



**Your On the  
Street Reporter**



**Uyless Black**

**Epilogue XI to *The Nearly Perfect Storm*:  
The Gall of it All**

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## **Epilogue XI for *The Nearly Perfect Storm* The Gall of it All**

**October 12, 2014**

Hello from Your on the Street Reporter. These epilogues are written on occasion as a follow up to *The Nearly Perfect Storm: An American Financial and Social Failure*.<sup>1</sup>

### **Sidebar (Included in all essays of this series)**

My intent in writing *The Nearly Perfect Storm* and these epilogues is to spark your ire. I began my studies of the 2008 financial crisis with a neutral view of the subject, perhaps skewed toward the financial world, reflecting my former employment at the Federal Reserve and my work as a small business owner. The more I learned about the institutions and individuals that were responsible for the meltdown, the more disgusted I became. I wish this turn of events had not come about. I wish I had found the Great Recession occurred because of a downturn in a conventional business cycle. It did not. So, please read on, but don't expect this aspect of my writings to be light-hearted. On occasion, I will attempt some gallows humor to lighten the load.

Epilogue XI deals with the current controversy about the U.S. government bailout of the American International Group (AIG), an insurance company, during the 2008 financial meltdown.

In *The Nearly Perfect Storm*, I wrote on page 87:

But how did Goldman [Sachs] know the [security] was dangerous?  
Because it had...done its homework. It looked at the mortgages inside the [security] and surmised many were going to default. Then who was this stupid insurer, the party that issued insurance policies against the failure of something that was destined to fail?

It was AIG, the largest insurance company on earth. ... AIG was insuring toxic real estate mortgage bonds [securities] like there was no tomorrow. But why? If AIG had just looked at the contents of the security, it would have been obvious it contained many (dangerously) poor quality mortgages. [But AIG did not look in any detail at the contents!]

Goldman Sachs did its homework. AIG did not. Now, the former so-called leaders of AIG are contesting the actions of Uncle Sam. They claim the takeover of AIG was an unfair and punitive treatment of AIG.

The gall of these incompetent, inept AIG officials---disgraces to doing business in America---is sickening. The excerpt below is from page 134 of *Storm*:

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<sup>1</sup> Available as hard copy and ebooks at Amazon (Kindle), Barnes & Noble (Nook), and other book stores.

A telling example of [risky security] overuse is the company AIG. At the time it was bailed out, AIG held \$440 billion of [risky securities], more than twice the equity positions of any of America's largest banks. [AIG's high-level managers had no clue as to what their underlings were up to.]

Thus far, the government has ploughed in over \$100 billion to keep AIG going. Uncle Sam, prior to this charitable contribution to free markets, did not require AIG (or any other [risky security] issuers) to hold any reserve to pay off buyers of [the securities]. Thus, the AIGs of the world dealt in insurance-type products that were not regulated, or even tracked by the government, which of course, is exactly how the insurance companies wanted it. They were not required to hold reserves or post collateral against [these risky securities].

The reason that saving AIG was so costly was that the government decided to honor all of AIG's [security] obligations, lest defaulting on them plunge many of the company's counterparties (which included major banks such as Goldman Sachs) into insolvency. Goldman got billions out of the arrangement, and shortly thereafter, was solvent enough to pay out millions to its employees as bonuses.

We are unsure who was more incompetent, AIG or Uncle Sam. It is certain the Goldman Sachs staff was happy with the joint ineptness of both parties. In any case:

[AIG]...is suing the federal government for about \$40 billion in damages, asserting that it violated the Constitution's Fifth Amendment by taking control of AIG without "just compensation" for the shares it received.<sup>2</sup>

The company asserts it was treated unfairly compared to other big financial institutions. Such as, say, Lehman Brothers, who Uncle Sam allowed to go bankrupt. If the government had not stepped-in, AIG would have ended-up as a former company, with "no compensation" to anyone.

Aside from the AIG people wanting to finger the wallets of America's taxpayers (Who can blame them? It is the way to do business now-a-days), the system in place today makes a mockery of capitalism, free markets, survival of the competent, permitting failures, and other noble platitudes about America's free enterprise.

The 2008 financial meltdown and its "rescue" should dismiss any gallant notion that America is a free-market, "capitalistic" society. The country is as...oh my god... *tainted* toward socialism as is Sweden. Wall Street banks, hedge funds, and other too big to fail insurance and car companies get more of the bandwidth at the socialistic hog swill than do small businesses and ordinary citizens.

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<sup>2</sup> Marcy Gordon, "Geithner Defends Terms of AIG Bailout," *The Press*, October 9, 2014, B5.

As a small businessman, I am too small to matter. The executives at Goldman, AIG, ad nauseum, stay intact and rich. Their assets...as well as their asses...are protected from paying the fines that have been levied on them. The money is extracted from their shareholders.

No jail time. How does a court send a corporation to jail? In the meantime, the Supremes on the court in Washington, DC tell us corporations have the right of free speech. In the meantime, the AIG Wall Street deadbeats try to (monetarily) recover from their (monumental) incompetence and have access to the Fed's Discount Window to borrow money. In the meantime, average citizens cannot avail themselves of bailouts, and the near-zero interest rate loans from the Fed.

Having made those unemotional comments, I feel better. Next week, I will post something lighter.