AIG's Latest (Fourth) Federal Bailout

For the fourth time in six months, the federal government is giving billions of taxpayer dollars to AIG, following the latter's announcement of a $61.7 billion fourth quarter loss — this despite the massive bailout shoveled AIG's way by the Bush administration last September. By the terms of this latest lifeline ("life support" would be a more apt metaphor, since the patient has been clinically dead for many months), the federal government is extending an additional $30 billion in loans to the former insurance giant and allowing more lax repayment terms on an additional $38 billion credit line from the Federal Reserve.

Make no mistake about it: the AIG bailout monies will never, ever, be repaid. The U.S. taxpayer will shoulder the losses, as well as those stemming from billions more that the Obama administration will doubtless throw at the AIG as it continues its death spiral.

Trying to reassure investors, bankers, politicians, and the American public, AIG Chairman Edward Liddy did his best to put a positive spin on things. "We have made meaningful progress in addressing liquidity issues related to AIG Financial Products and our securities lending activities and have announced several divestitures," Liddy said. "However, the economy and capital markets remain in turmoil and we are taking additional steps to preserve the value of our businesses and maximize the ultimate proceeds for the benefit of all stakeholders, including taxpayers."

Smooth words, but the numbers speak for themselves. In the fourth quarter of 2007, AIG lost a then-considerable $2.08 a share — and that was when AIG shares were trading in the $50 to $60 range. During the fourth quarter of 2008, share prices fell from $4.00 at the beginning of October to about $1.50 by year's end, and are hovering at 45 cents at the time of this writing. AIG's per share loss in the fourth quarter of 2008 was $22.95, and the total dollar amount is the largest quarterly loss ever posted by any corporation in history. And again, this has transpired since the government lavished AIG with well over $100 billion in bailout money.

AIG, be it remembered, is the same corporation that, a few days after the initial government lifeline, spent $444,000 on a sumptuous California retreat and $86,000 for some of its executives to enjoy an English hunting trip.

Yet in spite of the total ineffectiveness of government bailout attempts, Washington politicians seem determined to keep feeding taxpayer dollars to a corporation (once the world's 18th largest) deemed too large and too interconnected with the global financial system to fail. The hard truth is that the global financial system is coming unraveled anyway. The day of reckoning for decades of inflationary excess has arrived at last, and the only thing the unending train of bailouts will accomplish is prolong the pain.

Our political leaders could do with a good dose of wisdom from Bastiat, the French statesman and economist who, more than a century ago, warned of the folly of crafting economic policies based only on the “seen.” All laws produce not one but various economic effects, Bastiat pointed out, some of them seen, and some of them unseen. Good economic policy takes into account not merely the short-term, visible effects of a law (the seen), but also foresees the longer-term, more general consequences (the unseen). “The bad economist pursues a small present good that will be followed by a great evil to come,” Bastiat observed, “while the good economist pursues a great good to come, at the risk of a small present evil.” In man’s “painful evolution” from infancy to maturity, he is taught both by experience and by foresight. Sadly, most politicians focus on the seen and care not a whit for foresight.

In the case of AIG (and all the other bailouts that our government has inflicted on the American taxpayer without so much as a by-your-leave), the *seen* (to emulate Bastiat’s turn of phrase) is the money that pours into the coffers of foundering corporations, staving off receivership, preserving tens of thousands of jobs for the time being, and reassuring jittery investors that the majestic state has the power to exorcise the unruly demons of financial uncertainty. The unseen — far more calamitous and not too far off — is the destruction of wealth that additional trillions of dollars of debt (to be repaid via heavy taxes) will entail, the erosion of confidence as the citizenry watches their government dissipate the savings of the frugal to bail out the improvident, and the fact that most of the large corporations being bailed out (including AIG) are already bankrupt and will fail anyway. In the end, the bailouts and other relief measures will cost far more, both in money and jobs, than would have been the case had market forces been allowed to work properly in the early stages of the crisis.

Photo: AP Images