THE FED AND BONUSES

The WSJ has a detailed chronology of when the Fed started looking at AIG's bonuses. I think it, at times, confuses the AIGFP bonuses that were negotiated in March 2008 with the bonuses that were negotiated after AIG got bailed out (AIG gave retention bonuses to a group of employees that has expanded from 130 to 4700 since September–which I'll return to in a later post). And it makes an even larger error, misrepresenting the main reason AIG kept the AIGFP bonuses, which was that they really felt they needed those employees to stick around (the WSJ focuses only on the legal question, which Edward Liddy has made clear was secondary to the perceived need to keep these people around).

But the WSJ story makes one thing clear: the Fed deliberately avoided discussing bonuses in the context of new bailout negotiations.

> In late January, news outlets reported that AIG planned a total of $450 million in bonuses to help retain employees winding down the complex trades in the unit at the heart of the company's collapse. In the weeks that followed, Mr. Liddy and other AIG officials briefed some lawmakers about the retention payments and other aspects of the AIG rescue.
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> On Feb. 28, as government officials worked on a fourth AIG bailout, the New York Federal Reserve Bank emailed Stephen Albrecht, a Treasury lawyer, laying out the AIG bonus issues and promising further detail, according to two people familiar with the email. Mr. Albrecht did not return a call seeking comment.
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> It was an intense weekend, as Treasury and Fed officials frantically prepared to close the AIG deal. "When we heard there was this executive compensation

> thing floating out there, we thought, ‘We’ll deal with this later,’" said one Treasury official.
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> On March 2, AIG announced both record losses and $30 billion in fresh Treasury aid.

This is appalling not just because the Fed and Treasury put off dealing with the question of bonuses at the same time as they were forcing the UAW to renegotiate its contract as a condition of new aid.

But it also seems to strongly suggest that neither the Fed nor Treasury have ever really questioned AIG’s representation that it needs to keep these finance guys around by bribing them. We learned on Friday that the guy receiving the biggest bonuses–Doug Poling–was the lawyer who crafted the CDS contracts. Don’t you think we ought to determine whether we ought to keep that guy around?