



# Opinions vary on next moves

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What's next? That was the question Monday after lawmakers' stunning defeat of a \$700 billion bailout bill to revive the nation's teetering economy.

For weeks, Federal Reserve Chairman Ben Bernanke and Treasury Secretary Henry Paulson have warned that if Congress does not act quickly to pass major bailout legislation, the economy would grind to a screeching halt.

Lending markets would freeze and cash-strapped business would not be able to finance daily expenses, such as paying employees.

But after Monday's defeat in the House of Representatives, the possibilities loomed large.

If not a halt, the wheels will spin very slowly, said Larry Harris, professor of finance and business economics at USC's Marshall School of Business.

"(Policy-makers) will go back to the negotiating table and they will negotiate harder," Harris said. "In the event they totally fail, the banking system will retrench and things will slow down."

Slowing down means a recession, Harris said.

For other observers, congressional inaction could lead to something akin to the Great Depression. But not all agree.

"I love that kind of hyperbole," said Christopher Thornberg, an economist for Beacon Economics.

Policy-makers should not give up on allowing government to be the lender of last resort, with loans to banks that can still work to get the economy going again, he said.

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"(The Fed) can pump tons of money into the market," Thornberg said.

And that is exactly what happened Monday. The Federal Reserve made billions of dollars in cash available to U.S. banks. The move doubled the amount of loans available for banks to \$300 billion, according to The Associated Press.

The action comports with what Harris also predicted.

"The Fed will put a lot of money into the system and the floodgates will open and force the banks to lend," he said.

On the political level, leaders seemed resigned to continue wading through the crisis.

"I think that we need to renew our efforts to find a solution that Congress can support," said Rep. John Boehner, R-Ohio.

But the lack of a bill sent the Dow Jones industrials down 777 points

Monday, the largest point tumble ever in a single day.

The legislation would have included \$700 billion to allow the Treasury Department to purchase troubled mortgage-backed assets from banks - which are at the core of the nation's economic woes. It would have also given the Treasury the authority to fashion the purchase of those assets. Taxpayers also would have been given an ownership stake in companies whose bad assets were purchased.

The legislation was not just troubling to the lawmakers who voted against it.

"It's a tough one to swallow as a taxpayer," said Paul Little, executive director of the Pasadena Chamber of Commerce.

Little said he could understand why many taxpayers would be asking their representatives why, after playing by the rules and paying their mortgages for years, the government would be bailing out the very people who

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created the mess in the first place.

"The economy is built on small- and medium-sized business," he said. "If what we are trying to do is stimulate the economy then maybe some attention should be made to helping these folks."

Those businesses include real estate brokers, who are in the throes of a crippling housing downturn, driven by declining values and the squeezed lending market.

"If they don't do something, they're going to shut down real estate completely," Florida-based real estate agent Richard Shuman told The Associated Press.

Even if a bill was passed, there's no guarantee it would have fixed fundamental flaws in the nation's financial system.

"This is a big mess for all kinds of bad reasons," said Svent Arndt, professor of money, trade and credit at Robert Day School of Economics

and Finance at Claremont McKenna College.

Arndt stressed that government action is needed to calm market jitters, but he still had questions: What incentives are there for CEOs not to rely on a government bailout? How much money will the taxpayers make off the deal? And he was concerned not only that too much power was given to the treasure secretary, but also that too much power is in the hands of too few Wall Street players.

"This bill doesn't really deal with fundamental problems," he said.

The Associated Press contributed to this story.

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