

November 19, 2008

The Honorable Henry Reid
Senate Majority Leader
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker of the House
Washington, DC 20515

The Honorable Mitch McConnell
Senate Minority Leader
Washington, DC 20510

The Honorable John Boehner
House Minority Leader
Washington, DC 20515

Dear Sen. Reid, Sen. McConnell, Speaker Pelosi, and Rep. Boehner:

We, the undersigned economists, urge Congress to pass a new stimulus package as quickly as possible. The need to deal with financial turmoil has directed attention away from the "real" economy. But the latest data clearly show that the economy is entering a serious recession, initiated by the collapse of homebuilding and intensified by the paralysis of credit markets. Without a fast and effective response by government, the economy could continue to spiral downward, leading to a large increase in unemployment and a sharp decline in GDP.

The potential severity of the downturn suggests that a boost to demand on the order of 2.0-3.0 percent of GDP (\$300-\$400 billion) would be appropriate, with the goal being to get this money spent quickly. The list of targets includes:

- a) aid to state and local governments that are being forced to make emergency cutbacks as revenues fall;
- b) extending unemployment insurance and increasing other benefits targeted toward low and moderate income households who are likely to spend quickly;
- c) moving forward infrastructure projects that have already been planned and scheduled; and
- d) providing tax credits and other support for "green" projects that can be done quickly, such as retrofitting homes and businesses for increased energy efficiency.

The sharp falloff in demand resulting from the collapse of the housing bubble and the destruction of financial wealth means that there is little reason to fear that enlarged deficits will raise interest rates and deter private investment. It is far more likely that an effective stimulus package will promote investment by improving prospects for higher sales and profits.

With little downside risk and much potential gain, it is important that Congress move quickly and decisively. Delay can only deepen and prolong the recession.

Sincerely,

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