Was the Bailout Itself a Scam?

A Program of Financial Concentration

By Dr. Paul Craig Roberts
Global Research, March 20, 2009
Information Clearing House 19 March 2009

Region: USA
Theme: Global Economy

Professor Michael Hudson (Counter Punch, [editor: Global Research] March 18) is correct that the orchestrated outrage over the $165 million AIG bonuses is a diversion from the thousand times greater theft from taxpayers of the approximately $200 billion "bailout" of AIG. Nevertheless, it is a diversion that serves an important purpose. It has taught an inattentive American public that the elites run the government in their own private interests.

Americans are angry that AIG executives are paying themselves millions of dollars in bonuses after having cost the taxpayers an exorbitant sum. Senator Charles Grassley put a proper face on the anger when he suggested that the AIG executives "follow the Japanese example and resign or go commit suicide."

Yet, Obama's White House economist, Larry Summers, on whose watch as Treasury Secretary in the Clinton administration financial deregulation got out of control, invoked the "sanctity of contracts" in defense of the AIG bonuses.

But the Obama administration does not regard other contracts as sacred. Specifically: labor unions had to agree to give-backs in order for the auto companies to obtain federal help; CNN reports that "Veterans Affairs Secretary Eric Shinseki confirmed Tuesday [March 10] that the Obama administration is considering a controversial plan to make veterans pay for treatment of service-related injuries with private insurance"; the Washington Post reports that the Obama team has set its sights on downsizing Social Security and Medicare.

According to the Post, Obama said that "it is impossible to separate the country's financial ills from the long-term need to rein in health-care costs, stabilize Social Security and prevent the Medicare program from bankrupting the government."

After Washington's trillion dollar bank bailouts and trillion dollar gratuitous wars for the sake of the military industry's profits and Israeli territorial expansion, there is no money for Social Security and Medicare.

The US government breaks its contracts with US citizens on a daily basis, but AIG's bonus contracts are sacrosanct. The Social Security contract was broken when the government decided to tax 85% of the benefits. It was broken again when the Clinton administration rigged the inflation measure in order to beat retirees out of their cost-of-living adjustments. To have any real Medicare coverage, a person has to give up part of his Social Security check to pay Medicare Part B premium and then take out a private supplemental policy. The true cost of Medicare to beneficiaries is about $6,000 annually in premiums, plus deductibles and the Medicare tax if the person is still earning.

Treasury Secretary Geithner, the fox in charge of the hen house, has resolved the problem for us. He is going to withhold $165 million (the amount of the AIG bonuses) from the next taxpayer payment to AIG of $30,000 million. If someone handed you $30,000 dollars, would you mind if they held back $165?

PR flaks have rechristened the bonus payments "retention payments" necessary if AIG is to retain crucial employees. This lie was shot down by New York Attorney General Andrew Cuomo, who informed the House Committee on Financial Services that the payments went to members of AIG's Financial Products subsidiary, "the unit of AIG that was principally responsible for the firm's meltdown." As for retention, Cuomo pointed out that "numerous individuals who received large 'retention' bonuses are no longer at the firm" .

Eliot Spitzer, the former New York Governor who was set-up in a sex scandal to prevent him investigating Wall Street's financial gangsterism, pointed out on March 17 that the real scandal is the billions of taxpayer dollars paid to the counter-parties of AIG's financial deals. These payments, Spitzer writes, are "a way to hide an enormous second round of cash to the same group that had received TARP money already."

Goldman Sachs, for example, had already received a taxpayer cash infusion of $25 billion and was sitting on more than $100 billion in cash when the Wall Street firm received another $13 billion via the AIG bailout.

Moreover, in my opinion, most of the billions of dollars in AIG counter-party payments were unnecessary. They represent gravy paid to firms that had made risk-free bets, the non-payment of which constituted no threat to financial solvency.

Spitzer identifies a conflict of interest that could possibly be criminal self-dealing. According to reports, the AIG bailout decision involved Bush Treasury Secretary Henry Paulson, formerly of Goldman Sachs, Goldman Sachs CEO Lloyd Blankfein, Fed Chairman Ben Bernanke, and Timothy Geithner, former New York Federal Reserve president and currently Secretary of the Treasury. No doubt the incestuous relationships are the reason the original bailout deal had no oversight or transparency.

The Bush/Obama bailouts require serious investigation. Were these bailouts necessary, or were they a scam, like "weapons of mass destruction," used to advance a private agenda behind a wall of fear? Recently I heard Harvard Law professor Elizabeth Warren, a member of a congressional bailout oversight panel, say on NPR that the US has far too many banks. Out of the financial crisis, she said, should come consolidation with the financial sector consisting of a few mega-banks. Was the whole point of the bailout to supply taxpayer money for a program of financial concentration?

Paul Craig Roberts was Assistant Secretary of the Treasury in the Reagan administration. He is coauthor of The Tyranny of Good Intentions. He can be reached at: PaulCraigRoberts@yahoo.com

The original source of this article is Information Clearing House

---

Comment on Global Research Articles on our Facebook page

Articles by: Dr. Paul Craig Roberts

About the author:

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at http://paulcraigroberts.org