

POLITICO

Mike Allen's PLAYBOOK

50 days - The (London) Daily Telegraph: 'America's Black Sunday: Experts warn of worst collapse in 50 years'

MIKE ALLEN on September 15, 2008 @ 7:14 AM

Wall Street analyst on CNBC: "We were all at the party. Now the cars are crashing on the way home."

Obama statement this morning: "This turmoil is a major threat to our economy."

Less than six months ago, the U.S. had five major investment banks – now it has two ... Howard Wolfson: "It's 3 a.m. on Wall Street" ... Obama launches ad called "Honor" charging McCain with ad lies ... Secretary Gates (and Jonathan Karl) are in Iraq for meetings with U.S. commanders. ... Ike remnants drenching Chicago ... Senator Clinton joins ABC "Good Morning America" whistle-stop tour, talking to Diane Sawyer as the custom train as it rolls through upstate New York, to air Tuesday ... N.Y. Times editorial calls for Charlie Rangel to "step aside as chairman of the Ways and Means Committee while his ethical problems are investigated" ... And the Philly Inquirer says he "shouldn't be chairman" ... Biden speaks on "Bush 44": "America needs more than a great soldier, America needs a wise leader" ... Obama owns Iowa ... Gov. Palin once dressed as Tina Fey for Halloween (really) ... Time.com unveils crisp, red-bordered new homepage that evokes the magazine ... Amber Wilkerson engaged.

Will Nichols, son of Bill and Su-Lin, is 1 year old.

TALKER — Senator Obama, to Chris Cuomo on "Good Morning America," about the tightening polls and big shift with women: "One of the things about running over 19 months is that you realize this thing just goes in cycles. Yeah, there are times where you're a genius; there are times where you're an idiot. It was only — what, 14 days ago — when we came out of the convention and everybody said, 'That was the best convention [anyone] ever had. What a great speech.' We're movin' forward.' ... We always anticipated that we'd get a boost from our convention, they'd get a boost from theirs, and that this was gonna remain close until pretty close to the end, where people then finally get a chance to see McCain and myself debate."

BREAKING — MISSION IN TRANSITION IN IRAQ — Secretary Gates landed secretly in Baghdad, accompanied by ABC's Jonathan Karl: "The violence is down, most of the surge troops are home and General Petraeus is leaving the country. Now, Defense Secretary Robert Gates says, the U.S. mission in Iraq is about to change and the real debate is over how quickly U.S. troops levels should go down. 'One of the major changes in the debate about Iraq is that it is primarily now about pacing of the drawdowns.'"

TOP STORY — Bloomberg News: "In the biggest reshaping of the financial industry since the Great Depression, two of Wall Street's most storied firms, Merrill Lynch & Co. and Lehman Brothers Holdings Inc., headed toward extinction."

OBAMA STATEMENT — 6:17 a.m. Eastern — "This morning we woke up to some very serious and troubling news from Wall Street. ... I certainly don't fault Senator McCain for these problems, but I do fault the economic philosophy he subscribes to. ... Well, now, instead of prosperity trickling down, the pain has trickled up — from the struggles of hardworking Americans on Main Street to the largest firms

of Wall Street.”

CNBC on Wall Street workers: “Nowhere to land.”

Newsday: FALL Street ... N.Y. Post: “BANK SHOT: Wall Street catastrophe for Lehman and Merrill” ... N.Y. Daily News: “WALL OF FEAR: Markets brace for morning after massive bank shakeup.”

THE PRESIDENTIAL CAMPAIGNS ARE ILL-PREPARED TO RESPOND TO THIS, AND SO FAR PLAN TO REPEAT OR TWEAK THEIR THEMES. BUT THIS IS A HUGE OPPORTUNITY. One of the decade's best political minds e-mails Playbook: “No one has tapped into and owns the central issue of the campaign. It is all about the economy. Neither McCain nor Obama has displayed any exceptional ability to speak to that issue.”

Howard Wolfson on his “The Flack” blog on TNR.com: “There is a tendency on the part of candidates to be cautious about inserting themselves too dramatically into the markets during periods of volatility. No one wants to be accused of saying something that causes an adverse reaction on the trading floor. Still, this is ‘a moment.’

***“It's 3am on Wall Street. Will either candidate offer an explanation of the problem and a plan to fix it that will reassure voters and break through the din?”

PLAYBOOK MINDMELD: This weekend's banking meltdown shows that the Bear Stearns and Fannie-Freddie debacles weren't isolated slides but the leading edge of an avalanche, and all the snow isn't at the bottom of the mountain.

The employees carrying boxes of personal stuff out of Lehman Brothers' Manhattan headquarters last night, live on CNBC, had to trudge past the idling black Town Cars of the lawyers and bosses. Police were doing crowd control as tourists gathered, waiting for a celebrity to emerge.

The crisis could lead to fundamental changes in the way the nation's financial institutions operate and are regulated.

***This is no longer a Wall Street story but a MAIN STREET STORY: Car buyers, home shoppers and entrepreneurs will have even more trouble getting credit, the oil in the nation's job machinery.

Historically huge two-column, six line banner headline in The Wall Street Journal: “Crisis on Wall Street as Lehman Brothers Totters, Merrill Lynch Is Sold, AIG Seeks to Raise Cash — Fed Will Expand Its Lending Arsenal in Bid to Calm Markets; Move Caps a Momentous Weekend for American Finance.”

The moving parts:

— Lehman Brothers files for bankruptcy — Bloomberg News: “Lehman Brothers Holdings Inc., the fourth-largest U.S. investment bank, succumbed to the subprime mortgage crisis it helped create in the biggest bankruptcy filing in history. The 158-year-old firm, which survived railroad bankruptcies of the 1800s, the Great Depression in the 1930s and the collapse of Long-Term Capital Management a decade ago, has filed a Chapter 11 petition with U.S. Bankruptcy Court in Manhattan today.”

— Bank of A buying Merrill for bargain-basement price — AP: “Bank of America Corp. said it is snapping up Merrill Lynch & Co. Inc. in an \$50 billion all-stock transaction. The demise of the independent Wall Street institutions came as shock waves from the 14-month-old credit crisis roiled the U.S. financial system six months after the collapse of Bear Stearns. The world's largest insurance company, American International Group Inc., also was forced into a restructuring.”

– Fed acts on Sunday night – NYT: “Even though the Federal Reserve refused to provide a financial backstop to potential buyers of Lehman Brothers, concerns over what may unfold in the market on Monday led it to dramatically loosen its standards on making emergency loans to major Wall Street investment banks. ... In an obscure but highly important announcement late Sunday evening, the Fed said it would let Wall Street firms post as collateral much riskier assets — including equities, junk bonds, subprime mortgage-backed securities and even whole mortgages — in exchange for emergency loans through the Primary Dealer Credit Facility.”

– Major banks form \$70 billion “collateralized borrowing facility” to provide liquidity to troubled institutions. Per their release: “A group of global commercial and investment banks, including Bank of America, Barclays, Citibank, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Merrill Lynch, Morgan Stanley, and UBS, today initiated a series of actions to help enhance liquidity and mitigate the unprecedented volatility and other challenges affecting global equity and debt markets.”

– Reuters, 6:45 a.m. Eastern: "Global share prices sank on Monday after Lehman Brothers filed for bankruptcy protection, turning up the heat on financial market stress and prompting a sharp exit from risk across assets. The dollar also lost traction, with its recent rally abruptly stalled, setting the yen on track for its best daily performance since 2002. Reflecting a growing sense of panic, futures markets jumped to price in a more than 80 percent chance of a Federal Reserve interest rate cut to 1.75 percent at its meeting on Tuesday. U.S. stock market futures were down between 2.8 and 3.5 percent, pointing to a sharply lower open."

DOW COULD OPEN DOWN 300.

On a special 8 p.m. live hour on Fox Business News, Eric Bolling asked whether Bank of America just put a “big fat bull’s eye” on its back by taking on Merrill Lynch’s questionable, non-transparent assets.

Roger Altman, former deputy Treasury secretary under Bill Clinton, said during CNBC’s three hours of Sunday night coverage that the weekend’s events are “historic ... tragic .. disturbing,” producing a “very, very dangerous financial market environment” — the worst he’s seen since he started at Lehman 39 years ago.

THE PRESS AND THE CAMPAIGNS HAVE BEEN SLOW TO GRASP THE MAGNITUDE OF WHAT’S UNFOLDING, EVEN THOUGH THE RED FLAGS HAVE BEEN POPPING UP SINCE THE PANIC SALE OF BEAR STEARNS IN MARCH. Officials who know the details of the risk — the potential taxpayer cost of the Fannie-Freddie takeover, for instance — have no incentive to talk about it.

OPPORTUNITY FOR THE PRESIDENTIAL CANDIDATES —One of them could clinch the election by being the first to come up with something specific and convincing. “This is the financial equivalent of Russia invading Georgia — an unexpected event that calls for leadership and direction,” says James Rickards, senior managing director for market intelligence at Omnis Inc., a research and analysis firm based in McLean, Va. “This is an opportunity for both candidates to go beyond their [comments on] administration action and show how they would stabilize the system on a more lasting basis.”

HAZARDS FOR THE CAMPAIGNS: They’re ill-prepared for a drastic change in the script eight weeks from the finish line. The candidates had hoped to put off their detailed prescriptions until they were in office, unrolling an economic agenda in conjunction with an address to the new Congress. Now, there’s no way to duck it.

– There’s huge downside risk for both. Troubled times could make voters less likely to take a chance on Obama. McCain could pay the price for the economic disruption on a Republican’s watch, or if he looks like he doesn’t have the energy and creativity to reassure a worried nation.

– The new president will be more constrained when he gets to Washington, in part because of the

likely cost of the Fannie-Freed takeover. Treasury Secretary Henry Paulson “spent the cookie jar” with the takeover, a McCain adviser said, adding that Paulson was right to do so.

— The crisis crowds the candidates’ agendas in the stretch run, sapping time from the issues they think they can win on.

THE PLACE OBAMA and McCain MIGHT DIVERGE — John Harwood, on CNBC’s special live coverage Sunday night: “If one of them decides to support additional taxpayer exposure, that’s where you see the potential for a split.”

WHAT THE CAMPAIGNS ARE DOING FOR NOW — Saying the same things they’ve been saying, trying to meld the disaster into their existing messages:

— McCain aides say he plans to use the news to underscore the reform message that he began hammering at the Republican National Convention. “This is bad news for the country and yet another sign that we need to reform Wall Street,” a senior McCain official said. “The only way we can do that is by reforming Washington first. We will show McCain and Palin as the ticket that will take action on the economy and make sure the taxpayers aren’t stuck with the bill.”

— Obama aides say he will hammer the message that the market upheaval shows that the country can’t afford four more years of policies aligned with those of the current administration. His running mate, Sen. Joe Biden (D-Del.), was already scheduled to give a major speech at 11 a.m. Eastern today in St. Clair Shores in Macomb County, Mich., the home of the proverbial Reagan Democrats.

Politico’s Victoria McGRANE: “Joe Biden will deliver a high-profile address intended as the first attack in a sustained anti-McCain offensive in a speech called ‘Bush 44’ ... The speech is touted as matching the aggressive new strategy the Obama campaign has promised to unleash in the remaining days of the campaign to counter the recent poll gains of McCain and his running mate, Alaska Gov. Sarah Palin. ... Next Monday, Biden will deliver another high-profile speech, this one a critique of McCain’s foreign policy views.”

The campaign’s preview: “The speech will lay out the bottom line reality of the choice we face on domestic issues here at home: that if you liked the last eight years of George W Bush, you’d absolutely love four years of John McCain. Joe Biden’s got unique standing because he’s known John McCain so well for so long, and he knows with every fiber of his being that John McCain is dead wrong on the issues families sit around the kitchen table worrying about. And in prosecuting the case, he’ll lay out a ‘just the facts’ prosecutorial case — just look at John McCain’s record to know exactly where he’d take America.

EXCERPTS FROM BIDEN’S PREPARED REMARKS: “We’ve seen this movie before, folks. But as everyone knows, the sequel is always worse than the original. If we forget this history, we’re going to be doomed to repeat it — with four more just like the last eight, or worse. If you’re ready for four more years of George Bush, John McCain is your man. Just as George Herbert Walker Bush was nicknamed ‘Bush 41’ and his son is known as ‘Bush 43,’ John McCain could easily become known as ‘Bush 44.’ The campaign a person runs says everything about the way they’ll govern. John McCain has decided to bet the house on the politics perfected by Karl Rove. Those tactics may be good at squeaking by in an election but they are bad if you want to lead one nation, indivisible.”

NEW OBAMA AD begins with clip of Senator McCain saying, “I will not take the low road to the highest office in this land.” Announcer: “What’s happened to John McCain?” Then quotes from Joe Klein (“one of the sleaziest ads”), E.J. Dionne (“truly vile”), New Republic (“dishonest smears”), etc. Announcer: “After voting with Bush 90 percent of the time, proposing the same disastrous economic policies, it seems deception is all he has left.” http://my.barackobama.com/page/content/honor_ad/

DAILY DAMIEN — DNC launches “[Count the Lies](#)” counter.

CNBC BOOMING — The (London) Independent: “CNBC, which this month celebrates its 10th anniversary, can apparently buck the dismal trends in the media because it is international — and because its target audience is largely the upmarket men whom advertisers still want to reach, even in recessionary times. For advertising purposes, the company says it only measures viewers who are in the top 20 per cent income bracket. ... CNBC's audience is measured daily in the States, and the channel has just had its best July figures for five years.”

CHICAGO POURS — Sun Times cover: “MORE RAIN, MORE PAIN” — Chicago Tribune: “Across a waterlogged Chicago region, the rain eased for the first time in more than two days on Sunday, and forecasters predicted several days of drier weather ahead. ... [A]ccording to WGN-TV chief meteorologist Tom Skilling, showers are still possible Monday morning, especially near Lake Michigan. The drier weather arrives as Chicago set one record for rainfall in a calendar day, 6.64 inches on Saturday, and approached setting a record for the amount of September rainfall — in just the first two weeks of the month. Through early Sunday evening, 12.61 inches of rain had fallen at O'Hare International Airport this month. The record September, in 1961, saw 14.17 inches the entire month. This weekend's rains alone were enough to cause widespread problems.”

MAPQUEST — Des Moines Register's Thomas Bowman: “Democrat Barack Obama has established a double-digit lead over Republican John McCain in Iowa as the presidential race in this Midwestern battleground enters its critical fall stretch, according to The Des Moines Register's latest Iowa Poll. The poll, taken in the wake of the parties' national conventions, shows Obama favored by 52 percent of Iowa likely voters, compared to 40 percent for McCain.”

MINNESOTA BATTLEGROUNDS: “A new Star Tribune Minnesota Poll shows that the race is now a dead heat between Barack Obama and John McCain, each supported by 45 percent of likely voters in the state.”

PUNDIT PREP — Salon's WALTER SHAPIRO — “Race — and the [race for Ohio](#): Center-stage again, the Ohio contest between Obama and McCain may pivot on the impossible-to-handicap racial factor.”

Politico's Jeanne CUMMINGS says “Obama needs more cash”: “Barack Obama's \$66 million haul in August donations may set records but it's only a down payment on the huge sums the Democratic presidential nominee must continue to collect in order to compete through the Nov. 4 election. Obama is attempting to become the first candidate to privately finance the general election phase of his campaign, and his August performance seems to be a good start. His announcement that he had \$77 million in cash in the bank at the end of August came strikingly close to the roughly \$85 million in taxpayer funds that Republican John McCain has to spend on the entire general election.”

CBS' Scott Conroy — “The Real Sarah Palin Laughs Along With Tina Fey's Impression”: “The true extent to which Palin-mania has come to dominate the TV news cycle hit home for me last night as I flipped through the channels on the Palin campaign's charter flight from Reno to Denver. Within a period of about a half hour, I caught the much-anticipated debut of Tina Fey as Sarah Palin on 'Saturday Night,' as well as separate Palin documentaries on MSNBC and CNN.

“Tina Fey was such a dead ringer for Palin that I was tempted to open the curtains that separate the governor and her staff from the media to make sure she was still on the plane and hadn't managed to sneak off to Manhattan to appear live on the show. ... According to her spokesperson Tracey Schmitt, the real Sarah Palin had a good laugh along with the press corps in the back of the plane and millions of Americans at home. 'She thought it was quite funny, particularly because she once dressed up as Tina Fey for Halloween,' Schmitt said.”

WashTimes A1 — “Records show McCain more bipartisan,” by Stephen Dinan: “Sen. John McCain's record of working with Democrats easily outstrips Sen. Barack Obama's efforts with Republicans, according to an analysis by The Washington Times of their legislative records. Whether looking at bills they have led on or bills they have signed onto, Mr. McCain has reached across the aisle far more frequently and with more members than Mr. Obama since the latter came to the Senate in 2005.

“In fact, by several measures, Mr. McCain has been more likely to team up with Democrats than with members of his own party. Democrats made up 55 percent of his political partners over the last two Congresses, including on the tough issues of campaign finance and global warming. For Mr. Obama, Republicans were only 13 percent of his co-sponsors during his time in the Senate, and he had his biggest bipartisan successes on noncontroversial measures, such as issuing a postage stamp in honor of civil rights icon Rosa Parks.”

VINO! Rep. Vito Fossella looking for a way back on the ballot, perhaps as an independent — N.Y. Daily News: “Four months after a DWI arrest and revelations about an out-of-wedlock child forced him to forgo a run for reelection this fall, the shamefaced Staten Island Republican is looking for a way back on the ballot.”

VIDEO DU JOUR — CNN's Mark Preston busts out the “[Preston on Politics](#)” theme song for a piece on convention memorabilia.

ONLINE TODAY — ANDREW BREITBART, who writes the weekly column "[Big Hollywood](#)" for The Washington Times, LIVE ONLINE TODAY at 10 a.m. Eastern.

CHATTER: Amber Wilkerson, the RNC's deputy press secretary, was engaged Saturday night to Sterling Marchand, of the House Homeland Committee and George Washington Law.

LAZY SUNDAY: Brian Danza and Rob Saliterman ran a humid Queens half marathon yesterday, then navigated across a hazy Long Island Sound in a 22-foot outboard using Google maps on their BlackBerrys. The Garman wouldn't start. They got service the whole time.

WILL BILL BURTON'S FIRSTBORN BE NAMED ... Trent Edwards?

<http://www.politico.com/playbook/0908/playbook433.html>

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