CONGRESS: THINK BEFORE YOU ACT!

You are being asked to pass a $700 billion “bailout” or “rescue” package and are told by your leadership that it is “necessary” to prevent a catastrophe in the financial markets and, by extension, on Main Street. Please think carefully about the following **facts** before you vote:

- **Public opinion** is running anywhere from 100:1 to 300:1 against passing this bill, according to sources on Capitol Hill. You must return home after you pass this package to ANGRY constituents with an election less than a month away. Given the massive size of this package, the fact that it rewards the guilty on Wall Street and does nothing to address the cause that anger is fully justified.
- **Non-financial private debt** is $32.4 trillion dollars[i] as of 2Q 2008. Household debt is $14.0 trillion. Households lost 400 billion dollars last quarter. You wish to add $700 billion more in losses (via government obligations that taxpayers must cover) this quarter; this package is insignificant against the total bad credit outstanding. Federal capacity to “bail the system out” is **insufficient**.
- **It will not and cannot work** because the issue is **trust**, not money. There is lots of money (and credit) but it is being hoarded throughout the system. Consumer savings have gone from nothing to the highest rate ever in American history – in the space of a few months. Money is flying into Treasuries because of lack of trust, not lack of money. You must fix the cause of the problem, not apply band-aids.
- **Commercial paper** is being cited as the “lockup” that threatens an imminent financial train wreck. The truth is that commercial paper rates for “AA” rated non-financial firms is placing at a rate **half** that of a year ago as the Fed Funds target has been dropped from 5.25 to 2%[ii]. With risk having increased the rate of return offered is lower? This is where the stress is coming from; at **last summer’s rates** this paper would roll. You are being gamed by Paulson and Bernanke; look at the table in the reference and you will see that even for “threatened sectors” rates are not materially higher than **last year**.
- **If you pass this bill and the market implodes** you will be held directly responsible. There are records of thousands of signatures across seven petitions faxed to you (at my expense) dating back to October of 2007 on this topic. Many experts, including Nouriel Roubini, “Mish” Shedlock, Dr. Faber, The Weiss Institute and over 160 economists have warned Congress that this proposed plan **will not work**. Are you prepared to face a full-page ad in the Wall Street Journal and/or USA Today exposing these facts?
- **There are alternatives that will work**; they all involve restoring trust and using existing market mechanisms to resolve insolvent institutions.[iii] While I am not particularly partial to my view on how we resolve “failed” institutions, addressing the root of the problem – lack of trust – is paramount. Three elements are involved here, they are obvious, and they must be fixed or you will **FAIL**.
- **We only get one more shot at this**; we have spent over $1.6 trillion thus far (by some estimates; $500 billion by others) attempting the same thing over and over again and it has not worked.

DO NOT PASS THIS BILL AS IT DOES NOT ADDRESS THE CAUSE AND WITHOUT DOING SO YOUR EFFORTS ARE DESTINED TO FAIL. THE VOTERS ARE RIGHT AND WILL HOLD YOU TO ACCOUNT SHOULD YOU THROW $700 BILLION INTO A FINANCIAL HURRICANE.

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[i] http://www.federalreserve.gov/releases/z1/Current/z1r-1.pdf
[ii] http://www.federalreserve.gov/releases/cp/
[iii] http://market-ticker.denninger.net/archives/593-CONGRESS-STOP-AND-THINK!.html