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Power Brokers 1, Constituents 0 on Bailout

"That this bailout was initially defeated was a welcome surprise, but the power-brokers in Washington and on Wall Street could not allow that defeat to be permanent. It was most unfortunate that this monstrosity of a bill, loaded up with even more pork, was able to pass."

The passage of the bailout bill was the result of strong lobbying by the congressional leadership of both the Democrat and Republican Parties as well as by the White House and Wall Street. The initial defeat of the bill was the result of the groundswell of opposition from angry constituents. The intensity of the public pressure on lawmakers to vote against the bill took the power brokers by surprise, but in the end the pressure applied by the power brokers proved to be the more powerful force.

The House initially voted on the bill just one day after congressional leaders and the White House announced that they had agreed on a plan, proposed by Treasury Secretary Henry Paulson one week earlier, to authorize the Treasury Department to spend up to $700 billion to purchase troubled mortgage-related securities from banks and other financial-related institutions. At the time, congressional leaders expected the bill to pass. "Leaders on both sides of the Capitol openly expressed confidence that they had the votes, and House leaders scheduled a vote for the next day," reported *Congressional Quarterly*. "But what leaders did not take into account was the level of constituent anger over the perception that Washington wanted to spend taxpayer dollars to bail out Wall Street. Nothing in the deal assuaged those concerns."

And so the bipartisan congressional accord that was announced shortly after midnight on Sunday, September 28, was defeated 205-228 on Monday, September 29. But the power brokers, unwilling to accept defeat, next focused on the Senate, whose membership is not so susceptible to constituent pressure as the House since only a third of the Senate is up for reelection every two years. Also, the bill was expanded in the Senate to make it more palatable to lawmakers.

The Senate version of the bill not only authorized the $700 billion bailout plan but also expanded FDIC protection from $100,000 to $250,000 per bank account, extended dozens of expiring tax provisions, expanded incentives for renewable energy, provided a one-year adjustment to exempt millions of Americans from the alternative minimum tax, and required health insurers who provide mental health coverage to put mental-health benefits on par with other medical benefits.

Ron Paul pointed out in his "Texas Straight Talk" weekly column that the Senate bailout bill "had new taxes, so according to the Constitution it should not have originated in the Senate." The Constitution explicitly states: "All bills for raising revenues shall originate in the House of Representatives." Because the House had defeated the bailout bill, the House did not send it to the Senate. But that did not stop the Senate from attaching the bailout as an amendment to another House-passed bill (on mental-health parity) and then voting on the whole package. That package was approved 74-25 on October 1, just two days after the House had defeated the earlier bailout bill.

Then on Friday, October 3, just four days after the House had defeated the bailout bill, the House reversed itself and adopted the Senate version 263-171. Fifty-eight House members who had voted against the bailout bill on Monday voted for the Senate version of the bailout bill on Friday, making the reversal possible.

The lobbying effort on behalf of the bill throughout the week was intense — but so was the torrent of communications from constituents. Because of the constituent pressure, many congressmen who had originally voted against the bailout refused to buckle and stuck with their original position.

Congressional Quarterly reported that Republican Congressman Joe Barton of Texas "heard from Bush, [Minority Leader John] Boehner, and Minority Whip Roy Blunt of Missouri. At the same time, though, he received 'a couple of hundred' calls from constituents. Barton voted no both times."

Another congressman who did not buckle was Democrat William Lacy Clay of Missouri. However, according to *Congressional Quarterly,* Clay noted that some of his African American colleagues in the House were swayed by personal phone calls from Barack Obama. (Obama's main opponent in the presidential race, John McCain, also personally called congressmen to persuade them to vote for the bailout bill.) "My calls are still running no, so I am going to follow the views of my constituents," Clay said — and that's exactly what he did.

Not surprisingly, Congressman Ron Paul, who had warned long ago about the coming financial debacle, had voted no both times as well. In his statement to the House on October 3, Paul explained that more government intervention will not solve a problem created by government intervention:

> The Federal Reserve has already injected hundreds of billions of dollars into U.S. and world credit markets. The adjusted monetary base is up sharply, bank reserves have exploded, and the national debt is up almost half a trillion dollars over the past two weeks. Yet, we are still told that after all this intervention, all this inflation, that we still need an additional $700 billion bailout, otherwise the credit markets will seize and the economy will collapse. This is the same excuse that preceded previous bailouts, and undoubtedly we will hear it again in the future after this bailout fails.
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> One of the most dangerous effects of this bailout is the incredibly elevated risk of moral hazard in the future. The worst performing financial services firms, even those who have been taken over by the government or have filed for bankruptcy, will find all of their poor decision-making rewarded. What incentive do Wall Street firms or any other large concerns have to make sound financial decisions, now that they see the federal government bailing out private companies to the tune of trillions of dollars? As Congress did with the legislation authorizing the Fannie and Freddie bailout, it proposes a solution that exacerbates and encourages the problematic behavior that led to this crisis in the first place.

Put simply, we cannot prevent recession or depression by eliminating risks. Nor can we do so by creating more money out of thin air and pumping that money into the economy.

The passage of the bailout bill could be viewed as a cause for pessimism. Yet the unexpected volume of public opposition to it should be viewed as a cause for optimism. The public pressure resulted in the bailout bill's initial defeat. More public pressure, resulting from more education and more grass-roots organization, could turn the tide in the future.