

The following is a letter I sent to every Democratic member of Congress urging them to oppose the Bush/Paulson bailout.

**OPPOSE THE BUSH/PAULSON BAILOUT**

September 27, 2008

Dear Democratic Colleague:

Democratic Leadership has done a tremendous job trying to modify the Bush/Paulson bailout into something acceptable, but the fundamental premise of the plan is flawed, thus it should not be supported. Many credible economists, without Wall Street conflicts of interest, have challenged the necessity of the Bush/Paulson bailout and offered many other less expensive options.

### The Bush/Paulson Bailout is Unnecessary:

Over 200 economists wrote to Congress stating “As economists, we want to express to Congress our great concern for the plan proposed by Treasury Secretary Paulson”

[1]

. The letter went on to raise the issues of fairness, ambiguity, and the long-term effects. The former

chairman of the Federal Deposit Insurance Corp in the Reagan Administration wrote,

“I have doubts that the \$700 billion bailout, if enacted, would work. Would banks really be willing to part with the loans, and would the government be able to sell them in the marketplace on terms that the taxpayers would find acceptable?”

[2]

Paul Krugman wrote, “You don’t want to bet \$700 billion on wishful thinking,”

[3]

commenting on the ability to find an acceptable price. And James Galbraith, an economist at the University of Texas, has asked “Now that all five big investment banks -- Bear Stearns, Merrill Lynch, Lehman Brothers, Goldman Sachs and Morgan Stanley -- have disappeared or morphed into regular banks, a question arises. Is this bailout still necessary?”

[4]

### Alternative Proposals:

I don’t subscribe to the view that there is only one way save the investment banks and the liquidity of the market. But in deference to the perceived notion that we must act now, alternative proposals are being brushed aside. The danger really lies in a poorly constructed bailout. We can avoid this by seriously debating the alternative proposals.

William Isaac, the former chairman of the Federal Deposit Insurance Corp argues “The banks do not need taxpayers to carry their loans. They need proper accounting and regulatory policies that will give them time to work through their problems.” [5] He has proposed a “net worth certificate” program modeled on what Congress enacted in the 1980s to resolve the savings and loan crisis. The program would require no subsidy and no cash outlay.

James Galbraith has proposed that we eliminate the “pointless” \$100,000 cap on federal deposit insurance to prevent bank runs. He also proposes a National Infrastructure Bank, making bond revenue available in a revolving fund for capital improvements and creating jobs.

[\[6\]](#)

And many economists have argued that directly helping mortgage holders save their houses would be astronomically cheaper and a more effective in resolving this crisis. And helping the average working American restructure their mortgage will increase the value of Wall Street's depreciated assets. As the New York Time opinioned recently:

“We could make a strong moral argument that the government has a greater responsibility to help homeowners than it does to bail out Wall Street. But we don't have to. Basic economics argues for a robust plan to stanch foreclosures and thereby protect the taxpayers ...” [\[7\]](#)

Let the benefits of any bailout, paid for by taxpayers, rise up to the banks, rather than hope the benefits trickle down. After all, we are Democrats, and we overcame the flawed notion of trickle down theory twenty years ago.

### We Cannot Afford a \$700 Billion Bailout:

Another serious consequence is the \$700 billion hole in the budget deficit this bailout will create. If we Democrats have the House, Senate and White House next year, we will be unable to initiate new proposals that we have campaigned on, reverse the failed Bush policies of the past eight years, and chart a new course for our nation. For years, we Democrats have been championing the goals of universal health care, middle class tax relief, investments in education and our nation's infrastructure, and a real commitment to dealing with climate change and energy independence. Now, after 8 years of gross mismanagement and wrongheaded priorities, we are about to have the Bush administration in one of its last acts, put those goals out of reach for years. The Bush tax cuts blew the surplus created by the last Democratic Administration and the Bush/Paulson bailout will prevent the next democratic administration from truly implementing its change mandate.

It Must Be Paid For:

If Democrats continue to back the basic questionable premise of the Bush/Paulson bailout, then we must pay for it. The \$700 billion is to protect Wall Street investors, therefore the same Wall Street investors should pay for this infusion of taxpayer money. I have proposed a minimal securities transfer tax of  $\frac{1}{4}$  of one percent. A securities transfer tax would have a negligible impact on the average investor and provide a disincentive to short-term traders. Similar tax proposals have been supported by many esteemed economists such as Larry Summers, John Maynard Keynes and Nobel prize winners Joseph Stiglitz and James Tobin.

There is considerable precedent for this. The United States had a similar tax from 1914 to 1966. The Revenue Act of 1914 levied a 0.2% tax on all sales or transfers of stock. In 1932, Congress more than doubled the tax to help finance various programs during the Great Depression. In 1987, Speaker of the House Jim Wright offered his support for a financial transaction tax. And today the UK has a modest financial transaction tax of 0.5 percent.

Our Constituents are Not Fooled:

If your district is anything like mine, there is an overwhelming opposition to the \$700 billion Bush/Paulson bailout. My office has been inundated by thousands of phone calls, emails, and faxes in opposition to the Bush/Paulson bailout. In contrast, I can count on one hand the number constituents who called in favor of the Bush/Paulson bailout.

We must stand with the working class America we have always fought for. Democrats cannot walk away from our base to join hands with President Bush and Wall Street. And we cannot let the Republicans disavow President Bush and appeal directly to our base of working America.

Sincerely,

Peter DeFazio

Member of Congress

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[1] [http://faculty.chicagogsb.edu/john.cochrane/research/Papers/mortgage\\_protest.htm](http://faculty.chicagogsb.edu/john.cochrane/research/Papers/mortgage_protest.htm)

[2]

Washington Post.

A Better Way

to Aid Banks. W

illiam M. Isaac. Sept 27, 2008. A19.

[3]

New York Times. Paul Krugman. Where are the Grown-Ups? Sept., 26, 2008. A27.

[4]

Washington Post.

A Bailout We Don't Need.

James K. Galbraith. Sept. 25, 2008. A19

[5] Washington Post. A Better Way to Aid Banks. William M. Isaac. Sept 27, 2008. A19.

[6] Washington Post. A Bailout We Don't Need. James K. Galbraith. Sept. 25, 2008. A19

[7] New York Times. Editorial. What About the Rest of Us? Sept., 26, 2008. A26.