

Bailouts and bonuses

by The Indianapolis Star

Let us consider the "n" word: nationalization.

It's been said that the federal bailout of financial institutions isn't "heaven forbid" that. But, we were told, it was something akin to putting taxpayer skin into the game.

AIG has been bailed out by the federal government to the tune of about \$170 billion. For that, the federal government is said to "own" about 80 percent of the firm's holding company.

Yet this taxpayer stake translates into so little consideration by AIG that it feels free to give retention bonuses to employees in the very division whose poor judgments were most responsible for the firm's implosion. These bonuses total \$165 million.

The taxpayer stake earns the federal government so little regard that President Barack Obama is reduced to directing his Treasury secretary to hit the law library to see whether there is any way to block the bonuses, which the government knew about earlier than last week, when most of the bonuses were paid.

Maybe nationalization of failing conglomerates violates too many sensibilities. But the anguish being heard over AIG bonuses is a signal that no-strings-attached bailouts aren't any more palatable.

AIG is not a bank but, among its products, it sold derivatives and credit-default instruments “essentially investment insurance for which it didn't bother setting reserves aside before clients' portfolios went kablooeey.

The payoff for the taxpayer in bailouts is supposed to be a functioning financial market. But the public cannot be faulted for perceiving that not only is that outcome up in the air, its money can't even prevent aid recipients from acting less stupidly. Rewarding bad behavior is about as stupid a business practice as can be imagined.

The government says it could seek repayment of the bonuses as a condition of a new round of federal money coming AIG's way. So, taxpayers will be repaying taxpayers?

These bailouts are largely necessary if credit and confidence are to be restored. But these recipient companies need to realize that they can't repay the help with arrogance and then wonder why the public just won't understand about the necessity. And the federal government needs to understand that fiscal responsibility requires those strings attached.

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