

Extra Feature Story

Markets Falter After Congress Fails to Agree on Rescue Plan

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Stock prices tumbled Monday after the House of Representatives voted against a \$700 billion emergency rescue package, ignoring pleas from President Bush and the leaders of both parties.

President Bush had urged lawmakers to approve the plan to help banks recover from bad investments hours ahead the difficult vote, saying it is needed to "keep the crisis in our financial system from spreading throughout our economy."

But the president was unable to convince 60 percent of Republicans and 40 percent of Democrats, and the proposal went down in a 228-205 vote.

As a result, many investors in New York's stock markets lost confidence in the American economy and sold their stocks, resulting in a 777 point drop in the Dow Jones industrial average — an index of the stock prices of 30 well-known American companies that is used to gauge the relative health of the market as a whole.

Housing at the center of the problem

At the core of the country's economic problems are millions loans for houses, cars and other major purchases that Americans aren't able to pay back. Most of the loans were for houses bought during the past seven years when prices kept going up.

Many people bought homes they couldn't afford because there were lots of banks and mortgage brokers willing to loan them huge amounts of money. Those brokers were willing to make risky loans because they were betting that the prices of homes would keep going up.

But the bubble has burst, sending housing prices down and leaving many people with houses that are no longer worth what they paid for them.

Banks in trouble

As those people default on their loans (when they realize they can't pay them back), the banks lose lots of money. The banks can take back the houses (foreclosure), but they are having trouble reselling them since people don't want to buy right now or they can't get a loan.

And as banks lose more money, they are clamping down on loans – even to each other. This is called a credit crisis because no one is willing to lend to anyone and that is slowing down the economy on many levels.

Families who want to buy a house or a new car can't get a loan (sending home prices down even more). Stores and factories who need loans to pay workers or buy new equipment are finding it harder and harder to get the money they need to stay in business.

"If consumers aren't spending as much, it's hard to have economic growth. Credit is like oxygen for the economy," said Sung Won Sohn, professor of economics at California State University, according to Reuters News.

Bush's rescue plan

The controversial plan to rescue the economy is based on a proposal from President Bush's Secretary of Treasury, Hank Paulson.

Paulson wants the Treasury to buy some of these bad loans from the banks so that they don't have to worry about them any more.

The idea is that the government will hold on to the bad loans for a while (trying to help families redefine the terms of the loans so they can stay in their houses) and then sell them when the economy gets back on its feet.

But no one knows how many bad loans are out there and whether the Treasury will ever be able to get money back — which could put the country further into debt and affect the government's ability to pay for programs to help the poor and elderly, build roads and other public works.

Hard politics in an election year

Many of the Republicans who voted against the plan oppose it because it goes against their free market principles — they believe the government should not interfere in private banks and businesses.

Many Democrats voted "no" because they feel the plan helps bankers but not the homeowners facing foreclosure or the workers who may lose their jobs.

Members of both parties say the people they represent are upset about bailing out Wall Street investors who made bad bets.

"Their calls were like 99 percent to 1.... It was the local community bankers who were saying, 'Please do this, because we're next.' But otherwise it was very negative public response to this," explained reporter Jeanne Cummings of Politico.com.

On Tuesday, President Bush said he knows this is a "difficult vote."

"We're facing a choice between action and the real prospect of economic hardship for millions of Americans," he added. "For the financial security of many Americans, Congress must act."

-- Compiled by Leah Clapman for NewsHour Extra

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