

# Richmond Times-Dispatch

TUESDAY, SEPTEMBER 30, 2008

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## Bailout is voted down

Dow falls nearly 800 points as traders watch vote



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Virginia Rep. Eric I. Cantor, R-7th, said a speech by House Speaker Nancy Pelosi led to defeat of the bailout bill. Republicans voted against it by a 2-to-1 margin.

From Staff and Wire Reports

In a vote that shook the government, Wall Street and markets around the world, the House of Representatives yesterday defeated a \$700 billion emergency rescue for the nation's financial system, leaving

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both parties and the Bush administration struggling to pick up the pieces. The Dow Jones industrials plunged nearly 800 points, the most ever for a single day.

"We need to put something back together that works," a grim-faced Treasury Secretary Henry M. Paulson Jr. said after he and Federal Reserve Chairman Ben Bernanke joined in an emergency strategy session at the White House.

On Capitol Hill, Democratic leaders said the House would reconvene Thursday in hopes of a quick vote on a reworked version.

All sides agreed the bill could not be abandoned.

"If the financial system fails, I predict a really long recession,

perhaps three years longer than anything since the 1970s," said Dean Croushore, associate economics professor at the University of Richmond's Robins School of Business and interim director of a research center at the Federal Reserve Bank of Philadelphia. "We're a lot better off to have some sort of plan that gets credit flowing."

Rather than being seen as a bailout, Croushore said, the bill is more a stabilization plan to rescue the economy.

But yesterday, not enough lawmakers were willing to take the political risk — five weeks before the elections — of backing a deeply unpopular measure that many voters see as an undesired bailout for Wall Street.

The bill went down, 228-205, even though Paulson and congressional leaders proclaimed a day earlier that they had worked out an acceptable compromise in marathon weekend talks. Rep. Eric I.

## Bailout

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Cantor, R-7th, and other GOP leaders blamed a caustic speech given by House Speaker Nancy Pelosi, D-Calif., for the defection of a dozen votes in support of the measure.

Some 133 House Republicans and 95 Democrats voted against the bailout. Democrats mustered 140 votes for the compromise, while Republicans delivered only 65 votes.

"I think you're staring in the face of election-year politics," said James Cox, managing partner of Harris Financial Group in Colonial Heights. "There were 12 congressmen playing chicken with the economy."

Lawmakers were caught in the middle. On one side were the dire predictions from Bush, his economic team, and their own party leaders of an all-out financial meltdown if they failed to approve the rescue. On the other side: a flood of protest calls and e-mails from voters threatening to punish them at the ballot box.

The legislation the administration promoted would have allowed the government to buy bad mortgages and other sour assets held by troubled banks and other financial institutions.

"What it comes down to is getting these assets with no value pushed through the system," said Stewart Darrell, a partner in Darrell & King Investment Counsel in Charlottesville. "The chance of the system locking up

[... that's really what the danger is.]

Getting bad debts off the books should bolster companies' balance sheets, making them more inclined to lend and easing one of the biggest choke points in a national credit crisis. If the plan works, the thinking goes, it would help lift a major weight off the national economy, which is already sputtering.

"I think everyone was shocked that it didn't pass," said Russell Lundeberg, chief investment officer for Barrett Capital Management in Midlothian. "The longer they take, the less confidence the world will have in our economic system."

Stocks started plummeting on Wall Street even before the vote was over, as traders watched the rescue measure going down on television.

Meanwhile, lawmakers were watching them back. As a digital screen in the House chamber recorded a cascade of votes against the bailout, Democratic Rep. Joe Crowley of New York shouted news of the falling Dow Jones industrials. "Six hundred points!" he yelled, jabbing his thumb downward.

The final stock carnage was 777.68 points, far surpassing the 684-point drop on the first trading day after the Sept. 11, 2001, terror attacks. Percentagewise, it was the 17th biggest decline.

In the House, "no" votes came from both the Democratic and Republican sides of the aisle. Several Democrats in close election fights waited until the last moment, then went against the bill as it became clear the vast majority of Republicans were opposing it. Most vulnerable Republicans refused to

back the bill.

The overriding question was what to do next.

"The legislation may have failed; the crisis is still with us," Pelosi said in a news conference. "What happened today cannot stand."

Republican leader John Boehner, R-Ohio, said he and other Republicans were pained to vote for such 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 Congress can support."

"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.'"

With their dire warnings of impending economic doom and their sweeping request for unprecedented sums of money and authority to bail out cash-starved financial firms, Bush and his economic chiefs had focused the attention of world markets on Congress, Ryan added.

"We're in this moment, and if we fail to do the right thing, Heaven help us," he said.

The rank-and-file appeared to disagree. Asked if she was worried about things like the 777-point drop in the Dow, Rep. Virginia Foxx, R-N.C., declared after the vote, "No, I'm not. The market may be down, but the Constitution is up!"

• Staff writer Emily C. Dooley, The Associated Press, the Washington Post and Bloomberg News contributed to this report.