Evening Reading: Loving the Geithner Plan, But One Improvement Please

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By Stephen Grocer
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There have been many critics–and some supporters–of Treasury Secretary Timothy Geithner's plan to relieve banks of the toxic..ummh…legacy assets on their balance sheets.

Over at the Harvard Law School Corporate Governance Forum, Lucian Bebchuk, a professor of law, economics and finance at Harvard Law School, has some criticism of the plan. Bebchuk, though, isn't like most critics who have panned the plan. In fact, he was an early supporter of purchasing the troubled-assets from the nation's banks.

In op-ed last fall, he laid out his plan for overcoming one problems vexing Hank Paulson's plan to do just that–pricing the assets. Bebchuk proposed back then using privately managed and competing funds as an alternative and argued that such funds would better set prices for the assets.

Now that Geithner is proposing to do just that, Bebchuk has one more improvement. The problem as the plan stands now, Bebchuk argues, is that the private side stands to capture 50% of the upside but would bear a disproportionately small share of the downside. Bebchuk, though, has a fix for this problem:

"A program of public-private funds should be designed to minimize costs to taxpayers. To attain this objective, the government should base the terms of participation on a process in which private managers compete to be in the program."