WITH AIG "BAILOUT," DID THE US BECOME A PLANNED ECONOMY TO FIGHT OFF TAKEOVER BY ONE?

In two posts concluding, " the government might find a victory [in AIG's lawsuit] to be more costly than it anticipated," Yves Smith digs out key details from AIG's claims that in September 2008, the US illegally took it over.

I think Smith is intrigued by the additional evidence provided by the AIG complaint that the government took several actions that ensured it could use AIG as a bailout vehicle, including (in her second post), by not asking whether the counterparties would be willing to take a haircut.

> Another stunning new allegation in the "Corrected Proposed Findings of Fact" document is that, in stark contrast with previous claims by the Fed, that only UBS was willing to take a haircut, it turns out the New York Fed only bothered talking to eight of the 16 counterparties (and then as we already know from the SIGTARP report on this issue, using a script that was delivered by junior staffers, as opposed to having Geithner or Paulson call and force them to take a haircut). Moreover, BlackRock, which was advising the Fed, believed that Bank of America and Goldman would be receptive to discounts.

But I'm particularly interested in what Treasury forestalled with its bailout: bailouts from sovereign wealth funds from Singapore, China, and some unnamed Middle Eastern funders. From the first post:

> [The AIG complaint] argues that AIG was forced to take a bailout it didn't need, that all that was required was a bridge loan until it could obtain private financing. That may sound like a howler. AIG was teetering on the verge of failure and needed to get a $14 billion bridge loan on September 16 (a Tuesday, the day after the Lehman bankruptcy) that in a few days rose to $37 billion simply to carry it through the weekend when the terms of the credit facility were finalized.
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> [snip]
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>> 7.6 Defendant directly discouraged sovereign wealth funds from providing liquidity to AIG.
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>> (a) Sovereign wealth funds, including the Government of Singapore Investment Corporation (GIC) and the Chinese Investment Corporation (CIC) expressed interest in investing in AIG (Studzinski Dep. 39:4-40:18, 133:11-19).
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>> (b) Defendant discouraged the CIC and representatives of the Chinese Government from assisting AIG. At 12:25 p.m. on September 16, 2008, Taiya Smith, Paulson's deputy chief of staff and executive secretary, informed Paulson's chief of staff and Treasury Under Secretary for International Affairs David McCormick that the CIC was "prepared to make a big investment in AIG, but would need Hank to call [Chinese Vice Premier] Wang Qishan" (PTX 89 at 1; see also PTX 423 at 15-18). The Chinese "were actually willing to put up a little bit

more than the total amount of money required for AIG” (PTX 423 at 16).

(c) On September 16, 2008, McCormick spoke to Paulson about the Chinese interest in investing AIG (PTX 423 at 16-17). McCormick then told Smith that Treasury “did not want the Chinese coming in at this point in time on AIG” (PTX 423 at 17).

(d) Later that day, Smith met with Chinese Government officials in California during Joint Commission on Commerce and Trade in Yorba Linda, California (PTX 423 at 16). During that meeting, “all [the Chinese officials] wanted to talk about was AIG” (PTX 423 at 17). Smith spent one or two hours explaining what was happening with AIG (PTX 423 at 18). She conveyed the message that Treasury did not want the Chinese to invest in AIG (PTX 423 at 17).

(e) On September 17, 2008, United States Senator Hillary Clinton called Paulson “on behalf of Mickey Kantor, who had served as Commerce secretary in the Clinton administration and now represented a group of Middle Eastern investors. These investors, Hillary said, wanted to buy AIG. ‘Maybe the government doesn’t have to do anything,’ she said” (PTX 706 at 279). Paulson told Senator Clinton, “this was impossible unless the investors had a big balance sheet and the

> > wherewithal to guarantee all of AIG's liabilities" (PTX 706 at 279). (numbered text page 17, PDF page 21)
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> The fact that the Singapore and Chinese sovereign wealth funds both were willing to invest in AIG, and that a separate group of Middle Eastern investors was also pressing to buy in, strongly undercuts the official story that the only way out for AIG was into the Fed's arms. Yes, we don't know exactly how much they were willing to put in and whether that would have been enough to make up the $85 billion size of the initial credit line.
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> But the Chinese statement was a clear general indication that "we're willing and able to go big".

In this telling, the US government bailed out AIG to prevent China (and Singapore and some of our "allies" in the Middle East) from bailing it out.

As Smith points out, there may well be good national security

> Now one can argue there were reasons to turn down these offers. Having the Chinese, or consortium dominated by foreigners, could prove to be ugly. The US, after all, had just put Fannie and Freddie in conservatorship in large measure to reassure the Chinese and Japanese, who were large investors in Freddie and Fannie guaranteed paper, that they would not suffer losses. What if the Chinese government rescued AIG and the black hole turned out to be bigger than anyone though it was?
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> [snip]
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> There is also the not-trivial issue that

> AIG is widely believed to provide legitimate-looking jobs to CIA assets all over the world. Would letting foreigners obtain control put that sort of information at risk?

While Smith believes these issues could have been addressed by having a consortium of foreigners take over AIG, I suspect Treasury would still regard it as having China take over our critical infrastructure. While I don't get the finance bit like Smith does, it seems like having the monopoly insurer of excessive "capitalist" gambling in Chinese hands would have been the equivalent of letting them hold one of Wall Streets' nuts for safe keeping.

Plus, I've long argued that the government had to bail out GM (though not Chrysler) for similar reasons. Had GM gone bankrupt, China would have bought up key parts of it, obtaining the key part of American's manufacturing driver that China hasn't already stolen by spying on DOD.

In both bailouts, I'd argue, the US had to intervene to prevent our biggest rival from basically taking large bites out of the critical heart to our economy, all operating under sound capitalist principles.

To stave that off, it appears — particularly if AIG's claims have any basis in fact, which they appear to — the US embraced a command economy.

None of that's a surprise. We've always forsworn capitalism when national interests dictated.

But given the ideology involved — given that this involved holding off a purported command economy threatening to gut our country using the tools of capitalism — it does seem worth noting.

This is one of the reasons I'm so intrigued by the apparent TREASUREMAPPING of JP Morgan Chase. Someone — it may be the Russians, but this kind of thing is easy to project — is treating JPMC as the ripe critical underbelly that it obviously is. The AIG bailout shows just how vulnerable we really are to such acts.