-scheme racket), the more they will distract public attention from the \$180 billion giveaway, and the better they can position themselves to give away yet more government money (Treasury bonds and Federal Reserve deposits) to their favorite financial charities.

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