2017

Policymaking in the 2007 – 2008 Financial Crisis: How and Why Policymakers Subverted the Public's Interest

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Senior Project Submitted to

The Division of Social Studies

Of Bard College

By

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Annandale on Hudson

May 2017

Introduction

This project analyzes a historical moment in policymaking, the financial crisis of 2007 - 2008, through the lenses provided by scholars of policymaking. This is a policy-oriented project that will also brush the reader up on some economic concepts that will illuminate the causes of the crash to contrast with the policy decisions we discuss. Before we dive into analysis of the policies themselves, we will observe what was going on in the economy and how policy is formed from numerous perspectives. In order to immerse the reader in the mindset of a policy-minded political thinker, Alan Kingdon will serve as our basis of understanding. So as to avoid review, or putting forth too much of his argument, I will provide here only the bare bones of Kingdon's perspective on policy, and save his more intricate "ideal types" of policymaking for Chapter 2. The policy formation process consists of problems, ideas and solutions. The intricacies lie within which problems are selected for the agenda, how ideas make it passed constraints to become solutions, and how those solutions affect both the problem and the public.

Kingdon says that problems are conditions. By this he means that we live under conditions that we feel we cannot control like the weather, poverty, or the economy. When we feel that we can do something about unfavorable conditions, those conditions become problems that need solutions. All walks of history simply see poverty as a condition of societal life, but Lyndon Johnson presidentially orders a war on poverty, makes it a national crisis—a problem to which ideas can be applied. Nothing about the nature of poverty during Johnson's presidency was different from the poverty of our generations, except his advocacy made it a top-of-the-agenda item. There are human beings, both those in elected office, and those unseen actors and advocates who operate closely with Washington, involved in the process of identifying conditions as problems and selecting ideas as solutions. There is nothing but these human beings making sure the most problematic conditions make it on the agenda and the best ideas get chosen as solutions. These actors in and around Washington, their preferences, allegiances, ties, and promises, create the conditions to which ideas usually adhere.

Kingdon says that ideas are not created equal. Ideas that suit the political climate can be coupled with problems and become policy solutions. Ideas are best heard from specialists, or rather groups of specialists in concurrence. Specialists range from committee and cabinet members, to their advisors in the private sector, to professors and experts in various fields. An idea needs to be heard and received well by Congress in order for it to be considered to become policy. The specialist advocating an idea is a very important actor because their credibility in a congressional hearing may decide the fate of that idea in the policy arena. Ideas are tapered and ground down to fit within a set of limitations of what is acceptable in the political stream at the time. Solutions are essentially the ideas that can be coupled with the current political problems, and adhere to current political constraints. We can think of our study as a test of an ideal model Kingdon proposes, which involves a pool of specialist-proposed ideas from which Congress is free to pull from what they see most fitting. Kingdon's is not the only theory we will test however, because we want to explain whom the policymakers act in the interest of, not just whether or not they listen to specialists. Studying examples of policy in the making will give us an opportunity to observe why certain policies were chosen over more viable options and by doing so, we can find out where the key policymaker's allegiances lied in 2007-2008.

Informed by this outlook, the project begins with an initial step of tracing the ideas generated by specialists, long before the crash, regarding the macro economy, the functions of finance, and public policy. Identifying two schools of economic thought—the orthodox and heterodox—the project suggests that by 2007-2008 heterodox thinking offered a more compelling account of the economic realities. The orthodoxy represents an interpretation of Keynes that supports the neoliberal agenda and relies on the concept of supply and demand creating market equilibrium, while the heterodoxy represents a modern money interpretation that relies on accounting principles to better explain macro events like a financial market failure. Even in the face of the crash, orthodox thinkers could neither explain, nor produce a working, long-term solution to the problem at hand. Champions of the heterodox modern money approach hold similar positions at universities, in government, as the famous orthodox thinkers, however the orthodoxy specialize in explaining market failure like the Great Depression and are unmatched in their understanding of their field of study. The puzzle this project wrestles with is, with stakes as high as they were during the 2007-2008 crisis, with reputations, businesses and livelihoods of millions of Americans on the line, why were the best possible solutions of the time not chosen?

Allow us to flush out our puzzle; we have two schools of thought, one of which can explain the conditions that make up the financial crisis problem, and the other that cannot, people have a lot on the line, so why does the government policy reflect an orthodox line of thinking? In order to get to the bottom of this, we will dive deeper into Kingdon and other thinkers who present different theories of how policy comes to be. Only once we have multiple lenses through which to interpret the policy solutions will we be equipped to case study three Acts of Congress that attempted to deal with the financial crisis.

To provide a brief overview of the project, Chapter 1 will explore the conditions of the crash and show how the two schools of economic thought responded to it. Chapter 2 will be a literature review of political theorists' views on the policymaking process. Chapter 3 takes us through three pieces of legislation that combatted the crash; and the final chapter will attempt to answer our question using our accumulated knowledge of both financial crises and multiple political theories of how policy is made. By figuring out why a heterodox approach was not taken by policymakers we will come to understand not only who made the policy decisions, but also to whom the these key policymakers are loyal.

Chapter 1

Why the Crash? Crisis Concepts and Summary

The financial crisis was a complex event with numerous moving parts, and produced a series of distinct moments of policymaking. Barring perhaps the Great Depression, this period of 2007 and 2008 is one of the only instances in which we see political administrators forced to clean up an economic mess of such proportion that theirs, as well as previous administrations, had allowed to form. The four decades preceding the crash were no ordinary times in America. Administrations since 1970s were envious of the enormous growth and administration praising that came out of the wartime economy, but they were left holding the reins of a sluggish recession-prone economy (Wray, 2016). These post-war administrations were so hell-bent on growth that jobless growth out of recessions became acceptable, which had a ratcheting effect on employment. Each recession, or market downturn would bring a loss of jobs that would not be fully recovered from in the upswing (Wray, 2016). Despite policymakers' clear interest in helping the economy, this process was allowed to continue, and eventually market conditions deteriorated from crisis to recession. Over the economically trying post-war period that culminated in 2007 and 2008, private sector debt climbed to all-time highs, aggregate demand fell off, and joblessness rates rose.

From 2007 to 2009 the US financial system experienced, in a shocking series of events, the collapse of major financial institutions, bubbles popping causing the depreciation of privately held assets, and a full blown stock market crash (Blinder, 2014, 5). The major bank failures began when the government subsidized mortgage giant Fannie Mae issued a public refusal to purchase the riskiest subprime loans on February 27th, 2007. This moment signaled what the heterodoxy hoped would be the beginning to the end of the casino-type practices of financial institutions dealing in subprime markets, but it was too late to stop the crash because the damage financial institutions did to the economy was already done. Sure enough, Fannie Mae's statement was the start to a long and messy cleanup process. Next came the fall of the major mortgage lenders, first New Century Financial, one of the larger subprime lenders. After that American Home Mortgage Investment, one of the larger adjustable rate mortgage lenders, filed for bankruptcy protection and Bear Sterns liquidated two of its hedge funds dealing in subprime loan mortgage backed securities in early August of 2007 (USA Today, 2013). This meant that peoples' assets, their portfolios, retirement and various other funds, and their stocks in related companies all lost value. How much a household lost depended on things like when during the bubble they bought their house, how deeply invested in stocks and securities they were, and whether or not their employment positions were effected as the joblessness rate doubled over a period of a few years.

To answer our overarching question, to who was the government loyal during the period of 2007 – 2008, we will try to understand the perspectives of specialists and policymakers, as well as look into which conditions that resulted in economic problems. Some of the telltale signs, lower investment, higher joblessness, and greater levels of public debt made it appear to some specialists that we were at the precipice of another Great Depression, while to others it seemed we were experiencing a new normal of lower labor force participation (Wray, 2016). The complexity of the problem and the potential policy responses to it make this an especially interesting and difficult area of study. This section focuses on how specialists and policymakers viewed the same conditions of the crisis from either orthodox or heterodox positions, and came up with vastly different ideas of how to solve them. With the two schools of thought laid out, we will work to understand the conditions of the financial crisis from the most comprehensive perspective, in terms of sectoral balances, sovereign denominated money, and financial deregulation combined with innovation, all gone awry. Once we understand the difference between the two ways of thinking about the crash, it will be easier to see which school of specialist dominated which of the policies in the case study and move on to our larger question of why certain ideas were chosen as policy solutions above others. Once we understand the difference between the two ways of thinking about the crash, it will be easier to see which school of specialist dominated which of the policies in the case study and move on to our larger question of why certain ideas were chosen as policy solutions above others.

Orthodox and Heterodox Approaches

How one perceived the crash depended greatly on which of two schools of economic thinking one subscribed to, orthodox, or heterodox. The orthodox economist drew from Keynes only what the needed in order to ground their neoliberal beliefs in the efficiency of free-market capitalism. During the decades preceding the crash, a few dozen economists questioned the orthodox line of thinking and came up against an infinite regression related to how control of the money supply could sustain full employment and price stability, which led to a misunderstanding of things like money creation, taxation, and the risky actions of financial institutions (Wray, 2012). These polemic economists represent the heterodox mode of thinking. The heterodoxy banded together at various institutions, actively reinterpreted Keynes, and published furiously as they sought to understand how they were observing more and more indications of market fragility. Orthodox thinkers had trouble interpreting the crash because their fundamental beliefs relied on the invisible hand equilibrium between supply and demand, which they applied to a variety of macro and micro economic transactions, from labor to goods (Wray, 2012). The debate between orthodox and heterodox economists will further our understanding of how specialists and Congress were thinking about the conditions that made the crisis.

The orthodoxy is very concerned with inflation and the instability that results from money changing in value; therefore all of their suggested policies are aimed at fighting inflation, resulting in a desire to keep government spending down. Heterodoxy on the other hand is less concerned with inflation. They believe that inflation will not have a negative effect on the economy because as long as interest paid on money is positive and close to zero, the rate of inflation will be low and predictable (Smithin, 1994; 2003). Heterodox theorists believe that the policy proposed by the orthodoxy as “disinflationary”, raising the interest rate, is actually more dangerous and volatile than if interest rates were set and inflation were left alone. While fiscal policy can still be used to regulate aggregate demand and inflation, Minsky says that monetary policy has lost its effectiveness in dealing with inflation (Minsky from Wray, 2016). Finally, the heterodoxy believes in the power of fiscal policy to stabilize markets if certain mechanisms are used countercyclically, whereas the orthodoxy believes that finance does not matter.

Essentially, the orthodoxy saw unemployment and the rate of growth as controllable via the central banking system of the US—the Federal Reserve (Fed)—and its inflation fighting techniques. They believed that if the currency's value stayed constant, that the market would reach equilibrium, supply would control demand, and with an endless demand for goods and services, full employment would obviously follow. The orthodoxy believed that central banks could maintain the overall health of the economy using three tools: open market operations, the discount rate, and the required reserve ratio. The goal of the central banks operations', what is called monetary policy, was to control the rate of growth, inflation and unemployment (Lindsey & Wallich, 1987). Let us go over their tactics. Open market operations involve a central bank buying or selling securities to effectively raise or lower the amount of aggregate reserves. The discount rate is a tool of central banks to incentivize banks to hold more or less reserves or treasury bonds by lowering or raising returns on government bonds that banks can trade their excess reserves for. The goal of open market operations, and setting discount rates, is to affect the money aggregate and the long-term rates in order to stabilize the rate of growth, prices, and unemployment. The required reserve ratio is a ratio determined by central banks that dictates the limit to the amount of notes a bank can lend in proportion to the reserves they are supplied by the central bank. What does belief in the effectiveness of these tools of monetary policy mean? Subscribers to orthodox theories believe the Fed's monetary policies are able to keep banks on a leash, allowing them only to function as pipelines, to which the Fed controls the original flow of funds in order to stabilize the money aggregate and therefore stabilize the rate of growth of the economy at large.

According to heterodox economists, monetary policy is an unreliable market stabilizer, fighting inflation is not an economic cure-all, and fighting unemployment should be the primary focus of economic policy. The heterodoxy believes that central banks can really only affect the market by setting the overnight interest rate, but these effects are slippery and come with lag. When a central bank tries to raise aggregate demand using monetary policy there are unforeseen long-term consequences. Trying to hit targets with interest rates creates what heterodox thinkers call a Goldilocks economy, where the Fed is in a battle of too hot and too cold endlessly chasing the elusive "just right." The heterodox narrative calls for a fixed overnight interest rate slightly above zero. The heterodoxy believes that predictably low inflation causes no harm to the economy because, accompanied by full employment, it would make it easier to pay off debt. Despite the heterodoxy having little faith in monetary policy, they do believe in the power of fiscal policy to control market mechanisms like unemployment. Fiscal policy can be defined as government policy in regards to finance. The heterodoxy identified an accounting property that applies to the macro economy, which indicates that government budget deficits translate to an increase in the money supply, which if spent correctly can be an effective booster of aggregate demand (Godley, 2001). In order for fiscal policy to be effective however, government debt needs to be countercyclical. This means that when the economy is in a boom, the government needs to deficit-spend less than when the economy is in a bust. Other stabilizing fiscal policy includes graded tax brackets and federally funded, guaranteed jobs for those who need them (Minsky in Wray, 2012). These fiscal mechanisms however, are only possible for governments who possess their own sovereign denominated currency with floating exchange rates (Foster in Wray, 2016).

While the orthodox approach is congruent with the ideas of exogenous (central bank limited) money and controllable money aggregates, the heterodox approach is congruent with the ideas of endogenous (unrestricted by required reserve ratio) money, controllable interest rates, and money aggregate uncertainty. Controlling monetary aggregates by using one variable as a policy guide has not had empirical success (Lindsey & Wallach, 1987). The orthodox thinkers were not prepared to confront the levels of private debt arising from the bank's unrestricted endogenous money creation because the orthodoxy still thought money was exogenously created. They still thought the Fed's monetary policy tools controlled the money supply, but in reality banks were lending more than the required reserve ratio allowed and relying on the Fed or another bank to lend them the reserves they needed to maintain the required ratio. Moreover, banks were making more money originating loans than the Fed could possibly pay as interest on treasury bonds, which ameliorated the possibility of controlling bank lending with the overnight interest rate. Open market operations were also undermined by the banks' realization that the Fed would always supply the reserves needed to make the payment system clear, which meant the Fed could no longer control the money supply.

We may be able to get a glimpse now of how unprepared the orthodox thinkers really were, but more will unfold as we come to understand the role of government debt in a nation with sovereign denominated fiat money. This section also illuminated some conditions that aggravated the crisis like reliance on Fed tactics to reach full employment. An orthodox thinker is likely to believe that the crisis resulted from the Fed temporarily raising interest rates to pop the housing bubble, but an orthodox thinker would say that there was more at work in terms of fiscal policy, misuse of the budgetary powers, and failure to adhere to sectoral balances. The chapter now proceeds to exploring the concepts of sovereign denominated currency, sectoral balances, and financial innovations and deregulation as a basis for better understanding the financial crisis.

Sovereign Denominated Floating Fiat Money

Now we reach a point at which we need to understand the perceived constraints on government policy response to the conditions (low investment, high unemployment and private debt) of the crash. What any one actor thought could solve the crisis came down to whether they thought they need only raise aggregate demand, or employment altogether, although orthodox thinkers as we discussed thought that both could accomplish both by fighting inflation. All the orthodox knowledge pointed to controlling the money supply to fight inflation, and since the Fed was having trouble doing it alone, Congress stepped in with tax-cuts to stimulate demand. For a government believing itself to be in a deficit, this seemed to be a strange solution. To unpack the crisis situation we should look deeper into the concept of government debt.

The US has what is called a sovereign denominated, free-floating currency, which means the government cannot default on debts in its own currency. During Nixon's term in office, he did away with the gold standard established under the Bretton Woods Agreement, which took away the government debt limit, and made the dollar a fiat currency, backed only by good faith in the US payment system. With this kind of currency, the market is more open to speculative exchange both from within, and with foreign investors. In the absence of tight regulations on foreign investment, entire industries are beat out by foreign competition; such was the case with Bethlehem Steel, which contributed to the joblessness problem. The orthodox thinker has a problem with large foreign trade deficits because of the value depreciation of the currency, which does mean inflation, however we mentioned earlier that the heterodoxy does not mind a little inflation, and foreign trade can be controlled by policy measures.

The benefits of a sovereign denominated fiat money are vast, for instance the government can make as much of it as they see fit and do not require tax revenue to spend it. Under this money system, the government has the power to run up a deficit that never has to get paid down. The government's budget is not like a household budget. Conventional wisdom tells us that taxes will eventually be needed to pay off the government debt, but this is false. Taxes are a form of removing reserves from the banking system to hit interest rate targets, but it is not the only tactic. When trying to manipulate interest rates, the Central Bank will sell bonds that earn more interest than reserves to banks in return for their excess reserves. Since banks want to sell their excess reserves for higher-earing assets, excess reserves in the banking system do not push interest rates below the Central Bank's target. When the government deficit spends, reserves appear in the banking system and get funneled right out in return for higher-earning treasury bonds. Hence, treasuries are always in demand, the Fed hits their interest rate targets, and the Treasury's checks never bounce. This payment system contributes to the orthodoxy's perception of a stable market, yet many of the capabilities like making budgetary restrictions and taxes all but irrelevant remained in the dark to them because of their fixation on inflation.

We can think about how an orthodox methodological approach, steering the economy via keeping inflation low with a tight budget and interest rates for heating and cooling, could run the risk of misinterpreting the extent of power sovereign denominated floating fiat money. If a government is worried about a budget to the detriment of the public good, they are doing a disservice to their constituents and their country. As recent attempts to inflate the value of money in Japan and the US show, it is impossible to accurately manipulate the relative value of a free-floating currency using monetary policy (Wray, 2012). Inflation does not need to be the first concern when it comes to government spending, the public good does, thus is the value of a floating fiat currency.

Sectoral Balances

The Levy Institute's own Wynne Godly developed a useful method of thinking about the macro economy using an accounting identity rather than theory. The sectoral balances method rests on something called the flow of funds, the idea that we can trace money, trace debt, in order to better understand how the system of finance works (Godley & Cripps, 1983). We can think of money as debt either because we literally trade in the banks' liabilities that are backed by the Federal Reserve's liabilities, or simply because when someone spends money someone else necessarily receives that money as payment. From this, we can assume a balance sheet equation to every transaction because someone's assets are necessarily someone else's liabilities. Now think about the macro economy as Godley did, in terms of three sectors through which money, goods and services flow. The sum total of assets and liabilities in the combined public sector, private sector, and foreign trade sector always equate to zero because every asset is also a liability. Meaning, if the US net imports, as it tends to do, the private and/or public sector must be sending dollars abroad. In a country that net exports like China, the private and/or public sector must be saving money. Sectoral balances are of the utmost importance for modeling the crisis because the private sector was deep underwater in debt, as was the foreign trade sector, and the government was adhering to a budget that would not balance the scales. What would this mean for the real economy? Due to securitization, the bad loans the banks had made were already packaged as assets and being traded, however these assets were different in that they were not the liability of anybody in particular. The person with no job no income and no assets who received the loan cannot be liable for it. The banks did not feel liable and were not worried because they were able to sell the bad assets to unaware investors. Banks led the private sector into a hole of debt, while financiers, insurers and real estate agents helped distribute it. The US was not going to all of a sudden become a net exporter, which left the public sector to balance out the economy.

The logical question at this point is what did a private sector in debt look like? The answer is a little complex and requires a bit deeper understanding of fiscal policy, so bear with me. The government spends by crediting the bank account of the recipient, which ex-post-facto adds reserves in the banks system. Reserves never get lent out; they are a government IOU that backs the banks IOUs, which we do withdraw. The government is able to take reserves out of the system via taxation. When we write a check to the government for our taxes, the bank takes the amount of their own IOUs out of our account, but pays the government for us in reserves. So, picture a scenario when the government is not spending, but it is still taxing. Reserves are leaving the system faster than they enter. When more assets have accumulated than money is entering the system, the private sector's held assets will deteriorate in value (Godley, 2000). In the case of 2007 and 2008, household's net worth depreciated as home values plummeted, and banks were going bankrupt over mortgage-backed securities.

Financial Innovations and Deregulation

For three decades preceding the crash, a series of economic downswings marked by lower investment, higher joblessness, and greater rates of default were each followed by a FIRE sector (finance, insurance, and real estate) fueled recovery. A series of deregulatory statutes passed during the lead-in to the crisis, justified by a supposed need to slice the budget and/or repay the deficit. In the wake of deregulation, banks saw the opportunity, much like children when their parents are away, to do things they were traditionally prohibited from doing.

The Gramm Leach Bliley Act of 1999 repealed the post-Great Depression legislation that separated commercial and investment banking, which allowed for the creation of the all-encompassing financial holdings company whose sheer size and investment power could blow bubbles by buying and create voids by selling assets. These monoliths were too-big-to-fail. They had subsidiary companies for off-book transactions, faulty asset holding and debt packaging. In 2004 the Security and Exchange Commission was lobbied into a state of existence that did not live up to their mandate to “protect investors and maintain the integrity of the securities markets by improving oversight of broker-dealers and providing an incentive for broker dealers to implement strong risk management practices” (CNBC, 2012). Even so, anything that could have gotten the holding companies in trouble was sure to be down the river from the company itself, ensuring the safety of the mother company. The financial innovation that would get these companies in trouble was the collateralized debt obligation, or CDO for short.

Financial institutions' tactics involved a series of investment techniques that resembled nothing short of fraud (Wray, 2016). The finance sector developed the habit of lending their assets, firm and household debts, to each other in order to finance more investment in the form of loans. The fraudulent packaging of this debt involved taking some of the most risky assets, bundling them together in tranches, and rating the bundle AAA (as secure as a U.S. Treasury). The process of packaging mortgages into CDOs became very profitable because it allowed financial institutions to finance, originate, and sell mortgages that would otherwise have been blemishes on their balance sheet. With the risk to the loan's originator bank ameliorated, the banks were able to give out what would come to be called "NINJA" loans to people with no income, and no job, or assets. The process of creating CDOs involved fraudulent activity on the part of financial institutions, ratings agencies, debt servicers, accounting firms, trusts, brokers, appraisers, and lenders (Wray, 2016). Mortgage brokers and real estate agents trying to make a quick buck tricked average people into adjustable rate mortgages with interest traps that ensured the eventual delinquency on payments. Securities agencies would buy up any and all mortgage liens, in order to re-package, take to be rated AAA, and sell them to various participating trusts and funds. Meanwhile the same lender that originated the malicious loan could purchase what became called a mortgage backed security, or MBS, which bet against the loan recipient's ability to pay. When people began to realize what was inside the CDOs, a game of hot potato began between in-the-know holders of these worthless assets. Companies like Bear Stern that got caught with CDOs on the asset side and MBSs on the liability side of their balance sheet in 2007 were forced into bankruptcy. Orthodox thinkers did not foresee the crisis and, in the aftermath, thought of it as related to a lapse in the Federal Reserve's judgment, raising the interest rates when they should not have, but under a heterodox microscope, financial innovations and deregulation come into focus as causally related to the crisis.

Conclusion

The orthodoxy believed that the financial arena operated under the Fed's rules, but the banks' subversive tactics and the rapid increase in private debt over a period of serious financial deregulation, made it clear to anyone without a significant ideological bias that there was nothing but people's confidence in the Fed stopping a debt-driven recession. If the American public were rational actors as the orthodox believe, they never would have continued to consume under the conditions of debt that were experienced in 2007 and 2008. The public are neither rational, nor are they stupid, they are clever to an extent, such that in the midst of bubbling markets, people try to ride the bubbles even if it means debt-financing their ride. This type of ponzi investment is lauded by the public as incredibly clever, if one manages to ride the bubble up and get out, but the exact same behavior is what creates market instability because the bubble simply cannot last and someone always get left holding the lame duck. According to Minsky, the downturn was not caused by the increase in consumer and household debt, but by an insufficient government budget in the midst of lending-happy banks, lulled into a sense of security by stable market conditions (Minsky, 1982, 30). In this section we have discussed multiple measures taken to stabilize the economy, from the Fed lowering interest rates, to Congress implementing tax-cuts, to financiers packaging debt, all of which failed to prevent the recession.

Chapter 2

Literature Review

Citizens and policymakers exist within a set of conditions from which problems can and do arise, and occasionally become of crisis proportion—affecting a society as a whole. In a democracy, the public and the governors elected or otherwise, solve these problems in unison, or rather the public makes its opinion apparent in elections, and candidates try to appeal to concerns of a greater public in elections as well as during their term. As authors of our own perceptual reality we can choose to accept the view of policymaking described above, or since we may be skeptical of a constant dialogue between thousands of constituents and any given official, we may hope that the governors at least act as they see fit to serve the mass public interest that they claim to serve—the ones that got them elected, appointed or otherwise involved in governance. A third, even more skeptical positioned thinker, who is less inclined to believe in a system of governance that performs as well in practice as in theory, feels the need to understand not only whether or not the public's influence in the election process comes to fruition—producing policies that are for the public, but also whether or not officials, elected or otherwise, hold the public's interest in consideration at all. It would be foolish to exempt from our conversation, entities other than the public that contribute directly to the election and policymaking processes.

This chapter explores political theories of policy-formation that involve the practices of various institutions and actors. We will use multiple theoretical lenses to interpret the process of policymaking, while keeping in mind the distinctions between orthodox and heterodox economic thinking that was making the financial crisis specifically messy. The heterodox specialists' policy proposals represented what was best for the public, although most of the public were not even aware of an alternative to orthodox economics. Heterodox solutions like re-segmenting the banks and making a federally funded jobs program were distinct from orthodox solutions like tax-cuts and capital injections because they were based on the most comprehensive explanation of the conditions that led to the financial crisis. Which leads back to our question, who did policymakers cater to in 2007 – 2008? The public's interest, policy formation-networks of specialists, elites, interest groups, lobbyists, and public opinion are all proposed as answers to our question in our political theories. These ideas are easiest to understand in two categories, those who believe that the public's opinion matters to policymaking and those who do not, however the intricacies lie in the arguments why. It would be nice to believe that the government operated in the interest of the public, but the failure to adopt heterodox policy showed the opposite. If public opinion does matter, then the public's interest is either unbeknownst to them, or it is controlled by policy elite, policies themselves, or the corporate elite. If the public's opinion has no sway on policy, it is because lobbyists, interest groups, and/or specialists usurp its power.

This section will discuss theories of who makes our policy. Does the work of policy formation-networks, elites, interest groups, lobbyists, government officials, and experts rule the public's interest out of policy decisions? A few theories suggest that this is a possibility. Others report that the public's opinion is important to policy-formation, that the public is myopic and systematically misled by political incumbents, or that it is shaped further by the policies themselves. Let us take a closer look at the theories of how public opinion shapes policy, and how the authors derive their theories. Some believe elite owners of profit-producing assets closely involve themselves with policy-formation networks to control policy, while using their resources to try to shape public opinion to match their own (Domhoff). Another theory is that public opinion matters, but is drowned out by lobbyists, interest groups, (Hacker & Pierson). Others claim public opinion matters, but that voters are misled and myopic (Bartels). Another theorist finds that public opinion matters to policy, but that policy also shapes public opinion (Campbell). Whose voice gets the most attention? In the following sections we can get a better understanding of what we would expect to see out of legislators if these theorists were correct.

The Best of Policy Primeval Soup Fills Windows of Opportunity

Kingdon's perspective is that Congress chooses the best solutions from a "policy primeval soup" made of ideas circulating in specialist groups (Kingdon, 1995). Ideas are produced within what Kingdon calls "policy communities" and come to fill windows of opportunity in the "political stream". Imagine, "a community of specialists: researchers, congressional staffers, people in planning and evaluation offices and in budget offices, academics, [and] interest group analysts" (Kingdon, 1995, 116). Ideas are abundant among these groups of specialists, which makes the process of narrowing down the list of ideas a long one (Kingdon, 1995, 116). Specialists in a specific field bounce ideas off one another. This process could look like a conversation over lunch, a published article, hearings where testimony is given, or it could involve the trading of actual written legislative proposals (Kingdon, 1995, 117). Communities of specialists come in various sizes and degrees of fragmentation. Generally those within a smaller, less fragmented community will know of each other's proposals and ideas. Often times, specialists in a tight-knit community will make effort to know the main proponent of a prominent idea in their field personally (Kingdon, 1995, 117). This interconnectivity among smaller, less fragmented communities tends to lead to common outlooks (Kingdon, 1995, 119). A fragmented community of specialists however can produce the opposite, as we've seen from the orthodox-heterodox debacle.

Kingdon wants us to think about policymaking in terms of ideas rather than in terms of power, influence and pressure, as the political scientist usually would. In Kingdon's account policy communities, upon encountering a problem and related ideas, will "argue with one another, marshal evidence and argument in support or opposition, persuade one another, solve intellectual puzzles, and become entrapped in intellectual dilemmas" (Kingdon, 1995, 125). In the policy communities, defensible ideas hold more weight than do lobbying muscle, or the mobilization of numbers of people (Kingdon, 1995, 125). The pushers of these ideas are what Kingdon calls policy entrepreneurs, people with the means of getting things talked about. Policy entrepreneurs exist within, and outside of, government, in both appointed and elected positions, in interest groups, and research organizations. Their defining feature is the willingness to invest time and energy in a future policy decision. Their reasons for advocating vary greatly from legitimizing campaigns, to promoting one's own values, to the sheer satisfaction of being close to the decision makers (Kingdon, 1995, 123). We gather from Kingdon that policy entrepreneurs and specialist groups work within a time-window between when their issue takes a front-seat and when people lose interest (Kingdon, 1995, 127).

Now that we are beginning to understand the avenue through which ideas become policy proposals, originating in what Kingdon calls the policy primeval soup, it is imperative that we look at how the political stream plays a role in forming the windows of opportunity through which policy alternatives immerge. An administration can have great effect on the policy agenda (Kingdon, 174). Similarly to how problems in the policy stream can open a window for alternatives, events in the political stream such as a change of administration, a perceived shift in the national mood, or an influx of new policymakers with new ideas can do the same. Simply put, the agenda is in check by the constraints of Congress, their interpretation of the public mood, ideas about social conditions, and the budget—the relaxation of any of these constraints offers the possibility of a "window of opportunity" for the policy idea.

Before a policy window ever even opens, policy entrepreneurs are at work floating ideas, arguing and reshaping proposals, introducing people to their ideas, from the public through specialists and policymakers themselves. It can take years to soften people up enough for them take the idea seriously enough to get it on the radar of policymakers (Kingdon, 1995, 143). Apart from needing to be prepared years in advance of a problem even appearing on the agenda, policy proposals need to be technically feasible, and acceptable in light of values held by the policy community (Kingdon, 1995, 143). To be technically feasible, a policy proposal must be as completely thought out as possible. It must have a clear measure of implementation. Policy makers need to believe that it will work (Kingdon, 1995, 132). In order to have value feasibility, a policy proposal needs to be coherent with policy makers' values. This means it must align with the proper size and role of government, while remaining efficient with government spending and maintaining equity among constituents (Kingdon, 1995, 143). This policy community is responsible for coming up with the alternatives to the pre-existing conditions from which problems arise.

In this understanding, a lot of the policymaking process is the seizing of opportunities (Kingdon, 1995, 175). Kingdon provides an example from during the Ford administration, in which the executive branch called for proposals to reduce unemployment. An idea surfaced that would couple unemployment with another problem, railroad deterioration, in an attempt to solve both problems with one piece of legislation. In this instance, the Ford administration opened a window through which transportation specialists offered their solution. This example does well to explain how windows emerge, but it does not explain why some policy entrepreneurs get their ideas heard while others do not. Kingdon's explanation is that people who can attain a hearing for various reasons, people who are known for their political connections, and those with a dogged determination to push their cause will become the policy entrepreneurs.

While these policy entrepreneurs are important, they are not the only factor in policymaking because a force beyond them in the political arena opens the windows of opportunity. The entrepreneur's personalities will be behind the laws themselves, which means solutions are not necessarily a product of picking the best solution for the public to a given problem, but rather a result of the entrepreneur's effort to soften up the public to the entrepreneur's own disposition (Kingdon, 1995, 182). Additionally, policy entrepreneurs face a number of constraints, from the ideas formulating in the policy stream, to the political environment which consists of perceived constraints on government officials: constitutionality, the budget, the mood of the mass public, and limited space on the agenda. These perceived constraints lead to a scarcity of windows and predictability of policy outcomes (Kingdon, 1995, 207).

This view of policymaking spares little room for the public's interest because it implies that policy entrepreneurs will push whatever idea benefits them, however Congress has a conceptualized version of the public mood in mind as they open and close policy windows and select policy solutions. If we accept Kingdon's theory that Congress has the ultimate say, we can allow ourselves to wonder why they did not select the heterodox policy solutions that best served the public's interest.

Elites Control Policymaking and Public Opinion

The position this theory takes is that elites control the means of mobilizing the public opinion, which crowds out organic public opinion during election time. Domhoff argues that there is a power elite group of Americans made up of the corporate community and policy-formation organizations, which includes members of the upper class and their families on a nationwide in span (Domhoff, 1998, 3). These elites come to realize their class and status in attending private institutions, and come to see themselves as superior. The upper class derives its status from ownership and control of profit-producing instruments such as stocks, bonds and real estate (Domhoff, 1998, 116). Elites have an agenda, to maintain the status quo and the growth of their fortunes. As a rule, a steadily increasing GDP keeps the elites' assets appreciating, and therefore keeps them happy. Normal policy discussion revolves around reaching an agreement between moderate conservative elites and ultraconservative elites on how to keep GDP on the up and up (Domhoff, 1998, 2).

However, this theory does not propose that public opinion has no sway in policy formation. Domhoff thinks public opinion does affect policy formation positively and negatively. By this he means, an issue may arise within public opinion that engenders a response from political elites, which means politicians are listening to constituents, an that public opinion can also constrain government (Domhoff, 1995, 65). However it is also the case that such influence is limited. For example, there are a couple types of promises on campaign trails. A politician may get the popular vote because they promise to push an issue or because they promise to oppose something that the public deems fearful. Nonetheless, such moments are the exception to the rule.

This theory has points of intersection with C. Wright Mills theory that the political, economic, and military, “power elite” hold a great deal of power and influence over society (Mills, 1956; 2000). Mills posits that the power elite monopolized wealth, prestige, power, but most importantly they monopolized the values held in esteem by society (Mills, 2000, 78). There are policy-formation networks that provide participatory advantages to those with the means to access them. As a result, not every voice equal and we see it reflected in the legislation. The corporate upper class has consistently shaped public opinion by controlling the conversation on economic policies and social issues using mass media, polls and social consequences for dissent (Domhoff 1998, 185-196). According to this theory, the elite are the authority in policymaking.

Lobbyists and Interest Groups Drown Out Public Opinion

Hacker and Pierson contribute to our discussion the theory that lobbyists and interest groups have commandeered the role public opinion is supposed to occupy in a democracy—informing Congress of the points on which, and ways in which, to legislate. Congress’ reliance on lobbyists and interest groups leads to the erosion of public opinion and the opinions of specialists operating outside of the lobbying firms and interest groups. This theory explains how, even if the public or heterodox specialists were aware of issues relating to the growing crisis, Congress would not legislate until the last minute—they were following the prompting of lobbyists and interest groups that were leading them in other directions.

Hacker and Pierson think that economic issues are the most important issues the public faces, but that there are not enough lobbyist and interest groups devoting effort to solving them. Pushing financial deregulation or tax-cuts are examples of things more commonly on lobbyist or interest group agendas. During the Bush years, top 1 percent of earners went from taking home 16% of the nations income to 24% of the nations income (Hacker & Pierson, 2011, 19). A series of tax-code changes beginning in the 1970s are responsible for a sizable chunk of the 1 percent's boost in income (Hacker & Pierson, 2011, 49). Tax-cuts are a reoccurring theme in policy, appearing in Bush's Stimulus Bill and Obama's Reinvestment Act. Hacker and Pierson point to two possible causes for passage of policy to make the rich richer while the poor stay poor. First, the importance of money in politics was increasing, indicated by the doubling in lobbyist spending throughout Bush's eight-year term (Hacker & Pierson, 2011, 207). Second, public opinion was overshadowed by commercial lobbying organizations, and interest groups working closely with corporations to influence policy, as shown in the examples of the K Street Project, Americans for Tax Reform, and Energy Citizens. Once a group of conservative industry associations, Energy Citizens would become the interest super-group when united by the American Petroleum Institute. With a name like Energy Citizens, the group represents "citizens" while curiously lacking the interests of average citizens (Hacker & Pierson, 2011, 144).

The authors make the claim that the middle class has been losing political ground in terms of: money, participation and knowledge. They cite the decline in true grassroots movements and their replacement by astro-turf organizations representing average citizens, but lacking average citizen concerns, as a way in which the all-encompassing "middle-class" lost their edge in policy-formation. The trope that the authors rightly poke a hole in is that average voters' concerns shifted away from material in favor of more moral concerns. In actuality, people still cared about economic issues, but interest groups representing average citizens were tackling issues that were largely noneconomic in nature.

Organizations like EMILY's List, the single largest provider of campaign funds for women candidates, were pushing a new-liberal agenda, effectively replacing efforts to improve overall economic disadvantages of average citizens with women and minority issues (Hacker & Pierson, 2011, 145). The loss of economic interest groups saw casualties on the right and left. The erosion of grassroots movements for middle class citizens made space for a new wave of Christian conservatism. Similarly to the left however, the Christian Right focused on moral issues, which led to a large group of modest means voters aligned with a party that caters more to the wealthy (Hacker & Pierson, 2011, 147). The common citizens' greatest weapons in policy formation, their organizations, were fighting over the rights of women, minorities, and the environment, instead of guarding against new tax-brackets that favored the rich.

Thus the elite organizations were unabated and unopposed in pushing their economic policy. This proved to be a problem because the politicians catering to interest groups, as they naturally should, were not receiving the message that middle class citizens were upset about inequality. A majority of middle and lower income Americans thought inequality is a bad thing, but their platforms for effecting economic policy-formation were occupied, leaving one entity informing economic policy: business. The pushes we see towards upper-end tax cuts were largely unsupported by popular opinion of middle and lower classes who thought the rich did not pay their fair share of taxes already (Bartles, 2008, 140); rather these decisions were greatly influenced by commercial lobbying funded by finance big shots behind the facades of groups with misrepresentative names (Hacker & Pierson, 2011 207). This is Hacker and Pierson's explanation as to how government officials were able to remain unresponsive to the majority of voters and pass economic policy that spurred the unprecedented levels of inequality.

A few anti-tax activist organizations mentioned in Hacker and Pierson's analysis deserve attention. The K Street Project was known for connecting big business donors to lobbyists and politicians. The Club for Growth, and Americans for Tax Reform were similar organizations funded mostly by large-sum private donors, with a more divisive name. These organizations got their reputations from years of experience and strategizing to get their issues pushed to the top of Congresses' list. The means by which they did it had everything to do with money and elections. The Club for Growth spent $2.3 million in 2003 on Pat Toomey's primary campaign against Republican Senator Arlen Specter. Toomey was running on a platform of tax-cuts. Hacker and Pierson propose that this example indicates a gradual, systematic process, developed by these organizations, which replacing incumbents with candidates more in tune to the organizations aims (Hacker & Pierson, 2011, 209). Americans for Tax Reform adopted the practice of asking non-incumbents to sign a pledge not to support tax-increases. Soon to win a Republican primary, a non- incumbent needed to sign that pledge (Hacker & Pierson, 2011, 209). These organizations were not mass operations, they were strategic with their money and support, and were able to make a significant impact in policy-formation by making their opinions seem popular through representation. Once inside Congress in numbers, tax-cut representatives got the chance to fulfill their campaign promises. Former Republican Speaker of the House Tom DeLay used popular support for tax-cuts among incumbent Republicans to the political conversation towards one question: tax cuts or no? Incumbents were given two sides to choose from when it came time to vote, for, or against the tax-cuts. One might ask why this might limit one's ability to say "no" to policy; doesn't it make it easier? In the case of the financial crisis you'll remember, the timing of policy decisions were such that when it policy was shot down, the market took a hit that destroyed nearly $1.25 trillion in private assets. Congress formed their opinions based on what they had absorbed from experts, taking into account their campaign promises as well. The fact that these hits were coming to huge investment companies, which effected groups like retirees and investment bankers more than average Americans, was blurred over. As we all know, the GOP eventually got their tax cuts. According to Hacker and Pierson, Bush Jr. was able to wave goodbye to fiscal conservatism because of strengthened advocacy groups and more radicalized Republican caucus (Hacker & Pierson, 2011, 217). By setting the agenda of Congress, and essentially delineating ideological terms of a candidate's election/re-election, advocacy groups spoke for the public, but did not actually represent their opinions. That explains the advocacy group's involvement, but what about this Republican caucus? If anything, the opinions of the elites came full circle through the policy-formation network, to the political dialogue, to the average political observer. People were given the decision, Republican or Democrat, but interest groups and lobbyists were calling the policy shots. This is Hacker and Pierson's contribution.

The Misled Myopic Public Matters

Bartels' theory, like others we discuss, tries to explain the political inequality that has erupted over in the last approximately three decades. He begins with an explanation of the "New Gilded Age" of rapid economic expansion, partisan conflict and political corruption. Economic prosperity is not spread as evenly as it once was. Between 1974 and 2005 the income growth of the top 5% earners experienced a 62.9% growth of cumulative income, whereas the bottom 95% experienced an average 25.7% cumulative income growth. To Bartels, the income gap is not just an economic inequality problem; it is indicative of a political inequality problem (Bartels, 2008, 19). The very ideals of democracy are threatened by this growing political and economic inequality (Bartels, 2008, 28). American politics is often left out of the discussion of income inequality, but Bartels argues that there is enough evidence from policy decisions over the past decade to suggest that there could be a political solution. Bartels carefully observes election statistics and finds something peculiar. Republicans get consistently more popular support when a majority of voters experience greater economic benefits under Democratic leadership. Figuring out the reason behind this phenomenon is Bartels' puzzle. His answer is multi-stage, but can be summarized as such: myopic voters are convinced by income growth during election years that the incumbent candidate has done a good job. Election year income growth for high-income families is more important to voters on all spectrums of the economic ladder. And voters are swayed by the campaign spending of incumbents and challengers.

Archen and Bartels make a similar argument in a later text that we the voters are not "sovereign and omnicompetent," in fact political parties teach voters what to think about politics more than we inform the party of our views. Voters are not privy to how a candidate acts behind closed doors—we cannot follow them home—so judgment is made based largely on a candidate's public character and how they relate to the electorate. A political campaign is less about hearing the people's voices and more about rallying them to vote according to their partisan identities (Archen & Bartels, 2014, 311). The campaign tells voters a general party platform, but never reveals the candidates' personal interests and reasons for wanting to hold office. Voters are at a loss even when judging incumbents because we are simply not keen enough as a species to tell whether our governors did a good or bad job. We should reject theories of retrospective accountability upholding good standards in democratic government because "they do not portray human beings realistically, nor do they take honest account of our human limitations" (Archen & Bartels, 2014, 306). This theory would have us do away with the folk theory of democracy passed down by Jefferson and the forefathers, as a prerequisite to both greater intellectual clarity and real political change" (Archen & Bartels, 2014, 328).

In this theory, Americans are neither rational actors nor completely dim-witted, but they can be fooled, which complicates the forefathers visions of democracy. Politicians and interest groups, aware of the myopic nature of voters, are able to slip in legislation with a time delay, or loosen financial regulations during an election year to ensure a growth in income among the richest in society and heighten their chance of reelection. Essentially the incumbents awareness of the indices voters look to most to determine incumbent success, allowed bad politicians to focus only on making those indices look good, regardless of the long-term ramifications of twisting the economic cycle to benefit themselves. In this theory, the higher-ups recognize the importance of public opinion and take care to leave indices of growth where most people check at re-election time to gage economic conditions. Bartels is not convinced that voters are swayed exclusively by politician's antics per-se because voters also derive their stance from "misguided self-interest" and ideology strategically placed by affluent influences (Bartels, 2008, 285-88). Similarly to Mills and Domhoff, Bartels thinks the affluent play a role in public opinion, but he adds something new as well. Misguided self-interest is how Bartels explains the phenomenon of middle-class voters voting for Bush's tax-cuts because they think they themselves pay too much in taxes, not knowing that Bush's tax-cuts were primarily for the rich.

Policies Shape Public Opinion

In her book *How Policies Make Citizens*, Andrea Campbell proposes that public policy's influence on participation directly affects the basic mechanism of democratic government. Her theory is informed by data that compared participation among welfare recipients, finding that programs providing knowledge resources (Medicare) saw higher rates of participation and less social stigma than programs that did not provide knowledge resources (Food Stamps). Welfare State policy had two vastly different effects on the groups it provided aid to. For veterans and more so for the elderly, social programs had a unifying, mobilizing effect. On the other end of social policy lie below-poverty-line/unemployment-benefits, which come with a stigma that has limited the program's usefulness in promoting political participation among its beneficiaries. Elderly people are able to avoid the widely held public stigma that poor and unemployed receivers of government benefits have to face.

Suzanne Mettler comes to a similar conclusion, that policy influences the public's opinion, in her book *Soldier*s *to Citizens*. According to Mettler the G.I. Bill was drafted after WWII as a means of dealing with the social issue of how to handle the vast amount of veterans returning from overseas. WWI's veterans caused quite a commotion when the "Bonus Army" that appeared at the White House gates demanding compensation, had to be driven off by General Douglass MacArthur (Mettler, 2007, 17). Thus the G.I. Bill was addressing the interest of government and veterans. It would provide one year of paid schooling, as well as other government aid to veterans who served more than six months. To select veterans who displayed a great degree of skill and promise were given four years of education on the government. Mettler thinks this select group is another way America's policy favored elitism to equality, or inclusivity (Mettler, 2007, 21). This Bill was made for the purpose of quelling another "Bonus Army" type situation, as well as transitioning the economy back from wartime to peacetime. In this instance, there were disgruntled veterans coming back for sure, but no mob was formed around veterans' rights this time. The G.I. Bill had a great impact on the public's opinion of how veterans are treated in America—obviously better than the WWI. But the bill also gave GIs themselves a more positive view of their duties to the government, and therefore verifies Campbell's argument that policy shapes the public it directly affects. Mettler and Campbell's theories explain a similar phenomenon where policy is actually shaping the voter, rather than the voter shaping the policy. These two thinkers share the idea that policy-making is opinion shaping, this is their contribution.

In her book *The Submerged State*, Mettler observes the relationship between the public and government during the Obama administration as it relates to policy. She concludes that people are largely unaware of what policy consists of until they are informed after the fact by legislators. A common understanding of democracy would suggest that the citizens are active in government, however current policymaking practices resemble the opposite. The government actively nudges the public to make the decisions the government thinks are best. The issue with voters being nudged in policy directions is that as polarization becomes more and more apparent and a single source is less and less able to monopolize the media, it becomes harder and harder to get the public's approval on any piece of legislation (Mettler, 2011, 108). Mettler and Campbell's theories could be instrumental in explaining the passage of any of the bills in study because by nonchalantly loosening restrictions on financiers and drawing the attention of the public to largely non-economic issues, earlier administrations had shaped a public that inadvertently accepted an orthodox economic perspective that monetary policy could solve the problems of unemployment and increasing private debt. Loosening restrictions to increase banks' earning potentials gave financiers all the more reason to trust and participate more actively in government.

Conclusion

The purpose of this chapter has been to equip the reader with a few interpretations of the policymaking process in order to see the various kinds of actors each author exemplifies as key, so that we may later make our own judgments about who was behind the policy decisions in 2007 and 2008. Kingdon believes that ideas are brought by policy entrepreneurs through windows opened by political forces that are constricted by the public mood. Domhoff and Mills think there are a policymaking elite who control policy via control over elections and public opinion, and whose goal is to maintain the status quo and grow their wealth. Hacker and Pearson suggest that lobbyist and interest groups have usurped public interest and public opinion. Bartels and Archen tells us that voters, while being essential to the election and therefore policymaking process, are neither the rational actors nor always aware of their best interest, but believe what they are told and are quick to forget. Campbell and Mettler inform us of the possibility that policy itself could influence the policymaking process by shaping the public's attitudes towards conditions of society. These concepts will guide us as we explore policymaking under the most extreme conditions during the 2007-2008 financial crisis.

Chapter 3

Case Study

Stimulus Bill

The Economic Stimulus Act was the Bush administration's parting gift, passed in early February 2008, as Bush's final term came to a close. The "Stimulus Bill," for short, gave tax rebates on the first $6000 of individuals earned income and $12000 of couples earned income with a cap at $600 per individual and $1200 per couple, with an additional $300 per child. The minimum rebate for taxpayers with earned income above $3000 per year was $300 for individual and $600 for couples (Pelosi, 2008). The Stimulus Bill also increased the government's expensing allowance for buying depreciable business assets to a quarter of a million dollars. It also raised the ceiling on the maximum priced mortgage originated between July 2007 and December 2008 that could be bought and securitized by the Federal National Mortgage Association (Fannie Mae), or the Federal Home Loan Mortgage Corporation (Freddie Mac). It made a loan limit increase for people with FHA-insured mortgages in wealthy neighborhoods, so long as they filed before December 2008. It granted the Secretary of Housing and Urban Development power to raise loan limits anywhere he saw fit, so long as he provided a report within thirty days prior.

As early as 2001, the economy was showing signs of a deep recession on the horizon, at least to anyone checking a simple indicator like the sectoral balances (Godley & Izurieta, 2001). It was not until January of 2008 however, that the Government decided to address the issue directly via government spending—fiscal policy. Very broadly, Bush's stimulus bill took effect in four sectors of the economy. Some benefits went to households firms in the form of rebates, but a majority went to to banks and government agencies. If we take a heterodox perspective of the $168 billion in government stimulus, the smallest portion went to the most integral piece holding together the economy. In an accountability crisis, less than a quarter of 1% of the total funds reached those departments responsible for holding corporate lenders accountable. Aside from perhaps realizing the underlying problem of stability breeding instability and not doing enough about it, Bush's stimulus did some good. It proved the depth of the government's pocket, signaled a movement away from relying on monetary policy and orthodox principles, and should have stifled the fiscal conservatives claiming we would have to pay it back in taxes later. There is no simple way of saying that this bill, and this moment in history, changed the way we see stimulus and subvert economic crises. The whopping 1,071-page bill in all its complexity appears to have been designed for us not to be able to read into—for the public not to understand—but that is exactly why it needs a thorough explanation. Keeping in mind our overarching questions and divergent political interpretations of policymaking, Congress may be keen to public opinion, acting in the interest of the public, or on behalf of various elites, lobbyists, interest groups, or policy entrepreneurs.

The Stimulus Bill stood out in an era of polarization and party dissonance as a shining example of Congress agreeing. The bill passed with 380 – 34 yea and nay in the House and 81 – 16 votes for and against in the Senate. The bill went from initial discussions in congress and was passed in less than four weeks. Congress provided the public the semblance of a functioning policy making system, amidst a talk of the polarization-induced dysfunction of the parties. On January 11th 2008, Sen. Harry Reid and Speaker Nancy Pelosi reached out to President Bush in a public letter expressing their intent to work with Bush on a "legislative plan… that injects demand into the economy, restores consumer confidence and purchasing power, and addresses the sever strains being felt by millions of our fellow Americans" (Pelosi, 2008). Meanwhile, a day after Pelosi and Reid's letter, Sen. Chuck Schumer made a radio address warning people of the Bush administration's "do nothing approach as our nations housing crisis escalates, failing to come to grips with the escalating home foreclosures and devastating loss in home equity caused by the subprime mortgage crisis" (Pelosi, 2008). The Senate heard the real problems with no sugar coating, and chose certain solutions. If Congress had accepted the necessity of fiscal policy, they had already abandoned a purely orthodox line of thinking, but they did not go to the heterodox specialists and instead chose to rely on recently orthodox ex-financiers' advising.

The Stimulus Bill had three major stipulations: giving aid to the low income workers and their families, raising the limit on the size mortgage that could be purchased by the government subsidiary companies Fannie Mae and Freddie Mack, and incentivizing business expansion. We mentioned earlier that policy is formulated from ideas, and ideas address issues so allow us to first grapple with the root. Low aggregate-demand and rising unemployment were almost eclipsed by a more immanent issue—the housing market bubble. Secretary of Treasury Hank Paulson was worried about the devastating effects a housing market downturn would have on the economy and his reputation. His position in office, and the positions and reputations of many other elected officials were on the line in the face of this economic crisis. Offshoots of the collapsing housing bubble problem, mainly the possibility that this downturn could affect the entire economic spectrum of constituents, made this a political issue of great importance. A heterodox understanding would say the housing bubble is built on debt due to a lack of adequately paying jobs. Short of the heterodox proposal to create federally funded jobs, setting prices on necessities, providing free healthcare, or free college education, giving everyone a check for $300 was the best option. The sarcasm brings much needed humor to a devastating realization, this was not the best, or the next best option; the Stimulus Bill was a Band-Aid for the public and loosened regulations on finance. Congress acted, in unison, in the interest of elites. To find out why these solutions and not others made it onto the ticket, we need to look to the political actors who made their ideological presence the predominant solution to the issue.

In our search for pivotal actors in the Stimulus Bill, we must observe the bills main proponents, House Leader John Boehner, Senate Leader Nancy Pelosi, Senate Majority Leader Harry Reid, and Secretary of Treasury Hank Paulson, all of whom held advantaged bureaucratic positions sufficient to put their constituents, their party's, their backers', or their own ideological mark on the bill. Boehner was the newly elected replacement for Tom Delay who had stepped down due to accusations of money laundering had forced to step down. Boehner could have been expected to represent the fiscal conservatives, meaning tight-budget runners, and efficient market believers, but he was sailing in disturbed waters where his options were pre-defined. He could throw the proverbial buoy to the sinking CEO's, or let them drown in the leaky boat they had made for themselves. A few clues as to why he chose the CEOs over old fiscal conservative values include: corporate money ties to the party, actual fear of the spread of economic consequences on account of Paulson's predictions, all tied together with his hopes of re-election as a congressman, but also as Speaker of the House.

Market hemorrhaging was visible from privileged positions in Washington because Paulson had access to the banks cooked books and, although too slowly and cautiously, revealed the information he had to Congress. Corruption was visible and ripe to take advantage of from privileged positions in Washington and Wall Street. Party to the bank and firm CEOs' syndicates was every member of Congress with a voice, not advocating for stricter regulation. The ideas heard on the floor and in the discussion rooms were predominantly the aforementioned individuals', or those of a like mind, barring the occasional Bernie Sanders.

Pelosi spoke in interviews as if the Democrats were the patron saints of the middle class, but inside must have known that the bill was too little too late for a suffering middle economy. Pelosi was familiar with finance and corruption having served as Chair of the Campaign Finance Committee in 2006. She consciously lied to the public in her own interest while supporting the private interests, introducing the 2008 Stimulus Bill as a "gift to the middle class" (C-SPAN, 2008). She relied on a misled and myopic voting populace, but anyone actually observing the allocation of resources could tell that the financiers won Congress's allegiance.

Senate Majority Leader Harry Reid also spoke for the Democratic Party, and had this to say about the Stimulus Bill, "Legislation is the art of compromise, and that compromise comes very hard sometimes, and it came very hard this time" (C-SPAN, 2008). Democrats told the public that they did not get as much benefit for the middle class as they had hoped, but they were looking for the wrong kinds of solutions altogether. Republicans would not have liked big handouts to taxpayers, but how big could Reid have initially proposed to hand out? He said he talked with Secretary of Treasury Paulson who told him the things they could and could not do. Paulson knew, so Reid must have known, the Treasury, or rather the Fed's unlimited spending power. One explanation why, is the fact that it was not the Senate, but the House that proposed this bill. The issue being confronted was the insider banks and too-big-to-fail institutions folding under with packaged debt.

Paulson played a prominent role in this piece of legislation, but definitely should not have been in charge of leading the way out of the recession because he had an orthodox understanding of the economy that was unequipped to deal with the issues at hand. He also definitely did not hold the interest of the public very highly because in 2006, Secretary Paulson put forward a very impersonal, evasive and truly scary ideology toward the relation of the market to politics by attributing income inequality to "market forces" as if the government cannot have a hand in the market (Bartels, 2008). Over the next two years, Paulson would begin singing a different tune as he tried to use his powers to gently lift the economy, resulting much like lifting a handful of dry sand—saving some and leaving most behind.

In an address to the nation on January 24, 2008, President Bush assured the public that his Stimulus Bill was,

> "An effective, robust and temporary set of incentives that will boost our economy and encourage job creation… [It] has the right set of policies and is the right size… will lead to higher consumer spending and increased business investment… recognizes that lowering taxes is a powerful and efficient way to help consumers and businesses… not include any tax increases" (Bush, 2008).

Despite these claims, after the fact, the total $168billion stimulus proved to be less of a boost than needed, and also happened to be allocated in strange places. In both Republican and Democrat accounts, Bush's Stimulus Bill failed to more than weakly improve the economy. Where the parties differed was their interpretation of the nature of its failure. The right held that stimulus was an ineffective measure, as it added to the deficit and did not produce results. The left maintained that the stimulus saw results in the real economy proportional to the size of the stimulus package; the size was simply not large enough. Not a single Republican came around for the next act of stimulus under the Obama administration, expressing their displeasure for deficit spending (Blinder, 226). According to the left, the bill was still relying too heavily on trickle-down economics, a highly contested, yet still supported, orthodox way of thinking. Giving businesses tax breaks inevitably leads to business executives taking home bigger paychecks, but will not necessarily lead to job creation. The provisions of the bill were: small tax rebates for lower income households, tax incentives for businesses, and increased the price of mortgage the government's entities could purchase (Blinder, 224). Notice, this act provided one small provision for households and blessed the sectors of finance (specifically traders in derivatives), real estate and insurance. The blow these markets took were notably less than predicted, on account of the government's intervention. To put it in comparison in real terms, a lot of middle and lower income taxpayers got a small rebate check in the mail, while corporate participants in speculative and ponzi trading on the fringe of legality had their companies saved by the government dollar. Republicans and Democrats alike agreed to Paulson's advice to provide more support for criminal bankers than for those they affected.

It is clear that heterodox ideas were never really on the table. Instead Congress chose the idea put forward by countless business interest groups and lobbyists—tax cuts—as was also fashionable in orthodox circles at the time. The appeal of tax cuts rode on unenlightened self-interest—handing out chump change, and riding off with most of the money (Bartels, 2008). The Democrats went with it and tried to add a sizeable refund to taxpayers, but were stunted by compromise Republicans who became very tight budget at the first utterance of welfare. The eclipsing issue of the housing market was not to be solved either, but merely pushed to the next administration to deal with because the increased purchasing power of Fannie Mae only spurred the sale of mortgage backed securities. At the end of the day, tax-cuts were not the same as the steady income jobs provide. From its context at the beginning of the crash we know the Stimulus Bill failed to prevent the disaster to come. What can this policy tell us about the policy-making processes? It will serve as our basis, for understanding whether or not policymakers act in the interest of the public or other interest, whether the public's opinion matters at all in policymaking. Keeping in mind our overarching questions, let us to briefly draw upon our political theorists. If Mettler and Campbell are correct that policy influence citizens, and public opinion matters to policymaking, this failed policy should produce a significant change in approach seeing as it cause significant public and political backlash to the potency of tax-cuts. The question of public influence aside, it is clear from the Stimulus Bill alone that private interests and lobbyists from a booming financial services industry led by elite bankers had a role in policy decisions.

Stabilization Act

The Emergency Economic Stabilization Act of 2008 was the Obama administration's first stab at the issue of the housing market. It consisted of two sections, the first devoted to the housing market crisis, the second to energy independence. The course of action for dealing with the housing market consisted of delegating to the Secretary of Treasury Hank Paulson the job of purchasing securitized assets from banks. There was a committee formed to check Secretary Paulson's results and Paulson was regularly required to report his actions to Congress. Other than the reports, Paulson was to be the unchecked voice of the public interest. The state of the economy in 2007 and 2008, when this bill was in the makings, made this bill one of the most important decisions Congress would make. The decision to bail out finance industry came out of necessity on account of the banks interconnectedness in their risky practices. The same securities Paulson had tried to take care of months earlier by subsidizing Fannie Mae had come back to bite him, yet he was still who Congress looked to for solutions. Secretary Paulson was given the power to essentially legitimate the crappy packaged debt banks were pretending had value. He essentially gave banks the power to create endogenous money by lending, a power once thought to have been restricted by a money multiplier of a bank's Fed-allotted reserves. The policymaking process was not only the most drawn out of the policymaking processes in study, but it gave the most power to a single individual than any other case in study, and it resulted in the most significant extension of power to non-governmental agencies, and returned almost pre-Great Depression market conditions. The Stabilization Act was a complete retreat to monetary policy and orthodox understandings of the economy. The government would put money in the failing banks and let it trickle down—raise the money supply to raise aggregate demand—sure in a functioning invisible hand orthodox model, but we are talking about clever and greedy Americans. The banks only needed money because their assets making up most of the financiers recently made fortunes had gone to shit because the banks themselves had originated them in shit. By saving the banks, policymakers were neither listening to the heterodox specialist who saw all of it coming, nor representing the public who were fed up with bailouts for greedy banks.

Division A of the Stabilization Act would come to be called the Troubled Asset Relief Program (TARP). Title I of the TARP encouraged the secretary to "designate financial institutions as financial agents of the federal government," as well as, "establish vehicles to purchase, hold, and sell troubled assets and issue obligations" (H.R. 1424, Sec 101). Title II of Division A of the Stabilization Act exempted Paulson from budgetary restrictions. Title III protected buyers or sellers of preferred stock in investment companies receiving tarp though tax provisions. It also denies executive benefits for companies benefitting from the TARP.

The story of the Emergency Economic Stabilization Act actually began with a memo, which turned into a program proposal, which turned into a bill and was then signed into law, with congressional approval, by President Bush. This took place over the span of about seven months, including a four-month period when Congress was inactive on the matter. The initial memo was proposed to Congress less than a month after Bush's Stimulus bill was enacted. The Troubled Asset Relief Program's (TARP) inception came as a hasty response to the Bear Sterns rescue, prompted by Treasury Secretary Paulson's rather rational fear that a financial meltdown could be at hand (Blinder, 177). Paulson brought in two men, Phillip Swagel, an economist, and Neel Kashkari, an investment banker from Goldman Sachs, to draft a memo for governmental action to save the economy in the event of a financial meltdown (Blinder, 178). What the team came up with boiled down to four possible solutions, two of which would remain as staple provisions of the TARP. The government could either: buy toxic assets, guarantee toxic assets, inject capital directly into banks, or refinance home mortgages (Blinder, 179). TARP would later allow the government to buy toxic assets on bank balance sheets, and inject money directly into the banks, essentially through government spending. When it came time to propose the program to Congress, the proposal requested the most money any program had ever asked for, and was only three pages long (Blinder, 185). Paulson's proposal asked for $700billion of public money, to be allocated by the Secretary of the Treasury (his own position at the time) as seen fit to ensure the stability of the financial system. Blinder adds that Paulson's clause disallowing judicial review, "was an incredible departure from the way we do business in the United States, and it didn't get in there by accident" (186). The banks failing during Paulson's term would have looked bad, but Paulson also must have seen the chance to help likeminded financial big shots in way over their head in private debt and trying to keep their retirement fund growing through investment.

The Stabilization Act passed with a 268 - 148 majority in the House and 74 – 25, yeas to nays in the Senate. Congress was divided over the strategy for economic intervention with both Right and Left offering distinct critiques, although let us be clear the bill's core ideas were already set when it was accepted to be proposed in March of 2007. It is hard to imagine, but all signs show that the attention of Congress was captured by an idea proposed by Paulson and his team—the window of opportunity was already blocked with a bunk idea, such that the heterodox alternatives never got a chance to be heard. A proposal of this costliness, carving into the deficit no less, should have faced serious scrutiny by every member of Congress, but especially the House and Senate Republicans. It would seem due to the votes however, that tight budget fiscal conservatism would not have the day, at least under the circumstances. With the Democrats controlling Congress, Paulson should have been forced to comply with them, but it was ultimately Paulson's plan. Democrats wanted to use the opportunity to address the issue of executive pay. Democrats on the far left saw inequality as an issue, and tried to seize the moment to check the greedy executives; banks were on one leg and needed the government's help. Paulson, along with his backers in the Federal Reserve System, Geithner and Bernanke, strongly advocated that executive pay be left in tact because they wanted companies to participate in TARP without stigma (Blinder, 188-189). Their fear was that if the banks looked weak accepting the plan, poor market expectations would drive a slow recovery. The public wanted equality and repercussions for greed-driven risk-taking in the financial sector. Instead of the banks receiving the stigma of being weak, the public saw participants in the TARP as greedy bankers accepting government bailout to cover for their own risky dealings (Blinder, 190). The example of TARP shows the members of government who are democratically elected, looking to Paulson, an appointed administration member, instead of specialists on financial crises, and without taking into account the public's dissatisfaction with bailouts. At the same time, the control the Treasury Secretary would wield through the fiscal provisions of TARP gave rise to concern over Paulson's unchecked power, with key Democrats pushing for more oversight. So, it is not as if there are not any congress-people trying to better represent the people, there are simply not enough to outweigh those who go with the flow of privately interested ideas.

The result of Republican and Democrat horse-trading was a piece of legislation that allocated an absurd amount of power to a single individual and did not have the public's approval (Blinder, 191). This piece of legislation held no more than a façade of public interest; it was really all for Paulson and the banks. Paulson was the voice of the business elite in government, a position primed for Paulson by lobbyists and business interest groups, lining politician's pockets for years. Despite the Democrats attempts, the final product still gave Paulson power to allocate billions of government dollars with few provisions on executive pay. A provision created the Congressional Oversight Panel, chaired by Elizabeth Warren, was added to the TARP along with some other supervisory requirements. However, these supervisory roles were just that - *supervisory,* meaning that while they watched Paulson, and later Geithner, they lacked regulatory bite. Paulson was bolstered with a clause that allowed the Secretary of Treasury to purchase any financial instrument necessary, after consulting with the chairman of the Federal Reserve to maintain financial market stability.

Perhaps due to this unsatisfactory settlement, the legislative path that the Bill took was a bumpy one. The TARP was included in the Emergency Economic Stabilization Act of 2008, which passed Congress, but not before it was shot down on September 29th by a combination of over two-thirds of House Republicans and a slightly smaller proportion of the Democratic Left. The very next day however, the S&P 500 took a 9 percent hit, destroying private wealth equivalent to almost twice what TARP had requested, scaring Congress more than Paulson's bill (Blinder, 193). While Congress voted the Act into law, administrative game plans were changing.

Paulson came to believe that capital injections, Bernanke's weapon of choice, would be far more manageable than buying toxic assets. Upon receiving advice from his senior press officer Michelle Davis, Paulson did not reveal to congress that they were voting on a bill, more than half of which was about buying toxic assets, which Paulson no longer intended to make his primary course of action. "As a result, in early October 2008, the United States Senate and House of Representatives voted to inject capital into banks while *thinking* it was voting to purchase 'troubled assets,' including lots of home mortgages" (Blinder, 193). Instead Paulson would use his new powers to buy shares in companies lacking capital equity.

Cash injections were not bailouts—except that they were, they were actually the beginning of a new plan devised by Paulson and Bernanke that was a reversion to what resembled monetary policy—quantitative easing. There were two points at which the public were considered during the TARP's creation, the beginning belief that the bank's failures could affect the public, and the notion that the public needed to think the markets were strong. Constrained by neither of these considerations, the former investment bankers Paulson and Bernanke were allowed to make the decisions they saw fit to help the banks.

Once again Congress took the advice of the finance lobbyists and interest groups that funded the campaigns of so many elected officials. Even members of the cabinet with appointed positions spoke out in support of the same orthodox—let the invisible hand fix it—attitude. It was as if an elite group of finance businessmen had control of the legislating process. But they did it in such a way that left the public believing for the most part that they were saved, perpetuating their electoral blind spot and pushing negative thoughts about the economy out of mind.

Reinvestment Act

On January 6, 2009 Sen. Harry Reid introduced the American Reinvestment and Recovery Act to Congress with a clear set of objectives. These objectives called for legislative action to produce jobs, restore economic growth and strengthen America's middle class in ways that: modernize the nations infrastructure, increase energy independence, expand educational opportunities, provide and improve affordable health care, give tax relief, an protect those greatest in need (Senate.gov, 2009). A whole month, eleven days and 41 roll calls for Congressional votes later, the Reinvestment act passed amidst a gridlocked Congress with only a 244 – 188 majority in the House and 61 – 34 yeas to nays in the Senate.

In 2009, the state of the economy was even worse. The unemployment rate steadily climbed through 2007 and 2008. Private sector debt followed suit. It was time for another government bailout. The question was whether Obama was going to take a different angle than previously. The Reinvestment Act took a similar trajectory to the Stimulus Bill, in that experts played the leading role in creating it, but differed in that the funds it freed were delegated to more experts in more divisions to distribute. The issue Congress was addressing was arguably still the dragging market exemplified by the growing indebtedness of the nations foreign and private sectors, although the mood had changed slightly from the Bush years.

The Obama administration focused on the job market, trying to plug holes in the leaky economy instead of just bailing, although they did that too. Money went to government-affiliated agencies in the service of: Highway, Bridge & Transit, Water & Waste Water Infrastructure, Renewable & Clean Energy, Education, Workforce Development, Law Enforcement, Firefighter Assistance, and Economic and Community Development.

Highway, Bridge & Transit received over $48 billion, Water & Waste Water Infrastructure received $6.4 billion, Renewable & Clean Energy received $16.8 billion, Education Programs received over $150 billion, Workforce Development received $4 billion, Law Enforcement received $4 billion, Firefighters received $210 million and Economic and Community Development received around $3 billion in federal grants (Gillibrand, 2009). Some of the most notable distinctions between Obama and Bush's stimulus packages were that the Stimulus Bill was republican populism, tax-cut oriented; and the Recovery Act was democrat populism, employment oriented. The Stimulus Bill put the money in the hands of the businesses and taxpayers, while the Recovery act put the money in the hands of the experts in the interest of the public, however neither option produced the aggregate demand stimulus, or job growth

Obama inherited a lot of responsibility from President Bush, including appointing a new Secretary of Treasury to replace Paulson, who would complete the trifecta with Obama and Bernanke responsible for nursing the economy back to health. As it turns out, filling the spot of Treasury Secretary was the least of his worries; greatest of all would be getting everyone on board with another round of stimulus. Obama filled his open roster spot with Timothy Geithner, the former investment banker and chair of the New York Fed. The real issue Obama faced was overcoming the assumptions and misconceptions Congress and the public had regarding stimulus of the economy. Obama offered more of a heterodox posture toward economic stimulus that Bush lacked. Under this view, economic stimulus had to come from both equity in the banks and aggregate demand on the level of consumers. Bush's stimulus had not reached consumers effectively because it relied upon earned income tax deductions, which not everyone makes enough to pay. Everyone does need to eat. Obama wanted tax-cuts to reach people who paid payroll taxes as well (Blinder). Another issue facing the team trying to save the nation's economy was the rapid loss of jobs. To remedy this Obama planned to put funds towards infrastructure. A third issue was the State and local governments slashing of payrolls and raising of taxes. To solve this problem Obama proposed providing stimulus to State governments as well.

Republicans took issue with every solution: payroll tax-cuts were welfare, funding infrastructure was more government spending, and aiding state and local governments would not stimulate the economy. However, the real issue was that Obama was fighting an uphill battle with Republicans, as well as the American people, given the context within which the Bill was offered. Bush's TARP had left a bad taste in voters' mouths, and Republicans were coming away with large concessions for refusing to comply with Obama's stimulus plans (Blinder, 227). The largest concession to the Republicans came with the slashing of the New Jobs Tax Credit section of Obama's stimulus. The plan would have effectively lowered the cost, to businesses, of hiring new employees, but it faced harsh criticism from both business groups who wanted cash injections instead of tax cuts, and Republicans. This was the story for a great deal of the Recovery Act's passing. By February 17, 2009, the bill was two-thirds tax-cuts, and one-third new spending (Blinder, 232). The budget deficits incurred by Obama's policy and the hasty overprotection of the stimulus's effectiveness would come to tarnish the Recovery Act's name in the eyes of the public (Blinder, 235)

Analysis

Now, using our knowledge of the two schools of thinking about the of the crisis, and our multiple perspectives for understanding policymaking, allow us to re-examine the three pieces of legislation and try to interpret why some ideas were chosen above others as policy solutions. The Stimulus Bill addressed the problem of low demand via tax cuts. The Stabilization Act addressed the problem of the banks failing through the purchase of toxic assets. The Reinvestment Act addressed the problem of a dragging economy, joblessness, and a lack of aggregate demand, though government spending on infrastructure. The years 2007 and 2008 were trying times for our nation, its people, and its policymakers. These three policy solutions may have saved us from a Great Depression level crash, but they each indicated origins in an orthodox understanding of the economy, and therefore could not diagnose problem, as it was, an instance of finance, real estate, and insurance syndicalism that was short-circuiting capitalism. Despite all the knowledge heterodox specialists put forward in diagnosis of the crisis, as it related to the adherence to nominal budgetary constraints, lack of attention to sectoral balances, and deregulation-fueled innovation, policymakers did not address these issues in any direct manner. The successive failures to head off further market deterioration made the heterodox understanding of economic crisis appealing, both to specialists and the members of the public who chose to study the crisis, however our study makes clear that policy decisions were out of the hands of heterodox specialists and the public. Elections do not produce a responsive government, and the specialists with the best ideas are not always received well by policymakers. Each Act in study can be thought of as created in a bubble, in that the policymakers in Washington operated completely on their own, grounded only by their interpretation of the constraints.

The Stimulus Bill featured a business-first attitude that was indicative of interest group infiltration of the policymaking process. We could point to a number of causes for tax cuts instead of regulation. For starters, tax cuts were a Republican trick of the trade, immortalized by previous Republican administrations, against the grain of fiscal conservatism. The specific brand of orthodox thinking this Act is akin to, called supply-side economics, originating in the Regan era, would lead one to believe that to spur the economy, one need only reduce the taxes and regulations. We could point to groups like the Business Roundtable, still projecting great economic health as late as Q2 of 2007, directly implanting the orthodox, business-elite way of thinking into Washington. How does one fix the problem of low aggregate demand if they believe the business lobbyists and interests groups?

Exactly how the Bush administration handled it—do almost nothing—let the all-powerful invisible hand fix the kinks. Many of Bush's decisions lead us to place him in the category of an orthodox economist, for example he appointed a former CEO Hank Paulson as Secretary of the Treasury, and appointed former financial malpractice corporate defense lawyer Harvey Pit to lead government financial regulation as head of the Security and Exchange Commission (SEC). The Republican Party already thought like the orthodoxy, and the Democratic Party succumbed to the financiers providing election platforms despite trying to uphold their image as representatives of a middle class interest (Hacker & Pierson, 2010). Therefore Congress too was colored orthodox. No regulations were going to come from a group of orthodox-thinking policymakers who were neither constrained by accountability to the public nor intent on maintaining the health of the economy using the most contemporary, comprehensive solutions. This is how we can explain the defunct policy solution choices made in 2007.

The Stabilization Act served the very same business elite that had created the conditions of the crisis—relieving failing institutions of the toxic assets originated and accumulated by the banks themselves. This bill had nothing to do with the public's interest, as it was actually helping those who had got the public into the financial mess. Yes, the public had money tied up in these institutions, but a policy response in favor of the public would pay out the misguided public, or legislatively end the practices of malicious loans, debt packaging for higher security ratings, and off-balance-sheet transactions. Despite the attempt at a top down revival of the economy, the people wound up paying for the mistakes of banks and governments when the policy response failed resuscitate the markets. A policy to protect the people would have had banking regulations attached, and this Act did not. Why so? Let us not forget we are dealing with a similar congress, loyal to the financiers, and the same Fed Chairman Bush had appointed, Ben Bernanke, but under a new administration. Obama appointed a Secretary of Treasury not so deeply rooted in big business, Timothy Geithner, but his former position at the Federal Reserve put him in the same boat as other orthodox thinkers making him unlikely to impose restrictions on the banks. What Obama could not have known was that Geithner would make a grab for power in the TARP and ensure the lucrative financial system stayed in tact so that he could go on to manage private equity funds after office. While we cannot be sure if Obama would have chosen a bailout that disregarded the wellbeing of the public, we can be sure that Congress and the appointed members of finance related divisions of the administration had a significant majority of the leverage in the policy formation process. This is how we can explain the downright criminal policy solution choices made in early 2008.

The Reinvestment and Recovery Act spent most of the large budget on infrastructure and various state departments, and only a small portion went to workforce development. This Act, more so than the others, gave priority to creating jobs, but it should not be mistaken with acceptance of heterodox policy proposals. The Heterodoxy wanted to see federal jobs programs. Studies show that the Recovery Act was more successful at creating jobs in the public sector than the private sector, which calls into question how reliable letting the private sector make their own jobs (Dupor, 2014). Less than a quarter of jobs created by the Recovery

Act after one year were in the private sector, yet seven out of every nine employed Americans have jobs in the private sector (Dupor, 2014). Despite a Democratic majority in Congress, the filibuster required the Act had Republican swing votes to pass. It is no coincidence however that cuts on earned income tax were the first thing the Democrats conceded. At the root, both Republicans and Democrats were still loyal to the private interests before the interests of the public. This Act was another grab at power, although this time less centralized. Government powers were increased, but not how they should have been—over banks and financial institutions—instead government's power increased on account of spending potential. Although this Act was supposed to be a jobs creation measure of fiscal policy, the money spent was not all in service of creating jobs. Apart from by the federal agencies, there was no telling how the money would be spent. Of the $787 billion spent on the Recovery Act, $212 billion was on tax cuts (Boone et al. 2014). Following Bush's administration's failed attempt at raising aggregate demand with tax cuts, Obama's administration puts forth a bill that is one-third tax cuts. The control of policymaking never left the hands of those few critical Congress people and appointed members of finance related divisions of the administration. This is how we can explain the reappearance of faulty tactics in 2008.

Conclusion

We want to come away with a few things; first that policymaking goes on above the heads and beyond the consideration of all but a tiny percent of people involved in policy formation networks, and second that appeasing the people comes as an afterthought to pleasing the private interests. In explanation of these conditions we have proposed that elites, policies, lobbyists, and interest groups each played a role in distracting policymakers and the greater public from the important work and warnings of heterodox economists. While everyone except heterodox thinkers were distracted, conditions went from crisis to crash in 2007. As policymakers scurried to find solutions, they never checked with heterodox specialists whose proposals to fix the unstable market conditions were in circulation for years prior to 2007 – 2008. If Kingdon's theory that policies are chosen based on the merit of the ideas put forward by specialist groups, than we would have likely seen heterodox policies emerge from the policymaking process. The policies we observed were far from heterodox, they favored the finance elites above all else—above the health of the economy, and above the public's interest. Using our multiple perspectives of understanding policymaking, allow us to re-examine the political crisis that culminated in these three pieces of legislation and try to interpret why some ideas were chosen above others as policy solutions.

Policies, lobbyists and interest groups had shaped the political arena, making businesses, rather than the public, most integral to policymakers' decisions. In support of Campbell's, theory that policies shape how the group they directly affect relates to politics, as well as Hacker and Pierson's theory that lobbyists and interest groups usurp the public interest, the combination of loosening restrictions on campaign finance and loosening restrictions on banking practices created an opportunity for Wall Street interest groups to make more money and invest more of it in lobbying and controlling politics and policy—encouraging the collusion of politicians and Wall Street to the determent of the public's relation to government.

This process that took place over multiple administrations of allowing elite interests to manipulate policy to drive a blundering deregulatory pursuit of economic growth, while ignoring public interest, had plenty of election opportunities in which an omniscient public would have thought to seek new management. This aligns with Domhoff's theory that policy and public opinion are controlled by elites, as well as Archen and Bartel's theory that voters will stand by whatever or whomever they have been told to support. Whether or not the decisions made in 2007 – 2008 reflected the public's opinion turned out to be less of an issue than whether or not the public's interest was represented in policy decisions—it turned out not to be.

The most disgruntling aspect of the 2007 – 2008 moment in policymaking was the policymaker's abandonment of the public's interest because it signaled a political crisis in the midst of an economic crisis. Democracy failed to represent the middle and lower class interests for years and it became most apparent when these same underrepresented classes were left with the heaviest burden of the crash. The policy helped maintain the elite's lifestyle in the midst of a crisis that would devastate the lives of middleclass homeowners.

How any member of the public, affected in such a negative way by the economic crisis, still trusts the legislative system is a testament to Archen and Bartel's theory that the public will support anything they are told to support, and Mettler's theory that the public is informed by policy decisions. From these perspectives we can explain how measures taken in 2007 – 2008 imprinted the too-big-to-fail ideology on the public, who continue to trust the financial system despite the lack of change in the regulatory mechanisms that maintain market stability.

Allow me to take you back to the end of 2007 for a moment so that we have a more wholesome understanding of how political actors are able to avoid catering to the public interest. Trouble is stirring in the financial sector, which has faced a period of deregulation as well as bank failures, causing panic amongst the public (Blinder 2014). Debt in the US private sector is nearing to five-percent GDP, and top finance executives walk away with billions per year in salary (Blinder, 2014). The public is in debt personally—they know it—they are indebted to the top executives. Public opinion does not support the neoliberal agenda, but their votes do. The public votes with their party, hoping each time the candidate will push a few issues the public also supports (Archen & Bartels, 2014). It occurs to very few that candidates usually only make it onto ballots because of a tie to an elite interest.

Through the policymaking theorist's perspectives, and our process of examining three crisis-related bills, we have uncovered unpleasant indications that public opinion may be disconnected from policy as early as the election stage of the political process. The elites therefore no longer need to control public opinion, as much as they need to control the public vote—more specifically who the public votes for. Until votes can more accurately reflect the public's opinion on economic matters, there will remain a divide between public opinion and fiscal policy. This relief can never come while Congress is more akin to lobbyists and interest groups than the actual public, and while those lobbyists and interest groups that claim to represent the public constantly subvert economic issues (Hacker & Pierson, 2011). We have discovered from our research that policymakers decide fiscal policy absent public interest and absent an avenue through which the public can offer their opinions on the matter.

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