

THE CASE OF AIG

We, The People, Demand Answers!

by John Hoefle

Jan. 15—With every passing day, the glaring gap between the economy in which most of us live, and the fortunes of Wall Street, grows larger. The world we live in gets bleaker and meaner by the day, while the bankers claim record profits, and record bonuses. We are told, repeatedly, that the return of these profits is a sign that the economy is recovering, and that we will all benefit soon. No one believes it, not even the idiots saying it. But they say it anyway, as if daring us to disagree.

The argument is plantation economics. In essence, only if the folks in the big house have more food than they can eat, will there be crumbs left over for us slaves. We're supposed to starve quietly, waiting for our turn—the turn that never seems to come.

We expect that sort of behavior from the bankers. Lloyd Blankfein of Goldman Sucks described the raping and pillaging of the economy his firm does so well, as “God’s work,” and Jamie Dimon of JP Morgan Chase openly expressed his annoyance at the “constant vilification” the bankers receive for stealing us blind. Such arrogance! In Dimon’s view, it appears, our resistance to being led into the slaughterhouse is being “uppity.”

What we didn’t expect, or, more precisely, shouldn’t have to expect, is the sleazy and even criminal role being played in this affair by our own government, a government which has sold us out, every step of the way. It had to be done, they tell us, as they launch into their litany of excuses. When we complain, they insist

that their hands were tied, that they lacked the legal authority to do this or that. But somehow, those limitations only affected moves that could have protected *us*. When it came to saving the bankers with our money, somehow the authority—legal or not—was always found.

The AIG Bailout

By now, most Americans are familiar with American International Group, or AIG. After all, we own it, thanks to one of the most corrupt financial schemes ever run by our government, and the Federal Reserve.

The U.S. government and the Federal Reserve have poured some \$180 billion into AIG thus far—more than the company was worth in the market before the crisis, and far more than its ugly carcass is worth today. Interestingly, even though the public now owns some 80% of AIG, we have little say in how it is run, thanks to the way the bailout was structured. We suspect that more is being protected at AIG than meets the eye, but buried bodies have a way of surfacing over time, especially when there are vigorous investigations.

What we can say about AIG with certainty is that the decision to bail it out came at a point when the bankers and their regulators were terrified that their entire system was vaporizing in a chain-reaction collapse. This was in September 2008—little more than a year after Lyndon LaRouche had announced that the system was dead.

The system was indeed coming unglued. Fannie Mae and Freddie Mac were taken over by the government on Sept. 8, and the next weekend Lehman Brothers failed. On that same day, Sept. 15, Bank of America agreed to buy Merrill Lynch on an emergency basis, and the next day, the government took control of AIG. On Sept. 22, the Fed allowed Goldman Sachs and Morgan Stanley to convert to bank holding companies so that they could access the Fed's bailout facilities; Warren Buffett pumped \$5 billion into Goldman Sachs, and Japan's Mitsubishi UFG gave Morgan Stanley \$9 billion. Washington Mutual failed and was sold to JP Morgan Chase on Sept. 26. During the week, the Treasury moved to guarantee money-market mutual funds, and, with the Fed, demanded that Congress pass the TARP bailout program. Money was being thrown at the banks hand over corrupted fist, in the hope of stemming the panic and stopping the run on the system.

This is the environment in which AIG was taken over by the government and used as a vehicle through which to funnel even more money into the banks. What a funnel it was! Largely through the trick of paying off AIG's credit default swap obligations (CDOs) at 100 cents on the dollar, the government and AIG managed to give some \$96 billion to a group of zombie banks, domestic and foreign. Goldman Sachs led the pack with \$13 billion, while Société Générale, Deutsche Bank, and Bank of America/Merrill Lynch got \$12 billion each. Britain's Barclays got \$8 billion.

This massive, multi-front government intervention, with its huge influx of liquidity, and its assurance of more to come, if necessary, did indeed break the panic and stop the run. It did not solve the underlying problem—in fact, it made it worse—but the effective transfer of private losses to the public purse did stop the run.

Was It Legal?

In the large, the answer is no, because in sacrificing the welfare of the citizens of the United States to bail out the British imperial monetary system and its allies on Wall Street, the government violated the General Welfare clause of the Constitution, the highest law of the nation. It was an un-Constitutional act, and therefore was, and remains, illegal.

We should note here, that when we say government, we generally include, by implication, the Federal Reserve. Many people believe that the Fed has acted as a virtual arm of the government in this crisis, but that is

not the case. What has happened instead, is that the government has been operating on behalf of the same system that controls the Fed, the global central banking/monetary system which lies at the evil center of the British Empire. The government did not capture the Fed, the Fed captured the government. The Fed was already un-Constitutional, and the government joined it.

But nobody pays much attention to the Constitution these days, especially in a banking crisis. The lawyers were heavily involved in these matters, as they always are, but their job was not so much to determine whether an act was legal, as to construct a legal argument which gave the appearance of legality to what the bankers and regulators wanted to do.

In the AIG case, this took the form of the Federal Reserve Bank of New York—then headed by Tim Geithner—ordering AIG to break U.S. securities law. At least, that is how it appears, based on e-mail traffic released to the public by Rep. Darrell Issa (R-Calif.). The e-mails show that the New York Fed actually edited a document that AIG had filed with the Securities Exchange Commission (SEC) on Dec. 24, 2008, removing references to the 100% payout on the CDOs. Although the SEC privately objected to this seemingly illegal act, and ultimately forced AIG to disclose the information in March 2009, the SEC allowed that filing to remain secret.

This raises a host of questions which must be answered. What right does the New York Fed, a private institution, have to interfere with a public company, AIG, in the filing of public documents as specified by U.S. securities law? Did our current Treasury Secretary, the same Tim Geithner who ran the New York Fed at that point, have a role in this apparent flagrant violation of the law? What right does the SEC have to collude in this by making the filing private? Do we, the public, as owners of AIG, not have the right to know what is being done in our name, with our money?

There are lots of other questions to be answered, as well. Such as: What is the relationship between AIG as an insurer/reinsurer, with the HMOs being protected by Obama's Nazi health-care plan? What other laws have been broken, in the haste to ram an un-Constitutional bailout down the throats of the American people?

These questions require answers, which means the nation requires serious investigations designed to uncover the truth and punish the guilty. We, the people, demand it, and we're going to get it. No more coverups!

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Status of the AIG Investigation

Jan. 18—The scandal over the American International Group’s payment of 100% compensation to counterparties holding credit default swaps, using monies received from the Federal government, and the role that the New York Federal Reserve (and/or other parties) played in advising AIG to withhold information about those payments, has created a “make or break” situation for the Obama Administration, particularly Treasury Secretary Timothy Geithner, in the view of Lyndon LaRouche.

It was the release of e-mails between AIG and the New York Fed, received by Rep. Darrell Issa (R-Calif.), the ranking member of the House Oversight and Government Reform Committee, by subpoena, that touched off the current round of investigations. The e-mails span the five months starting in November 2008, and include requests from the New York Fed for AIG to withhold documents and delay disclosures in its mandated filing with the Securities and Exchange Commission.

Geithner’s Role

As chairman of the New York Federal Reserve at the time, Geithner clearly had overall authority for this behavior, although he has denied any involvement in what appears to be patently illegal advice to AIG to lie. However, in an interview with CNBC TV on Jan. 14, 2010, Geithner fully endorsed the actions which AIG was being advised to cover up—the payment of 100% book value of the toxic credit default swaps to major banks such as Goldman Sachs, Deutsche Bank, and others.

The House Oversight and Government Reform Committee, chaired by Rep. Edolphus Towns (D-N.Y.), has ordered the Federal Reserve Bank of New York to provide Geithner’s e-mails, phone logs, and meeting notes with regard to AIG, to be delivered Jan. 19. The subpoena also demands all documents related to the New York Fed’s decision to fully reimburse banks that bought credit default swaps from AIG, and efforts to persuade AIG to keep the information secret. Towns

has scheduled a hearing for the principals involved—including Geithner, former Treasury Secretary Hank Paulson, and Federal Reserve Chairman Ben Bernanke.

Comparison to Enron

While *EIR* is still conducting its own investigation, a lawsuit filed in 2009 against AIG, in the Los Angeles County Superior Court of the State of California, provides a picture of AIG’s activities which points to its character as an ongoing, Enron-like criminal enterprise, which is now controlled by the U.S. government. The suit, which demands a preliminary injunction, includes the following charges:

“AIG merged the funds, stocks, and bonds of the insurance companies it controls into a hedge fund and then speculated wildly with other people’s assets in ways that fall well outside applicable regulations. AIG took on financial obligations in the form of support agreements, guarantees, and investment insurance obligations known as credit default swaps that far exceeded the ability of AIG to pay. AIG entered into fake insurance agreements for the purpose of removing obligations from the financial statements of its insurance companies to give the false impression the companies were financially sound. Finally, AIG issued financial statements in the name of its insurance companies to their California policyholders that misstated material facts and omitted material facts.

“As was admitted by the man who became AIG’s Chief Executive Officer after its financial collapse, Edward M. Liddy, AIG was made into an ‘internal hedge fund’ that was ‘substantially overexposed to market risk.’ Plaintiffs who purchased conservative annuities with death benefits did not sign up for the risks they were forced to take by AIG’s dishonest management.

“Under the umbrella of a massive, clandestine hedge fund operation, defendant companies have support agreements between them where they essentially agree to pay obligations for each other, unlawful reinsurance contracts with each other with insufficient assets to cover the exposure, issue ‘guarantees’ to affiliate companies without booking the liability in a lawful and transparent way, and have insufficient capital to meet the obligations of the reinsurance and/or guarantees, and engage in unlawful financial ‘window dressing, among other unlawful practices.”

—William Wertz