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Bailout Bill Slapped Aside; Record Stock Plunge

Julie Hirschfeld Davis

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AP Photo: House Speaker Nancy Pelosi, D-Calif., is seen during a news conference on Capitol Hill in Washington, ...

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By JULIE HIRSCHFELD DAVIS, Associated Press Writer
Mon Sep 29, 7:59 PM ET

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.

"We need to put something back together that works," a grim-faced Treasury Secretary Henry Paulson 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, leaving open the possibility that it could salvage a reworked version.

All sides agreed the effort to bolster beleaguered financial markets, potentially the biggest government intervention since the Great Depression, could not be abandoned.

But in a remarkable display on Monday, a majority of House members slapped aside the best version their leaders and the administration had been able to come up with, bucking presidential speeches, pleading visits from Paulson and Federal Reserve Chairman Ben Bernanke and urgent warnings that the economy could nosedive without the legislation.

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 elections.

The bill went down, 228-205.

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

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. Getting those debts off their books should bolster those companies' balance sheets, making them more inclined 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 sputtering.

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 the market.

In the meantime, Paulson said he would work with other regulators "to use all the tools available to protect our financial system and our economy."

"Our tool kit is substantial but insufficient," he said, indicating the government intended to

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continue piecemeal fixes while pressing Congress for broader action.

Stocks started plummeting on Wall Street even before Monday's 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 "no" 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 points, far surpassing the 684-point drop on the first trading day after the Sept. 11, 2001, terror attacks.

In the House, "no" votes came from both the Democratic and Republican sides of the aisle. More than two-thirds of Republicans and 40 percent of Democrats opposed the bill. 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.

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 their party leaders to pass it.

In all, 65 Republicans joined 140 Democrats in voting "yes," while 133 Republicans and 95 Democrats voted "no."

The overriding question was what to do next.

"The legislation may have failed; the crisis is still with us," said [House Speaker Nancy Pelosi, D-Calif.](#), in a news conference after the defeat. "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."

Sen. Chris Dodd, D-Conn., said there was scant time to reopen legislation that was the product of hard-fought bipartisan negotiations.

"What happened today was not a failure of a bill, it was a failure of will," said Dodd, the Banking Committee chairman. "Our hope is that cooler heads will prevail, people will think about what they did today and recognize that this is not just scare tactics — it's reality."

A brutal round of partisan finger-pointing followed the vote.

Republicans blamed Pelosi's scathing speech near the close of the debate — which assailed Bush's economic policies and a "right-wing ideology of anything goes, no supervision, no discipline, no regulation" of financial markets — for the defeat. It was not much different from her usual tough words against the president and his party.

"We could have gotten there today had it not been for the partisan speech that the speaker gave on the floor of the House," Boehner said.

[Rep. Roy Blunt, R-Mo.](#), the whip, estimated that Pelosi's speech changed the minds of a dozen Republicans who might otherwise have supported the plan.

That amounted to an appalling accusation by Republicans against Republicans, said [Rep. Barney Frank, D-Mass.](#), chairman of the Financial Services Committee: "Because somebody hurt their feelings, they decide to punish the country."

More than a repudiation of Democrats, Frank said, Republicans' refusal to vote for the bailout was a rejection of their own president.

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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.

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

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

"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.'"

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

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.

It also has the power to expand emergency lending to other types of companies and even to individuals if they are unable to secure adequate credit.

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