Democrats prepare to ditch AIG bonus bill

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Within days of the overwhelming passage by the House of Representatives of a bill imposing a 90 percent surtax on bonuses awarded by the insurance giant American International Group (AIG) and other firms that have received government bailout money, the Democratic leadership in both the House and the Senate have signaled they will drop the measure.

On Tuesday, House Majority Leader Steny Hoyer said, "If the [AIG bonus] money is returned, the legislation may no longer be necessary." This followed the previous day's announcement by New York Attorney General Andrew Cuomo that 15 of 20 top AIG executives had returned their bonuses.

On the Senate side, Majority Leader Harry Reid on Monday said the chamber would delay consideration of its version of the House bill until sometime next month—supposedly to allow Republicans more time to study the legislation.

The turnaround follows statements by President Obama and top administration officials over the last several days distancing themselves from the congressional bills and reassuring the financial elite that they will impose no serious limits on executive compensation in return for the continuing flood of taxpayer money to the largest financial institutions.

The congressional stand-down on the executive bonus legislation demonstrates the political dictatorship wielded by finance capital through two parties that are utterly subservient to Wall Street. The outrage of millions of Americans—suffering under soaring unemployment, wage cuts, foreclosures and the loss of retirement savings—counts for virtually nothing when set against the insistence of a miniscule financial elite that they suffer no diminution of their vast personal fortunes as a consequence of an economic catastrophe of their own making.

The servility of Congress was on full display at a hearing on the AIG bonuses held Tuesday by the House Financial Services Committee at which Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke, joined by New York Federal Reserve Bank President William Dudley, testified.

The hearing provided a fittingly anticlimactic end to the week's political theater. Responding to growing public outrage over executive compensation at bailed-out firms, congressional leaders of both parties as well as President Obama last week feigned outrage and hypocritically criticized the AIG bonuses.

Since September, AIG has received four separate infusions of government funds totaling $173 billion. Yet this month it paid at least $165 million in "retention bonuses" to executives and traders, including those in its Financial Products Division which was responsible for the firm's vast overleveraging in credit default swaps.

In response to the House bill passed last Thursday, Wall Street and the media launched a vicious counterattack, with the banks and financial firms threatening to boycott the Obama administration's bank rescue programs and allow the economy to crash should any serious restrictions be placed on the executives' "right" to award themselves enormous compensation packages.

According to a *Wall Street Journal* report Tuesday, major finance industry executives had already launched a furtive campaign of sabotage against the Obama administration's plan to put banks that had received bailout funds through "stress tests." These are supposed to determine whether the banks require further infusions of taxpayer cash in return for a bigger government equity stake in the firms.

The *Journal* reported that when administration officials contacted bank CEOs over the weekend to ask for their support for the new plan, announced Monday, to offload the banks' toxic assets, "Some bankers say they turned the conversations into complaints about the anti-bonus crusade consuming Capitol Hill. Some have begun 'slow-walking' the information previously sought by Treasury for stress-testing financial institutions..."

Brought to heel, President Obama and top administration officials made clear on Sunday that they opposed the House bill and stressed that the new bailout measure would include no limits on executive compensation.

It was against this backdrop that the House Financial Services Committee questioned Geithner and Bernanke on Tuesday. The hearing was held not to reveal the extent to which Wall Street has funneled hundreds of billions of dollars in taxpayer funds into the bank accounts of wealthy executives and traders, the complicity of government officials, or the real roots of the economic crisis, but rather to provide a measure of political cover for all those involved in these activities, including the bankers, the regulators and the congressmen themselves.

The committee chairman, Barney Frank (Democrat of Massachusetts), called the hearing, ostensibly on the AIG bonuses, to provide Geithner and Bernanke with a platform to push their demand for Congress to grant the Treasury and the

Federal Reserve broad new powers to rescue collapsing non-bank financial institutions such as AIG.

In his opening statement, Frank declared his support for the proposal. "We need to give somebody, somewhere in the federal government... the power to do what the FDIC (Federal Deposit Insurance Corporation) can do with banks," he said.

Bernanke told the committee, "If a federal agency had had such tools on September 16 [the date in 2008 when the Federal Reserve purchased a nearly 80 percent stake in AIG], they could have been used to put AIG into conservatorship or receivership, unwind it slowly, protect policyholders, and impose haircuts on creditors and counterparties as appropriate."

The claim that the AIG collapse was caused by a lack of regulatory authority is self-serving. In fact, the federal bodies with powers to monitor the financial industry—including the Securities and Exchange Commission and the Federal Reserve—not only turned a blind eye to the financial skullduggery of AIG and scores of other firms, they actively encouraged it.

The media had hyped the hearing as a forum where Geithner and Bernanke would be "grilled" by outraged congressmen. In the event, there were only a handful of pointed questions.

Frank himself is a longstanding ally of Wall Street and one of the top congressional recipients of campaign funding from the finance industry. He played a critical role in congressional passage of the original Troubled Asset Relief Program (TARP) in October of 2008. He claimed at the time that TARP would avert economic suffering for millions of Americans by handing over hundreds of billions to the biggest banks.

The committee members as a whole have received millions of dollars in campaign funds from Wall Street firms while participating in junkets and receiving other favors from banking industry lobbyists.

Frank's obsequiousness before Bernanke and Geithner stood in stark contrast to threats he made at the outset against a small group of protesters who attended the hearing, carrying signs with slogans like "Where's my pension?" Frank told the group if they attempted to "disrupt" the proceedings by holding up signs they would be removed. Later, he interrupted testimony to threaten them with police removal.

Democratic Representative Paul Kanjorski of Pennsylvania raised the likelihood that Obama would turn to Congress for approval of new funds to bail out Wall Street. Geithner did not deny the possibility. "It's our obligation to protect the financial system," he said. "If that required more resources, it would be our obligation to come to you."

Kanjorski warned, "It's not going to be an easy lift on behalf of the Congress."

Among the Democrats, Geithner faced his most critical questioning from California Congressman Brad Sherman, who cultivates the image of a populist opponent of the Wall Street bailouts—despite receiving nearly $170,000 in campaign donations from the finance industry in the 2008 election cycle alone.

Sherman admonished Geithner that it was the duty of his office to restrict executive compensation at bailed-out firms. He demanded to know if Geithner would publish a list of pay packages for executives at other bailed-out firms.

"You're right, this goes well beyond AIG," Geithner conceded. But he refused to commit to providing such a list, saying only that he would "reflect on the suggestion you made." There the matter ended.

Most of the more pointed questions came from the Republican committee members, who raised the question of the "moral hazard" of government intervention into the markets and concerns about the effects of the bailouts on "free market" competition. This they coupled with denunciations of any limits on executive pay.

As for the AIG bonuses, the hearing produced no new revelations. Geithner continued to claim that he knew nothing of the bonuses until March 10. This in spite of published reports in major newspapers such as the *Wall Street Journal* documenting that his aides—both when he served as president of the New York Federal Reserve and since becoming treasury secretary—discussed, approved and helped to draft the AIG executive bonuses.

Bernanke said that he was aware of the AIG bonuses, but claimed that Federal Reserve attorneys had told him he had no ability to block their disbursal. Geithner and Bernanke both argued that the AIG bonuses were contractually guaranteed, and therefore could not be touched.