AIG seeks to pay $235 million in bonuses

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American International Group (AIG), the credit insurer that has received more than $160 billion in US government funds, last week requested government approval for paying out $235 million in bonuses to its top employees.

When, in March of this year, AIG announced that it planned to pay over $165 million dollars in bonuses, a public outcry arose. On March 19, the House of Representatives overwhelmingly approved a measure to tax executive bonuses at companies receiving TARP assistance. The bill stalled in the Senate after Obama came out against it.

In lieu of any caps on executive pay, the Obama administration appointed Kenneth Feinberg, a Washington lawyer, to oversee and approve the compensation practices affecting the top 100 employees at the seven largest firms receiving bailout money from the government.

The appointment of Feinberg is by no means a genuine effort to rein in compensation at the bailed out companies. Rather, it is designed to give the veneer of oversight while allowing multi-million dollar compensation schemes to continue. In any case, those firms that repay their nominal obligations to the government escape completely free of oversight, and this is exactly what the government is helping these companies do.

Obama responded to the initial bonus announcement with the words, "[I]t’s hard to understand how derivative traders at AIG are warranted any bonuses, much less $165 million in extra pay. How do they justify this outrage to the taxpayers who are keeping the company afloat?"

But he himself did more than anyone to stop legislation setting explicit limits on executive pay, and it is his government that is now in discussions with companies like AIG over how to sneak in multi-million dollar bonuses with the least public outrage.

This news comes amid reports that Goldman Sachs and other banks are preparing to pay their largest-ever bonuses this year (See: “Record bonuses at bailed-out banks”).

Goldman, along with most of the large banks that received cash from the government's Troubled Asset Relief Program (TARP), paid back their loans last month, seeking to get out from under even the most token restrictions imposed by the government as a condition for providing loans.

But, under the terms of the bailout, the banks cannot be fully free of government restrictions until they buy all US government claims on their stock, known as warrants. Several banks have already bought back these warrants together with their TARP repayments, although the larger banks have thus far held out.

The Congressional Oversight Panel, the body assigned by Congress to oversee the bank bailout, reported Friday that the government received far less money for these warrants than they were worth. The panel sampled a group of small banks and found that, on average, they bought back the warrants at two-thirds their estimated value. The panel predicted that if current practices continue, the banks would end up paying the government $2.1 billion less than it is entitled to.

But even this is not enough for the biggest banks. The *Wall Street Journal* reported Friday that the vast majority of offers to buy back warrants were rejected by the Treasury as being too low even by its own lenient standards. This has drawn loud protests from executives, particularly JPMorgan Chase CEO Jamie Dimon, who complained about the warrants when he met with Treasury Secretary Timothy Geithner last week. The journal reports that some banks have even called for the government to give back the warrants free of charge.

Congress mandated that the Treasury should receive warrants whenever it purchased bank shares. These warrants were designed to convince the public that taxpayers would benefit if and when a bank recovery occurred. But now that the banks are once again profitable, they are scrambling to buy them back as fast as possible. It should be noted that the warrants, currently valued at $4-15 billion, are tiny in comparison to the size of the whole federal bailout program, which the Congressional Oversight panel mentioned above estimated at $4-5 trillion.

Additionally, the Treasury announced Wednesday that it would dramatically scale down the size of its toxic asset repurchasing program. A number of financial institutions, chiefly Pimco, one of the plan's key supporters, have backed out, citing the fact that they stand to make far less money on the program now than before.

The program, known as the PPIP or Public-Private Investment Program for Legacy Assets, has as its basic premise that assets held by the banks are worth far less than their reported values. During the height of the financial crisis, it represented a huge handout for the banks, entailing a complex web of subsidies and insurance schemes that made sure that the government would take the majority of losses, and the banks would keep the majority of profits.

Now, when stocks and bank profits have rebounded, the banks figure that they can get a better deal by holding onto the securities and selling them on an inflated market. The unstated assumption of the banks is that they will get paid dollar for dollar on the assets, either because a new credit bubble will reflate their values, or, in the event of another crash, the government will compensate them dollar for dollar.

In all of these developments, the Obama administration is operating with one goal in mind: to maximize the profits of Wall Street, no matter what the cost to the rest of society. During the height of the crash, the White House funneled as much cash into the banks as it could get away with. Now, when the banks stand to make record profits, they want to get them free of nominal obligations to the government so that taxpayers get none of the profits and top executives are free to pay themselves the biggest bonuses in history.