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Will AIG Scandal Trigger New 'Pearl Harbor' Reaction?

by John Hoefle

March 20—The United States was hit with a heavy blow at Pearl Harbor in December 1941, one its enemies expected to be decisive. What happened instead, is that the American people got mad, and channelled that anger into defeating the Japanese. That same American spirit is again rising to the fore, as the nation grapples with an assault of a different sort.

This time the enemy—the British Empire—did not send waves of bombers, but waves of bankers, carrying payloads which, in many ways, are just as deadly as the bombs. These "bombs" were the financial instruments known as derivatives, which were used to turn the global financial system into a giant casino. Resources that should have gone into improving our infrastructure and physical productivity were diverted into the casino, making the bankers and other speculators rich, while the rest of the population suffered. The rich got richer, and the nation got poorer.

The public put up with this for far longer than it should have, seduced by the promises of wealth to come, the easy availability of credit, and the lure of something for nothing. But the promises were lies, the wealth an illusion, and the "nothing" turned out to be bills far beyond the comprehension of many among us. It was a classic con job, playing on our greed, and many of us were taken in by the scam.

Now our economy is crashing around us, getting worse day by day. Trillions of dollars of taxpayer money have been poured into the financial institutions that created this mess, yet their demand for funds remains insatiable. To add insult to injury, the firms we have bailed out have paid—and continue to pay—huge bonuses to their employees. And, on top of that, some of these firms have not even bothered to pay their Federal tax bills.

The payment by AIG of some $165 million in bonuses to its derivatives traders—the same guys who blew up the company and have already cost taxpayers close to $200 billion—may be the final indignity. The public is furious, and rightfully so. The real question is whether it will dissipate that rage in mere protest, or channel it into constructive action, as we did after Pearl Harbor.

Political Theater

This public fury already has both Washington and Wall Street scared, but it has yet to make them change their policies. The resulting dichotomy was on display this week in the contrast between the posturing in Congress and the escalation of the bailout by the Federal Reserve.

The posturing was the dominant feature at a hearing by a House Financial Services subcommittee on March 18, featuring AIG CEO Edward Liddy. Congressman after Congressman took turns pounding Liddy and AIG. Democrat Paul Hodes of New York said that AIG stood for "Arrogance. Incompetence. Greed." Another New York Democrat, Gary Ackerman, compared the credit default swap business to two men on a sinking raft in a storm, surrounded by sharks and high waves, with one

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man selling insurance to the other. It's snake oil without the oil, Ackerman said.

Liddy, the former Goldman Sachs director brought in last September to run AIG, tried futilely to defend the indefensible, claiming that the bonuses to his derivatives traders were necessary to keep its $1.6 trillion Financial Products unit from collapsing. "It's not a failed company, it's a failing company unless we do something about it," Liddy ridiculously asserted.

"I know $165 million is a very large number," Liddy testified. "In the context of $1.6 trillion and the money that's already been invested in this, we thought it was a good trade."

However, the very same day this bit of political theater occurred, the Fed was busy pumping even more money into the financial system, expanding its program to purchase mortgage-backed securities by $750 billion, doubling its purchases of agency debt to $200 billion, and purchasing an additional $300 billion of Treasuries over the next six months. Thus, while Congress was posturing over millions of dollars in bonuses, Ben Bernanke's Fed was committing the taxpayer to an additional $1.15 trillion in bailout funds. Since the mid-September 2008 inflection point, the Fed has committed the nation to $11.4 trillion in bailout funds, of which $2.8 trillion has already been spent.

Hyperinflation

"These actions put us on the edge of a hyperinflationary takeoff, like that of Weimar Germany in 1923," said Lyndon LaRouche, referring to the Fed's latest move. "The pumping of money by Bernanke is part of a British operation to sink the United States. Anyone who continues this thing is a traitor to our nation, whether they are witting, or not."

Even among Fed officials, a well-placed source told *EIR,* there is a growing concern that the money-pumping frenzy designed to offset the increasing deflation of financial asset valuations, might instead trigger the hyperinflation of which LaRouche warned.

Our source cited comments made last week by Dallas Fed President Richard Fisher—who has repeatedly voted against the Fed's lowering of interest rates—that he is aware that inflation "could be driven higher" by the increase in its balance sheet, but added that "we will do everything we can to prevent it," and will "unwind the stimulus at the right time." Asked what the Fed would do when it determined that the time was "right," our source said their only tool would be a sharp ratchetting upwards of interest rates.

Fisher had made a pointed reference to Weimar hyperinflation in a speech given in Houston on Feb. 9. "Political considerations . . . and the impulse to override what might have been the purely economic judgments of Germany's central bank led to the hyperinflation of the Weimar Republic and the utter destruction of the German economy," he warned.

Adding further to the hyperinflationary pressure, the Fed kicked off its latest bailout program, the TALF, on March 19. The Term Asset-Backed Securities Loan Facility, is intended to jump-start a new securities bubble by lending money to hedge funds and other speculators to buy newly issued securities. Under the program, which the Fed said could grow to as much as $1 trillion, the Fed will issue "non-recourse" loans to buyers of securities backed by credit-card loans, auto loans, student loans, etc. In the initial action, the New York Fed received requests for $4.7 billion in loans, of which $2.8 billion were for credit-card securities, and $1.9 billion for auto-loan securities. Non-recourse means that the speculators won't have to pay back the loans if they lose money on the securities they buy.

Pecora Commission

In his Congressional testimony, Liddy said that AIG's offices have been receiving death threats, and there have been numerous reports of AIG's offices being besieged by demonstrations, phone calls, and e-mails protesting the bonuses. The bonuses are serving as a lightning rod for public outrage over the bailout policy in general, and AIG's pompous contention that it must honor the bonus contracts do little to mollify a population which is being savagely looted—including by widespread breaking of contracts—to bail out the financial parasites.

AIG itself has been turned into another bailout facility, a conduit for passing more than $100 billion to U.S., British, and European banks, including Goldman Sachs, Société Général, Deutsche Bank, Barclays, HSBC, and others. The bonuses, as outrageous as they are, are trivial compared to the real crimes.

What we need is a new Pecora Commission to thoroughly investigate these abuses, so that the guilty may be prosecuted, and the incompetent purged from office. Getting mad is a good start, but justice, and an assertion of national sovereignty, are what is required.

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