



AMERICANS *for* TAX REFORM

Grover G. Norquist
President

September 24, 2008

Dear Senator:

The Treasury Department's plan to use taxpayer dollars to purchase nearly \$1 trillion of mortgage assets from financial services firms is contrary to basic principles of limited government and free markets. It's not the business of the federal government to be acquiring assets (today it's mortgages; tomorrow, nobody knows) from companies so that those companies can be relieved of obligations they have taken on. If a company, or a household for that matter, takes on an obligation it can no longer afford, there must be consequences. There's no such thing as "too big to fail." One company's downfall is another company's bargain purchase. That's what Joseph Schumpeter called "gales of creative destruction." Chippy as it can be, this "creative destruction" is what causes America's abundant prosperity.

The bailout plan creates a horrible public policy precedent. How is the government supposed to say, "no" to the next ailing industry that comes to Washington with its hand out? Over time, the government's calming of Schumpeter's creative gales will result in a poorer America more dependent on the state. **For all these reasons, you should oppose the bailout plan.**

Rather than getting into the business of being the corporate insurer of last resort, government policymakers should instead look at the Republican Study Committee's alternate plan. In particular, their plan to suspend capital gains taxes for households and businesses will do a lot to free up capital and give shareholders the ability to move bad assets off their balance sheets. Going forward, the RSC plan to index capital basis to inflation should infuse much-needed liquidity into financial markets. I would add a third tax component: allow corporations to repatriate capital sitting in overseas bank accounts, a move which would bring hundreds of billions of dollars in liquidity just when it's timely and needed. Companies are hesitant to do this, since they would face a 35 percent corporate income tax rate. The last time there was a low-tax rate repatriation holiday in 2005, over \$300 billion was in-sourced to America and Treasury coffers grew by \$18 billion.

Congressional Democrats are seeking to use the opportunity of this bailout bill to reward their friends in labor unions and left wing political activism. Less than ninety days ago, Congress gave billions of dollars to ACORN. Congressional Democrats were able to funnel money to left-wing organizers like ACORN as a condition of passing the Fannie Mae/Freddie Mac bailout. President Bush cannot make that same mistake twice. He should commit to veto any package which gives greater resources to groups such as ACORN.

If you have any questions, please contact Ryan Ellis in my office at rellis@atr.org.

Sincerely,

Grover Norquist

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