

Another Congressional whitewash

Geithner stonewalls in AIG bailout hearings

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29 January 2010

In testimony given Wednesday before the US House Committee on Oversight and Government Reform, Treasury Secretary Timothy Geithner stonewalled over his role as New York Federal Reserve president in withholding crucial information about the banks that would benefit from the \$85 billion bailout of the giant insurer, American International Group (AIG).

Geithner testified along with former Treasury Secretary Henry Paulson and other officials at hearings that focused on the recent disclosure that the New York Federal Reserve advised AIG to hide from public view the treasury's enormous payoffs to the insurers' counterparties—including Goldman Sachs—at 100 cents on the dollar.

The government's first bailout of AIG, undertaken in September 2008, proved insufficient to shore up the company, and in November of the same year the Bush administration, in conjunction with Geithner and Ben Bernanke of the Federal Reserve Board, decided to buy up securities AIG had insured. In March of 2009, it was revealed that the government had paid for these securities at 100 percent of their face value, refusing to bargain for a better deal even though the banks who owned them would be paid next to nothing in the event that AIG defaulted.

Since then, more details have emerged that point to a conspiracy of the New York Federal Reserve to channel taxpayer funds into the biggest Wall Street banks.

Earlier this month, the press obtained emails showing that New York Federal Reserve officials told AIG personnel to keep the Securities and Exchange Commission in the dark about who ultimately received the \$27.1 billion in payments. This week, Neil Barofsky, inspector general of the bank bailout, said he will launch his own investigation of the New York Federal Reserve's gag order, which also prevented AIG

from cooperating with his office.

The New York Federal Reserve has refused to reveal the details of the transactions—including what clients were ultimately compensated in the program—until 2018, claiming that secrecy would increase the value of the securities.

The hearing, held under the pretext of “investigation,” was in fact a cover-up and whitewash of Geithner's actions. There is no dispute that Geithner was intimately involved in the entire Wall Street bailout from its inception, and there can be little doubt that he was involved in the decision to hide the details of the AIG bailout from the SEC.

The hearing was called by Committee chairman Edolphus Towns, a Democrat, after Darrell Issa, the ranking Republican on the Committee, released emails showing the New York Federal Reserve told AIG to hide details of the bailout from the Securities and Exchange Commission.

Republicans have used Geithner's probable involvement with the cover-up to put the Democrats on the defensive, maneuvering them into the position of public defenders of Geithner's criminal actions and the bank bailout as a whole.

In fact both Democrats and Republicans favored the bank bailout. Issa's publication of the emails was fully motivated by political considerations. The aim of the Republicans is to weaken the Democrats by denouncing Geithner, without exposing the underlying criminality of the bailout itself.

In his testimony, Geithner vigorously defended the bailout, saying that the New York Federal Reserve had no choice but to pay the whole amount and fully compensate AIG's counterparties. He said that if the government had made any reductions in payments to AIG's clients and creditors “there would have been a

downgrade in AIG's ratings, the firm would have collapsed," and "thousands of more factories would have closed their doors, millions of more Americans would have lost their jobs." "Utter collapse. I don't know a better way to say it than that," he added.

This was exactly the argument that Bush administration officials, congressional Democrats, and then-presidential candidate Barack Obama made at the time the Troubled Asset Relief Program (TARP) was forced through Congress—only then they claimed the bank bailout would avert mass layoffs and "open up the spigot" for loans.

Now, with unemployment over 10 percent and foreclosures and bankruptcies at record levels, Geithner and Obama—who made a similar argument in his State of the Union address on Wednesday—have been reduced to telling Americans, "it could have been a lot worse."

Despite his critical role in the bank bailout, which was then celebrated in the press and paved the way for his selection as treasury secretary, Geithner claimed in his testimony that he took no part in the day-to-day running of the New York Federal Reserve after he was nominated by Barack Obama on November 24, and that therefore he played no role in the decision "regarding what to disclose about the specific financial terms" of the bailout.

He also repeatedly denied that the New York Federal Reserve took into consideration the financial soundness of AIG's counterparties in making his decisions, saying, "We did not act to protect the financial interests of individual institutions."

Geithner's inability to answer the most basic questions in the hearing and his incredible claim that he knew nothing about the details of the AIG disclosure point to the underlying criminality of the whole bailout. The 'shadow bank bailout' of AIG's counterparties, including Geithner's cronies at Goldman Sachs, is of a piece with the entire scheme—the transfer of immense social wealth to the same Wall Street speculators largely responsible for the economic crisis.



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