Bailed out in 2008 crash, AIG now out of government oversight

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The insurance giant American International Group (AIG), which was at the centre of the financial meltdown of September 2008, has been taken off the "too big to fail" list. This is another move by the Trump administration to cut back even the limited regulation introduced in the wake of the crisis.

The collapse of the investment bank Lehman Brothers is the event most closely associated with the meltdown. However, it was the subsequent impending demise of AIG which led to the direct intervention by the Fed and the US government to bail out the banks and finance houses.

Such were its connections with the entire financial system, mainly through the use of derivatives, that there were fears that had AIG gone down it would have taken the global financial system down with it. This was summed up in President Bush's remark, "this sucker's going down."

On Friday, the Financial Stability Oversight Council, the body that decides which non-bank financial companies are "systemically important," decided to remove AIG from its list. The vote, carried by six votes to three, came after what the *Financial Times* were bitter divisions on the council.

AIG, which was bailed to the tune of $185 billion in the financial crisis, came under the jurisdiction of the council in 2013 as part of the limited regulations introduced by the Obama administration. Trump appointees to the committee, including Treasury Secretary Steven Mnuchin, were supportive of AIG's submissions that it be taken off the list. They also received backing from Fed chairwoman Janet Yellen who was involved in the supervision of the bank following her appointment by Obama in 2014.

The decision is a significant one, not only for AIG, but for the administration of the financial system as a whole. It follows Trump's order last April for a review of the FSOC's powers.

The *Financial Times* commented: "The decision makes the insurer arguably the biggest winner to date in the Trump administration's drive to deregulate the US economy, liberating the group from proposed capital surcharges and other restrictions on its business."

The decision came after intense lobbying by the so-called "activist investor" Carl Icahn, who had been pushing for the removal of the "systemically important" designation since he acquired a significant stake in the company two years ago. Icahn is now its fourth-largest shareholder, according to calculations by Bloomberg, with almost 5 percent of the stock.

Previously, Icahn had sought to have the company broken up in order to have the designation removed. But he backed off those demands earlier this year, coinciding with the coming to power of the Trump administration, as AIG became more confident that restrictions would be removed. At one point Icahn was a special adviser to Trump on regulations, only quitting the post in August as a result of questions about potential conflicts of interest.

The position of Icahn was only one expression of the incestuous relationships which characterise the administration of the financial system. A meeting of the FSOC last week broke down without agreement because of a dispute over how to deal with the non-vote by the Securities and Exchange Commission chairman Jay Clayton.

Clayton was recused because he had previously worked for a law firm that has ties to AIG. The dispute centred on the stipulation that decisions by the FSOC require a two-thirds majority—that is a vote of seven out of a membership of ten. However, the treasury argued that with Clayton's recusal there were now only nine votes, thereby reducing the threshold for the removal of the designation to six.

The argument advanced by treasury officials was that AIG was a very different company from that which required the bailout in 2008. While it has been forced to divest itself of some of its asset holdings, AIG has the immediate goal of getting bigger now that the FSOC restrictions on its activities have been lifted.

Up to now, AIG had been pursuing share buybacks to maintain its market value but the new CEO Brian Duperreault, who took office in May, has made it clear he wants to pursue mergers and acquisitions. Last month in a conference call, he said AIG had "lots of potential" for growth through deals or organic expansion.

The decision to remove the "too big to fail tag" from AIG brought a protest from Democratic senator Elizabeth Warren who likes to pose as an opponent of Wall Street.

Warren said the decision showed once again "that the Trump administration cares more about rewarding Wall Street executives that protecting Americans from another financial crisis. AIG got a $180 billion taxpayer bailout less than a decade ago and, without proper oversight it still remains a huge and interconnected company that could bring down the financial system again."

These protests are aimed at trying to create the illusion that legislation and regulations implemented under the Obama administration have somehow lessened the risk of another financial meltdown. In fact, the changes have proved at most a minor inconvenience, as evidenced by the nearly 300 percent rise in the stock market since its low point in March 2009, most of which took place under Obama.

Warren's specific warnings about AIG are beside the point. It is highly unlikely that a new financial crisis will take the same form as in 2008. But all the objective conditions which led to that crisis are developing within the present situation—most sharply expressed in the rise and rise of the stock market and its ever-widening divergence from the state of the real economy.

Notwithstanding Warren's "protests," the AIG decision, which gives it the green light to resume the kind of speculative activities that led to the 2008 meltdown, is yet another expression of how the US financial system functions by and for the ruling financial elites, administered by the two parties of Wall Street.