Obama defends Wall Street as anger grows over bonuses, bailouts

Patrick Martin
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In a statement to the press as he left the White House Wednesday, and at a town hall meeting in Southern California later the same day, President Barack Obama defended his policy of bailing out Wall Street financial interests, including those directly responsible for precipitating the current economic crisis.

Millions of working people face the prospect of unemployment, foreclosure, poverty and homelessness. For them there will be no bailout, and no million-dollar bonuses like those paid out to 73 executives at the bankrupt financial conglomerate AIG, with the consent of the Obama administration and Congress.

There is deep-seated and rising popular anger over the AIG bonuses, which have become a potent symbol for the criminality of the Wall Street elite and the gross inequality that pervades American society. The Obama administration's hand-wringing apologies for failing to stop the bonuses are likewise symbolic: demonstrating the subservience of the Democratic Party to the financial aristocracy that really rules America.

As public anger erupted over AIG, both the Obama administration and Democrats and Republicans in Congress have postured as opponents of the blatant looting of public resources. Yet they have all failed to answer a simple question: given the US government owns 80 percent of AIG, and has funneled $180 billion into the company over the past six months, why has it proven impossible to stop the payment of the bonuses, the bulk of them to traders in derivatives, credit default swaps and other exotic financial instruments?

The highpoint of hypocritical outrage came at a hearing Wednesday before the House Banking Committee, where AIG Chairman and CEO Edward Liddy was verbally chastised by Democrats and Republican congressmen. Liddy, who was appointed by the Bush administration after the Treasury seized control of AIG last September, refused to make public the names of the executives and traders who raked in the million-dollar bonuses.

The main concern of the Obama administration and the congressional Democratic leadership is that the AIG scandal will make it politically more difficult to enact the next round of the federal handout to Wall Street, tentatively budgeted for at least $250 billion by the White House, with the actual cost expected to soar to as much as $1 trillion.

There could also be problems enlisting financial firms to participate in the measures already announced by the Treasury, such as the "public-private" partnerships in which the Treasury would insure profits to speculators who buy toxic assets under the Term Asset-Backed Securities Loan Facility (TALF). Given the greater scrutiny of executive compensation that is now likely in the wake of AIG, many big institutions may simply refuse to participate.

"The firestorm over bonuses paid by insurance giant American International Group has triggered alarm at other financial firms," the *Washington Post* reported. "The attack by lawmakers on AIG pay has provoked renewed complaints from some financial company executives that federal involvement in business decisions is making it difficult for struggling firms to return to profitability. In particular, executives say they need to offer bonuses to keep and motivate their most valuable employees and are already seeing an exodus of talent."

The congressional hearings, with their scripted displays of phony anger by elected officials who routinely kowtow to corporate CEOS and billionaires, can't disguise the direct responsibility of Congress and the White House for permitting the AIG looting to take place.

The Obama administration initially claimed that it did not learn of the AIG bonuses until Tuesday, March 10, days after a $30 billion infusion of federal cash into AIG, the fourth such bailout, was approved by the Treasury. But AIG filed plans for lavish "retention payments" last November with the Securities and Exchange Commission, leading to an exchange of letters on the subject between the CEO Liddy and several Democratic members of Congress.

In January two congressional Democrats, Joseph Crowley of New York and Paul Kanjorski of Pennsylvania, wrote to the Federal Reserve and Treasury urging scrutiny of the AIG bonus plan. Kanjorski told the Associated Press that he had tried to alert both the Obama administration and AIG to the likely public reaction. The congressman's concern was not to stop the bonuses, but to manage the release of the news carefully because otherwise "all hell would break loose." He warned, "We should take every step to put that information out there so we wouldn't have the shock."

In passing the Obama stimulus plan in February, the Senate voted for language revoking bonuses for companies that had benefited or would benefit from the first $700 billion Wall Street bailout.

In the closed-door House-Senate conference where the final draft of the stimulus bill was written, a provision was substituted, allegedly written by Senator Christopher Dodd, a Connecticut Democrat, that any restrictions on bonuses "shall not be construed to prohibit any bonus payment required to be paid pursuant to a written employment contract executed on or before February 11, 2009."

This language was crafted to exempt AIG and other financial giants that had taken money from the first $350 billion doled out under the Bush administration. Dodd, who repeatedly denied authoring the provision, is chairman of the Senate Banking Committee and the largest recipient of campaign contributions from AIG and its employees over the past 20 years.

It is in this context—of brazen corporate looting of public funds and slavish acquiescence by federal officials, both Democratic and Republican—in which Obama's efforts Wednesday to manage the public relations crisis should be understood.

The initial position of the White House was to flatly reject any effort to revoke the bonuses, on the grounds that they were contractual obligations of AIG that the company was legally bound to honor, a claim reiterated by chief economic adviser Lawrence Summers in several appearances on last Sunday's television talk shows.

The public response to this was so hostile that the president himself had to go before the press Monday to declare his outrage, although the emotion was so obviously feigned that Obama, after coughing, made a cynical joke about how he was "choked up" with anger.

On Wednesday Obama made a longer statement to the press corps as he left the White House for a series of campaign-style appearances in California. He appeared side-by-side with Summers, Geithner and Christina Romer, chairwoman of the Council of Economic Advisers, on the White House lawn, and reiterated his confidence in Geithner's management of the Wall Street bailout.

After rebuking his Republican critics for "feigning outrage about these bonuses" after years of rejecting any limitations on executive pay, Obama reiterated the position that he was doing his best to save the profit system: "The point that I've been trying to make consistently has been that we believe in the free market, we believe in capitalism, we believe in people getting rich, but we believe in people getting rich based on performance and what they add in terms of value and the products and services that they create."

The first assertion—the declaration of loyalty to the capitalist system—is the only thing Obama said that is unreservedly true. The attempted qualification, that he believes "in people getting rich based on performance and what they add in terms of value and the products and services that they create," only demonstrates the combination of intellectual charlatanry and outright ignorance that characterizes official American politics.

Capitalists do not add value and do not create products and services—that is done entirely by the working class, through its labor. Capitalists do not "create" jobs, as the American media presents it. Rather, working people, through their labor, create all the wealth of society, the bulk of which is appropriated by the capitalists, in the course of the production process, and realized as profit.

There is growing concern on the part of the ruling class that even half-hearted and tepid criticism of the worst features of capitalism, which Obama finds politically necessary under conditions of raging economic crisis and mounting social misery, could have dangerous consequences.

Thus the *Washington Post,* in an editorial Wednesday, criticized "AIG's demagogic critics in both parties," calling their outrage "belated" and noting that "the compensation plan has been public information for a year." The editorial bemoaned Obama's decision to "join this opportunistic chorus rather than resist it," and warned that the backlash over AIG could disrupt the ongoing financial bailout.

"With hundreds of billions of dollars in necessary repairs to the financial system still to come, Mr. Obama must find a way to explain those costs in terms that neither inflame the public nor insult its intelligence," the newspaper concluded.