Bottom Feeders at the Trough: Bailing Out America's Most Corrupt Capitalists

By Sharon Smith
Global Research, March 12, 2009
CounterPunch 12 March 2009

Region: USA
Theme: Global Economy

The federal bailout of insurance giant American International Group (AIG) swelled to $170 billion in early March after a third infusion of taxpayer dollars. Yet even as the final details were being ironed out on February 28th, AIG filed a lawsuit against the government, claiming the IRS owes it $306 million in previous overpayments on taxes, interest and penalties. "AIG is taking this action to ensure that it is not required to pay more than its fair share of taxes," a company spokeswoman explained to the Wall Street Journal without a hint of irony.

AIG's stunning lack of gratitude toward its rescuers demonstrates the degree to which greed still pays on Wall Street. AIG executives, of course, emerged as the unwitting personification of unbridled corporate opulence after the company's first two federal bailouts in September and October, when AIG hosted a $440,000 luxury spa vacation in California and then flew another group of executives to England for an $86,000 partridge hunt. AIG's chief executive officer, Edward Liddy, finally agreed to cancel more than 160 subsequent executive entertainment events with a price tag of more than $8 million — leaving observers to wonder when these corporate parasites bothered to even show up at the office.

The Federal Reserve has engaged in much hand wringing over AIG's responsibility for its own demise. Federal Reserve Chairman Ben Bernanke minced no words, arguing, "AIG exploited a huge gap in the regulatory system… This was a hedge fund basically that was attached to a large and stable insurance company." AIG particularly favored providing guarantees for collateral debt obligations (CDOs), or bonds backed by debts — including subprime mortgages. But when Federal Reserve Vice Chairman Donald Kohn appeared before the Senate Banking Committee on March 5th, he refused to disclose the names of AIG's top corporate trading partners, who have been among the biggest beneficiaries of the AIG federal bailout, arguing, "I would be very concerned that if we started giving out the names of counterparties here, people would not want to do business with AIG."

The Wall Street Journal has discovered the names of some of the recipients of AIG bailout money. The cast of characters is familiar, mainly large U.S. and European banks that were AIG's top traders, which have together received roughly $50 billion in taxpayer money since September. The U.S. firms include investment giants Goldman Sachs and Merrill Lynch, with each receiving 100 cents on the dollar for their CDOs, although market value was only 47 cents on the dollar, according to the Financial Times. For these Wall Street insiders, AIG's bailout proved to be a cash cow.

* * *

Merrill Lynch has meanwhile been embroiled in yet another unfolding scandal — along with its new owner, Bank of America (BofA), which received $35 billion from the Treasury's Troubled Assets Relief Program (TARP) and another $20 billion in loans last fall. Just weeks before Merrill passed into BofA's hands on January 1st, it paid out $3.6 billion in bonuses — four top executives alone shared $121 million in cash and stocks — while the company posted a fourth quarter loss of $15.84 billion. The bonuses were given about a month ahead of Merrill's normal schedule, without explanation.

BofA CEO Ken Lewis initially told Congress he had "no authority" over Merrill's decisions until January and even feigned disapproval of the bonus payments. He told the House Committee on Financial Services in February, "We urged Merrill Lynch execs involved in this compensation issue to reduce the bonuses substantially particularly at the top." Evidence soon emerged, however, that the merger agreement that Lewis signed on September 15th explicitly authorized bonuses of up to $5.8 billion to Merrill employees. New York Attorney General Andrew Cuomo announced in March that his office is investigating whether the early bonus payments motivated Merrill's traders to mark down their positions in order to exaggerate their success once under BofA control in January. BofA has refused to turn over a list of Merrill's 2008 individual bonus payments to prosecutors, arguing it would be an invasion of employee privacy.

Interestingly, the federal government helped to arrange the acquisition of Merrill by Bank of America on the same September weekend that it refused to rescue the equally troubled investment bank, Lehman Brothers.

* * *

The Federal Reserve and Treasury Departments have not merely rewarded the system of reckless betting with other people's money that caused the banking crisis; they have also resuscitated the careers of some of the same executives who lost the biggest bets. A dozen former executives from mortgage lender Countrywide (which is also now owned by BofA), whose predatory lending practices played a key role in precipitating the subprime mortgage crisis, have launched a new corporate entity, the Private National Mortgage Acceptance Company — with a strategy to make exorbitant profits from individuals unable to keep up with their monthly mortgage payments.

Known as PennyMac, the company buys overdue mortgages at steep discounts from the federal government, which took them over from distressed banks. PennyMac then contacts the homeowners to negotiate new terms — and either pushes them into foreclosure or negotiates lower interest rates. It's a win-win equation for PennyMac.

One of PennyMac's leaders, Stanley L. Kurland is a former president at Countrywide and an architect of the classic sub-prime mortgage formula — mortgages with low "teaser" interest rates that later rose sharply. During the six years before Kurland left Countrywide in late 2006, Countrywide's portfolio increased from $62 billion to $463 billion. Kurland sold $200 million in stocks shortly before leaving Countrywide. Now he stands to make many millions more reaping profits from the same category of people whose lives he helped to destroy. Federal banking officials nevertheless defend recruiting executives like Kurland to rebuild the financial system. As the New York Times explained: "[Federal officials] said that it was important to do business with experienced mortgage operators like Mr. Kurland, who know how to creatively renegotiate delinquent loans."

Now the Federal Reserve and Treasury Departments are seeking to forge "an alliance with the very outfits that most benefited from the bonanza preceding the collapse of the credit markets: hedge funds and private-equity firms," as the Washington Post reported on March 6th. The government's new program, Term Asset-Backed Securities Loan Facility (TALF) states as its primary aim to resurrect the "shadow banking system" — the entirely unregulated investment-banking sector that proved responsible for much of the banking crisis.

Nevertheless, the government hopes to lure these same wealthy investors to start lending money again by offering the promise of easy profits without the risk of major losses. In what it is calling a "public-private partnership," hedge funds would keep all profits, but the government would use taxpayer dollars to pick up the entire tab except for the investors' initial down payments, in the case of a loss.

* * *

The credibility of the financial system was already on the skids when the most recent phase of the AIG and Merrill Lynch scandals began to break. Yet Wall Street powerbrokers thus far remain remarkably insulated from the class anger they have provoked on a scale not witnessed in many decades. Obama's Treasury Secretary Timothy Geithner's own failure to pay $34,000 in taxes while a self-employed staffer at the International Monetary Fund surely added to the sense of irony on March 3, when Geithner informed the House Ways and Means Committee that the Obama administration plans to crack down on tax evaders. Within days after Obama announced plans to slightly reduce tax rates on deductions for the wealthiest 1.2 percent of taxpayers (from $35 to $28 for every $100 of deductions), Geithner quickly suggested that the Obama administration would be willing to drop or reduce the tax hike.

The federal government's ability to bail out the nation's most corrupt capitalists appears inexhaustible, yet only crumbs have been made available for those who have produced all their profits. Wall Street insiders are still feeding at a bottomless trough funded by the millions of workers now facing mass layoffs, losing health insurance and confronting home values that are lower than their mortgages. But it is only a matter of time before the dam begins to break.

At a time when one in every nine U.S. homeowners with a mortgage is either in arrears on monthly payments or in some stage of foreclosure, as was the case by the end of 2008, not a single financial expert has considered the one measure that might bring relief on par with the scale of the mortgage crisis: a national moratorium on foreclosures. With official unemployment in a tailspin at 8.1 percent (and the actual combination of unemployment and underemployment at least double that figure), the government should, at minimum, offer unemployment benefits to anyone who is unable to find work for the duration of this financial crisis. Such measures would only begin to rectify the vast discrepancy between federal government support to Wall Street and Main Street. But we should expect no substantial change in policy with massive pressure from below.

Sharon Smith is the author of Women and Socialism and Subterranean Fire: a History of Working-Class Radicalism in the United States. She can be reached at: sharon@internationalsocialist.org

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Sharon Smith**