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Shocking defeat for economy bailout; record stock dip

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WASHINGTON — Congressional leaders and the Bush administration vowed to try to revive a failed \$700 billion rescue of Wall Street after 133 Republicans and 95 Democrats in the House defied their leaders and killed the controversial plan Monday, sending U.S. and global financial markets plunging.

Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke warned that failure to pass the legislation would trigger a deep freeze in credit markets, which would shift Wall Street's problems to Main Street in ways large and small.

"I am very disappointed in today's vote," said a visibly angry Paulson, standing outside the White House. "Markets around the world are under stress. Families, too, feel the credit crunch as it becomes more difficult to get car loans or student loans.

"I am committed to continue to work with my fellow regulators to use all of the tools available to protect our financial system and our economy. Our tool kit is substantial but insufficient."

Paulson said he will keep working with Congress in search of a solution "as soon as possible."

After almost two weeks of feverish efforts to draft a compromise bailout that all sides could live with, the House rejected the plan by a vote of 228 to 205. Republicans rejected the urgings of President Bush, presidential nominee John McCain and party leaders in opposing the measure by more than a 2-to-1 ratio.

A majority of Democrats voted for the plan by a 3-to-2 margin, but their failure to more solidly unify behind their own leaders and presidential candidate Barack Obama signaled the extraordinary divisiveness of the issue.

Looming defeat of the plan sent stocks plunging even before the vote was final, though the market didn't crash. The Dow Jones industrial average closed down 777.68 points, or 7 percent, the largest one-day point drop ever but nowhere near the Dow's 22 percent crash on Oct. 19, 1987.

The broader Standard & Poor's 500 index sank 8.8 percent and the Nasdaq composite index took the day's biggest hit, falling 9.1 percent.

Supporting the vote

Across the country, critics of the rescue plan said they could understand the House vote. "It gives a very bad lesson to people, namely go ahead and make big gambles — if you win you keep it, if you lose don't worry, the government will bail you out," said Lawrence Southwick, professor emeritus of finance and managerial economics at the State University of New York at Buffalo.

"Firms go under all the time. That's the way the free market works. Sometimes you lose," Southwick said.

Jeff Peterson, a finance professor at St. Bonaventure University, sounded a similar note: "This is probably a case where the markets need to play out. The bad loans have been made and the value of the real estate has declined. In some sense, the accident happened a year ago. We're just counting bodies."

But others predicted disaster if Congress doesn't eventually pass some form of rescue plan to relieve banks and other lenders of their mountains of bad debts, on the theory that credit would then start flowing again.

Kenneth Adams, chief executive of the Business Council of New York State, said he was confident some form of bailout package would be approved because of the dire need for one.

"The freezing up of credit, which is where we are now, it really brings the economy to a halt," Adams said. Businesses "can't run without access to lines of credit. The longer it takes to fix this ... the greater risk that businesses won't have cash to survive, to pay vendors, to make payroll. We're not talking about a simple rescue of one institution or a bailout of a series of bad actors. It's the need to stabilize an entire financial system."

All told, markets lost more than \$1 trillion in value Monday, analysts said. As stocks skidded, so did the value of 401(k) retirement plans and individual retirement accounts.

Leaders in Washington promised to try again.

"We put forth a plan that was big because we have a big problem," said a somber President Bush during a White House photo opportunity. "Our strategy is to continue to address this economic situation head on and we will be working to develop a strategy that will enable us to move forward."

House Speaker Nancy Pelosi, D-Calif., acknowledged that "the legislation has failed, (but) the crisis has not gone away. We must work together in a bipartisan way to have another bite at the apple."

House Republican leaders also pledged to seek a new bipartisan remedy that could pass, but they salted their remarks with criticism of Pelosi for making what they said was a partisan speech on the House floor shortly before the vote. They said the speech, in which Pelosi castigated the Bush administration and blamed Republicans for the financial problems, so inflamed GOP lawmakers that it persuaded as many as 12 of them to reverse field and vote no.

"We could've gotten there today (except for) this partisan speech that the speaker gave on the floor of the House," said House Republican Leader John Boehner of Ohio. "We've got to put partisanship aside."

No immediate re-vote

Lawmakers won't vote again on any rescue plan before Thursday, since many are returning to their districts for Rosh Hashana, which marks the start of the Jewish New Year.

With so much financial turmoil worldwide, why did House Republicans revolt against the compromise plan their leaders asked them to support?

"Too many people had too many problems with it," said Rep. Sue Myrick, R-N.C. "They were very uncomfortable."

The simplest explanation is that the entire 435-member House is up for re-election on Nov. 4, and members were flooded with calls and e-mails opposing the deal.

"The thing was couched in the terms that it was a bailout of Wall Street fat cats. And I can assure you

that there's no enthusiasm for bailing out Wall Street fat cats," said Rep. Ben Chandler, D-Ky., who voted no.

Includes reporting by staff writer Matthew Daneman.
