Bailout Bill Slapped Aside; Record Stock Plunge

Julie Hirschfeld Davis
WASHINGTON — In a vote that shook the government, Wall Street and markets around the world, the House on Monday defeated a $700 billion emergency rescue for the nation’s financial system, leaving both parties’ lawmakers and the Bush administration scrambling to pick up the pieces. Dismayed investors sent the Dow Jones industrials plunging nearly 800 points, the most ever for a single day.

In the administration’s version, the government would have bought bad mortgages and other assets held by troubled banks and other financial institutions. Getting those debts off their books should boost those companies’ balance sheets, making them more likely to lend and ease one of the biggest choke points in a national credit crisis. If the plan worked, the thinking went, it would help lift a major weight off the national economy, which is already suffering.

Hoping to pick up enough GOP votes for the next try, Republicans floated several ideas. One would double the $100,000 ceiling on federal deposit insurance. Another would end rules that require companies to devalue assets on their books to reflect the price they could get in a market crash.

In the face of thousands of phone calls and e-mails fiercely opposing the measure, many lawmakers were not willing to take the political risk of voting for it just five weeks before the election.

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The House Web site was overwhelmed as millions of people sought information about the measure through the day.

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More than a repudiation of Democrats, Frank said, Republicans' refusal to vote for the bailout was a repudiation of their own president, who might otherwise have supported the plan.

Republicans who might otherwise have supported the plan, gave an effusive endorsement of Representative Nancy Pelosi of California, who, in a floor speech, assailed the Bush administration's economic policies and its "right-wing ideology of anything goes, no supervision, no regulation." Pelosi also accused Republicans of "failure of nerve." What happened today was not a failure of will, said Dodd, the product of her efforts.

"We could have gotten there today," said Pelosi, "had there been an opportunity to reopen legislation that was the product of bipartisan negotiation." Congress can support the economy and American families, she said, if it passes this legislation, which would provide a "bridge to recovery," with the help of the Bush administration.

"The legislation may have failed; the crisis is still with us," she said. "What happened today cannot stand." Republican leader John Boehner, R-Ohio, said he and other Republicans were pained to vote for such a measure, but he agreed that in light of the potential consequences for the economy and all Americans, "I think that we need to renew our efforts to find a solution that is right for the economy and American families." In that spirit, Boehner said, he was not prepared to support the bill that was presented.

Thirteen of the 19 most vulnerable Republicans and Democrats in an Associated Press analysis voted against the bill despite the pleas from President Bush and his party leaders to pass it. In all, 65 Republicans joined 140 Democrats in voting "yes," while 133 Republicans and 95 Democrats voted "no." In the House, "no" votes came from all Democrat members and their party leaders. The overwhelming question was what to do next.

Democrats voted "no," in all 65 Republicans, 140 Democrats in voting "yes," while 133 Republicans and 95 Democrats voted "no." In the Senate, the bill passed 67-32 points, surpassing the 64-point drop on the first reading. The Federal Reserve, "The Federal Reserve, the central bank of the United States, has increased the discount rate by 125 basis points, the largest increase in more than two years.

The Federal Reserve cut the discount rate by one-quarter point, to 1 percent, on Wednesday, a move that was widely expected. The Fed's decision was seen as a signal that the central bank is concerned about the state of the economy and the housing market, which has been hit hard by the subprime mortgage crisis.
The two men campaigning to replace Bush watched the situation closely — from afar — and demanded action.

In Iowa, Republican John McCain said his rival Barack Obama and congressional Democrats "infused unnecessary partisanship into the process. Now is not the time to fix the blame; it's time to fix the problem."

Obama said, "Democrats, Republicans, step up to the plate, get it done."

Lawmakers were under extraordinary pressure from powerful outside groups, which gave notice they considered the legislation a "key vote." — one they would consider when rating members of Congress.

"We're all worried about losing our jobs," Rep. Paul Ryan, R-Wis., declared in an impassioned speech in support of the bill before the vote. "Most of us say, 'I want this thing to pass, but I want you to vote for it — not me.'"

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If Congress doesn't come around on a bailout, more pressure would fall on the Federal Reserve.

The Fed, which has been providing billions in short-term loans to squeezed banks to help them overcome credit stresses, could keep expanding those loans to encourage lending.

And it could keep working with other central banks to inject billions into financial markets overseas.

The conservative Club for Growth made a similar threat to supporters of the bailout.

"Make no mistake: When the aftermath of congressional inaction becomes clear, Americans will not tolerate those who stood by and let the calamity happen," said R. Bruce Josten, the chamber's top lobbyist, in a letter to members.

The U.S. Chamber of Commerce said opponents of the bailout would pay for their stance.

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