House Responds to Public Pressure, Defeats Bailout Bill

In the end, it came down to public pressure — for once. Since early last week, untold numbers of angry constituents have been inundating their congressmens' offices with phone calls, e-mails, and even a significant number of personal visits, registering their displeasure at the bailout. In the end that pressure, no doubt reinforced by the proximity of elections, proved to be too much for the People's House. "We're all worried about losing our jobs," admitted Rep. Paul Ryan (R-Wis.) in a speech supporting the bill. "Most of us say, 'I want this thing to pass, but I want you to vote for it — not me.'" [Two hundred twenty-eight heroic congressmen](#) from both parties ultimately sided with their constituencies and rejected the bill by a fairly narrow majority (205 voted yea).

The impact of this event, both political and economic, cannot be understated. For once, the people of the United States of America saw through a fog of government and media propaganda and demanded, en masse, that their representatives sit up and take notice. There is no question what outcome the establishment elites wanted, but for once, ordinarily pliant and long-suffering American voters and taxpayers weren't having any. The usual lines of persuasion — that only the federal government could protect us from catastrophe, that the markets needed to be fixed by wise federal overseers, and that doing nothing simply isn't an option — fell on deaf ears. "Obviously we are very disappointed in this outcome," White House spokesman Tony Fratto said to reporters. "There's no question that the country is facing a difficult crisis that needs to be addressed. The president will be meeting with his team this afternoon to determine the next steps and will also be in touch with congressional leaders."

Not to be completely denied, the Federal Reserve, in tandem with a number of other central banks worldwide, announced shortly before the House vote an infusion of hundreds of billions of brand new dollars to keep the inflationary global economy moving. The supply of 84-day loans available to banks was tripled from $75 billion to $225 billion, and $330 billion was made available to other central banks via currency swap agreements.

Wall Street, predictably enough, went into a tailspin during the House vote, with major stock indexes contracting sharply. In the short run, we may see more such market reversals before the turnaround arrives, but in the long run, the market will find a new equilibrium and the crisis, acute though it may be, will not be the drawn-out debacle President Bush and company have been predicting.

On this point, a little history is in order. In fall of 1907, the markets experienced a severe contraction known as the Panic of 1907 (or the "Banker's Panic"), which, like the current crisis, terrified the rich and powerful in New York and London, but had little impact on Main Street. This was because, after a series of spectacular collapses involving financial concerns like the Knickerbocker Trust, a number of wealthy bankers and financiers, led by J.P. Morgan, raised private capital to prevent a complete collapse. The panic abated rather quickly, and the economy was soon riding high again. Much the same happened during the sharp postwar recession of 1921, where the federal government mostly stayed on the sidelines.

In short, if market forces are allowed to remedy the problem without government interference (and without the infusion of more taxpayer monies), we can expect private capital to deal expeditiously with the assets of failed institutions, as has happened with the purchase of Washington Mutual, Wachovia, and Lehman Brothers.

The popular backlash against the bailout, culminating in the spectacular outcome of the House vote, may well betoken a new era of confidence in the free market, after decades of warmed-over socialism. We caution, however, that this House vote is unlikely to be the last. The Powers That Be are desperate to enact some kind of bailout, and may well wait until a lame-duck session of this Congress, or early in the tenure of the next, to try again, when electoral pressures are unlikely to be as severe. For this reason, Americans must continue to be vigilant, and to react with vigor again and again if necessary, until the elites in Washington and Wall Street get the message: no more billionaire bailouts!