(This letter was sent to Congress on Wed Sept 24 2008 regarding the Treasury plan as outlined on that date. It does not reflect all signatories views on subsequent plans or modifications of the bill)

To the Speaker of the House of Representatives and the President pro tempore of the Senate:

As economists, we want to express to Congress our great concern for the plan proposed by Treasury Secretary Paulson to deal with the financial crisis. We are well aware of the difficulty of the current financial situation and we agree with the need for bold action to ensure that the financial system continues to function. We see three fatal pitfalls in the currently proposed plan:

1) Its fairness. The plan is a subsidy to investors at taxpayers’ expense. Investors who took risks to earn profits must also bear the losses. Not every business failure carries systemic risk. The government can ensure a well-functioning financial industry, able to make new loans to creditworthy borrowers, without bailing out particular investors and institutions whose choices proved unwise.

2) Its ambiguity. Neither the mission of the new agency nor its oversight are clear. If taxpayers are to buy illiquid and opaque assets from troubled sellers, the terms, occasions, and methods of such purchases must be crystal clear ahead of time and carefully monitored afterwards.

3) Its long-term effects. If the plan is enacted, its effects will be with us for a generation. For all their recent troubles, America’s dynamic and innovative private capital markets have brought the nation unparalleled prosperity. Fundamentally weakening those markets in order to calm short-run disruptions is desperately shortsighted.

For these reasons we ask Congress not to rush, to hold appropriate hearings, and to carefully consider the right course of action, and to wisely determine the future of the financial industry and the U.S. economy for years to come.

Signed (updated at 9/27/2008 6:00PM CT)

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