HOUSE OF REPRESENTATIVES,
Washington, DC, March 16, 2009.
Hon. NANCY PELOSI,
Speaker, House of Representatives,
Washington, DC.

DEAR MADAM SPEAKER: This is to notify you formally, pursuant to Rule VIII of the Rules of the House of Representatives, that I have been served with a subpoena, issued in the Superior Court of California, County of Shasta for testimony in a criminal case.

After consultation with the Office of General Counsel, I have determined that compliance with the subpoena is consistent with the precedents and privileges of the House.

Sincerely,
DAVID MEURER,
Field Representative.

The SPEAKER pro tempore. Under a previous order of the House, the gentlewoman from California (Ms. WOOLSEY) is recognized for 5 minutes.

(Ms. WOOLSEY addressed the House. Her remarks will appear hereafter in the Extensions of Remarks.)

AIG: THE REAL STORY

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Florida (Mr. GRAYSON) is recognized for 5 minutes.

Mr. GRAYSON. Do you want to know why AIG went broke, threatening to bring down the whole U.S. economy? It's actually easy to find out. All you have to do is wade through 500-plus pages in the form 10–K that AIG filed 2 weeks ago. It's all in there, and I read it.

Now, derivatives certainly contributed to the problem. That's why the ''stress test'' on Page 178 says that AIG owes $500 billion, yes, $500 billion, if long-term interest rates go up by just 1 percent, as opposed to only $5 billion, according to Page 183, if San Francisco is destroyed in an earthquake. So now we know why the Federal Reserve has been buying long-term bonds just as fast as the Chinese sell them: to keep its ward AIG from being liable for $500 billion, because $500 billion is a lot of money, even to the Federal Reserve.

And to whom would AIG owe that money? The answer is on Page 176. AIG's largest credit exposure, which is 160 percent of its shareholder equity, is to ''Money Center/Global Bank Groups.'' In other words, Wall Street. And almost half of that amount is owed to only five banks.

But the real AIG losses have come not from derivatives but rather from AIG's basic business model. In a news release last Monday, AIG said that it had to make payouts of $43.7 billion to ''securities lending counterparties.'' That's the phrase: ''securities lending counterparties.'' The news release doesn't explain what that is, but AIG's 10–K does.

The standard insurance business model is as follows: You make money from minimizing your claim payments, and you make more money from your investments. Warren Buffett has explained this countless times in Berkshire Hathaway's 10–Ks. It's a stable, steady business. Indeed, AIG's insurance subsidiaries took in premiums, AIG invested them, and AIG paid out on claims.

But that's when things went horribly wrong. According to AIG's 10–K, AIG's parent company sucked the investment assets out of its insurance subsidiaries and lent them to Wall Street and foreign banks in return for cash. AIG then took this borrowed cash and invested it—are you ready for this?—in mortgage-backed securities.

It's not in AIG's 10–K, but the counterparties, that is, its friends on Wall Street, undoubtedly took the stocks and bonds borrowed from AIG and sold them short. That's why institutions borrow securities: to sell them, buy them back later at a lower price, return them, and claim the profit. So as the markets dropped, AIG's counterparties laughed all the way to the bank. Except they are banks.

And what about AIG? According to the first few pages of AIG's 10–K, when the counterparties returned the securities to AIG, AIG had trouble coming up with the cash because, first of all, the mortgage-backed securities market had blown up, and, secondly, the securities that AIG had lent out were actually worth far less at that point. Hence the Federal bailout at $150 billion and counting. And this money, by the way, this money that the Federal Government is giving to AIG, AIG implausibly lists that money as ''shareholders' equity'' and not loans on its own financial statements.

Now, why would AIG do something as convoluted and nutty as this? To goose its profit a few points by counting both the returns on the lent securities and the returns on the mortgage-backed securities both as its profit. In other words, the motive was greed.

Obviously, AIG shouldn't have done this, and no insurance company ever should be able to do it in the future. This is the kind of financial innovation that brings into focus why we need to regulate in order for this country to survive. The choice is not between regulation and freedom; the choice is between regulation and chaos.

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The SPEAKER pro tempore. Under a previous order of the House, the gentleman from North Carolina (Mr. MCHENRY) is recognized for 5 minutes.

(Mr. MCHENRY addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

TURN THIS ECONOMY AROUND

The SPEAKER pro tempore. Under a previous order of the House, the gentlewoman from Minnesota (Mrs. BACHMANN) is recognized for 5 minutes.

Mrs. BACHMANN. Mr. Speaker, I rise today to talk about America's economy and where Americans are at right now. We have seen a lot of trouble over the last 2 years, and it needn't be that way.

We could turn this American economy around next quarter. We could truly bring hope and change to the American people if we would put into place a positive solution that would give people certainty about where they are going to go in this economy, and we can. We know it's possible. It's really fairly simple.

All we need to do is this: we need to get people investing in the economy, and you do that by making incentives for that. I am a former Federal tax lawyer. I have lived this life, I know how it works.

Right now we have a high rate on our capital gains tax. Unfortunately, the Obama administration is looking at increasing that tax. We need to go just in the opposition direction. We need to cut the investment tax called capital gains down to zero. The best thing we could do is make that tax permanent to the investor community.

Let Americans know, if you take your money, and if you put it at risk opening a business, hiring people for jobs, in the next 4 years your risk will be paid off because you will have a 0 percent interest rate. That's capital gains.

If we would permanently lower the capital gains to zero for 4 years, we would have incredible domestic investment, as well as foreign investment. Even better, we can take the business tax rate—the United States today has the second highest business tax rate in the world, 34 percent.

America is not an attractive place to invest money. We can change that. We can go from 34 percent on our business tax and bring that down to 9 percent, make it permanent.

What are foreign investors looking for? A safe haven for investment. They want to invest in the United States, but we have a very punitive investment climate.

If we would bring down that business tax rate to 9 percent, we would be able to bring foreign money into the United States and invest and create jobs. Rather than seeing jobs flee the United States to other countries, we will see them come right back into the United States.

That's what we need now, more jobs, more stability, more certainty. We have had enough with economic uncertainty from 2008 to the present. Let's change that equation. We can have a positive alternative.

First, zero capital gains. Second, lower the business tax rate to be one of the lowest in the world.

Third, cut every American's tax rate down by at least 5 percent. We can do that, and that will help Americans keep more of their money.

Fourth, we need to kill the death tax once and for all. If even one American pays the death tax, it's immoral. Why in the world should Uncle Sam be able to reach in the coffin after death and still try to pull the wallet out of an