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Congress has responded to AIG's second $235 million round of bonuses with silence. | REUTERS

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By LISA LERER | 07/16/2009 04:56 AM EDT

After American International Group paid out $165 million in bonuses to top executives in March, Congress exploded in a political orgy of outrage.

“How do they justify this outrage to the taxpayers who are keeping the company afloat?” asked President Barack Obama.

“Rewarding senior executives who created this mess is nothing short of an outrage,” added House Republican Whip Eric Cantor, one of many Republicans who backed a 90 percent surtax on those bonuses.

And in a radio interview, Iowa Sen. Chuck Grassley, the top Republican on the Senate Finance Committee, suggested AIG executives “do one of two things: resign or go commit suicide.”

But when the news broke late last week about a second, $235 million round of AIG bonuses, the halls of Congress resounded largely with, well, silence.

The almost uniform congressional shrug was particularly notable following the announcement that Goldman Sachs would be setting aside an $11.36 billion compensation pool for its roughly 29,400 employees. The per-worker amount is close to what Goldman paid employees in 2007, when Wall Street was seeing record profits.

“I think people are just picking up on it,” said Sen. Ron Wyden (D-Ore.), whose proposal to cap and tax bonuses was dropped in the last stimulus debate.

In the House, Financial Services Committee Chairman Barney Frank (D-Mass.) and Joint Economic Committee Chairwoman Carolyn Maloney (D-N.Y.) said they were still reviewing the specifics of the payments.

“I don’t want to change compensation, not company by company,” said Frank, who plans to introduce legislation that would change compensation structures so they no longer reward “excessive” risk-taking. “My problem is not the amounts; it’s the extent to which they give the wrong incentive.”

The relative silence has shocked financial services executives, who were preparing for another trip to the political doghouse.

“Our first thought was, ‘Oh God, not again,’” said one financial services executive when the latest AIG bonus news broke. “But it did not rise to that level.”

The issue has died, say lawmakers and lobbyists, for two reasons: Congress is overwhelmed on other major issues and the White House has done a 180-degree turn on the rhetoric. It also doesn't hurt that the stock market has rallied a bit — the Dow is up 2,000 points since it bottomed out in March and rallied a whopping 257 points Wednesday alone.

While some in Congress argued that Goldman owed much of its record quarterly profits to the taxpayer-funded bailout, other members noted that the company had repaid the $10 billion in government funds it borrowed in June.

"As policymakers in Washington, we need to help foster more economic growth through encouraging other banks to follow in the lead of Goldman Sachs and repay their [Troubled Asset Relief Program] investment in a prudent and thoughtful way, because ultimately we will not be able to get our economy back on track if our financial institutions are not successful," said Rep. Mike McMahon (D-N.Y.).

Only a handful of members, including self-described democratic socialist Sen. Bernie Sanders (I-Vt.), criticized Goldman's payments and questioned whether the company also received additional government assistance through the Federal Reserve.

"It concerns me very much … that we are not paying more attention," said Sanders.

In March, the Obama administration echoed and encouraged the heated congressional pushback on the AIG bonuses.

"People are right to be angry. I'm angry," Obama said soon after news of the bonuses broke. "People are rightly outraged about these particular bonuses."

The administration vowed to explore "every single legal avenue available to block" the bonus payments. That type of talk encouraged members of Congress to grab their pitchforks.

"This administration fueled by virtue of their rhetoric a lot of populist anger earlier this year," said Tennessee Republican Sen. Bob Corker. "I think they realized it almost got out of hand and it was a huge mistake."

Since then, the administration has consciously decided to cool down the rhetoric on the advice of Treasury Secretary Timothy Geithner, financial services lobbyists say. Administration officials have admitted that things got a bit out of control in meetings with financial services companies, according to lobbyists.

The White House never got behind the House-passed bill that would have taxed AIG bonuses at 90 percent, and the president signaled his opposition to the bill, telling "60 Minutes" in March that he would not "govern out of anger."

And legislation introduced by Senate Finance Committee Chairman Max Baucus and Grassley that would impose a 70 percent tax hike on “excessive executive compensation” got little support from their colleagues in the wake of Obama’s comments.

The calmer, cooler approach is giving the financial world a bit of confidence.

“If you are trying to restore confidence in the economy, repeatedly saying that financial services companies are greedy and corrupt isn’t the way to do it,” said one financial services lobbyist. “Their rhetoric was too hot.”

The new approach seems driven less by populist anger and more by bureaucratic management.

In June, the administration appointed Kenneth Feinberg to oversee the compensation at AIG and six other companies that have accepted billions in government aid. Feinberg, a Washington lawyer, is known for his arbitration of complex compensation disputes. He was responsible for doling out $7 billion in government funds to families of the Sept. 11, 2001, attack victims, and he has allocated damages to Holocaust survivors, families of students killed in the Virginia Tech shootings and asbestos and Agent Orange victims.

“We are not going to provide a running commentary on that process, but it’s clear that Mr. Feinberg has broad authority to make sure that compensation at those firms strikes an appropriate balance,” said Meg Reilly, a Treasury spokeswoman.

By appointing a highly respected official to oversee the payments, the administration seized control of the issue from Congress.

“It appears that the Obama administration is in a position to discourage” the bonuses, said Rep. Brad Miller (D-N.C.). “Members of Congress may be waiting to see what action the Obama administration takes.”

And even if Congress wanted to crack down on AIG, it’s not clear that it could fit another major task into an already crammed calendar. Congress is trying to pass major health care reform, draft a massive energy and climate bill and confirm a Supreme Court nominee before the August recess.

“It would largely be a steam-venting exercise,” said one financial services lobbyist. “And the most precious commodity in Washington right now is floor time.”

AIG also took advantage of the old Washington trick of releasing unappealing news on a Friday.

"AIG took out the trash on Friday," said Ohio Rep. Mary Jo Kilroy. "The House was extraordinarily busy on Friday, as they have been all week, and people were leaving to go home to districts."

Kilroy, who sent a letter to the Treasury Department calling on Feinberg to reject AIG's bonus request, hopes the issue will pick up traction. Six other freshman Democrats signed on to a similar letter sent by Rep. Harry Teague (D-N.M.) on Tuesday.

"AIG is seeing if they can sneak this by all of us and come back with a bigger ask," she said. "They're not going to get it past us, and I think a lot of members are going to feel the same way."

*Victoria McGrane contributed to this story.*