Patterns of Lawmaking: The Entangled Political Economy of Crises

Wolf Karl Dietrich von Laer

Adviser: Mark Pennington and Adam Martin

Degree: PhD

Faculty: Social Science and Public Policy

Department: Political Economy

Student ID: 1260711

E-mail: wolf.von_laer@kcl.ac.uk

Abstract

In this dissertation, I present a unique pattern of lawmaking during crisis: laws become enacted quicker while at the same time gaining length. The data this pattern is based on come from the study of 11,584 laws passed by the US Congress over more than four decades. The second part of the dissertation presents theoretical explanations for this pattern of lawmaking during crisis. For this I rely on an entangled political economy framework. This framework allows me to go beyond most narrow rational-choice theories and study the complex web of exchange relationships that makes up the lawmaking process. I study four groups that enter into this process: voters, legislators, interest groups, and bureaucrats. I argue that voters influence legislators not only by voting but also by generating pressure during crisis. Legislators react to citizens' demands and want to signal to the electorate that they are addressing the crisis. They create what I call "Christmas tree laws": laws that contain many policy proposals while serving the interests of legislators' constituencies and themselves. Interest groups are to a large extent only reactive forces during this process since they cannot keep up with the speed and extensiveness of lawmaking. Certain coalitions of interest groups are able to secure rents, but that does not apply to interest groups in general. Lastly, I study bureaucrats and find that they are crucial nodes in the political decision-making structure because they design, interpret, and implement laws. Both bureaucrats and lawmakers have an incentive to delegate lawmaking to bureaucracies, which enables certain powerful individuals within bureaucracies to use formal and informal relationships to attain their personal or policy objectives.

Acknowledgements

Probably like most dissertations, the present work evolved over many years. Starting with my interest in debt cycles and the growth of government, my work quickly turned to the economic study of politics—public choice. I was astonished to learn of a disconnect between public choice and historical works like *Crisis and Leviathan* by Robert Higgs. Crises are significant events in every polity, but they are not theoretically captured within public choice. This is due to some shortcomings of public choice in studying complex events such as crises. The first question was what, if anything, changes during crisis. I started to study four decades of lawmaking in the United States and found a unique pattern of lawmaking during recessions that was faster and also yielded lengthier laws. Lengthier laws in less time—what are the theoretical dynamics that bring about this pattern? I learned quickly that I needed a new approach that relies on public choice but goes beyond it. I found the approach in the entangled political economy framework, which allowed me to theoretically understand what happens during crisis. I hope the reader will find value in the empirical presentation of the pattern of lawmaking during the last five recessions as well as the theoretical explanations of voter, legislator, bureaucrat, and interest group behavior that contribute to this pattern.

I am grateful for the excellent guidance by my PhD adviser Mark Pennington. Encouraging and always helpful, he has read my chapters numerous times and provided crucial feedback. The work of a dissertation adviser is hard, and it does not provide many tangible benefits. I could not have wished for a better adviser. My second PhD adviser, Adam Martin, showed me the ins and outs of academic publishing. An education that culminated in the publication of an article, "Regime Uncertainty and the Great Recession," in the *Independent Review*. This was a great experience, and I have learned throughout the process many lessons that informed the present dissertation. Dr. Scott James also generously committed time and energy in reading earlier PhD drafts and providing

valuable feedback on the manuscript. There are many people within the Department of Political Economy at King's College London that I have to thank, such as Emily Skarbek and David Skarbek, who taught me how to teach and who provided valuable advice on the academic life in general. I am especially proud of and thankful for Anton Howes who started the PhD journey with me and who has reduced the amount of convoluted Teutonic language in this dissertation from day one.

My academic career was only made possible through the support of my parents. Thank you for hanging in there through my many years of studying. Ebba Karlsson, my partner during many years of the PhD, was a huge support through the lows and highs of writing this book.

My PhD studies were supported by many organizations that had a lot of impact on my academic development. The financial support and the great network of the Friedrich Naumann Foundation (FNF) has to be mentioned. They have supported me since my BA studies. Without their support, I would not even be able to speak English today since they supported me in taking intensive language courses in Washington, DC, in 2009. I have held a PhD scholarship from the FNF from April 2013 to April 2016. FNF also published my bachelor's thesis and reissued it two times, with over a thousand copies distributed. The Institute for Humane Studies (IHS) also supported me as a fellow over the years. Nigel Ashford from IHS was the one who told me about the new department—the Department of Political Economy—at King's College London and encouraged me to apply. IHS's seminars, especially the one on financial-market regulation in San Francisco in January 2016, had a lot of influence on my thinking on the patterns of lawmaking.

I do not pretend that my work has even a shred of the ingenuity of Adam Smith's work. However, I had the honor of carrying the title of an Adam Smith Fellow two years in a row. The Mercatus Center at George Mason University in Virginia runs that program and enabled me to learn extensively about two influences on this dissertation: the Ostroms and Virginia political economy.

Furthermore, I presented several of my chapters through the Mercatus Center at George Mason University. I received crucial feedback from the faculty of George Mason University. Especially helpful were Peter Boettke, Chris Coyne, Virgil Storr, and Richard Wagner. The Mercatus Center invited me to a two-day curriculum on Prof. Wagner's recently published book *Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy*. The in-depth discussion on the topic of entanglement showed me the importance of entanglement for my own research. Richard Wagner was also so kind as to review my chapter on the entangled political economy approach. Patrick McLaughlin and Oliver Sherouse from the Mercatus Center were very helpful in reflecting on my data findings and running my data through Regdata.org to generate additional insights on the content of the laws that I study. I also want to thank the Weidenbaum Center at Washington University in St. Louis and the George Washington University Regulatory Studies Center for their help in studying bureaucrats and regulation. I express the same gratitude to the participants of the workshop at the Cathay Institute of Public Administration in Beijing.

After two years at King's, I spent the following two years within the productive research environment of the Research Institute for Industrial Economics (IFN) in Stockholm. The institute provided a great work environment. I wish to express my sincerest appreciation of the work of IFN and its generosity. I also presented parts of my PhD at the brown-bag seminar series in March 2015. I particular want to thank Magnus Henrikson, Niclas Berggren, Niklas Elert, and Henrik Horn for their support and feedback on my PhD.

A huge thank you goes also to Edward Dehm, who has helped me to understand the data and some of the code that was necessary to put all the empirical pieces together. My research benefitted from the comments, conversations, and feedback from Aron Berg, Per Bylund, Mark Calabria, Art

Carden, Wayne Crews, Stefanie Haeffele-Balch, Robert Higgs, Kalle Kappner, Cris Lingle, Ulrich Möller, Heister Peirce, Marta Podemska-Mikluch, Chad van Schoelandt, and Aris Trantidis.

Table of Contents

Abstract ii

Acknowledgements iii

Table of Contents vii

Tables xii

Figures xiii

Abbreviations and Acronyms xv

Chapter 1: Patterns of Lawmaking: The Entangled Political Economy of Crises 18

Defining Crises 21

What Do We Know about Crises? A Cross-Disciplinary Literature Review 24

———.Crisis Management 24

Behavioral Science 26

Political Science and Law 27

Economics 32

Overview of Crisis Research 36

Methodological Approach and the Argument of This Dissertation 40

Chapter 2: An Empirical Analysis of Lawmaking during Crisis 44

Government Activity during Crisis 45

Ratchet and Displacement Effects 46

Punctuated Equilibrium Theory 51

Macroeconomic Studies 57

Political Bubbles and the Empirical Evidence for Delayed and Limited Legislative Responses 59

Conclusion........59

Data Selection and My Empirical Approach........61

Patterns of Lawmaking during Crisis: Making Sense of Legislative Behavior........66

Potential Problems of Validity and Other Factors of Lawmaking during Crisis........73

Length Does Not Equal Legal Intrusiveness........74

Time in Congress Not Equal to Congressional Work on Laws........77

Presidential Executive Orders........78

Policy Responses to the Financial Crisis on the State Level........80

Appropriation Laws........81

The Federal Reserve System as a Policymaker........83

Chapter 3: The Political Economy of Five Economic Crises 85

Mid-1970s Recession........86

Tax Reduction Act—(H.R. 2166 1975)........90

Energy Policy and Conservation Act—(S. 622 1975)........90

Revenue Adjustment Act—(H.R. 9968 1975)........91

1980s Recession........92

Chrysler Corporation Loan Guarantee Act—(H.R. 5860 1980)........94

Depository Institutions Deregulation and Monetary Control Act—(H.R. 4986 1980)........95

Economic Recovery Tax Act of 1981—(H.R. 4242 (1981)........96

Garn-St. Germain Depository Institutions Act—(H.R.6267 1982)........97

Early-1990s Recession........98

Resolution Trust Corporation Funding Act—(S. 419 1991)........100

Federal Deposit Insurance Corporation Improvement Act—(S. 543 1991)........101

Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act—(H.R. 3435 1991)101

Dot-com Crisis........102

Sarbanes-Oxley Act—(H.R.3763 2002) 104

Job Creation and Worker Assistance Act of 2002—(H.R. 3090 2002) 105

Great Recession 106

Economic Stimulus Act—(H.R. 5140 2008) 108

Housing and Economic Recovery Act—(H.R. 3221 2008) 109

Emergency Economic Stabilization Act—(H.R.1424 2008), (H.R.3997 2008) and Fraud Enforcement and Recovery Act (S. 386 2009) 110

American Recovery and Reinvestment Act of 2009—(H.R. 1 2009) 113

Helping Families Save Their Homes Act of 2009—(H.R. 1106 2009) and (S. 896 2009) 115

Dodd-Frank Wall Street Reform and Consumer Protection Act—(H.R. 4173 2010) 115

Concluding Thoughts on the Political Economy of Recessions 119

Chapter 4: Political Economy, Entanglement, and Crises 122

Entangled Political Economy 123

Political Economy, Catallaxy, and Public Choice 128

The Relevance of Criticism of Public Choice 134

Complex Phenomena and the Explanatory Power of Entangled Political Economy 136

Why Voters, Legislators, Interest Groups, and Bureaucrats? 140

Entangled Political Economy and Crisis Research 142

Chapter 5: Voter Behavior in Times of Crisis—Voting and Other Forms of Electoral Pressure 144

The Ambivalent Relationship of Citizens to Their Government 146

Public Choice and the Transmission of Voter Preferences 151

Availability Cascades and Crises 154

Stylized Facts of a Crisis and the Attributes of Availability Cascades 162

The Decision-Making Matrix of Exercising Voice in Crisis 173

Conclusion 181

Chapter 6: Legislating during Crisis—a Christmas Tale 184

Median-Voter Theorem 185

Logrolling 187

Ideology 189

Political, Budget, and Legislative Business Cycles 194

Agenda Setting and Policy Streams 197

Christmas Tree Laws 200

Conclusion 213

Chapter 7: The Role of Interest Groups during Crisis 216

Crises and Theories of Interest-Group Behavior 216

Economic Theories of Interest-Group Behavior 218

The Demand for Information and the Limited Reach of Interest Groups 221

Patterns of Interest-Group Behavior during Crisis 225

Entangled Interest-Group Activity during Crisis 231

Conclusion 241

Chapter 8: Bureaucratic Behavior during Crisis 243

The Influence of Bureaucracies and Their Activity 244

Theories of Bureaucratic Behavior and Recessions 250

An Entangled Theory of Bureaucratic Behavior during Crisis 258

Conclusion 268

Chapter 9: The Entangled Political Economy of Crises 271

Epistemic Considerations and the Need for Reform 275

Policy Proposals to Improve Legislation during Crisis 279

Entangled Political Economy and the Scholarly Road Ahead 284

Conclusion 289

References 292

Appendix 1: Comparison Laws 338

Appendix 2: 9/11 Crisis Laws 341

Tables

TABLE 1: LITERATURE ON CRISES—OVERVIEW 37

TABLE 2.1: RATCHET EFFECT: HIGHEST MARGINAL INCOME TAX RATES 49

TABLE 2.2: EMPIRICAL STUDIES ON CRISIS DECISION-MAKING AND ITS EFFECTS 60

TABLE 2.3: CRISIS PERIODS 62

TABLE 2.4: LAWMAKING, 1973–2014 67

TABLE 2.5: COMPARISON OF ALL CRISIS PERIODS 69

TABLE 2.6: BINDING RESTRICTIONS OF THE CRISIS LAWS 75

TABLE 2.7: COMPARISON OF RESTRICTIONS (AVERAGES) 75

TABLE 2.8: CORRELATION BETWEEN CRISES AND GROWTH OF REGULATORY RESTRICTIONS 77

TABLE 2.9: EXECUTIVE ORDERS BY PRESIDENT (IN DESCENDING ORDER) 78

TABLE 3.1: OVERVIEW OF LAWS FROM THE MID-1970S CRISIS 91

TABLE 3.2: OVERVIEW OF LAWS FROM THE EARLY 1980S CRISIS 98

TABLE 3.3: OVERVIEW OF LAWS FROM THE EARLY 1990S CRISIS 102

TABLE 3.4: TIMELINE OF EVENTS SURROUNDING SARBANES-OXLEY 104

TABLE 3.5: OVERVIEW OF DOT-COM CRISIS LAWS 106

TABLE 3.6: TIMELINE OF THE EVENTS AND THE LAWS DURING AND AFTER THE GREAT RECESSION 107

TABLE 3.7: OVERVIEW OF THE GREAT RECESSION LAWS 118

TABLE 4: RESEARCH ON INTERGROUP RELATIONSHIPS AND POLICY OUTCOMES 140

TABLE 5: CHARACTERISTICS OF AVAILABILITY CASCADES DURING CRISIS 169

TABLE 6.1: IDEOLOGY AND ITS INTERPRETATION 192

TABLE 6.2: OVERVIEW OF THEORIES OF LEGISLATIVE BEHAVIOR DURING CRISIS 215

TABLE 7: ANNUAL RULEMAKING OF ECONOMICALLY SIGNIFICANT AGENCIES—1993–2013 245

TABLE 8: COMPARISON LAWS 338

TABLE 9: OVERVIEW OF 9/11 CRISIS LAWS (107TH CONGRESS) 341

Figures

FIGURE 2.1 GROWTH OF REGULATORY RESTRICTIONS, 1970–2014 49

FIGURE 2.2: CONGRESSIONAL HEARINGS PER YEAR, 1973–2013 53

FIGURE 2.3: YEAR-TO-YEAR PERCENTAGE CHANGE IN THE BUDGET FOR EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES, 1973–2013 55

FIGURE 2.5: LAWS BECOMING LONGER—AVERAGE WORD COUNT 67

FIGURE 2.6: MONTHLY UNEMPLOYMENT RATE, 1970–2015 71

FIGURE 2.7: PUNCTUATED EQUILIBRIA OF FINANCIAL REGULATION 72

FIGURE 3.1: AVERAGE ANNUAL INFLATION RATE 87

FIGURE 3.2: BANK FAILURES, 1971–2015 94

FIGURE 5.1: TRUST DURING RECESSIONS 149

FIGURE 5.2: SOCIAL CASCADES AND CRISES 159

FIGURE 5.3: PRIVATE DECISION-MAKING MATRIX FOR CITIZENS DURING CRISIS 176

FIGURE 5.4: DECISION-MAKING MATRIX FOR CITIZEN PARTICIPATING IN PUBLIC DISCOURSE 179

FIGURE 6.1: BUDGET SURPLUS OR DEFICIT, 1970–2014 195

FIGURE 6.2: WORDS TO READ PER DAY IN CONGRESS: CRISIS AVERAGES 208

FIGURE 6.3: WORDS TO READ PER DAY IN CONGRESS: INDIVIDUAL LAWS 209

FIGURE 6.4: SECTIONS IN THE US CODE AFFECTED BY DODD-FRANK, THE GRAMM-LEACH-BLILEY ACT (GLB), AND THE FINANCIAL INSTITUTIONS REFORM, RECOVERY, AND ENFORCEMENT ACT OF 1989 (FIRREA) 210

FIGURE 7.1: TOTAL ANNUAL INTEREST GROUP SPENDING, 1998-2015 (IN BILLIONS OF DOLLARS) 226

FIGURE 7.2: ANNUAL SPENDING BY SECTORS RELATED TO FINANCE, 1998–2015 226

FIGURE 7.3: CONGRESSIONAL CAMPAIGN EXPENDITURE, 1974–2012 (IN MILLIONS OF DOLLARS) 227

FIGURE 7.4: PAC CONTRIBUTIONS TO CONGRESS 1978–2012 (IN MILLIONS OF CONSTANT 2014 DOLLARS) 228

FIGURE 7.5: MONEY RAISED BY NATIONAL PARTY COMMITTEES 1992–2012 (IN MILLIONS OF DOLLARS) 228

FIGURE 7.6: SENATE COMMITTEE CAMPAIGN-FINANCE RECEIPTS, 1989-2014 230

FIGURE 8.1: ECONOMICALLY SIGNIFICANT RULES, 1981–2015 247

FIGURE 8.2: STAFF IN ECONOMIC REGULATORY AGENCIES, 1970–2014 249

FIGURE 8.3: STAFF FOR THE FED AND THE SEC, 1970–2014 250

Abbreviations and Acronyms

ARRA	American Recovery and Reinvestment Act
BoG	Federal Reserve Board of Governors
CBO	Congressional Budget Office
CFPB	Consumer Financial Protection Bureau
CIA	Central Intelligence Agency
DHS	Department of Homeland Security
DIA	Garn-St. Germain Depository Institutions Act of 1982
DIDMCA	Depository Institutions Deregulation and Monetary Control Act of 1980
Dodd Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
ESAA	Emergency Supplemental Appropriations Act
EESA	Emergency Economic Stabilization Act
EO	Executive order
EPE	Entangled political economy
ERT	Economic Recovery Tax Act of 1981
ESA	Economic Stimulus Act
EU	European Union
Fannie Mae	Federal National Mortgage Association

FBI	Federal Bureau of Investigation
FCIC	Federal Crisis Inquiry Commission
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
Fed	Federal Reserve System of the United States
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
Freddie Mac	Federal Home Loan Mortgage Corporation
GDP	Gross Domestic Product
GLB	Gramm-Leach-Bliley Act
GNP	Gross National Product
GPO	Government Printing Office
GPO FDSys	Government Printing Office Federal Digital System
HERA	Housing and Economic Recovery Act
HFHA	Helping Families Save Their Homes Act
House	House of Representatives
H.R.	House of Representatives
HSA	Homeland Security Act

IMF	International Monetary Fund
JCWAA	Job Creation and Worker Assistance Act
NBER	National Bureau of Economic Research
NRA	National Recovery Administration
NSF	National Science Foundation
OECD	Organization for Economic Co-operation and Development
PAC	Political action committee
PET	Punctuated equilibrium theory
Pub. L.	Public law
Rep.	(House) representative
RTCFA	Resolution Trust Corporation Funding Act
SEC	Security and Exchange Commission
SMEs	Small- or medium-sized enterprises
SOX	Sarbanes Oxley Act
TARP	Troubled Asset Relief Program
TRA	Tax Reduction Act
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act
U.K.	United Kingdom

Chapter 1: Patterns of Lawmaking: The Entangled Political Economy of Crises

The Great Recession has had a huge impact throughout the world. Between 2008 and 2010 alone, forty-six banking crises, twenty-eight currency crises, and twenty-one sovereign-debt crises occurred worldwide (Reinhart and Rogoff 2011a). The responses from governments around the world were extensive. The Federal Reserve reduced interest rates to close to zero and bought toxic assets from banks that were in the center of the mortgage-backed-security crisis. The United States enacted the biggest stimulus package in its entire history with the American Recovery and Reinvestment Act and changed the financial-regulatory landscape extensively with Dodd-Frank Wall Street Reform and Consumer Protection Act. The European Union overhauled its entire financial-regulatory system and created new institutions coordinating and overseeing national regulators.

Crises are often depicted as times of change. However, how much do we know about political decision-making during such times? This matters because crises are quite common. Since the National Bureau of Economic Research started tracking recessions in 1854, not one decade has passed without a recession. If one adds wars, terrorist attacks, and natural disasters to the equation, crises appear to occur frequently. In this study, I will focus on crises that are temporary events that threaten a majority of the people's livelihood and/or safety in a given geographical area. Financial crises and major wars fall into this category, but the lack of immediacy excludes, for instance, global warming. My research focuses mostly on events and data from the United States.

My research contributes to the study of crises in two ways. First, I show that crises produce patterns of lawmaking vastly different from lawmaking during times of normalcy. I compare lawmaking during normal times to lawmaking during five recessions from the 1970s to the Great Recession. To

do this, I assembled a database of four decades of legislation that tracks the length of laws as well as the time it took Congress to enact them. I find that laws enacted during recessions are in average ten times longer than the average law in the four decades of lawmaking I consider (n=11,584). The recession-born laws passed 120 days quicker. The dynamics of legislation clearly change.

The second contribution to crisis research is a theoretical framework based on entangled political economy. This framework explains the incentives that make voters, legislators, interest groups, and bureaucrats produce a different pattern of lawmaking during crisis.[1] Policies are the outcome of politics, which involves the previously mentioned four stakeholders in a democracy. We need a theoretical understanding of whether and how incentives change during crisis to understand the outcome of lengthier and faster legislation during crisis. This makes my study a work of political theory in which I show that an entangled political economy perspective adds to our understanding of crisis decision-making while, at the same time, it explains the empirical pattern of lawmaking presented in chapters 2 and 3. My research provides a novel theoretical account of decision-making during crisis and shows that entangled political economy has more explanatory power than other theories.

It is crucial to understand crisis decision-making because crises have the potential to bring about changes that influence a polity and its institutions for decades to come.

The present work adds to the literature through a study of all the relevant groups during crisis. Contrary to previous research, this study shows the incentive changes at the level of the agents. Most studies analyze crises in an aggregated fashion: they note a change in the policy outcome but

[1] I refer to voters, legislators, interest groups, and bureaucrats throughout this work as the four groups or the stakeholders involved in government decision-making.

insufficiently explain how this outcome comes about. With a better understanding of how incentives change for voters, legislators, bureaucrats, and interest groups, I can propose concrete ways to improve the institutional framework to yield better decisions.

After this introductory chapter, which examines literature across different disciplines and provides a methodological outline, I present empirical observations in chapters 2 and 3. Chapter 2 begins with an exposition of empirical work on government activity during crisis. After that, I introduce my data on forty-one years of lawmaking by Congress and its pattern during crisis. As background for the data, chapter 3 provides a historical overview of the five economic crisis periods under study (the mid-1970s, the early 1980s, the early 1990s, the dot-com bubble, and the Great Recession). Taken together, the history and the data amount to an empirical puzzle that the rest of my dissertation addresses. What processes explain the patterns of crisis lawmaking? What mechanisms and groups bring about the lengthier and faster laws during crisis? We would expect to see laws being enacted faster during crisis but why the increased length of the documents? Where does the additional content come from?

The remaining, chapters on political theory (5–8) focus on the four main groups that influence political outcomes: voters, legislators, interest groups, and bureaucrats. My empirical and theoretical approach yields answers to questions currently underexplored in research dealing with crises. Among these questions: Do current theories of political decision-making explain the incentives that lead to different policy outcomes in crisis? To what extent and why do voters, interest groups, bureaucrats, and legislators act differently during crisis? How can existing approaches to the study of politics learn from an entangled political economy approach (which is laid out in chapter 4)? The ninth and last chapter concludes my study and discusses an alternative institutional framework that overcomes some of the problematic aspects of politics during crisis.

This dissertation helps us attain a better understanding of the microlevel[2] during crisis, which inform a discussion of how to make institutions more resilient. Crises will always happen in a world of uncertainty and fallible human beings. Studying the incentive changes within a polity when panic is in the air is key to understanding the shortcomings of decision-making during such times. This is pivotal since institutions have to produce the best outcome for the greatest number not only when man is as at his best but also when he is at his worst, as Hayek (1996) put it.

Defining Crises

The literature on crisis management provides different definitions of *crisis*. Rosenthal, Hart, and Charles (1989, 4–5) define crisis as "a serious threat to the basic structures or the fundamental values and norms of a social system, which—under time pressure and highly uncertain circumstances—necessitates making critical decisions." The classical definition from Hermann (1972, 13) is a bit narrower: he states that "a crisis is a situation that threatens high-priority goals of the decision-making unit, restricts the amount of time available for a response before the decision is transformed, and surprises the members of the decision-making unit by its occurrence." I define *crisis* as follows: a crisis is a temporary event that threatens a majority of people in their livelihood and/or safety in a given geographical area. Using this definition, it is not relevant whether the threat is real or only perceived. The events of 9/11, as atrocious as they were, could never have resulted in a real threat to 300 million people. Nevertheless, the subsequent economic, sociological, and governmental changes

[2] I use the term *microlevel* to distinguish my study from microeconomics, which often uses strict assumptions concerning human behavior. It delineates my study relative to the study of macroeconomics, which often deals with crisis but does it in an aggregated and highly stylized way. My approach throughout the chapter zooms in to different degrees on the agents on the ground and is distinct from both micro- and macroeconomics while still relying on the body of economic thought by and large.

were drastic. Islam became a topic of much controversy, the stock market plummeted, the war in Afghanistan started, and the public's trust in government soared to previously unseen heights. I focus on nationwide events, although no theoretical reason bars using the framework to analyze crises affecting states or municipalities. Most of my illustrations and data concern wars, national disasters, and widespread economic crises, with a heavy emphasis on economic crises.

Bruce Ackerman concept of constitutional moments needs to be differentiated from my definition of crises and how it relates to lawmaking. He proposes a "dualist" perspective on lawmaking. (Ackerman, 1991, 6-7). He distinguishes lawmaking by the representatives from lawmaking by the people. The latter is closer connected to crises or what Ackerman describes more broadly as "constitutional moments" (Ackerman, 1991, 22). Hereby, *the people* come together to deliberate far-reaching policy proposals. This happens during times of uncertainty and crises. The description that Ackerman offers reminds of the deliberative democratic ideal in which lawmaking power is in the hands of the people who exercise their political voice in a meaningful way. This noble description of lawmaking is however not comparable with the theoretic and empirical picture that I paint in chapter 5 and 6 in which urgency dictates policy and not deliberation. Ackerman's constitutional moments are different from the crises definition that I employ. This becomes apparent when one recalls the three constitutional moments that Ackerman describes: the founding, reconstruction, and the New Deal in the US context (Ackerman, 1991, 262). The difference lie in a) the extent of change, b) the focus of deliberation and citizen's active engagement (different from opinion formation via availability cascades; chapter 5), and the focus on constitutional change that Ackerman requires for a constitutional moment to take place. My definition of a crisis is narrower and more appropriate for lawmaking after financial recessions which brings about a new lawmaking dynamic but not necessarily constitutional change or prolonged civic discourse.

Crises are temporary events. They shock a community, but their effects wear off eventually. The higher the urgency and uncertainty,[3] the more likely it is that citizens' and government's responses intensify. Citizens react with fear when their livelihood is threatened. When people are fearful, they tend to focus on the short run, tend to continue behavior patterns that are not likely to fit the crisis situation, are more likely to rely on stereotypes and unrealistic assumptions, and are irritable (Boin et al. 2005, 29–31; Staw, Sandelands, and Dutton 1981, 505; Hermann 1972). Trying to solve a problem with a person or group of people who experience these emotions and behavioral patterns is likely to result in suboptimal and even irrational decision-making. On the other hand, crises require fast responses, and legislators deliver, as shown in chapters 2 and 3. How does fast collective action amid distress translate into policy? This is one of the key questions addressed in this dissertation and particularly in chapter 5.

Even if a crisis continues to worsen or stays the same, the urgency eventually declines. This is due to the adaptability of people. Human beings evolved through adaptation. Once we become more acquainted with a situation, we become more rational. A situation in which people of developed nations had to live without clean water, without electricity, and with little food would set them in a state of panic. But this is ordinary life for millions of people around the world, and it does not cause them to panic. The more time passes, the more people find better ways to deal with a situation. The more people feel back in control, the more confident they feel (Zuckerman et al. 1978). Eventually,

[3] Uncertainty is perennial. However, there are different degrees of uncertainty. Entrepreneurs do not know whether they will succeed in the marketplace and they have to form conjectures about a variety of conditions. However, a situation of crisis heightens uncertainty. Recessions undermine the whole modus operandi of the marketplace and things change rapidly. Forming conjectures about future demand becomes increasingly difficult, and many people hold back on consumption and investment. This form of uncertainty during crisis affects individuals much more than the normal, perennial uncertainty.

the urgency, immediacy, and pressure of a crisis wanes and normalcy returns. In my work, I focus on the period when the urgency is still felt.

Crises change the behavior of individuals and the way political decisions are made. Chapter 2 shows empirically that legislative decision-making during crisis differs from times of normalcy. From these data and the insight found in the crisis-relevant literature discussed below, I infer that the pattern of lawmaking arises in an altered decision-making environment for the groups that influence political outcomes. My study contributes to a more encompassing account of political decision-making by showing and explaining how political dynamics change during crisis.

What Do We Know about Crises? A Cross-Disciplinary Literature Review

The research questions that guide my discussion of the literature are whether and how crises affect a polity. The goal of this section is to learn from existing theoretical frameworks whether and how incentives in particular change during crisis. I find there are few theories that simultaneously (a) explain the changes during crisis, (b) shed general theoretical insights as to what happens to political decision-making stakeholders during a crisis, and (c) provide empirical evidence of the changes that occur. I discuss the exceptions in the following paragraphs by going through a variety of literatures in psychology, crisis management, political science, and economics.

Crisis Management

The literature on crisis management is extensive and draws insights from many different fields, such as history, psychology, political science, and sociology, to understand crisis decision-making. Economics and public choice, however, are for the most part absent from this literature. This is

surprising since one can find statements that echo public choice. For instance, Boin et al. (2005, 3) state that "most policy makers do not lose sleep over problems with a horizon that exceeds their political life expectancy." Similarly, Boin, McConnell, and 't Hart (2008, 9) write that "crises have a way of becoming politicized relatively quickly. Some actors perceive a threat to their ways of working, policies, and legitimacy, yet others relish the prospect of change. Political, bureaucratic, economic and other special interest do not automatically pull together and give up their self-interest just because a crisis has occurred." And Rosenthal, Hart, and Charles (1989, 18) write as one of their main points about decision-making that during "crisis situations *bureaucratic politics* flourish. In spite of the normative conception of an overriding consensus and solidarity, it would be naive to think that in a crisis situation political authorities and public agencies will lose interest in the ranking order of power and prestige" (italics in the original).

The literature stresses unequivocally the altered decision-making environment for agents during crisis. It focuses on explaining and conceptualizing the different aspects of such an environment. Boin et al. (2005, 2) explain that "crises are transitional phases in which the normal ways of operating no longer work."

The crisis-management literature is useful for deriving categories of crises and identifying the different steps involved in crisis decision-making (sensemaking, meaning making, learning, etc.) (Boin et al. 2005). It provides useful insights into the challenges decision-makers face. In chapter 5, I go into these insights in detail. I embed crisis-management concepts such as urgency, pressure, and increased levels of uncertainty within a framework of behavioral science to generate theoretical insights about voter behavior during crisis.

The takeaway from the literature is that crises are different and that decision-making processes change through the changes crisis brings about. The literature describes these processes but neither

provides empirical data tracking of the changes nor provides a theoretical explanation. Thus, I cannot rely on it alone.

Behavioral Science

Behavioral science, which encompasses a variety of different fields, from social neuroscience to psychology to the study of cognition, has gained prominence in recent years with Kahneman's (2011) book *Thinking Fast and Slow*, his reception of the Nobel Prize in economics, and Sunstein and Thaler's (2008) book *Nudge*. In the following paragraphs, I introduce some of the behavioral-science research on crisis decision-making.

The uncertainty of a crisis situation and the accompanying threat to one's livelihood generates fear and stress and leads to certain decision-making traits. Stress reduces people's ability to process information (Boin et al. 2005, 25–30; Staw, Sandelands, and Dutton 1981, 505), reduces the range of options people perceive for solving a problem (Heiner 1983), and biases decisions in favor of historical analogies (Brändström, Bynander, and Hart 2004). These insights mostly apply to individuals. One famous study of decision-making on a group level during crisis comes from Janis (1972). He analyzes the phenomenon of groupthink in the context of the Bay of Pigs incident and other international crises such as the outbreak of the Korean War. Janis (1972) argues that the stress induced by a crisis leads to groupthink, which then contributes to the "deterioration of mental efficiency, reality testing, and moral judgment that results from in-group pressures" (Janis 1972, 9). These studies are relevant, but they are often experimental or anecdotal. It is unclear to what extent we can generalize these insights or how they can inform a framework for understanding decision-making during crisis.

Behavioral science has not designed a framework explaining crisis decision-making. Behavioral science explains aspects of decision-making and its shortcomings, but it does not provide a full account of human action and its motivators. An exception to the mostly experimental nature of the research is Kuran and Sunstein (2007). Elaborating on their previous work on behavioral science and political decision-making (Sunstein 2003, Kuran 1997), Kuran and Sunstein (2007) show the effects on law of impaired decision-making during times of panic. I will review their research in detail and apply it more thoroughly to crises and voter behavior in chapter 5.

Political Science and Law

Within political science are a variety of different approaches relevant to crisis research. These theories and authors often disagree with one another about the importance of crisis and the amount of change crises bring about in a polity. My data suggest that crises are times of change. Vermeule and Posner (2007) agree with this and argue that crises generate an altered decision-making environment. Their thesis holds that these conditions do not systematically degrade or improve policymaking. If government errs on the side of security or fails to protect the citizenry, then it will correct these errors.

Vermeule and Posner (2007) argue it is efficient for the government to react swiftly and comprehensively. They admit some costs may be associated with such actions but claim they can be discounted in the face of a national emergency. Mistakes always occur, and it would be an even greater error to do nothing. The worst mistakes will be corrected once the crisis ends. This is a powerful argument, and they argue it well. But it suffers from two main problems:

1. No counterfactual is possible in their world. How do we know whether government has made too many or too few mistakes? How to judge the efficiency of the policies? If some inefficiency is efficient in times of crisis, is there a level of inefficiency imaginable at which crisis policies should be considered antithetical to public welfare? If yes, what is that level? If there is no such level, then Vermeule and Posner's (2007) stipulation that government responds adequately in crisis cannot be falsified.[4]
2. Vermeule and Posner (2007) argue convincingly that a trade-off between liberty and security exists when a national emergency strikes. However, we cannot focus only on the immediate costs and benefits of lawmaking in crisis. Posner made this mistake earlier in his economic treatment of the law in 1973 (Posner 2011). Efficiency narrowly defined as a simple one-shot trade-off between liberty and security cannot be the only guide for good policy. In his review of Posner's book on economics and law, Buchanan (1974) assesses Posner's thesis poignantly under the title "Good Economics, Bad Law." It is bad law since the singular focus on efficiency ignores intra-legal principles like the generality norm, the predictability of law, and the importance of expectations set by the rules of the game (North 1990; Buchanan 1974, 489; Hayek 1973). Taking efficiency as the sole evaluative criterion is actually dangerous. Hayek made the same point powerfully: "When we decide each issue solely on what appear to be its individual merits [efficiency], we always over-estimate the advantages of central direction. Our choice appears to be between a certain known and tangible gain and the mere probability of the prevention of some unknown beneficial action by unknown persons." In the case of the Great

[4] Additionally, Vermeule and Posner's (2007) account of appropriate crisis responses hinges on their strong assumption of "a rational well-function government, which is defined as a government that overall acts to increase the welfare of the public." Vermeule and Posner (2007) ignore the literature on public choice that would undermine their assumption to such an extent that it would undermine their whole argument on the efficiency of lawmaking during crisis.

> Recession, we do not know how many people were made worse off because capital was not allocated through the market but by government redistribution. We do not have access to a world of counterfactuals in which General Motors and AIG were not bailed out. Fundamental principles of law (Leoni 1961; Hayek 1973), as well as the postulate of an equal playing field in markets, have been violated during the Great Recession. Uncertainty and sluggish investment have visibly resulted from these violations, as von Laer and Martin (2016), Smith (2014), Alesina (2010), and Meltzer (2010) argue. Posner and Vermeule do not take these considerations of the second-level effects seriously.

McCarty, Poole, and Rosenthal (2013) disagree with Vermeule and Posner (2007). Their argument rests on a description of structural deficits within American democracy—that is, the fault lines between the two parties stemming from ideology, the influence of interest groups, and the shortcomings of the institutional framework of the US federal system. McCarty, Poole, and Rosenthal (2013) argue that crisis policies tend to be woefully inadequate. They consider the laws passed in response to recessions neither far-reaching nor deviations from the status quo ante. Contrary to McCarty, Poole, and Rosenthal (2013, 53), I argue that the responses to recessions are extensive and far-reaching. The five recessions I study in this dissertation as well as the evidence Banner (2002; 1997) presents on financial regulation indicate that legislative activity increases after crises (tables 2.5, 2.7). Congress tends to act swiftly and extensively. Further, chapter 6 revisits McCarty, Poole, and Rosenthal's (2013) argument in light of my discussion of legislative behavior during crisis.

Banner (2002; 1997), another legal scholar in this field, did historical work on financial regulation in the UK and the United States. He finds that financial regulation, particularly securities regulation, tends to be backward looking (Banner 2002, 3–6). Legislatures have either deliberated on past

economic crises or, more commonly, haphazardly responded (Banner 2002; 1997, 849–51). Financial regulation is rarely forward looking and anticipatory. Banner's conclusions cannot easily be dismissed since they are based on three hundred years of history of securities regulation in two countries. Crises seem to be peculiar in that they increase legislative responses. My data from analyzing lawmaking during five crisis periods are consistent with Banner's findings. I find that longer financial-regulatory laws are enacted during crisis. What Banner (2002; 1997) does not do is explain the underlying incentives that lead to the legislative responses, which I do in my theoretical chapters.

The focus of my dissertation is politics in hard times, as in the catchy title of Gourevitch (1986). Gourevitch (1986) analyzes the crisis responses by the United States, the UK, France, Germany, and Sweden in three crisis periods (the early nineteenth century, the Great Depression, and the 1970s and 1980s). Gourevitch (1986) argues that times of crisis are times when change is radical and policymakers are most free. While Gourevitch's (1986, 234) main objective is "to account for the ways in which countries respond to changes in the international system," I focus on how the United States responds to economic crises that may or may not have international components. More relevantly, he finds that all nations' policies result from struggles within and coalition building by the business community and other groups, with their various economic interests, over time. Gourevitch's (1986) exposition is to a large extent qualitative. He does not track empirical changes within the different polities throughout time. Additionally, Gourevitch (1986), as well as Gourevitch (1989), analyzes the analyzes the structural changes over longer periods as compared to my approach which focuses on the immediate changes in incentives and their subsequent influence on policymaking.

Kahler and Lake (2013) builds upon Gourevitch (1986), with a focus on the Great Recession. This collection of essays speaks to many aspects of the Great Recession such as the effects of international cooperation, agricultural lobbying, partisanship, and the endogeneity of crises. Most significant for my purpose is their provocative conclusion that the Great Recession has not brought about considerable policy changes. The institutional framework has not been challenged, and "neoliberalism" is still the predominant guide for policymakers (Kahler and Lake 2013, 20–22, 231–232). My empirics in chapters 2 and 3, however, show that the responses were in fact far reaching but maybe not to the point of challenging the institutional framework itself. Since Kahler and Lake's (2013) collection of essays extends Gourevitch's (1986) work, the focus is on coalitions in a variety of country-specific contexts. The shortcomings of Gourevitch (1986) also apply here.

A field of research that studies "spikes" in governmental activity is punctuated equilibrium theory (PET). Spearheaded by Baumgartner and Jones (2010 [1993]), this research frames policymaking as an incremental process occasionally interrupted by periods when government becomes highly active. The Policy Agenda Project (2013) has accumulated over four hundred thousand observations from media coverage of congressional hearings to track punctuated equilibria through time. This approach focuses on agenda setting and information processing. PET contends that there are many different ideas permeate the polity. With a shift in attention and subsequently the agenda, these ideas turn into policies (Jones and Baumgartner 2005, IV).[5] PET talks about crises as a potential source of punctuation, but it does not consider them the sole source. Its approach is more basic and looks at the factors that make information about a given topic more salient and how that influences the

---

[5] This process resembles Kingdon's (2014) idea that a convergence of what he calls the policy, political, and problem streams leads to increased government activity. I discuss Kingdon and his account of agenda setting in chapter 6.

political agenda. These factors, in conjunction with changes in the political environment, cause punctuations. Thus, PET lends itself readily to my purpose; I examine its merits further in chapter 2.

My discussion of research in the political science literature thus points to a multitude of approaches and conclusions. The majority of authors agree that crises matter and are indeed times of change. However, they debate in what way crises matter and exactly how policymaking changes. My empirical chapters show how legislation changed during crisis, and my theoretical work provides a novel perspective on the behavior of key stakeholders during crisis.

Economics

Most commonly in economic discussions of crises, economists (and also politicians) refer to macroeconomic variables, such as GDP, unemployment, interest rates, asset prices, consumer price indexes, aggregate demand, and consumer spending. The Great Recession, whose ramifications continue to this day in many nations, especially reinvigorated old debates about the origins of crises, their nature, and how they can be prevented in the future. A plethora of economic studies have addressed these questions, starting with Malthus arguing during the early eighteenth century for the danger of general gluts (Heilbroner 2011, 99–101) and continuing with advice on how to manage such gluts (Bagehot 1888) and important modern accounts of the history of financial crisis such as Kindleberger’s (2001).[6]

[6] I do not dissect accounts such as Kindleberger’s (2001), Chancellor's (2000), or Calomiris and Gorton's (1991) in this literature review since my research does not focus on the financial crises and their origins. The focus is the political changes within a crisis and the incentive changes underlying them.

Ironically, only a couple of years ago, economists and policymakers claimed that modern economic policy based on advanced macroeconomic tools has solved crises. Many scholars and policymakers invoked the term "the Great Moderation" to describe the era. Bernanke (2004) stated at a meeting of the Eastern Economic Association three years before the dawn of the Great Recession that his "view is that improvements in monetary policy, though certainly not the only factor, have probably been an important source of the Great Moderation." Lucas (2003) put it even more strongly: "Macroeconomics … has succeeded: Its central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades." The recent financial crisis checked this kind of optimism. Economics clearly has a hard time, as much as other disciplines, getting crisis research right.

Some of the reasons for the failure of economics to forecast and prevent financial crises are due to concepts like urgency, Knightian uncertainty,[7] surprise, and collective uproar. These aspects are undoubtedly part of every crisis, but they cannot easily be incorporated within the core analytical tools of textbook economics. In a world of full information, uncertainty ceases to exist, economic problems become problems of maximization with given cost and revenue functions, and change occurs only in moving from one equilibrium point to the next when data change. Time often does not exist, and agents automatically react to changes. As useful as these tools are for deriving

[7] Frank Knight (1921) introduces the distinction between risk and uncertainty in his 1921 book *Risk, Uncertainty and Profit*. I follow this distinction, if I not otherwise indicated, and use the term *risk* when a probability distribution about the outcome of certain events is given. Uncertainty, on the other hand, is the absence of these probabilities. We cannot quantify what is going to happen next. Uncertainty is an innate part of action and increases during times of crisis. Since Knightian uncertainty is part of every crisis, it brings with it heterogeneity. If that was not the case, one could employ risk analysis and virtually eradicate undesired events like crises. However, the recent financial crisis has shattered the belief that we can solve every problem in the economy through sophisticated risk modeling (SRC 2015). The heterogeneity of complex social phenomena is an intricate part of comparative political economy. This point is uncontroversial for most scholars studying crises (Boin, McConnell, and 't Hart 2008, 285–86; Boin et al. 2005, 87; Rosenthal, Hart, and Charles 1989, 10).

theoretical insights, they fail to adequately describe the situation perceived by economic agents and the subsequent changes in their behavior. This explains to some extent the relative scarcity of economic works depicting the microlevel processes within crises. The most advanced models in economics deal with uncertainty as a distribution of expectations concerning the future shape of the world. These models are an improvement but still describe risk and not radical uncertainty (Knight 1921). There cannot be genuine surprises which is in an integrate part of crises. Given radical uncertainty, economists or social scientists in general cannot perfectly forecast complex social events. Nevertheless, a systematic application of economic reasoning to the decision-makers and influential groups in crises is possible but has not, to my knowledge, been developed. This is the task I set for myself in this work (while taking into account the uncertainty and complexity of crises).

Theories do exist to deal with the effects of crises on a polity. Research has produced insights into the relationships of economic aggregates and how they interact during crisis, for example. At the forefront of this research is Reinhart and Rogoff (2011). Reinhart and Rogoff (2011, 224) showed, by analyzing two hundred years of data on financial crises, that on average public debt rises 86 percent within three years after a crisis. As with the majority of authors doing empirical work and macroeconomic work on crises, Reinhart and Rogoff (2011) capture the change in the aggregate data and what happens to them before and after crises but do not explain how these changes affect political decision-making.

Higgs (1987) provided such an explanation and carefully documented how crises—wars and recessions—had a ratchet effect on government growth from the 1880s to the 1990s.[8] The ratchet

[8] In the twenty-fifth-anniversary version of *Crisis and Leviathan*, Higgs (2012 [1987], xvi) notes concerning 9/11, the War on Terror, and the crisis responses to the Great Recession that "the logic of the ratchet effect remains as applicable today as at any time in the past century."

effect starts when the government extends its influence and grows during crisis. The urgency created by a crisis wanes, and government shrinks. However, it does not go back to pre-crisis levels, which leaves a residual of government growth that amounts to a permanently bigger government.

Higgs (1987) employed an array of quantitative and qualitative data in an analytical narrative to argue his case. He argued that the previous government-growth theories were insufficient for explaining the growth of government in the twentieth century. His theory of the ratchet effect aimed to fill that gap. Due to a change in ideology in particular, government acts differently in crisis and expands rapidly. Higgs did not explain where the shift of ideology comes from and used it primarily as a point of departure for historical work (Holcombe 1993, 42).[9]

Earlier work, by Peacock and Wiseman (1961), studies a phenomenon related to Higgs's ratchet effect: the displacement effect in the United Kingdom.[10] They attribute much of the UK government's growth in 1890–1955 to the two world wars. They argue that a crisis shifts the citizens' tolerance for public expenditure to higher levels, which governments readily take advantage of to spend more in the long run (Peacock and Wiseman 1961, xxiv, 26–27). They do not provide theoretical reasons why the government wants to spend more or why the citizens shift their tolerance for public spending.

The above literature emphasizes the importance of crises, shows how it changes government responses, and tracks the changes with quantitative and qualitative data. Another literature takes a contrary stance. Popularized by Klein (2008) *Shock Doctrine*, it claims crises lead not to government

---

[9] Higgs himself admits that and points to literature explaining how progressivism became the prevalent ideology (Higgs 1987, 293–301). Higgs improved upon his framework in his 2008 article "The Complex Course of Ideology Change" (Higgs 2008). I discuss the role of ideology in chapter 6.
[10] In their introduction to the second edition (1967) of their study, Peacock and Wiseman write that it is has been pointed out to them that the displacement phenomenon had already been described in 1944 by Jens Jensen in "Das Gesetz der Wachsenden Ausdehnung des Finanzbedarf," *Schmollers Jahrbuch* 1943, 155–74.

growth but to a retreat of government and to economic liberalization. One does not have to believe in a "right-wing conspiracy" à la Klein, as Cowen (2007) put it, to find evidence of economic liberalization after crises. Careful empirical work has shown that severe crises can lead to reforms toward free markets (Bologna and Young 2015; Pitlik and Wirth 2003; Drazen and Easterly 2001). Bjørnskov (2015) provides evidence about why such reforms might be a good idea. Bjørnskov (2015), by analyzing 212 crisis episodes in 175 countries, shows a positive correlation between faster recoveries after recessions and economic freedom. Economic freedom also makes banking crises less likely, as Baier, Clance, and Dwyer (2012) have shown.

However, the correlation between crises and subsequent economic liberalization the above studies find concerns only prolonged and severe inflation (Pitlik and Wirth 2003; Drazen and Easterly 2001). My studied crisis periods encompass times of high inflation as well as low inflation (figure 3.1). Liberal economic reforms might take place once a crisis has passed. This is something I do not address in my work, since these studies focus on a longer time horizon after a crisis than mine. Thus, my finding that crises tend to generate extensive legislative changes that often focus on regulation or reregulation is not at odds with Pitlik and Wirth (2003) and Drazen and Easterly (2001).

All of the above economic theories show that crises are indeed different. However, they lack a thorough microlevel explanation of how crises produce different policy outcomes from normal times. My approach of studying the relevant groups during crisis and their incentives provides such an explanation.

Overview of Crisis Research

Research on crises yield various insights about the significance of crises, their impact, and how they change political decision-making. The perspectives vary greatly and include the study of individuals, specific laws, budget patterns, historical crises, government growth, and more. Table 1 summarizes the strengths and weaknesses of the literature I have been discussing. In subsequent chapters, I address over two dozen additional theories ranging from focusing events to public choice to opinion formation.

Table 1: Literature on Crises—Overview

Literature	**Perspective on Crisis**	**Strength**	**Weakness**
Behavioral science	Crises bring about a variety of effects on individuals and groups that impair their decision-making capabilities.	Insights into the shortcomings of human cognition and its effects on group dynamics	Unclear how these effects, which are often studied in a laboratory environment, would affect crisis decision-making, especially within a polity influenced by many different groups.
Crisis management	Crises are different and change the decision-making environment for political leaders.	Useful categorization of crises and the changes they bring to political decision-making	Not much empirical evidence is provided on what exactly changes during crisis. No theoretical edifice capturing political decision-making.
Political science and law Posner and Vermeule (2007)	Crises generate a different environment for decision-making and different outcomes. The policies enacted during crisis tend to be appropriate.	Novel arguments undermining arguments from civil liberty advocates who warn against too much government intrusion after crises	No counterfactual is possible in their theory. The efficiency of law is too narrowly defined. Not much detail about the incentives faced by legislators and voters.
McCarty, Poole, and Rosenthal (2013)	The quality of legislation deteriorates during crisis. Political bubbles fuel	Compelling historical narrative	The theoretical framework is based on broad categories

	economic bubbles. Crises do not generate different incentives for political decision-making. They are still prone to the shortcomings of modern democracy: ideology, institutions, and interest groups.		such as institutions, ideology, and lobbying. The mentioned shortcomings of US democracy are perennial. The framework cannot account for decision-making that differs during crisis.
Banner (2002; 1997)	Legal scholar analyzing 300 years of security regulation in the United States and United Kingdom.	Outstanding descriptive evidence for an extensive period covering crises, law, and the circumstances leading to the legislative response.	Only historical descriptive account of the events that lead to securities regulation. No extensive treatment of the incentives that lead to the greater activity of legislators.
Gourevitch (1986)	Comparative study of five countries and their responses in three crisis periods.	Compelling historical narrative. Focus on medium to long-run structural change within the five countries.	No empirical record of changes within the five countries. His crisis periods are decade-long.
Punctuated equilibrium theory	Crises can evoke a punctuated equilibrium but do not have to. Crises are not the focus of the literature.	Strong empirical evidence for punctuated policymaking.	PET focuses on agenda setting and does not deal with crises in particular.
Economics Macroeconomics	Crises require different macroeconomic tools than non-crisis times.	Dominant focus of policymakers and economists when dealing with crisis.	Too aggregated. No firm microfoundations.
Reinhart and Rogoff (2011a, 2011b)	Crises and especially banking crises have effects on debt levels.	Macroeconomic analysis of 200 years of data.	No microlevel explanation for the accumulation of debt.
Higgs (1987) and Peacock and Wiseman (1961)	Crises lead to ratchet/ displacement effects.	Analysis of government growth during crisis spanning over 100 years (Higgs)	Ideology as driving factor of this change (voter preferences in Peacock and Wiseman 1961). Insufficient description of the mechanism that changes incentives

			for government and public.
Pitlik and Wirth (2003); Drazen and Epstein (2001)	Crises produce policy outcomes that lead to more economic freedom.	Strong empirical evidence and longitudinal studies.	Literature does not address the effects on the microlevel for the relevant groups in a democracy. Does not study crisis per se but the aftermath.
My thesis: Patterns of lawmaking	Crises are different. Crises change the incentives for main stakeholders within a polity. This incentive change leads to more government activity. Entangled political economy provides a more insightful theoretical lens to study crisis decision-making.	I refrain from addressing the strengths and weaknesses of my thesis. The reader will surely find points for either side.	

The following statement by Rodrik (1996, 11) still has some truth to it: "The confluence of economic crisis with reform has led to the natural supposition that crisis is the instigator of reform, a hypothesis that keeps reappearing in the literature and yet is inadequately analyzed."

To elaborate on this point, Rodrik's (1996, 26, table 7) work and my empirical findings disagree with the accounts by Posner and Vermeule (2007) and McCarty, Poole, and Rosenthal (2013). Both approaches maintain that the outcomes do not differ much from non-crisis outcomes. Policymaking becomes just more of the same. I disagree with this assertion and show in chapters 2 and 3 that crisis politics generate a different pattern of lawmaking.

My study provides a theoretical account of how the stakeholders in a democracy act differently when faced with an exogenous shock—in particular, a crisis. The majority of research agrees that crises differ from normal times, but its explanations are unsatisfactory (see table 1). Building upon the

entangled political economy perspective, my research provides a more complete picture of the incentives faced by voters, legislators, interest groups, and bureaucrats, as well as their interdependencies. This study accounts for the pattern of lawmaking as an emergent phenomenon resulting from the interactions of the different groups at the microlevel. These groups are nodes in the complex system of government whose exchanges and interactions lead to crisis policies.

My approach shows not just one aspect of government but its structure and the interactions within it. Having a bird's-eye view will contribute to our understanding of the decision-making processes and their impact on the patterns of lawmaking.

Methodological Approach and the Argument of This Dissertation

The whole study addresses times of crisis in comparison to non-crisis times. I show, first, that during crisis the outcome of political decision-making is different. The second contribution lies in the theoretical mechanisms that explain how incentive changes for voters, legislators, interest groups and bureaucrats lead to the different outcome. Each chapter provides insights about the groups' incentives and speaks to the pattern of crisis policymaking. The empirical chapters, 2 and 3, establish the difference in legislative outcomes during crisis. I present the details of the assembled database on legislative decision-making spanning from 1973 to 2014 in chapter 2. Chapters 2 and 3 frame the empirical puzzle of why the pattern of crisis lawmaking differs from lawmaking during normal times. The remaining chapters explain how this outcome comes about. To resolve this puzzle, I must use an appropriate framework. Chapter 4 introduces such a framework with a discussion on entangled political economy and its methodological advantages for my research. The main benefits of the framework are that it is capable of analyzing the influential groups during crisis not only in isolation but also in their interdependence. My entangled political economy perspective is that the

institutional incentives in conjunction with the crisis-induced incentives determine political action to a large extent. Monocausal accounts of crisis policies are lacking due to the complexity of the studied phenomenon. Entangled political economy is a solution to this problem, which yields pattern predictions and useful insights about the behavior of the groups while, at the same time, theoretically explaining the pattern of lawmaking. Pattern predictions, a concept based on Hayek (1945), aims toward understanding and grasping of patterns in human behavior. They do not try to point predict behavior as in "a price drop of 10 percent in potato prices will increase consumption of potatoes by 12 percent." Pattern predictions take uncertainty and complexity seriously and state that a price drop of a good is associated with an increase in demand, ceteris paribus. Pattern predictions make the social scientist pause and ask "why?" (Paqué 1990, 283). The pattern of lawmaking during crisis is my "why" in this dissertation. The theoretical chapters form pattern predictions to provide an explanation for the empirical phenomenon of lengthier laws and speedier enactment during crisis. This approach provides an understanding of the incentive framework and the subsequent behavior of the respective groups during crisis without making exact predictions of human behavior that is contingent on an immensely complex set of conditions.

The first theoretical piece I use to explain the empirical puzzle of lawmaking during crisis concerns voters (chapter 5). Voters matter during crisis even if it is not an election year. The increased uneasiness within the electorate triggered by a crisis provides fertile ground for an availability cascade (Kuran and Sunstein 2007). An availability cascade leads to a semi-uniform preference for more government activity during crisis. Voters become more active and more focused on what the government is doing to address crisis-induced problems. The pressure voters generate is felt by legislators through the media and directly through interactions with voters. In chapter 5, I argue that this increase in the demand for government activity is met with a response. The main objective for legislators during crisis is to signal to the public that they are addressing the problems. They achieve

this objective by passing lengthier laws. The additional length comes from proposals that were sitting on the shelf of the legislators or bureaucrats. This provides the conditions for so-called Christmas tree laws.[11] Since Congress knows the law will pass, legislators hang their proposals on the law.

Interest group spending has trended upward in the last decades in the United States. However, I do not find evidence that interest groups exercise significant power in lawmaking during crisis. It seems likely that the business of Congress goes contrary to the agenda of interest groups since they normally prefer to maintain the status quo. Higher interest group spending does not necessarily translate into agenda changes. Interest groups with conflicting ends compete fiercely. This often leads to an equilibrium, which crises upset. Interest groups see the status quo undermined and have to adapt to a quick change in policies. It is true that the interest groups in the eye of an economic hurricane often build coalitions that yield significant benefits such as bailouts, loans, and other forms of government protection. However, these coalitions are based on the crisis-induced circumstances and prior relationships, not increased rent-seeking. Interest group activity is driven by crisis legislation and the other way around.

The last group I discuss are bureaucrats. I find that some bureaucracies gain influence and power during crisis but most do not. The data in chapter 8 do not show a general increase in staffing or funding for economic regulatory agencies. The relationship between bureaucrats and legislators seems to be one in which both groups try to avoid blame and gain influence on the margin. Many of the laws passed during crisis delegate a lot of the detailed rulemaking to bureaucracies. This helps legislators produce fast results and avoid blame if something goes wrong. Bureaucracies prefer to

[11] I am indebted to Hester Peirce for introducing this term to me.

flesh out legislative content themselves to control the rules that govern their own behavior and maintain the integrity of the bureaucracy.

My theoretical chapters provide insights into the processes that determine crisis policymaking. The ninth and last chapter summarizes these insights, puts them into perspective within the entangled political economy framework, and suggests future research on policymaking during crisis. Ultimately, my hope is that the reader will attain a fuller understanding of crisis decision-making, its dynamic, and the explanatory value of entangled political economy.

Chapter 2: An Empirical Analysis of Lawmaking during Crisis

The introductory chapter established that most studies see crises as times of change. The following two chapters present an empirical account of how US lawmakers respond to crises. What is it that changes during crisis? To arrive at an answer, I survey empirical work on crises and categorize its findings. This allows me to differentiate my empirical approach. I present my data capturing over forty years of congressional lawmaking. These data allow me to compare the average law over the entire period, its length, and its time spent in Congress to laws enacted during five recessions from the mid-1970s to the Great Recession. I find that the laws enacted during recessions are much longer and are enacted much quicker than the average law. I describe this peculiar pattern of crisis lawmaking quantitatively in the present chapter and qualitatively in chapter 3. Chapters 2 and 3 together show that times of crisis yield different legislative outcomes.

The following two questions guide the empirical investigation of chapters 2 and 3:

1. What has existing empirical work uncovered about whether policymaking during times of crisis differs compared to normalcy, and if so, how? My own empirical investigation addresses the same question. I analyze four decades of enacted laws (n=11,584) and compare the patterns of lawmaking during non-crisis to crisis times. The crisis periods are the recessions in the mid-1970s, the early 1980s, and the early 1990s, as well as the dot-com bust and the Great Recession.
2. What circumstances of time and place resulted in a pattern of different lawmaking during crisis? Every crisis is unique, but the pattern persisted throughout the various crises. Chapter 3 provides the necessary details about the institutional framework and the crisis-induced conditions to give an account of the differences and commonalities among the crisis episodes.

The answers to these questions are crucial to understanding the dynamics of lawmaking and policymaking during crisis and non-crisis times, including how economists and political scientists frame them. My approach to answering and framing these questions has three main advantages. First, it builds on the already-existing body of research. Second, it provides a firm understanding of the particularities of the recessions, the underlying reasons, and the lawmaking process as well as the content of the laws. Third and most importantly, it introduces an empirical puzzle by establishing that patterns of lawmaking differ during crisis.

After discussing the existing empirical research on crisis policymaking, I introduce my data sources and method. I then present my own empirical evidence. Finally, I discuss the shortcomings of my data.

Government Activity during Crisis

Government activity is distinct from the size or growth of government. A government can be active—issuing many regulations, creating new programs, and changing the institutional framework—without any of its activities showing up in measures of the size of government. Measuring government size and activity runs into complications. If one just takes quantitative data, such as fiscal deficits and debt, into account, then many aspects of the size of government will be ignored. During the US involvement in World War II (1941–1945), the US economy was basically a command economy in which government took over large parts of the private sector by fiat. The government undermined private contracts, introduced price controls and rationing, and drafted millions of men into the armed forces (Higgs 2009, 64–96; Higgs 1987, 200–211). These actions do not reveal themselves in aggregate data. One can easily imagine a government with few employees and low spending that regulates most of the economy, drafts its citizens into military service, and

regulates and decrees what foods and drugs citizens may consume. The extent of such a government's interference with private decision making cannot be fully captured in macroeconomic variables (Higgs 2007, 25–41; Higgs 1987, 27–33). These concerns are known but often disregarded, as a quotation from Peltzman (1980, 209) highlights: "I am going to equate government's role in economic life with the size of its budget. This is obviously wrong since many government activities (for example, statues and administrative rules) redirect resources just as surely as taxation and spending, but the available data leave no other choice." This is a sensible approach since every model has to leave things out. The following review of the empirical manifestation of crises addresses the strengths and weaknesses of the aforementioned studies. In my research, I focus on both qualitative and quantitative aspects of crisis-induced outcomes and not only aggregated measures of the size of government. Table 2.2 below summarizes the empirical research and compares it to my approach.

Ratchet and Displacement Effects

During crises, the public becomes less concerned with checks and balances constraining Leviathan. The demand for more active government rises to alleviate the felt uneasiness triggered by the crisis. This is the starting point of the literature on the ratchet and displacement effects. The ratchet theory of government growth states that in severe recessions as well as in times of war, government expands. When the problems become less severe, government decreases its activity, but never to the same level as before the crisis. The residual amount of government intervention into society contributes to a permanently bigger government, according to Higgs (1987).

The ratchet effect does not apply only to government expenditure and an increased tolerance for a higher tax burden but to a logarithm of the true size of government. The ratchet effect goes beyond

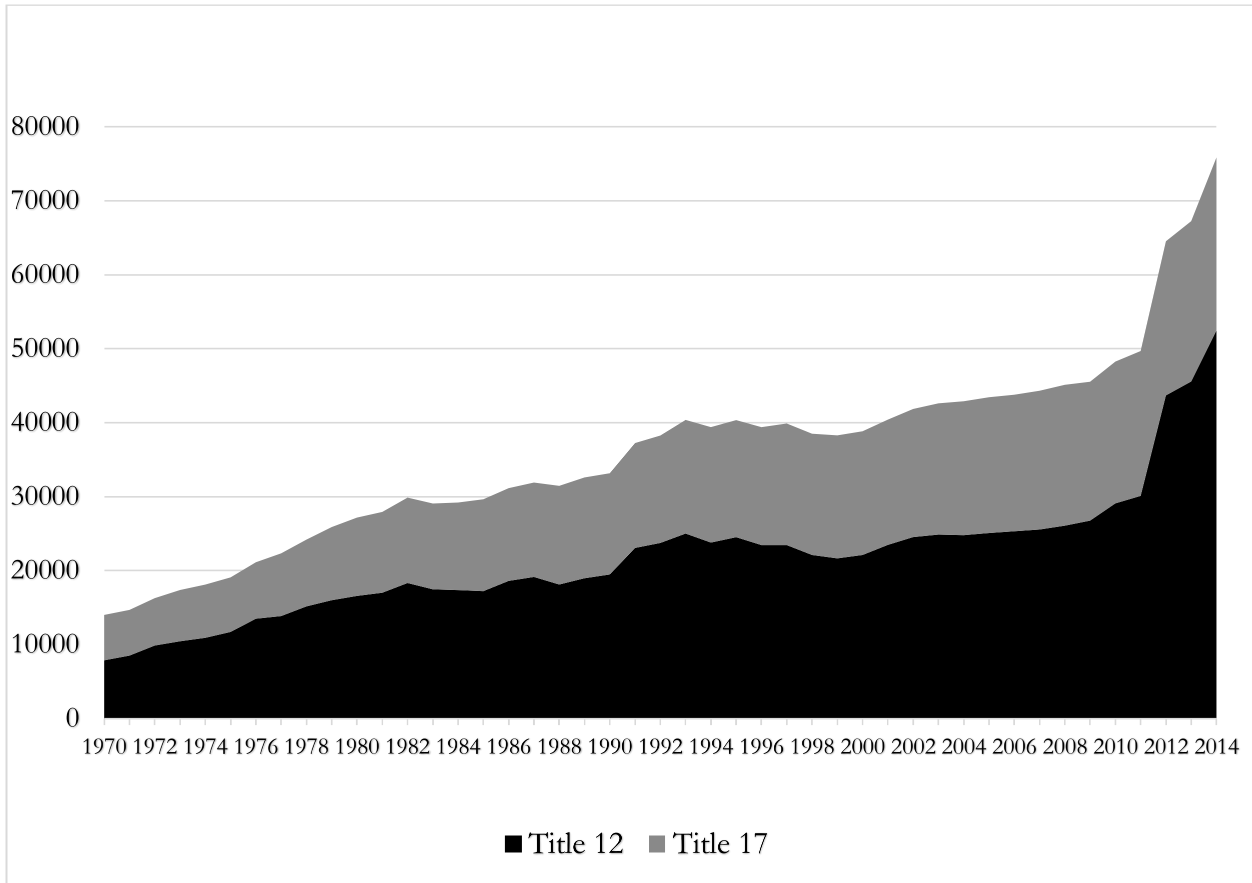
merely the increase in military expenditure during war or the stimulus packages during recessions. The displacement- and ratchet effect do not aim to replace alternative government-growth theories but to add a different argument to the discussion (Peacock and Wiseman 1961, 62; Higgs 1987, 61). Tanzi and Schuknecht (2000, 247) stress the importance of government growth during crisis when they explain that "after 1913 public spending started to increase, prompted first by World War I, then by the Great Depression, and again by World War II."

Peacock and Wiseman's (1961) displacement effect is similar to Higgs' ratchet effect. They argue that crises shift the citizen's tolerance for taxation and spending to a higher level which remains after a crisis ends. Higgs (1987) and Peacock and Wiseman (1961) evidence is compelling for the periods they study. In the next paragraphs, I analyze if those effects persist for the crises from the 1970s to the Great Recession. But first, one has to acknowledge that no theory can explain every phenomenon concerning government size and growth at all times. The ratchet theory is no exception, and the ratchet effect is only a part of the complex phenomenon of government growth. One approach for looking at the evidence concerning the ratchet theory is to measure the size of government and its change before and after crises. One such measure is the changes to the Federal Register's page count (Crews 2015a). The Federal Register measures all agency rules, proposed rules, and public notices generated by the federal government and its bureaucracies. These data do not provide evidence that crises correlate with increased regulatory activity, although the period from 1969 to 1975 shows increased regulation during crisis. This period encompassed the last years of the Vietnam War and two economic crises (1969 to 1970 and 1973 to 1975). From 1969 to 1975, the Federal Register grew from 20,466 pages to 60,221. The growth continued until the 1980s, when the code counted over 70,000 pages. The Federal Register has not seen such growth at any time before or after despite recessions and wars. After the 1980s, the page count shrunk significantly, growing back to its 1980s level only in 2000.

An alternative and more precise measure to approximate the numbers of restrictions (which are binding rules) enacted by bureaucracies and Congress is Regdata, a database created by McLaughlin and Al-Ubaydili (2013) that uses textual analysis assessing the number and development of restrictions within the Code of Federal Regulation. After 2010, they find, the Code has overall more than 1 million restrictions in place. This represents a growth of 23 percent from 1997 to 2010. Restrictions grew 11.2 percent between 2007 and 2012. This is a significant increase compared to the 5.3 percent growth between 2001 and 2006 (von Laer and Martin 2016). Figure 2.1 shows the development of regulatory restrictions for Title 12 and Title 17 regulation from 1971 to 2014. Title 12 deals with banks and banking regulation. Title 17 deals with all regulation concerning the Securities and Exchange Commission (SEC). Together, Titles 12 and 17 provide an account of financial regulation. The data depicted in figure 2.1 show a potential ratchet effect for the early 1990s crisis as well as the Great Recession. Looking at Regdata alone, though, the effect does not appear for the other recessions.

Regulatory restrictions trended upward from 1971 to 2014. Notice the explosive growth after the enactment of Dodd-Frank. Dodd-Frank has still not been fully implemented (as of August 2016), and the regulatory restrictions are likely to increase even further. In comparison to all regulatory restrictions, financial restrictions were normally between 4 and 5 percent of all regulation. In 2014, financial regulation's share of all regulation went up to 7 percent for the first time in the entire series. This is additional evidence of an upshot in financial regulation through Dodd-Frank.

Figure 2.1 Growth of Regulatory Restrictions, 1970–2014



Another piece of evidence for the ratchet effect is the changes over time to the highest marginal income tax bracket depicted in table 2.1. Higgs (1987) does not provide such a table, although he refers throughout his work to taxation and its tendency to increase during crisis. He focuses more on longitudinal data for government purchases, expenditure as a share of gross national product, and the government labor force (Higgs 1987, 21–23).

Table 2.1: Ratchet Effect: Highest Marginal Income Tax Rates	
Highest level prior to World War I	7%
1916	15%

1917	67% (ratchet—entry into WWI in April)
1918	77%
1919–1921	73%
1922–1924	58%
1925–1931	25%
1932–1935	63% (ratchet—Great Depression)
1936–1940	79% (ratchet—Great Depression)
1941	81% (ratchet—entry into WWII in December)
1942- 1943	88%
1944–1945	94%
1946–1963	91%
1964–1981	77% (first significant reduction since end of WWII)
1982–2002	50%
2003–2014	35%
Source: "U.S. Federal Individual Income Tax Rates History: 1862–2014" (Tax Foundation 2014)	

Tax-rate brackets ratcheted up during both world wars and the Great Depression.[12] The remainder of Higgs's historical work is filled with discussions of laws, court decisions, executive orders, and new government agencies and programs. Higgs's work provides a close-up view of the flurry of activities during crisis. However, there are not many longitudinal data series besides the already-mentioned ones in his work.

[12] Even though tax rates have decreased since the late 1980s, tax revenue has constantly risen since the 1950s (Tax Policy Center 2015).

Peacock and Wiseman (1961) focus on quantitative evidence to make their case for a displacement effect between 1890 and the 1950s. They study government expenditure and find a permanently higher level of spending after both world wars in the United Kingdom. Although it lacks a theoretical underpinning, the displacement effect has inspired many empirical studies in a variety of different countries and periods. Besides evidence for ratchet effects in the U.K. and the United States, there is also evidence for Japan and France. Rasler and Thompson (1985, 502) show that "the displacement that takes place is only partially a function of war-related expenditures. Non-war related spending is affected as well. Global war must, therefore, be considered one of the more important sources of the growth and expansion of the modern state." The literature has not reached a consensus, however (Rasler and Thompson 1985, 492; Musgrave 1969, chapters 3–4). The ambiguity and diverging findings of these studies should not be surprising when taking into account the heterogeneity of crises, the particularities of institutional frameworks, the plethora of research methods that provide different perspectives on the data, and the different types and quality of data.[13] Only Higgs (1987) identifies ratchet effects beyond major ones such as the World Wars and the Great Depression.

Punctuated Equilibrium Theory

Punctuated equilibrium theory (PET) is among the most empirically developed frameworks for the study of government and agenda setting. In 2013, 303 studies focused on punctuated equilibria in many nations and policy areas (Mortensen 2013). As mentioned in chapter 1, PET focuses on agenda setting and does not study crises in particular. Indeed, crises are the main focus of only 2 of

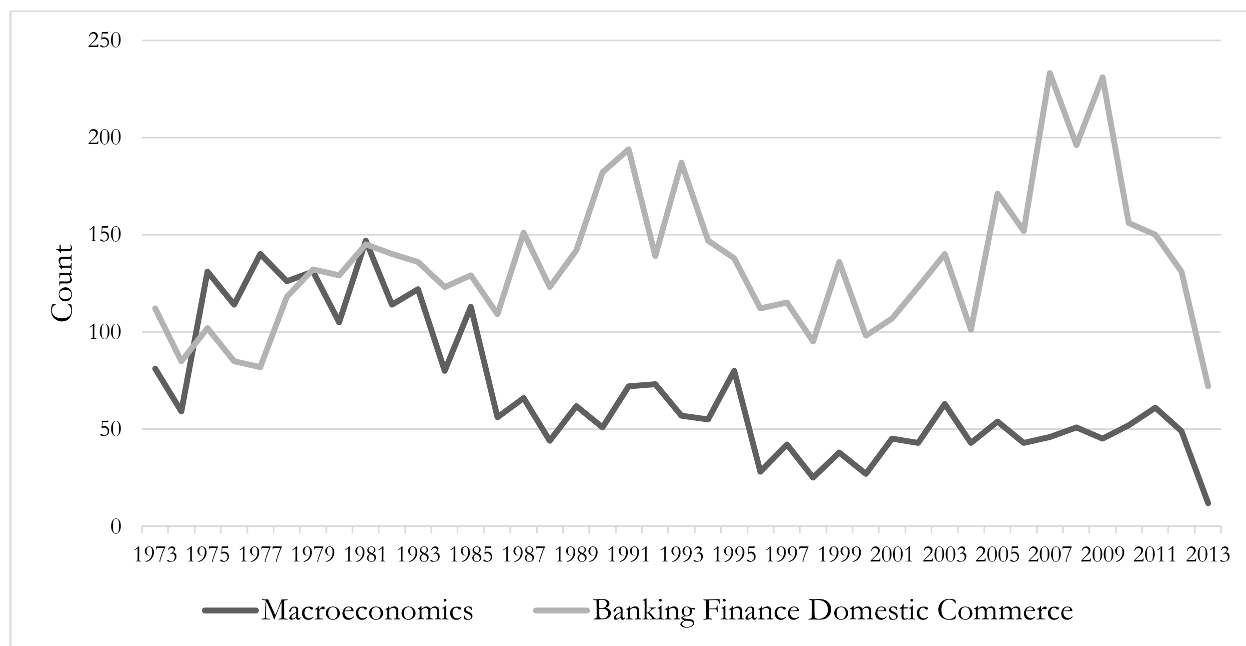
[13] For a detailed discussion see Rasler and Thompson (1985).

the 303 works on PET. Nevertheless, for studying crisis policymaking, the approach is fruitful and the assorted data valuable even if the studies themselves do not focus on crises.

In the following paragraphs, I introduce three figures and their relevance to policymaking during crisis. All of the data stem from the Policy Agenda Project (2013).[14] First, figure 2.2 shows the count of congressional hearings on finance, domestic commerce, and macroeconomics and banking.

[14] The data used here were originally collected by Frank R. Baumgartner and Bryan D. Jones, with the support of National Science Foundation (NSF) grant numbers SBR 9320922 and 0111611, and were distributed through the Department of Government at the University of Texas at Austin. Neither NSF nor the original collectors of the data bear any responsibility for the analysis reported here.

Figure 2.2: Congressional Hearings per Year, 1973–2013



Congressional hearings function as a proxy for congressional attention. I picked the committees that deal with macroeconomic and banking issues since these topics are related to recessions. Not all of the recessions generated a spike in governmental attention. The early-1980s crises (two recessions) in particular did not attract much attention. The explanation can be found in the reasons for the crises, which were connected to the savings and loan debacle (see chapter 3). Congress dealt with the relevant issues throughout the whole decade before the early 1980s. Thus, the attention to these issues declined over time. Comparatively, the banking-related committees of both chambers of Congress tend to be more responsive to recessions than the macroeconomic-oriented committees. The only two spikes of committee activity can be detected in the mid-1990s and the dot-com crisis. It is interesting to note that Congress did not conduct many committee hearings on macroeconomic policy issues during the Great Recession even though it enacted stimulus packages and other macroeconomic policies during the Bush and Obama administrations. I introduce two additional figures coming from Baumgartner and colleagues' (Policy Agenda Project 2013) extensive empirical

work to assess the effects of crises on the polity. Figure 2.3 shows the year-to-year percentage changes in the budget for education, training, employment, and social services.[15] In four of the five recessions I study, Congress extended unemployment insurance. Thus, one might expect more significant budget outlays during recessions.

[15] The codebook with all details about what these budget items contain can be downloaded here: www.policyagendas.org/page/datasets-codebooks.

Figure 2.3: Year-to-Year Percentage Change in the Budget for Education, Training, Employment and Social Services, 1973–2013

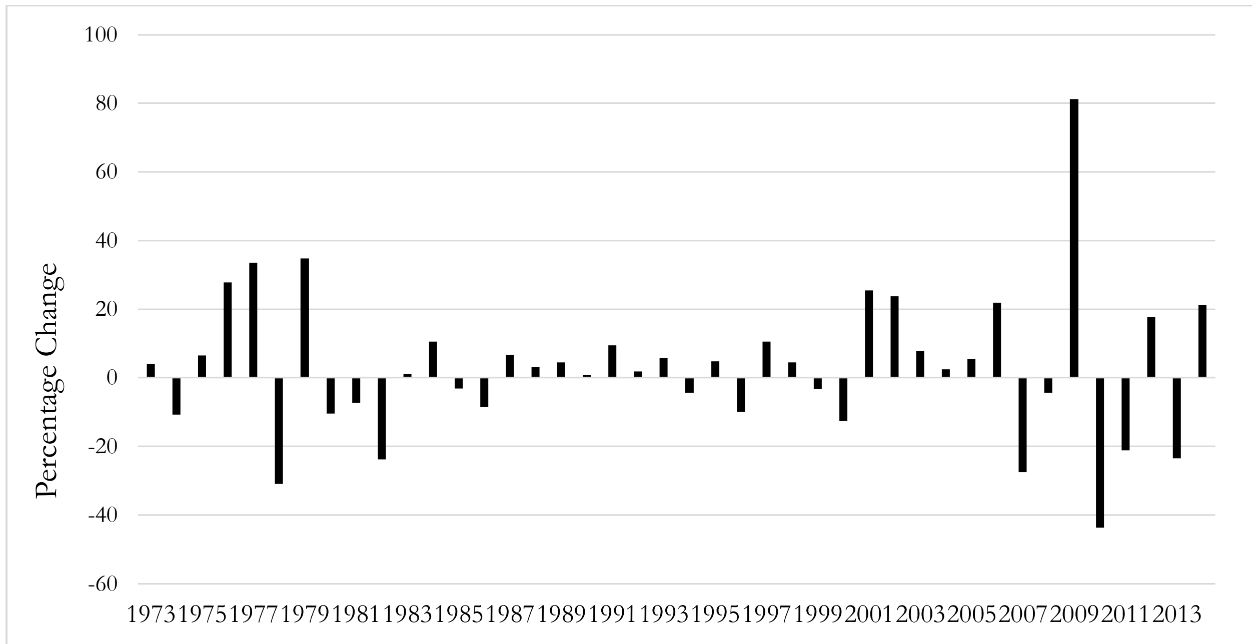
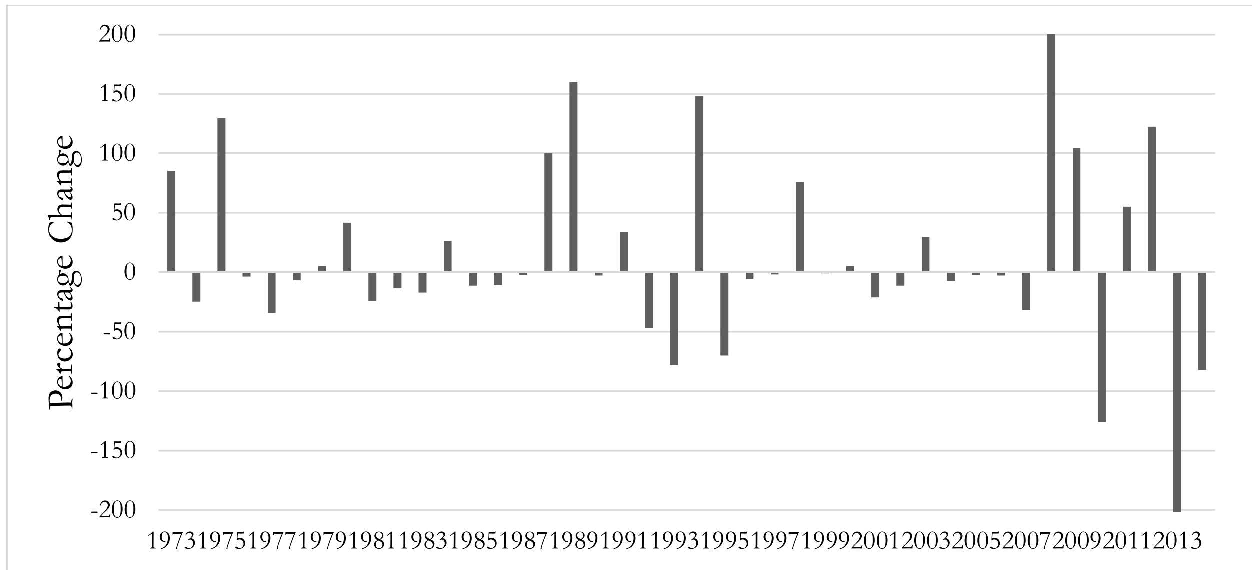


Figure 2.3 above points to greater expenditure during some recessions. However, this does not necessarily indicate more government activity. This might just reflect the effect of automatic stabilizers during times of heightened unemployment. Furthermore, these year-to-year changes are small as compared to the leptokurtic distributions that constitute punctuated equilibria (True, Jones, and Baumgartner 2007, 176). Figure 2.4 shows such a leptokurtic distribution for the year-to-year changes in the budget category known as commerce and housing credit. These data include expenditure for business grants, business regulation, and thrift and deposit insurance, among other items. Please note that compared to figure 2.3, I had to adjust the scale to make more room for the outliers in budget changes.

Figure 2.4: Year-to-Year Percentage Change in the Budget for Commerce and Housing Credit, 1973–2013



During the collapse of the housing bubble, the budget for commerce and housing credit rose by over 2,000 percent. In the figure, one can detect moderately higher crisis spending during the mid-1970s recession, weakly during the early 1980s and 1990s, and strongly during the Great Recession. Like the previous figure, figure 2.4 is imperfect as a measure of government activity. The extreme outlier of 2008, with an over 2,000 percent change, is an example of this imperfection. The 2008 budget change includes the costs to save the bankrupt institutions Fannie Mae and Freddie Mac. These institutions were taken over by the government later during the Great Recession (chapter 3). The costs resulted from the crisis and previous government policies and do not indicate increased government activity.

The data discussed within the literature on PET are extensive. However, the majority of the literature addresses issues of agenda setting and not the policy responses to crises. The discussion of the data shows that fat-tailed distributions within certain policy areas are common but does not

make the connection to crises. My data analysis of forty years of lawmaking during crisis shows a robust correlation to recession periods.

Macroeconomic Studies

Macroeconomic studies have contributed to our understanding of the dynamics of crises. Evidence across different nations and time shows that private debt surges before banking crises and that banking crises lead to an increase in public debt and even to sovereign default (Reinhart and Rogoff 2011a; Reinhart and Rogoff 2011b, 1687, 1689, 1701–2). This accumulation of debt is partially explained within the literature by the short-term perspective of politicians (Alesina and Perotti 1995). Franzese (2002, 54) shows through analyzing twenty-one OECD countries the strong effect of short-term-oriented political behavior. He shows that "election-year politics are important both in that there is a statistically strong two-year pre-electoral deficit cycle, and in that increasing electoral-cycle frequency from 5 to 2 years between elections has a sizable *long-run* impact (+21.35% of GDP) on debt." However, political opportunism happens during crisis and non-crisis times. It contributes to the pattern of lawmaking but it cannot be the sole explanation. One other plausible answer why banking crises lead to sovereign-debt crises is the provision of government stimulus packages. However, Reinhart and Rogoff (2011a, 170–71) find that bailouts and stimulus packages and their costs cannot account for the increase in debt levels after financial crises.

The comparative work by Pontusson and Raess (2012) tracks the differences in governmental responses in three crisis periods (1973–1976, 1979–1972, 2007–2010) in five countries (the United States, the U.K., France, Germany, and Sweden). They find that Keynesian policies as well as protectionist measures are still en vogue during crisis (Pontusson and Raess 2012, 31). They argue that crisis responses that exhibit a mix of supply- and demand-side policies reflect the self-interest of

domestic actors such as unions and business associations. Pontusson and Raess (2012, 17–18) study, among other variables, the level of unionization in the five countries, note a decline, and conjecture how this impacts crisis policies. Their study is somewhat similar to mine, but Pontusson and Raess (2012) underemphasize the importance of the incentive changes for the different groups during crisis, which are at the center of my dissertation.

Another macroeconomic approach studies how crises impact economic freedom (Young and Bologna 2016; Pitlik and Wirth 2003; Drazen and Easterly 2001). This literature stresses that reform is unavoidable once the status quo has been undermined severely by deteriorating economic conditions. Their empirical research show that severe crises often lead to economic reforms in a variety of countries and periods. They focus mostly on reforms after highly inflationary crises, currency crises, or high black market premia for currency. During such times, governments tend to enact liberal economic reforms. I find evidence for government responses even when crises are not as severe as the ones discussed in Young and Bologna (2016), Pitlik and Wirth (2003), and Drazen and Easterly (2001). However, my data suggest that lawmakers usually do not liberalize markets. The twenty-three laws I examine show a higher likelihood of regulation or reregulation than extensive reduction of regulation (chapter 3, tables 2.6 and 2.7).

To summarize, the discussed literature presents evidence for the changing conditions and changing effects of polices during crisis. These empirical examinations, however, as detailed and impressive as they are, do not explain the behavior of legislators, voters, interest groups, and bureaucrats, which would help to explain the differences in policies during crisis times.

Political Bubbles and the Empirical Evidence for Delayed and Limited Legislative Responses

McCarty, Poole, and Rosenthal (2013) present a variety of evidence throughout their book. Ideology is one of the few variables they track throughout different crises. They employ the D-Nominate measure, which plots legislators on a left-to-right ideology scale based on their voting records (Poole and Rosenthal 2001). They find that ideology remains largely unchanged during crisis and individual votes by legislators. Ideology seems to be a consistent indicator of legislative voting patterns during crisis and normal times. Ideology is overridden only by strong pressures from the electorate or huge turmoil in the markets (such as a stock market collapse) (McCarty, Poole, and Rosenthal 2013, 188–227). Another main argument of theirs is that ideology leads Congress to fuel financial bubbles and not prevent them. Their historical work on the patterns of legislation during financial crises is marred, though, by being anecdotal and not based on firm evidence. They put forward their thesis that congressional responses to crises are delayed on a mere six pages while talking about crises from 1797 until today (McCarty, Poole, and Rosenthal 2013, 160–65). The discussion of the limited reach of laws after crises is similarly structured and not based on quantitative data (McCarty, Poole, and Rosenthal 2013, 165–73). My data disagree to some extent with these conjectures. I show that Congress responds more during crisis than normal times. Lengthier laws also correlate with more regulatory content, as table 2.8 shows.

Conclusion

Most of the empirical evidence examined in this chapter shows that times of crisis create different policy outcomes. The only exception is McCarty, Poole, and Rosenthal (2013), which focuses on

shortcomings of US democracy (present during crisis and non-crisis times) that lead to inadequate crisis decision-making. Table 2.2 summarizes the focus and the findings of the discussed empirical studies.

Table 2.2: Empirical Studies on Crisis Decision-Making and Its Effects		
Authors or literature	**Focus**	**Findings**
Peacock and Wiseman (1961)	National	World Wars I and II led to a permanently bigger government in the U.K.
Higgs (1987)	National	Government expanded throughout all crises studied from the late 19th century to the late 20th century. The focus is on the United States.
Rasler and Thompson (1983)	International comparative	Detect ratchets in different countries after wars.
Punctuated equilibrium theory	Agenda setting and attention	Detects punctuated equilibria in a wide variety of policy fields and government activities. Rarely connects them to crises.
Reinhart and Rogoff (2011a, 2011b)	International banking crises, sovereign default, and debt	Debt rises on average by 86% within three years after a crisis starts.
Pontusson and Raess (2012)	International comparative	Track changes in policy responses and note differences such as more tax reduction compared to previous crises. They connect features of the political economy such as the degree of unionization and corporatism to the observed policy decisions.
Crisis-hypothesis literature: Pitlik and Wirth (2003), Drazen and Easterly (2001)	International comparative	Severe inflationary periods and high black market premiums lead to free-market reforms. Less serious crises do not.
McCarty, Poole, and Rosenthal (2013)	National	The empirical part of their work tracks ideology throughout crises as a constant factor that prevents necessary reform.
My thesis: political economy of crisis	National	Crises, serious and weak ones alike, lead to faster and lengthier legislation compared to normal times.

Crises have been studied from a variety of viewpoints. The majority of the literature concludes that crises are times of change and that the outcomes of policymaking differ during such times. But no study looks at the patterns of lawmaking during crisis.

My empirical approach and its results, which I present in the next section, contribute to the empirical study of crisis on the following margins:

1. I track lawmaking as one expression of policymaking during five recessions and compare it to normal times.
2. My empirical study uses both aggregated data and a qualitative discussion to provide a more complete picture of the changes in decision-making as well as the circumstances of time and place surrounding the decision-making. My approach acknowledges the heterogeneity of crises while stressing the commonalities. The pattern of crisis laws being lengthier and enacted faster persists throughout very different crises.
3. I compare the length of legislation to its regulatory density, which provides evidence for the relative extensiveness of policymaking during crisis and normal times (tables 2.6, 2.7, and 2.8).
4. My empirical research is embedded within a theoretical discussion of the incentives that lead to these outcomes. I explain the policy outcomes not by one single theory but a web of interactions among voters, legislators, interest groups, and bureaucrats (chapter 5–8).

Data Selection and My Empirical Approach

The comparison I make is between the outcome of lawmaking during "normal times" with the periods of severe economic distress experienced during the last five economic crises, from 1973 to 2014. I derive the data from the Library of Congress (THOMAS.gov 2014) and a database (Sunlight

Foundation and GovTrack.us 2014) that compiles data from different sources using "a scraper for THOMAS.gov, the official source of information on the life and times of legislation and presidential nominations in Congress. Scrapers for House and Senate roll-call votes. [As well as a] scraper for GPO FDSys [Government Printing Office—Federal Digital System], the official repository for most legislative documents."

I chose the period 1973–2014 in order to use the available data to its fullest extent. There are no suitable data available from before 1973. Data on the five recessions in this period allow me to compare the laws enacted during crisis compared to normal times. Studying recessions over a period of over forty years allows me to detect a pattern of lawmaking that will be described in detail below. I use the National Bureau of Economic Research's (NBER 2014) definition of crisis and study the following five periods:

Table 2.3: Crisis Periods

Start	**End**	**Months**	**Name of crisis**
November 1973	March 1975	16	Mid-1970s crisis
January 1980	July 1980	6	Early 1980s recession
July 1981	November 1982	16	
July 1990	March 1991	8	Early 1990s recession
March 2001	November 2001	8	Dot-com crisis
December 2007	June 2009	18	Great Recession

The crisis legislations were all officially voted upon and signed into law. Assessing whether a particular piece of legislation addresses a crisis is difficult. Congress sometimes enacts omnibus laws that speak to a variety of different issues. I ignore those laws. I only consider laws introduced by legislators as a remedy for a crisis. This intention becomes apparent through (a) the title of a law

(e.g., Emergency Economic Stabilization Act, or Economic Recovery Tax Act); (b) the debate surrounding the law as shown in the records of the discussions within Congress; or (c) the reports by the Congressional Budget Office (CBO), which state the intent, content, and costs of legislative proposals.

I assess laws passed within the declared NBER crisis periods as well as laws passed within eleven months after it. I chose eleven months as the cutoff for the following three reasons: First, the NBER normally declares the crisis's starting date a couple of months after it starts. Second, recessions often affect the labor market only several months or even years after the recession has begun in the books of the NBER (Whittaker and Isaacs 2012, 7). Four months was the average time passed during the five recessions from the start of the NBER crisis period before unemployment began to rise (figure 2.6). Unemployment is a key factor lawmakers take into consideration when creating law. Chapter 5 shows that the widespread uneasiness within the electorate caused by unemployment is necessary to increase the voters' demand for government action. Thus a rising unemployment rate is likely to induce a legislative response. Third, the more complicated a crisis, the more time lawmakers need to understand the situation to create legislation that addresses the crisis appropriately. The average law takes Congress seven months. Adding the four months that pass until unemployment rises and the seven months a bill takes until it becomes law, then, I consider all laws passed within eleven months after the NBER crisis period as potential crisis laws. All discussed laws fall within either the NBER crisis period or the eleven months after the NBER period. Dodd-Frank is the only law that falls outside of this period, having been passed thirteen months after the crisis. Including Dodd-Frank is justified when considering

- that the Great Recession was the worst financial calamity since the Great Depression,
- the complexity of the financial instruments involved,

- that the Great Recession was the longest of the five crisis periods, and
- that Dodd-Frank is the fourth-longest law in my whole data set.

Having set out the criteria for what laws to analyze, I introduce the two questions that guide my empirical investigation of lawmaking during crisis:

1. Are crisis laws different than non-crisis laws?
2. Are crisis laws handled differently within the legislative process?

To arrive at an answer to these questions, I measure the time it took Congress to pass laws as well as the number of words in the laws. First, I count the number of calendar days between the day of a law's introduction until it was signed. In some instances, I had to adjust the time it took Congress to pass laws. During the Great Recession, Congress frequently used bills that had already been in the legislative process to gut them and replace the text with the provisions that are relevant to the crisis. Thus, a bill about global warming and energy became a crisis law that addresses mortgage foreclosures and unlimited financial guarantees to Fannie Mae and Freddie Mac (see the section on the Housing and Economic Recovery Act of 2008 in chapter 3). Looking through the legislative history and identifying the point when the content of the final law began to be discussed is crucial to assess how long Congress actually worked on the bill and how much time Congress had to read and process the legislative proposal.

Second, I count the words from the text (.txt format) versions of the laws. These have less clutter than the PDF format versions, which tend to be longer. I use for all the word counts the same script, which is part of the Visual Basic code that makes the data provided by the crawler attainable. Legal signposting, such as (II) and (a), and numbers are counted as words. I select the "EN" version

of the laws, which is the enrolled and thus final version of the law.[16] As mentioned, I adjust some of the laws passed during the Great Recession for the time a bill was discussed in Congress.

I compare the enacted crisis laws to four decades of lawmaking as well as representative laws dealing with the regulation of financial markets. I choose financial markets as they have been in the eye of the storm during many recessions. The financial laws function as a good benchmark against to which compare the crisis responses for the following three reasons:

1. The goal of legislation enacted during all five of the economic crises except the mid-1970s crisis was bringing stability to the banking sector.
2. Financial regulation has a narrower focus than economic regulation, which can have a whole range of goals. Economic legislation is too broad of a category.
3. Financial regulation is a complicated and intricate area of lawmaking that requires attention and lengthier legislation than the average law. This provides a fairer comparison of laws enacted during crisis than the average, shorter law.

I select the comparison laws from all studied Congresses (93rd Congress to 113th Congress) by examining the title of the law, its intent, and the description of the law. I only discuss laws that have the policy goal of financial stability. Nearly every Congress enacts extensive laws that speak to parts of the financial sector. However, these laws often have separate policy goals such as providing housing for lower-income families. These laws are not included within my comparison section since the regulatory content does not deal primarily with the stability of financial markets or the economy

---

[16] In three cases 104th Congress: H.R. 3019, H.R. 3610 and 105th Congress H.R. 4328 neither the Public Printing Office nor Thomas.gov had the versions of the enrolled bills. Instead, I used the latest publicly available version which were in all three cases the public print of the law. The three laws were all appropriation laws and one of them even turned out to be the longest law of the whole data set with 413,414 words (H.R. 4328 of the 105th Congress).

in general. A list of all comparison laws and their word and day counts can be found in appendix 1. I ignore laws smaller than five hundred words since those are mostly extensions of existing programs and are unlikely to be relevant for lawmaking on financial matters.

Patterns of Lawmaking during Crisis: Making Sense of Legislative Behavior

Before digging into the patterns of lawmaking over the last five recessions, one has to attain a picture of the productivity of Congress and how it changes. Looking at enacted public laws (not private ones), Grant and Kelly (2008, 305) find that "during the first 50 years of the U.S. Congress, the average number of statutes enacted by each Congress was 119. By the 1870s, the number of laws was in average more than twice this level. During the 20th century, Congresses have passed an average of over 635 laws, with some enacting over 900." Using the data from the Library of Congress (THOMAS.gov 2014), I find that the average number of enacted laws was 446 from 1995 to 2004 (five Congresses). From 2005 to 2012 (four Congresses), the average fell to 403 enacted laws. The 113th Congress (2013–2014) enacted 296 laws. Congress produced fewer laws and fewer total pages. Another trend that emerged is that the smaller amount of laws have become longer. However, this trend is by far not enough to explain the high word count of the crisis cases. See figure 2.5 for a depiction of that trend based on my data. The x axis depicts the Congresses. The $f(x)$ axis depicts the number of words in laws.

Figure 2.5: Laws becoming Longer—Average Word Count

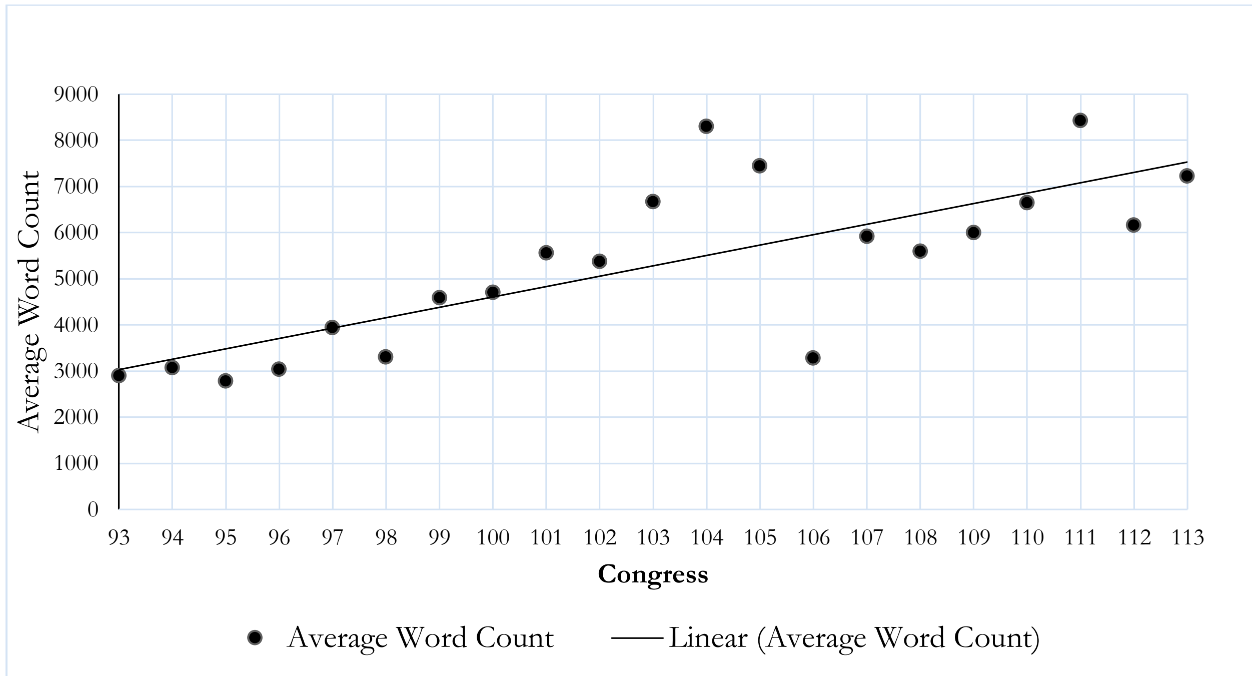


Table 2.4 shows all the data for the twenty-one analyzed Congresses and their laws.

Table 2.4: Lawmaking, 1973–2014				
Congress	**Years**	**Final laws**	**Average word count**	**Average duration in days**
113	2013–14	296	7,221.12	264.54
112	2011–12	284	6,163.95	217.16
111 (Crisis)	2009–10	385	8,422.49	187.18
110 (Crisis)	2007–8	460	6,644.05	177.83
109	2005–6	483	6,002.75	220.32
108	2003–4	504	5,587.76	211.79

107 (Crisis)	2001–2	383	5,913.02	222.68
106	1999–2000	604	3,274.34	244.76
105	1997–98	404	7,445.19	217.88
104	1995–96	337	8,297.79	208.99
103	1993–94	473	6,673.13	188
102 (Crisis)	1991–92	610	5,375.66	187.35
101 (Crisis)	1989–90	665	5,555.76	193.94
100	1987–88	761	4697.44	214.51
99	1985–86	687	4587.56	197.07
98	1983–84	677	3298.97	223.86
97 (Crisis)	1981–82	529	3934.35	236.53
96 (Crisis)	1979–80	736	3,036.52	266.36
95	1977–78	804	3,531.08	243.83
94 (Crisis)	1975–76	729	3,065.68	268.92
93 (Crisis)	1973–74	772	2,894.92	253.94
Average		551.57	4,895.69	223.68
Data sources: THOMAS.gov 2014; Sunlight Foundation and GovTrack.us 2014. Author's calculations.				

Before going into a discussion of the data, I present table 2.5 with a comparison of all crisis periods, the comparison laws, and all assessed laws as well as facts about unemployment rates and whether Congress was divided. This shows the pattern of crisis lawmaking clearly.

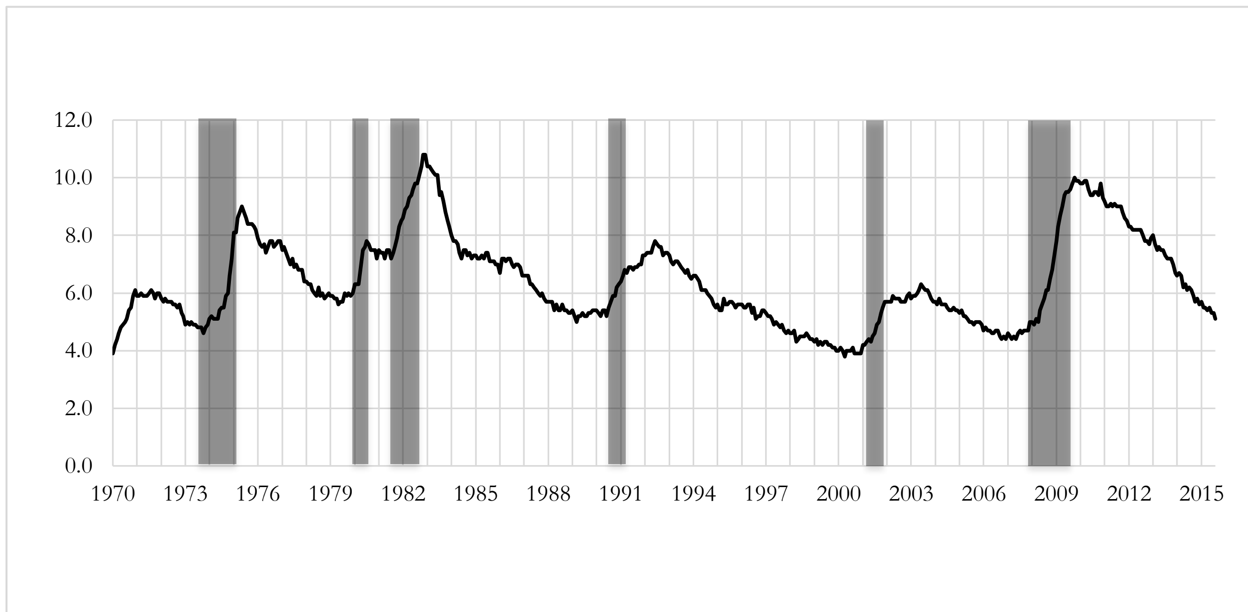
Table 2.5: Comparison of All Crisis Periods								
	Mid-1970s	**Early 1980s**	**Early 1990s**	**Dot-com**	**Great Recession**	**All crisis laws**	**Comparison laws**	**All laws**
Number of laws	5	4	5	2	7	23	51	11,584
Average words	18,826	41,579	20,661	23,171	106,328	50,191	16,764	4,896
Average days	106.8	125	89.6	158.5	80.57	102.56	184.75	223.68
Amount of days quicker than average law	117	99	134	65	143	121		
Amount of days quicker than comparison laws	84	66	101	32	107	82		
Average unemployment rate	6%	8.4% (7% in 1st recession. 9% in 2nd recession)	6.1%	4.8%	7.7%			
Highest unemployment rate	8.6%	1st 7.8%, 2nd 10.8%	6.8%	5.5%	9.5%			
Length in months	16	6 + 16	8	8	16			
Divided Congress	No	Yes	No	Yes	110th Yes, 111th No			
President–Congress party conflict	Yes	Split between House and Senate	Yes	Split	110th Split 111th No			

There are three aspects of table 2.5 that require further elaboration—the early-1980s crisis period, comparison laws, and unemployment numbers. The early 1980s experienced two crises close to one

another. Since I consider crisis laws as laws enacted within eleven months of a crisis, I do not treat these crises as separate events. The comparison-laws column refers to the already-mentioned financial-regulatory laws of appendix 1. The appendix contains fifty-one laws. The average of these comparison laws provides another way of assessing the pattern of crisis lawmaking.

Furthermore, I ought to mention some consideration concerning unemployment rates during recessions. The averages of the unemployment rate are not always very indicative since the rates can deviate strongly within a recession. The average unemployment number of the 1970s was 6 percent—not very high. However, at the beginning of the crisis, the unemployment rate was 4.8 percent and at the end of the NBER period 8.6 percent. This is a significant difference, and unemployment became even worse after the recovery started. The same pattern of low unemployment rising during a crisis and not going down after the end of the NBER period emerges for all of my studied crisis periods. Unemployment eventually goes down, but the detrimental effects within the labor market are felt much longer than the duration of the NBER period. Figure 2.6 reveals this when depicting the monthly unemployment rate from 1970 to 2015. The shaded areas are the recession periods. The data stem from the Bureau of Labor Statistics (BLS 2015a). The impact of recessions on employment within and after the crisis periods is clearly visible. The peak in unemployment of the 1970s and the 1980s was in both cases after the NBER crisis period.

Figure 2.6: Monthly Unemployment Rate, 1970–2015



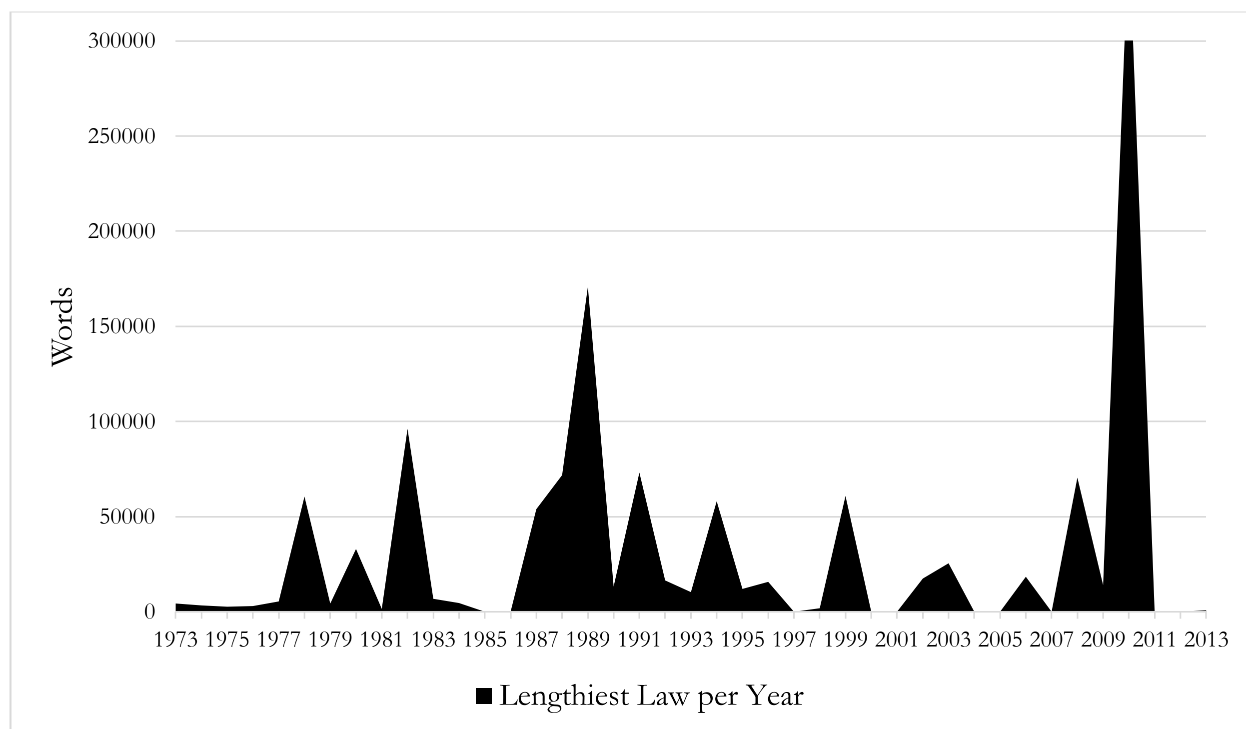
What are the main takeaways from the data presented in table 2.5? First, the laws enacted during the Great Recession deviated the most from normal lawmaking. The seven Great Recession laws were enacted in an average of eighty-one days. Compared to the average of all other laws, the Great Recession laws were enacted 143 days quicker. Urgency was clearly a factor contributing to the fast enactment of these laws. Dodd-Frank is the only law during the 111th Congress that took longer than the average law. This should not come as a surprise since Dodd-Frank is the fourth-longest law in my whole data set. A comparison to the fifty-one laws serving as a comparison is similarly staggering. The Great Recession laws are over six times longer than the average comparison law. The Great Recession laws were enacted 104 days quicker than the comparison laws.

When looking at all twenty-three crisis laws, they are on average ten times longer than the average law of the four decades of lawmaking. In average, all the crisis laws got enacted 121 days quicker than the average law. The difference between the twenty-three crisis laws and the comparison laws is not as large as in the case of the Great Recession but is still significant. The average crisis law got

enacted 121 days faster than the average law and 82 days faster than the comparison laws. The average crisis law is nearly three times as long as the average comparison laws. All crisis periods deviate from the normal patterns of lawmaking to varying degrees, with the dot-com crisis deviating the least and the Great Recession the most.

Another way of depicting the patterns of lawmaking is figure 2.7. It shows the longest law that pertains to financially regulatory matters for each year from 1973 to 2013.

Figure 2.7: Punctuated Equilibria of Financial Regulation



The average financial-regulation law is 16,764 words long. Eight annual spikes above that average are significant at over 50,000 words. These legislative peaks show the punctuated nature of the legislative process concerning financial regulation. Three of the five studied financial crises revealed

problems within the financial sector. Both the 1980s and the 1990s saw an increased rate of bank failures during the savings and loan crisis. This episode brought with it the early 1980s and 1990s recessions. Subsequently, we see that financial policymaking became punctuated. Dodd-Frank is the strongest punctuation. The rather mild recession of the early 2000s affected only the tech sector and did not spill over to the financial sector. Nevertheless, the reforms undertaken in Sarbanes-Oxley were extensive and ineffective, as Romano (2004) argues. Similarly, the mid-1970s recession was a severe crisis, but the financial sector was not in the midst of it. Many sectors struggled, and the overall economy was depressed. There was no punctuation during the mid-1970s since financial regulation did not gain enough salience.

My data show a different pattern of lawmaking in times of crisis compared to normal times. The pattern of lengthier laws enacted faster persists across recessions as well as 9/11 (appendix 2). The legislative data I present is the starting point for the discussions below on the nature of policymaking during crisis. Admittedly, legislation is only one part of government responses during crisis. This and other problems of the validity of my data are addressed in the next section.

Potential Problems of Validity and Other Factors of Lawmaking during Crisis

This section addresses objections to my empirical work and additional considerations one ought to take into account when studying legislation during crisis. I show

1. that the length of a law indicates it has denser regulation;
2. the limitations of measuring the time a law spent in Congress;
3. the importance of executive orders;
4. the significance of state-level crisis responses;

5. the nature and role of appropriation laws during recession; and
6. the role of the Federal Reserve System during recessions and in policymaking.

I address potential problems of validity in the context of the Great Recession.

Length Does Not Equal Legal Intrusiveness

A lengthier legal document might not necessarily reflect more regulation or infringement. However, I maintain that it is unlikely that laws are lengthier but not more extensive. The Economic Stimulus Act, the shortest of the Great Recession crisis laws, cost the taxpayer $152 billion for tax rebates. The Emergency Supplemental Appropriations Act (EESA) was the most extensive intervention into the financial sector since the Great Depression (a superlative subsequently taken by the Troubled Asset Relief Program and then by Dodd-Frank). The American Recovery and Reinvestment Act (ARRA) is the largest stimulus package in the history of the United States, with around $831 billion, directing spending in education, healthcare, infrastructure, scientific research, housing, and so on. The Housing and Economic Recovery Act (HERA) created a multitude of new programs to address the problems of the housing market. The Federal Housing Finance Agency, one of the newly created agencies, it subsequently was responsible, due to the power HERA provided, to put the mortgage lenders Fannie Mae and Freddie Mac under conservatorship. Writing in the *Washington Post*, Cho and Appelbaum (2008) consider the HERA to be "one of the most sweeping government interventions in private financial markets in decades." Later, Dodd-Frank became the most extensive reform of the financial industry since the Great Depression. It reformed, changed, and linked over twenty existing regulatory agencies.

To further assess the regulatory impact of these laws, I employ the Regdata method (McLaughlin and Al-Ubaydili 2013) to measure the amount of binding restrictions from the crisis cases and compare it to the average restrictions of all laws passed during the 107th, 110th, and 111th Congresses. Regdata is based on textual analysis, which counts phrases that indicate an obligation within the law. Table 2.6 compares the average number of restrictions of the crisis laws with the average of all laws in the Congresses that experienced the crisis.

Table 2.6: Binding Restrictions of the Crisis Laws

Great Recession	Congress	Law	Binding restrictions
Economic Stimulus Act of 2008 (ESA)	110th	H.R. 5140	44
Housing and Economic Recovery Act of 2008 (HERA)	110th	H.R. 3221	1,394
Emergency Economic Stabilization Act of 2008 (EESA)	110th	H.R. 1424	874
American Reinvestment and Recovery Act of 2009 (ARRA)	111th	H.R. 1	2,363
Help Families Save Their Home Act of 2009 (HFHA)	111th	S. 896	304
Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank)	111th	H.R. 4173	4,386

Table 2.7: Comparison of Restrictions (Averages)

Congress	Restrictions (with crisis cases)	Restrictions (without crisis cases)
107th	64.77	60.01
110th	76.32	71.76
111th	98.14	80.44
Average of 110th and 111th Congress	86.26	75.71
Great Recession laws	1,560.33	

The difference between the average law passed in the Congresses that experienced the Great Recession and the crisis cases is staggering. The crisis cases contain on average twenty times more restrictions than the average law of the two Congresses (excepting the crisis cases). These results indicate that the laws exhibit a higher regulatory density. However, one has to be careful in interpreting these results, especially in the case of the ARRA. The ARRA contains mostly restrictions that are directed at the bureaucracies and agencies distributing the stimulus money. Legislators wanted to minimize discretion and fraud while handing out over $800 billion of US taxpayers' money. Many of the measured restrictions within the ARRA do not qualify as regulatory.

More evidence for an increased regulatory density of crisis legislation can be found by running a simple regression analysis between all crisis periods of the present chapter and the year-to-year change in regulatory restrictions. I find that the growth in regulatory restrictions is higher during crisis years and the immediately following year compared to the regulatory trend. The results are statistically significant with a p-value < 0.1.[17] Table 2.8 shows the results of this regression analysis. I ignore the growth in restrictions after the Great Recession. Dodd-Frank and its regulatory changes are an outlier for the whole period, as depicted in figure 2.1, showing the stark increase in restrictions for Title 12 and Title 17 regulation. The regression shows a positive correlation between crises and growth of restrictions even aside from the biggest financial-regulatory growth spurt the United States has ever had.

---

[17] The equation is estimated using ordinary least squares and unadjusted standard errors since the data does not show any heteroscedasticity.

Table 2.8: Correlation between Crises and Growth of Regulatory Restrictions

Year-to-year change	Coefficient	Robust standard error	T	P value	95% confidence interval	
Crisis	605.9593	356.1349	1.70	0.098	-118.6026	1,330.521
Trend	-18.5672	16.46658	-1.13	0.268	-52.0687	14.93431
_cons	970.4361	412.0806	2.35	0.025	132.0518	1,808.82

This regression is based on the limited data set of five crisis periods and four decades of lawmaking. The identified correlation might be spurious. Nevertheless, the regression is only one piece among many presented in this dissertation that point to increased government activity during crisis. This section started off with the statement that longer laws are not necessarily more extensive. The reverse is also true: a shorter law is not necessarily less intrusive. The law that enabled President Nixon to shut the gold window, implement widespread price controls, and singlehandedly dismantle the monetary order of its day was only five pages long. This brief overview of the restrictions of the crisis laws shows that the length of the laws reflects to some extent more government activity.

Time in Congress Not Equal to Congressional Work on Laws

In some cases, I adjusted the date of introduction of laws into Congress due to the intricate legislative history of some laws (chapter 3). Another factor to take into account is work that is not revealed by official records. A law might have been discussed for months before it was finally introduced in Congress. Parts of laws that were later introduced might have been worked out in committees without being on the official congressional agenda. Proposals for new laws might include parts of laws that have been on the shelf for years. These are some possible reasons why the

"time spent in Congress" variable might be unreliable. Nevertheless, these possibilities apply to both crisis and non-crisis laws.

Presidential Executive Orders

In this chapter, I am analyzing the legislative process. This ignores several other sources of legislative content. One source is the power of the president to give executive orders. One of the most significant economic events regarding monetary policy happened in 1971. Faced with trade imbalances and an uncompetitive export sector, Nixon single-handedly (with a meeting at Camp David to rubberstamp Nixon's decision) abandoned the convertibility of the dollar to gold. This major shift in policy is not inscribed in any law. Nixon just told the treasurer to forbid most exchanges of gold against the dollar. The decision to do this was popular and in conjunction with the price controls brought short-term stability to the economy and reelection to Nixon.

This presidential power was first used by George Washington and has been used by every president ever since. Franklin D. Roosevelt set the record when issuing 3,522 executive orders during his time in office. Even Woodrow Wilson, who had the second-highest count of executive orders, had only half as many as Roosevelt. George W. Bush, president during the 9/11 crisis and the beginning of the Great Recession period, and Barack Obama, president during the Great Recession, have been relatively moderate in issuing executive orders (EO) with a count of 291 for Bush and 244 for Obama (last updated August 2016; Woolley and Peters 2016b).

Table 2.9: Executive Orders by President (in Descending Order)	
Barack Obama—Great Recession	244
George W. Bush—Great Recession and dot-com	291

George H. W. Bush—early 1990s	166
Ronald Reagan—early 1980s	381
Jimmy Carter—early 1980s	320
Gerald Ford—mid-1970s	169
Richard Nixon—mid-1970s	346
Source: Woolley and Peters 2014a	

Many EOs are innocent, such as President George W. Bush's Executive Order 13449—Protection of Striped Bass and Red Drum Fish Populations. This is not always the case. Another of Bush's EOs enabled the NSA to eavesdrop on domestic targets without a warrant (Risen and Lichtblau 2005). Bush also used an EO to create a task force at the White House working on homeland security a few days after the 9/11 attacks. Another, older and infamous, example is the EO by Franklin D. Roosevelt that detained Japanese Americans and German Americans in internment camps during World War II.

President Barack Obama uses the power of executive orders to bypass Congress to address the problems within the economy. Obama (quoted in Savage 2012) was explicit about that when he said: "If Congress refuses to act, … I'll continue to do everything in my power to act without them." On the White House website, Obama not only advertises for his "we can't wait" policy but also lists all the actions he has undertaken to bypass Congress and help the middle class. The website lists forty-five EOs solely for this purpose in 2012 (Obama 2014). His EOs allegedly freed up over $400 million in investment projects, reduced fees for government-sponsored mortgages, continued mercantilist policies to "buy American" and instituted several small programs spending billions of dollars on renewable energy and on funding start-ups, research, and institutes. However one regards the stalling in Congress during Obama's administration, Congress has worked effectively during the Great Recession. EOs as lawmaking by presidential decree can be influential and are not captured in

the normal process of lawmaking. George W. Bush was similarly eager to issue EOs. Bush focused his EOs mostly on national security issues such as "enhanced interrogation techniques"—that is, torture, spying, and similar activities allegedly to keep America safe. Going through the list of EOs by presidents collected by Woolley and Peters (2014a), it does not seem to be the case that Bush issued many EOs addressing the desolate state of the economy during his presidency.

Policy Responses to the Financial Crisis on the State Level

An important source of government action is legislation by the states. In this section, I elaborate on the role of state-level responses to the Great Recession. I do not deem it necessary to go through all crisis periods to establish their role.

The Great Recession affected states negatively. According to the International Monetary Fund (IMF), state-lead public pension system lost 20 percent in value (Jonas 2012, 18). The IMF goes on to explain the dire situation: "States and local government [experience a] fiscal gap (the action that should/needs be taken today, and maintained for each year, to achieve fiscal balance over the next 50 years) [that] would require measures that would equate to a 12.7 percent reduction in current state and local government expenditure." States depleted their "rainy day" funds, increased their taxes, and closed tax loopholes, which led in half of the states to increased revenue and reduced spending (Jonas 2012, 19–23). They also lobbied the federal government successfully for additional funding. As Inman (2010, 2) writes, "as part of that legislation [ARRA] the federal government provided over $223 billion for three years of fiscal relief for state and local governments divided about equally between general fiscal relief for education, Medicaid, and welfare expenditures and program and project specific transfers meant to stimulate the economy."

This is only the fiscal side of government action. Many other policy issues, such as financial services, are interlinked and overlapping in complicated ways between the federal and state levels (Wagner 2016; Wagner 2012a; Teles 2012). The National Conference of State Legislatures voiced its concern about the increasing influence of the federal government within banking regulation (NCSL 2012, sec. Committee on Communications, Financial Services). States want to preserve their right to regulate local banks which they exercised by enacting a plethora of laws during the Great Recession. They were active in designing policies that address the fall in homeownership. Many states supported homeowners with mediation and other protections for mortgage holders. Some of these changes resulted from federal rules (based to a large extent on the HERA) compelling all states to enforce new regulation and licensing requirements for mortgage-market participants (Caggiano, Franzén, and Dozier 2010). Aside from the fact that the federal government imposed many lawmaking requirements on the states, state-level lawmakers were also active during the Great Recession. A full picture of lawmaking during crisis ought to address regulatory changes and patterns of lawmaking at the state level during recessions.

Appropriation Laws

The results presented thus far become even more staggering when taking into account appropriation laws. Appropriation laws differ from normal laws since they have to be passed by Congress twelve times in any given year, as prescribed by the constitution. Eight of the twenty lengthiest US laws of

my data set are appropriation laws or laws as part of the budget-reconciliation process.[18] These laws focus mainly on budgetary issues and not on regulatory ones (Li et al. 2015, 334, 339–40).

One exception is Cash for Clunkers, a program that provided consumers with public money when buying a new car in return for their old one. The program was introduced twice into Congress under H.R. 1550 (2009) and H.R. 2640 (2009). These bills were discussed in a couple of committees, but they ultimately did not pass. However, the idea gained traction, and the whole program became part of a last-minute appropriations law for the wars in Afghanistan and Iraq (H.R. 2346 2009). Through this appropriation law, $1 billion were allocated for Cash for Clunkers. Later the program received another $2 billion in funding by another appropriations law (H.R. 3435 2009), which was enacted within eight days.

In recent years, supplemental appropriation laws have become a vehicle for extraordinary spending by Congress, which proponents often justify by a declared state of emergency. These projects often have nothing to do with the object of the law and serve the purpose of earmarking (de Rugy and Kasic 2011). There are potentially other substantive public policies to find within the appropriation laws enacted by Congress during the studied crisis periods.

---

[18] According to the glossary of the United States Senate (2015) the reconciliation process is "a process established in the Congressional Budget Act of 1974 by which Congress changes existing laws to conform tax and spending levels to the levels set in a budget resolution. Changes recommended by committees pursuant to a reconciliation instruction are incorporated into a reconciliation measure."

The Federal Reserve System as a Policymaker

Another source of change within the economic framework and regulatory content is the supposedly[19] independent Federal Reserve System. If not otherwise indicated, the following information and data are based on an article in the *Harvard Journal of Legislation* by Shah (2009). From December 2007 until March 2008, the Fed created three new programs that offered $380 billion in loans to the financial sector: $150 billion through the Term Auction Facility, $200 billion through the Term Security Lending Facility, and $30 billion through the Primary Dealer Credit Facility mostly targeted at investment banks. It is remarkable that the Fed was able to create lending programs to the financial sector for more than $380 billion in such a short amount of time—a sum more than half as big as the controversial Wall Street bailout of $700 billion by TARP, which was created by the Emergency Economic Stabilization Act in the last quarter of 2008.

The Fed facilitated the takeover of Bear Sterns by J. P. Morgan by guaranteeing up to $30 billion. It also financially supported the insurance company AIG with $85 billion in favorable loans. In return, the central bank became the major shareholder of AIG by controlling 79.9 percent of the shares. The AIG rescue became the largest bailout of a private company in the history of the United States. To put these radical actions by the Fed into perspective, before the Great Recession, the largest loan given out by the Fed was $5 billion, given to the Continental Illinois Bank in less than a year (Goodfriend 2011, 1). The Emergency Relief and Construction Act from 1932, enacted by President Hoover amid the Great Depression,[20] was the legal basis for these sweeping actions. This enables

[19] In von Laer (2010), I address some of the political problems of the Fed when dealing with Congress and powerful political players in the administration. In regard to the Great Recession, Goodfriend (2011) has a detailed discussion of the interplay between fiscal policy, monetary policy, and the implications for an independent central-bank. See the discussion on political business cycles in chapter 6.

[20] For an discussion on the legislative acts increasing the mandate and the power of the Fed see Fettig (2002).

the Fed to "lend money to virtually anyone, on whatever terms it sees fit," as Shah (2009, 574) puts it. Most of these recent unprecedented actions were before lawmaking by Congress.

The Great Recession was not the only instance in which the Federal Reserve became active. The Nixon tapes revealed Nixon's political manipulation of the Federal Reserve. He pressured the chairperson of the Federal Reserve to generate a favorable business cycle to ensure Nixon's reelection (Abrams and Butkiewicz 2012; Abrams 2006). The Federal Reserve intervened in the mid-1970s and bailed out a private bank with over $700 million of purchases (Hendrickson 2011, 178). In response to the dot-com crisis, Fed Chairperson Alan Greenspan reacted quickly and reduced interest rates significantly to prevent any other downward adjustment of the stock market. The Fed's actions were acts of public policy. These aspects of regulatory power and public policy implementation are not captured in my analysis of lawmaking during crisis.

Chapter 3: The Political Economy of Five Economic Crises

The last chapter presented the patterns of crisis lawmaking. Laws become lengthier and get enacted quicker compared to the average law and laws with similar legislative content. How do these laws come to pass? The ceteris paribus assumption in models becomes more problematic over time since many things change. Thus, we need an understanding of the specifics of time and place to understand the pattern of crisis lawmaking and its origins more deeply. The more intricate and complex an environment, the more problematic institutionally antiseptic studies become. The data in table 2.5 emerged out of forty years of different political environments, political beliefs, international and national events, and economic conditions. This chapter provides a politico-economic anchor for the previous chapter's data and the later theoretical discussion of the last five economic crises.

The study of politics and the dynamics of political decision-making—that is, public choice—has contributed insights about the relation between economic conditions and their effect on policy. Kramer (1971) showed empirically that economic conditions matter for the electoral outcome. Kramer's study generated a whole research paradigm assessing the changes of elected bodies resulting from a change in economic conditions. Mueller (2003, 429–37) provides an overview of the paradigm's findings, which, though mixed, overall support Kramer (1971) and the similar results of other studies (Bartels 2014; Bloom and Price 1975).

The following sections are more general than the mentioned studies, which focus on macroeconomic performance and electoral action. I set the different crises, their causes, and their historical circumstances in the context of the congressional voting behavior of the time. This largely descriptive chapter stresses the heterogeneity of crises, while not ignoring the commonalities of all these events such as urgency and the pattern of crisis lawmaking. The pattern of crisis lawmaking is more pronounced during some recessions than others. This chapter provides explanations for

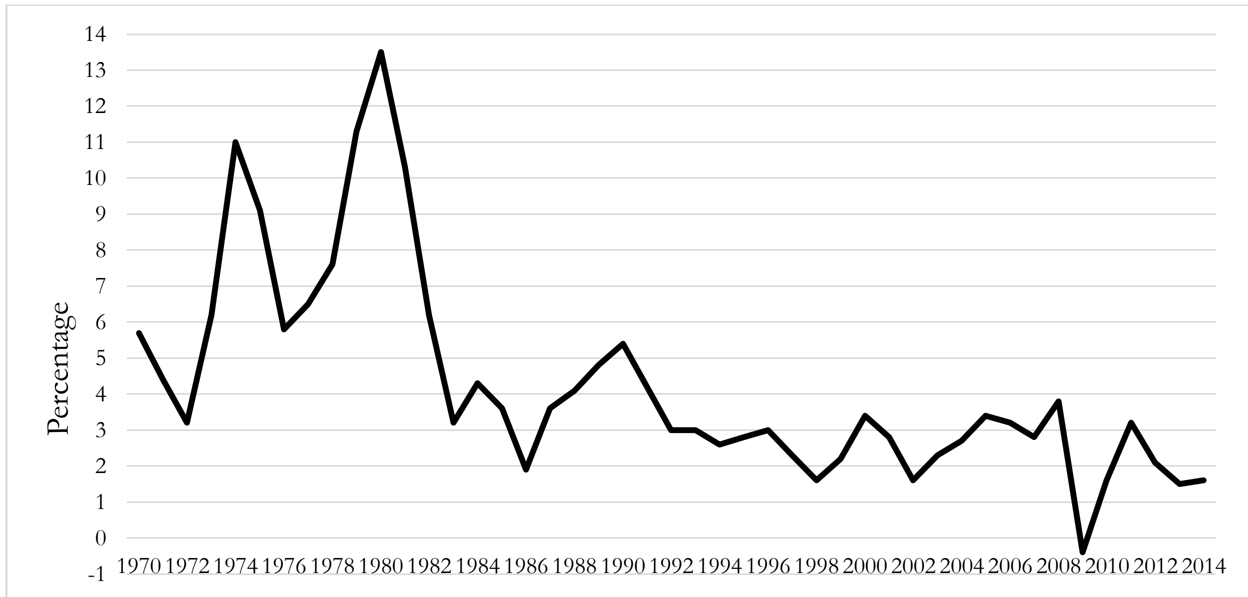
variations in the pattern when addressing the political environment during the Nixon and Ford years or the reluctance of Congress to address the problem in corporate America after the dot-com bust. I zoom in on political decision-making and explain important aspects of the twenty-three laws and their intent. Lastly, I provide evidence for the relevance of the crisis laws according to the criteria set out in the empirical approach in the last chapter. The political economy of the last five financial crises provides a window into the legislative decision-making nexus during those times. With a quantitative and qualitative understanding of the circumstances through which the patterns of crisis lawmaking emerged, my dissertation has a strong foundation from which to theoretically address these phenomena in chapters 5 to 8.

Mid-1970s Recession

The mid-1970s recession had many interlinked causes. The Bretton Woods system broke down with President Nixon's decision to terminate the dollar's convertibility to gold in 1971. Subsequently, the international system determining exchange ratios between currencies broke down. The main currencies around the world suddenly had floating exchange rates, and markets reacted volatilely to the advent of the post–Bretton Woods world. Additional stress on the economy sprang from an oil-price shock lasting from 1973 to 1974. The crisis in the mid-1970s was the worst recession since the Great Depression (Wolfson 1986, 72).

In 1974, unemployment started to rise sharply. This in conjunction with high levels of inflation has been called stagflation. See figure 3.1 for the average annual inflation rates, gathered from the Bureau of Labor Statistics (BLS 2015b).

Figure 3.1: Average Annual Inflation Rate



Stagflation undermined the academic and policymakers' belief in the Phillips curve and Keynesian stimulus policies. The use of strong fiscal stimuli returned only during the Great Recession. At the beginning of the mid-1970s crisis, trust in Keynesian policies predominated. Conservative president Nixon's statement in 1971 (quoted in Bartlett 2009) exemplified this when he declared, "I am now a Keynesian in economics." His words followed the action of enacting the Emergency Employment Act of 1971 to create 150,000 public service jobs. The law proposed a budget that increased government spending significantly in the same year. Subsequently, the budget deficit of 1972 was larger than $23 billion (Hoff 2011). Faced with upcoming elections and high inflation, Nixon surprised the Democratic Congress by implementing price controls via an executive order authorized by the Economic Stabilization Act of 1970.[21] The price controls stayed in place to varying

[21] Details about executive orders can be found above in the respective sections.

degrees from 1971 to 1974. In the short run, Nixon's drastic New Economic Policy seemed to work, and he won reelection in 1972. Another significant economic event was the collapse of Franklin National in 1974. It was the nation's twentieth-largest bank and its near bankruptcy the biggest case of corporate bankruptcy in the United States up until that point (Markham 2000, 242). To avoid systemic risk, the Fed stepped in and saved the bank, which strengthened the Fed's role as lender of last resort (Hendrickson 2011, 178). By 1974, the economy was in a desolate state, with unemployment and inflation at record levels. At that point, the Keynesian consensus broke down. The arguments for stimulus and government spending only returned in full strength with the passing of the American Recovery and Reinvestment Act during the Great Recession.

The crisis record of the 93rd and 94th Congresses is further complicated due to an eleven-month recession lasting from December 1969 to November 1970. Significant laws, such as the Economic Stabilization Act of 1970, provided the basis for Nixon's price controls from 1971 until 1974. The price controls and the closing of the gold window were among eight measures taken by Nixon in 1971 (Grossack and Fratianni 1971, 14). These measures are the so-called New Economic Policies. They were enacted under the cover of crisis. I do not address these measures or laws extensively since they do not fall within the mid-1970s crisis period. The pattern of lawmaking looks different for the mid-1970s crisis compared to the other four recessions for the following five main reasons:

1. Nixon used up much of his political capital enacting the New Economic Policies. These reforms led to a jump in stock market prices and were met with widespread public approval. This effect was short-lived since the economy deteriorated quickly after Nixon's reelection in 1972. In 1974, the fall-out from the price controls was extensive. The price level shot up, and trust in the government's ability to steer the economy deteriorated further. Subsequently, Congress was less willing to adopt more-radical reform proposals by Nixon or Ford.

2. The 93rd and 94th Congresses consisted of a majority of Democrats. Nixon and Ford were Republicans. This led to conflicts between the presidents' plans and the preferences of Congress. In response to the drop in government spending after the withdrawal from the Vietnam War, Nixon suggested tax credits and exemptions, indirect subsidies to the automobile sector, extensive worker-training programs, and other measures to stimulate the economy (Nixon 1971). To offset the costs, Nixon wanted to reduce government spending. Congress was not willing to follow the president in all his proposals. Similarly, President Ford had to abandon several of his goals. He wanted to cut spending and ended up increasing it to get his tax cuts through Congress. Ford attempted to put import restrictions on oil, but his proposals were blocked in Congress (Greene 2015). Despite being in a crisis, Congress was not willing to support the administrations' policies blindly.
3. The Watergate scandal started to unfold in 1972, which ultimately led to Nixon's resignation in 1974. This event was a major crisis of American democracy. The public no longer trusted Nixon and his administration to enact any major legislation dealing with the economic conditions. The public's confidence in the capability of the government to address the problems with the economy was low. Additionally, the administration sent mixed messages concerning its economic policies, and Washington's leadership style was described as "erratic" by Lakachman (1973).
4. Before 1979, the NBER (2014) did not announce recessions. The head of the NBER during the mid-1970s even declared that he did not want to speak of a recession since his macroeconomic indicators did not indicate an economic downturn (Cray 1974). This statement was uttered in November 1974, a year into the official NBER recession period (which was declared retroactively). The economy had been decrepit since even before 1973, and the economic problems persisted. Thus, there was a long crisis period in which many laws were enacted before

1973 but not many laws after that. Due to limitations of my data set, I cannot take the early-1970s crisis and its pattern of lawmaking into account.

The politico-economic circumstances did not lead to congressional inactivity. There were legislative crisis responses, and I summarize those in table 3.1. Nevertheless, the president and his administrations as sources for legislation were impaired. Nevertheless, the 93rd and 94th Congresses enacted five laws to address the crisis of the mid-1970s. Compared to laws from the other crisis periods, the mid-1970s laws were short. The laws were enacted with an average of 107 days—rather quickly.

Tax Reduction Act—(H.R. 2166 1975)

In his January 1975 State of the Union address, President Ford (1975) announced tax cuts to stimulate the economy. At the end of the month, Congress introduced a bill. Ford asked Congress to pass the law before April 1, and Congress did it two days before the deadline—in sixty-one days. The Tax Reduction Act included a 10 percent tax rebate for the taxes paid in 1974, a thirty-dollar tax credit, and tax reductions for businesses. President Ford promised to offset the losses with spending cuts, but he was not able to get Congress to agree to the cuts. On the contrary, Congress ended up spending significantly more compared to previous years. The Tax Reduction Act is 29,503 words long and the first law that addressed the problems within the economy during the mid-1970s crisis.

Energy Policy and Conservation Act—(S. 622 1975)

During President Ford's time in office, the twofold economic challenge of high inflation and high unemployment became trifold when severe energy shortages arrived. Oil prices quadrupled during

the crisis, and President Ford asked Congress to pass a law aiming toward greater independence from foreign oil. He asked for it to be passed within ninety days. However, Congress had no interest in giving in to the demands of the president, which included an end to price controls, fewer taxes for oil companies, and import restrictions on oil. It took 319 days for Congress and the executive branch to come to an agreement. Congress agreed to reduce the price of oil in the short run via price controls and to raise taxes on big oil companies. In return, Ford achieved an end to price controls after forty months. The complicated bargaining between the different governmental forces led to a 53,060-word law.

The next relevant law extended unemployment insurance. I include this and similar laws in the summary table but do not discuss them since they include the same content and were enacted in the same way in the various crisis periods.

Revenue Adjustment Act—(H.R. 9968 1975)

Announced one day after the passage of the Energy Policy and Conservation Act, the Revenue Adjustment Act represented a minor victory for Ford. The act introduced minor tax cuts as well as decreasing federal spending in the future. It was much less than what he wanted to achieve when he was sworn in as president in 1974. However, it was the only compromise possible when faced with a Democratic Congress seeking to spend more than Ford. The law spent eighty-three days in Congress and is 4,492 words long.

Table 3.1: Overview of Laws from the Mid-1970s Crisis

Law title	**Summary**	**Law**	**Congress**	**Word count**	**Days in Congress**

Emergency Unemployment Compensation Act	Extension of unemployment insurance	H.R. 17597	93rd	2,240	22
Tax Reduction Act	Reducing taxes to stimulate demand	H.R 2166	94th	29,503	61
Energy Policy and Conservation Act	To tackle the energy crisis within the United States	S. 622	94th	53,060	319
Emergency Compensation and Special Unemployment Assistance Extension Act	Extension of unemployment insurance	H.R. 6900	94th	4,836	49
Revenue Adjustment Act	Tax cut and small federal spending cut	H.R. 9968	94th	4,492	83
Average				18,826.2	106.8

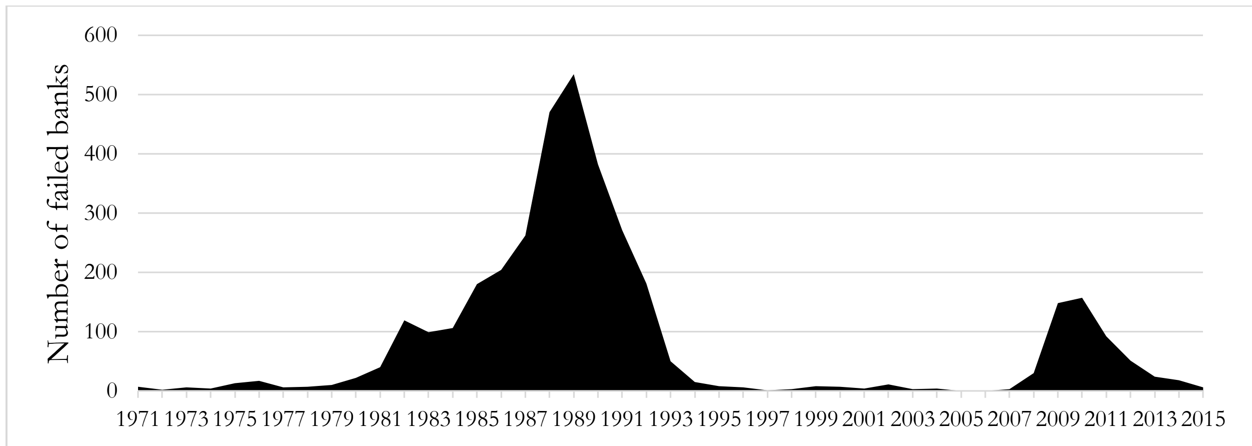
1980s Recession

The 1970s was a decade of high inflation—the result of loose monetary policy. In the late 1970s, the United States experienced inflation above 10 percent. In 1978, the Federal Reserve under the leadership of Paul Volcker increased interest rates sharply from 6.9 percent in April to 10 percent in December (Wolfson 1986, 73). Expectedly, the economy went into recession. The inflationary pressures did not solely spring from loose monetary policy but also from shocks in 1979 and 1980 that increased the oil price by nearly 100 percent in 1979 and again by 23 percent in 1980 (CBO 1982, 3). Before the 1980s, US production declined, according to the Congressional Budget Office (1982, 2). Three years before the official start of the recession, economic growth was close to zero. Unemployment was at its highest since the Great Depression. In this section, I focus on the two recessions in the early 1980s. Because they were close to one another (separated by one year), I treat them as one crisis.

Besides the major national recessions from January 1980 to July 1980 and from July 1981 to November 1982, several states experienced local recessions. Among those local recessions were those caused by oil-price shocks, which affected mostly Texas and other oil-producing states (Hendrickson 2011, 165). However, these problems had limited spillover to the US economy as a whole. In contrast, a major incident of 1982, the failure of the bank Penn Square, had major repercussions for the banking sector and the economy. Dozens of other banks had business with Penn Square, and they experienced financial problems in the aftermath of the bankruptcy. The recovery of the domestic economy progressed from the end of July 1980 until the fourth quarter of the year (CBO 1982, 10). Afterward, the economy stalled. By the third quarter of 1981, the economy had contracted once again. The recession lasted until November 1982.

The early 1980s are often depicted as an era of deregulation. When looking at the regulatory restrictions depicted in figure 2.1, one can in fact see some reductions in regulation. However, these changes were minor and did not reverse the linear growth trend. The reasoning behind the deregulation during those years was the steady increase of disintermediation known as the savings and loan crisis. Fewer people held deposits at banks, and customers started using alternative financial services instead. Additionally, it became clear to lawmakers that the thrift industry's business model of providing decade-long mortgages against short-term deposits was infeasible in a high-inflation environment with fluctuating interest rates. Allowing the thrift industry to invest in a wider variety of assets would allow it to diversify risk and thus suffer fewer bankruptcies. Figure 3.2 below shows the rate of bank failures from 1971 to 2015 (FDIC 2015). US banks had become uncompetitive, and lawmakers responded with laws to improve the business environment for banks. In this chapter, I focus on crisis periods as defined by the NBER. I do not address all the particularities of the savings and loan crisis and the industry's regulation.

Figure 3.2: Bank Failures, 1971–2015



Presidents Carter and Reagan, their administrations, and Congress responded extensively to "the most serious set of economic problems since the 1930," as Reagan (1981) put it. The legislative response to the recessions of the early 1980s encompassed primarily three laws: two financial-regulatory laws and a law that aimed toward economic recovery via tax cuts. In addition to these laws, the Reagan administration and Congress worked extensively to reduce youth unemployment. They provided funds and started a variety of new programs to help young people ease into the workforce. Congress also focused on legislation supporting small and medium-sized enterprises. It may have been motivated by crisis-related concerns, but there is not sufficient evidence to establish that point because Reaganomics embraces this sort of supply-side economics regardless of whether the economy is in crisis.

Chrysler Corporation Loan Guarantee Act—(H.R. 5860 1980)

The weaknesses in the economy in the 1980s first became visible in the automobile sector. Chrysler sought out loans from the federal government and lobbied with the help of its workers for an intervention. After sixty days of discussion, Congress enacted a 7,084-word law that extended a $1.7 billion loan to Chrysler in January 1980 Many crises policies are motivated by the systemic risk of some sectors. This was not the case as later studies have shown. The bankruptcy of Chrysler would have had only mild effects on the economy (Wolfson 1986, 75).

Depository Institutions Deregulation and Monetary Control Act—(H.R. 4986 1980)

Another law enacted during the 1980s recession was the Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA). Among others, Frank Morris (1982), the chairperson of the Boston Fed, declared the law to be "the most important federal legislation relating to the financial community since the 1930s." The DIDMCA is often depicted as constituting deregulation. However, the law was a mixed bag, with provisions deregulating the banking industry and provisions reregulating it (Hendrickson 2010, 180; West 1982, 3, 9–10). As a response to increased competition, banks developed new services for customers holding checking accounts. The DIDMCA phased out Regulation Q over several years. Regulation Q forbade banks to charge interest on demand deposits and set several rates mandating what banks could charge. It is seen as one of the reasons for the disintermediation in the 1980s (as shown in figure 3.2). Additionally, DIDMCA homogenized the rules for banks and made all banks subject to the Federal Reserve's reserve requirements. Another essential change was the increase of the amount of insurable deposits from $40,000 to $100,000 per account. The Reagan presidency as well as the 1980s are depicted as an era of deregulation. However, the discussion in Congress was not at all straightforward, and Congress opposed deregulation. Congressional resistance did not stem only from ideological opposition to deregulation

but also opposition from the industry itself. The deregulatory measures would have opened real estate and insurance markets to banks. The associations in the real estate and insurance sector fought against deregulation to avoid more competition (FDIC 1997, 96).

The bill was introduced into Congress in July 1979. On March 31, 1980, President Carter signed the bill into law. It was the twelfth-longest law enacted in the 96th Congress, at 32,993 words. It took Congress 249 days to sign the bill into law.

Economic Recovery Tax Act of 1981—(H.R. 4242 (1981)

Ronald Reagan became president in 1981. One of his key objectives was to cut taxes to stimulate the economy. He ran on a promise to do so and delivered on it when Congress passed the Economic Recovery Tax of 1981 (ERT). The law made significant changes to the tax code, and it has been described as "the biggest tax cut (and biggest tax bill) of the 1968–2006 period" by the Office of Tax Analysis (Tempalski 2006, 3). Most famously, the law reduced the top tax rate from 70 percent to 50 percent. The law indexed some taxes to inflation. This was crucial since bracket creep was widespread before and during the Reagan presidency due to the high inflation.

The ERT was the longest crisis law enacted during the 1980s recession, at 86,315 words. This is impressive since the law spent only twenty-three days within Congress. The law was introduced on July 23, 1981, and, after amendments in both the House and the Senate, signed by President Reagan on August 13. The most contentious vote was in the House, in which 107 representatives voted nay and 323 yay. Still, the bill went through on the first vote. The law was costly, and the debt limit had to be increased at the end of September. One year later, the Tax Equity and Fiscal Responsibility Act of 1982 increased taxes significantly to offset some of the costs of the previous tax cuts. The

rising public debt levels due to the tax cuts and the huge military spending of the Reagan administration had made it necessary for the administration to reverse some of its previous policies.

Garn-St. Germain Depository Institutions Act—(H.R.6267 1982)

The Garn-St. Germain Depository Institutions Act (DIA) was a response to the problems within the banking and thrift sector. Between 1934 and 1981, the average number of annual bank failures was around fifteen (Richards 1991). In the 1980s, this number grew significantly and spiked to over five hundred bank failures in 1988. The DIA deregulated some types of investment for the saving and loan associations. In addition, it gave more power to national banks and changed rules of the mortgage market to make the conditions more favorable for additional lending by mortgage providers. The Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation lobbied for greater influence and financial leeway to rescue troubled institutions (FDIC 1997, 1:95). Furthermore, banks received the green light in acquiring other banks and branches. The bill was introduced into Congress on May 4, 1982. It spent 165 days within Congress until President Reagan signed it into law on October 15. The law in its final form is 39,925 words long.

Table 3.2: Overview of Laws from the Early 1980s Crisis					
Law title	**Summary**	**Law**	**Congress**	**Word count**	**Days in Congress**
Chrysler Corporation Loan Guarantee Act of 1979	Loan to Chrysler of $1.7 billion	H.R 5860	96th	7,084	60
Depository Institutions Deregulation and Monetary Control Act of 1980	Phasing out of Regulation Q, homogenizing rules for banks, increasing reserve requirements	H.R. 4986	96th	32,993	249
Economic Recovery Tax Act of 1981	Major tax cuts for citizens and corporations	H.R. 4242	97th	86,315	22
Depository Institutions Act of 1982	Deregulation of the thrift industry. More power for the FDIC.	H.R.6267	97th	39,925	165
Average				41,579.25	124

Early-1990s Recession

The laws enacted during the 1980s crisis addressed some of the problems within the thrift industry, but these problems persisted. Beyond the 1980s recessions, there were several bankruptcies, such as the bankruptcy of Continental Illinois in 1984. Continental Illinois was the eleventh-biggest bank in the United States at that time. This incident motivated a "too big to fail" stance by the federal government. The FDIC bailed out all shareholders and rescued the bank. The so-called savings and loan crisis (not a crisis according to my definition) lasted over a decade, and it generated major legislation such as the Agricultural Credit Act of 1987; the Competitive Equality Banking Act of 1989; and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The last of these acts, at 170,800 words, bailed out failing thrift institutions with $166 billion and reregulated the industry. Further details about these laws are in appendix 1. The rate of bank failures peaked in 1989 and declined afterward.

Some of the legislation enacted in the early 1990s aimed toward solving the problems of the banking industry. The Federal Deposit Insurance Corporation Improvement Act of 1991 deregulated the banking sector because lawmakers perceived problems arising from the regulatory constraints put on the financial sector by regulation created in the 1930s (Hendrickson 2011, 184; T. Romer and Weingast 1991, 175–76). The changes were extensive, and by the end of the decade, the United States had, for the first time in its history, a coherent nationwide branch-banking system (Berger et al. 1995, 54). Regulatory restrictions grew again, and significantly so, during and after the crisis of the early 1990s (figure 2.1).

The early-1990s crisis was a result of many different developments. The economic growth of the 1980s was to some extent throttled by the interest rate hikes by the Federal Reserve from 1986 to 1989. Additionally, public debt was rising and with it citizens' concerns about the strength of the economy. The concerns were exacerbated by the Gulf War of 1990–1991. The problems culminated in an oil-price shock in 1990, and a recession of eight months followed from July 1990 to March 1991. Compared to other post–World War II recessions, the early-1990s recession was rather mild (Gardner 1994). However, the labor market recovered late. This phenomenon gave the 1990s recession the name "the jobless recovery."

George H. W. Bush, president during the early 1990s, found himself in a peculiar situation. His main objective was to balance the budget especially since Reagan's tax cuts and increased military spending had generated a substantial debt. Bush had major reservations about the efficacy of government spending at alleviating the pains within the economy. This confluence of circumstances in addition to Bush's declared preference for issues other than economic policy (for instance, foreign policy) led to a less active administration compared to other crisis episodes.

After a decade of congressional preoccupation with financial markets, the 1990s recession did not generate major legislation addressing the economy. Nevertheless, the pattern of crisis lawmaking persisted. The 1990s-crisis laws deviate from the average comparison laws by over four thousand words and by roughly fifteen thousand words from the average law. The crisis laws were enacted the second fastest compared to all crises, however, with an average of ninety days. In light of the mildness of the recession,[22] the economic disinterest of the president, and Congress's extensive involvement in the financial sector for years before the recession, it is not surprising that the laws arising from the 1990s recession do not deviate from non-crisis laws as starkly in length as laws during the other recessions. The laws enacted in the early-1990s crisis are a residual from the decade-long legislative battle against the savings and loan problems. Bank failures were not as widespread anymore, and Congress simply increased the financial resources of the already-created regulatory and oversight framework.

Resolution Trust Corporation Funding Act—(S. 419 1991)

In 1991, the CBO estimated the present-value cost of coping with the savings and loan crisis to be around $215 billion (Reischauer and CBO 1991, 3). The Resolution Trust Corporation Funding Act (RTCFA), coming after the Financial Institution Reform, Recovery, and Enforcement Act of 1989, was the second capital injection into the regulatory institutions dealing with thrift foreclosures. The Act of 1989 provided $166 billion and the RTCFA another $30 billion. The law was an emergency measure since, without it, the Resolution Trust Corporation (RTC) would have become illiquid at

---

[22] Informed by the outlook predictions by the CBO (1991, XIII), Congress expected the recession to be mild. Urgency was low since there were neither high unemployment nor shock moments like the Black Friday stock market plunge of 1987. The mild stock market plunge in 1991 did not cause widespread fear and was contained to the junk bond market.

the end of 1991. But it was not enough. Lawmakers enacted another law at the end of 1991 to provide another $25 billion in funding for the Resolution Trust Corporation. The RTCFA is 3,498 words long and was enacted within thirty-eight days.

Federal Deposit Insurance Corporation Improvement Act—(S. 543 1991)

The Federal Deposit Insurance Corporation Improvement Act (FDICIA) was an attempt to remove some outdated rules created in the 1930s (Hendrickson 2011, 183–84), but it did not succeed. The law reregulated parts of the oversight, control, and emergency capabilities of the FDIC. Similar to the DIA, the FDICIA increased the power of the FDIC. The FDICIA allowed the FDIC to borrow money from the Treasury directly to help banks in need. Other provisions of the law increased the oversight capabilities of the FDIC, allowing it to demand reports and data from banks. This increase in the power of the FDIC was a response to the moral hazard associated with the too-big-to-fail policy employed when rescuing Continental Illinois in 1984 with taxpayer money. The FDIC had not been able to find a buyer for the bank and stepped in itself. That shaped the banking sector's expectations of potential future rescues. The FDICIA is 73,111 words long and was enacted within 293 days.

Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act—(H.R. 3435 1991)

The Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 was enacted within seventy-five days and is 13,561 words long. It added another $25 billion to the budget of the RTC to sustain struggling thrift institutions. Additionally, the law improved the

transparency of RTC's operations with additional congressional oversight and requirements to report to Congress.

Table 3.3: Overview of Laws from the Early 1990s Crisis					
Law title	**Summary**	**Law**	**Congress**	**Word count**	**Days in Congress**
Resolution Trust Corporation Funding Act	Additional funding for the RTC	S. 419	102nd	3,498	38
Emergency Unemployment Compensation Act of 1991	Extension of unemployment insurance	H.R. 3201	102nd	3,656	16
Federal Deposit Insurance Corporation Improvement Act of 1991	Reregulating the FDIC	S. 543	102nd	73,111	290
Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991	Additional funding for struggling thrift institutions	H.R. 3435	102nd	13,461	74
Emergency Unemployment Compensation Act of 1991	Extension of unemployment insurance	H.R. 3575	102nd	9,581	30
Average				20,661.4	89.6

Dot-com Crisis

The bursting of the dot-com bubble led to a short recession in the United States, lasting for eight months. Many Internet companies were overvalued in the run-up to the crisis, and the bubble burst when investors started to question the stock market values of some companies in light of accounting scandals surrounding Internet companies such as WorldCom. WorldCom had gone bankrupt, the largest bankruptcy in the world until the failure of Lehman Brothers. McCarty, Poole, and Rosenthal (2013, 173) argue that legislators were reluctant to do anything about the dubious accounting

practices until the pressure on them increased after the WorldCom and Enron scandals. The stock market downturn worsened due to the terrorist attacks on the World Trade Center. The NASDAQ lost five trillion dollars in value from early 2000 to October 2002, and just 48 percent of dot-com firms survived through 2004 (Goldfarb, Kirsch, and Miller 2007, 122). These numbers seem severe, but the resulting recession was mild compared to most post–World War II recessions. GDP grew by 0.2 percent, and consumer spending rose throughout (Kliesen 2003, 23, 36).

During the George W. Bush years, two major tax cuts were enacted. One of the arguments for the tax cuts was economic. The US government had surplus revenue in the early 2000s. Bush had been elected on a promise to cut taxes. The Economic Growth and Tax Relief Reconciliation Act in 2001 was envisioned before the onset of the crisis and cannot be seen as primarily a response to the worsening economic conditions. The same applies to the Jobs and Growth Tax Relief Reconciliation Act of 2003. The debates surrounding the laws concerned such issues as rising energy prices and housing more than the goal of alleviating the crisis. One reason is the small impact of the crisis on the real economy. Unemployment averaged around 4.8 percent and was never higher than 5.5 percent during the crisis. Additionally, the public perceived the recession more as a crisis of trust in corporate America and less as a widespread economic calamity. Financial institutions were barely affected, and the economic problems were contained to the online-services industry. Legislators considered the aggressive response of the Federal Reserve of reducing interest to 1 percent to be sufficient. They deemed an additional, legislative response unnecessary.

Additionally, lawmakers were understandably more concerned with the security issues facing their country as revealed by the 9/11 attacks.[23] The particularities of the technology sector, which was at

[23] See appendix 2 for an overview of the crisis laws enacted in the aftermath of 9/11.

the center of the crisis, are further reasons for the mild legislative response. The technology sector is frequently disrupted endogenously and is in constant flux. Additionally, technology and digital companies do not have access to the same advocacy network as, for instance, the car industry or the agricultural lobby. As a result of these factors taken together, only two laws addressed the crisis directly, the Sarbanes-Oxley Act, which dealt with the corporate accounting scandals, and the Job Creation and Worker Assistance Act of 2002.

Sarbanes-Oxley Act—(H.R.3763 2002)

The media covered the accounting scandals extensively. Congress reacted and passed the Sarbanes-Oxley Act in July 2002 after 167 days. The bill first seemed not to gain any traction within Congress. The breaking of the second accounting scandal—WorldCom—forced Congress to act. The economic conditions had to worsen and the public pressure build up before Congress would make significant progress on the law (Romano 2004, 115).

Table 3.4: Timeline of Events surrounding Sarbanes-Oxley

Date	**Event**
October 2001	News about Enron scandal
February 2002	Introduction of Sarbanes-Oxley
June 2002	Security and Exchange Commission starts investigation against WorldCom for accounting fraud
End of July 2002	Passage of Sarbanes-Oxley

The legislative history of this law speaks to my theoretical considerations of chapter 5 on voters. In there, I argue that the uneasiness of the public with the economic conditions drives crisis legislation.

Sarbanes Oxley is an example of that. It was introduced to show the public that something is being done. However, the public pressure was not enough to make Congress act quickly. The breaking of the second accounting scandal with WorldCom changes this and made Congress pass the law one month later.

Major changes brought about by Sarbanes-Oxley include revised reporting standards, the empowering of boards, and mandatory audits. Additionally, it created a federal bureaucracy, the Public Company Accounting Oversight Board. The law is 17,428 words long and was enacted within 167 days.

Job Creation and Worker Assistance Act of 2002—(H.R. 3090 2002)

The Job Creation and Worker Assistance Act of 2002 extended unemployment benefits and added depreciation rules for businesses. The law is 17,428 words long and was enacted within 150 days. The first vote on the bill, when it still had the title of Economic Security and Recovery Act, nearly rejected it, at 216 yays to 214 nays in the House of Representatives. Congress was divided about the first iteration of the bill since it was perceived as a present for corporate interests and not as an aid to unemployed people. After considerable debates and a conference report, the opposing sides reached a compromise. The new bill would help businesses through more generous depreciation rules, increase benefits to the unemployed, and provide support for regions economically affected by

the 9/11 terrorist attacks.

Table 3.5: Overview of Dot-com Crisis Laws					
Law title	**Summary**	**Law**	**Congress**	**Days in Congress**	**Word count**
Job Creation and Worker Assistance Act of 2002	Tax cuts for workers to stimulate the economy	H.R. 3090	107th	150	28,915
Sarbanes-Oxley Act of 2002	More oversight over and regulation of public companies and their accounting standards	H.R. 3763	108th	167	17,428
Average				158.5	23,171.5

Great Recession

"The same people who would never touch deficit spending are now tossing around billions. The switch from decades of supply-side politics all the way to a crass Keynesianism is breathtaking." This statement by German finance minister Peer Steinbrück (quoted in Watt, Seager, and Elliott 2008) shows the severity of legislative responses to the financial crisis. The Great Recession was arguably the worst financial calamity since the Great Depression, and so legislators responded extensively. The Department of the Treasury estimates that 8.8 million jobs and $19.2 trillion in household wealth (in 2011 dollars) were lost during the crisis (Massad 2012). The subprime-mortgage market was at the center of the Great Recession. The housing market had heated up from 1997 to 2007. The S&P Case-Shiller US National Home Price Index more than doubled during that time (S&P/Case-Shiller 2014). The bubble burst in the fall of 2007. Mortgages on houses were traded through a variety of sophisticated assets that pooled the risk of thousands of mortgages. These instruments did not withstand the general decline in the housing market but lost value quickly.

Banks that owned these triple-A-rated assets became illiquid when the value of the mortgaged-backed assets declined. This was the onset of the Great Recession.

The federal government and the Fed reacted with a variety of measures to mitigate the effects in the mortgage market and the spillover effects in the financial markets and the real economy. The aftermath of the recession continued years after the official crisis period with sluggish job growth and a slowly recovering economy (von Laer and Martin 2016). In the following sections, I discuss six of the most important pieces of legislation during the Great Recession. All of these laws were enacted before the FDIC (2011) issued its official report on the crisis. The legislative history of these laws illustrate the theoretical points made in chapter 6. In there, I argue that lawmaking during crisis follows a Christmas tree law dynamic. All Congresspersons know that there has to be a law to address a crisis-related policy issue. The crisis law will go through Congress to signal to the electorate that something is being done. Longer and faster laws have a stronger signaling effect. The process of lawmaking during crisis changes and the laws enacted during the Great Recession are a remarkable testament of that. The next table provides a brief timeline of the events during and after the Great Recession.

Table 3.6: Timeline of the Events and the Laws during and after the Great Recession

Date[a)]	**Event or law**	**Description**
2004	The Federal Reserve System increases interest rates steeply	
July 2006	Housing prices peak	
October 2007	Dow Jones peaks	
December 2007	The recession period begins, according to the National Bureau of Economic Research	
1/28/2008	Economic Stimulus Act	Tax cuts and rebates

9/7/2008	Fannie Mae and Freddie Mac placed under government conservatorship	The US government nationalizes the biggest (semi-private) mortgage lenders
9/15/2008	Lehman Brothers files for bankruptcy	Biggest bankruptcy filing in US history
9/20/2008	Emergency Economic Stabilization Act (EESA)	Introduces the Target Asset Relief Program (financial aid for banks)
4/3/2008	Housing and Economic Recovery Act (HERA)	Mortgage-market reform
1/26/2009	American Reinvestment and Recovery Act (ARRA)	Stimulus bill
3/9/2009	Lowest point of Dow Jones index during recession	
4/24/2009	Help Families Save Their Homes Act (HFSTHA)	Increases federal funding in the mortgage market
June 2009	National Bureau of Economic Research declares recession over	
10/2/2009	Unemployment increases to over 10% for the first time in 26 years	
12/2/2009	Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank)	Financial-regulatory reform
January 2011	Submission of the Financial Crisis Inquiry Report	Official report on the financial crisis by the Financial Crisis Inquiry Commission (FCIC).
a) These calculations start with the (sometimes adjusted) date of introduction until the bill was signed into law. For further details, see the law's section in this chapter.		

Economic Stimulus Act—(H.R. 5140 2008)

One of the first reactions from Congress to the financial crisis was the enactment of the Economic Stimulus Act of 2008 (ESA). The law provided tax rebates to individual taxpayers and special depreciation allowances for businesses. It also raised the loan limits for the Federal Housing

Administration. The overall cost of the ESA was estimated to be $152 billion (CBO, Fontaine, and Woodward 2008a).

In December 2007, Congress met with business leaders, academics, and other stakeholders to discuss what ought to be done to reverse the downturn in the economy. According to many remarks of members of Congress, the goal was to enact stimulus legislation that would be "timely, temporary, and targeted." This phrase was mentioned in different variations eighteen times during the House debates (Congress 2008, sec. 110th Congress, 2nd Session).[24] Congress acted accordingly: it took seventeen days from the bill's introduction into the House to the passage of the bill in the Senate. This makes the ESA the second-fastest instance of crisis lawmaking during the financial crisis of 2007 to 2009. Representative Nancy Pelosi introduced the ESA on January 28, 2008. President Bush signed the bill into law on February 13, 2008. The final law is 3,859 words long. Compared to the other cases below it is rather short.

Housing and Economic Recovery Act—(H.R. 3221 2008)

With the goal to protect homeowners and prevent foreclosures, the Housing and Economic Recovery Act of 2008 (HERA) was the first measure by the legislature to tackle the problems within the housing sector. The law enabled the federal government through the Federal Housing Administration (FHA) to guarantee up to $300 billion in new thirty-year fixed-rate mortgages (when rated subprime) as well as extending loan limits for the FHA. The HERA provided $75 million to households to avoid foreclosures with the Homeowners Affordability and Stability Plan.

---

[24] Mentioned by Rangel (D), Pelosi (D) (2x), Bachus (R), Kanjorski (D), McCrery (R), Maloney (D), Larson (2x) (D), Etheridge (2x) (D), Langevin (3x) (D), CH.R.istensen (D), Udall (D), Matsui (D), Spratt (2) (D).

Furthermore, it extended the line of credit for the government-sponsored mortgage lenders Fannie Mae and Freddie Mac, which were nationalized later on September 7 under the authority granted by the HERA.

The bill was originally introduced on July 30, 2007, as the New Direction for Energy Independence, National Security, and Consumer Protection Act (henceforth "energy bill"). On April 3, 2008, the Senate struck the whole content of the energy bill and replaced it with some of the parts of what became the HERA (DPC 2008). This was the day of the bill's actual introduction into Congress.

After seven days of reading and working on the proposal, the Senate passed the bill by a vote of eighty-four yays to twelve nays. The House received it on the same day (April 10, 2008). President George W. Bush signed the bill into law on July 30, 2008. The final law was cut to 109,065 words, still an outstandingly long piece of legislation compared to the 8,000-word-long average law of that period (110th and 111th Congresses). From the adjusted date of the bill's introduction until President Bush's signature, the legislative process was 118 days long. The CBO estimates that the law will increase budget deficits to about $24.9 billion from 2008 to 2018 (CBO, Fontaine, and Woodward 2008b).

Emergency Economic Stabilization Act—(H.R.1424 2008), (H.R.3997 2008) and Fraud Enforcement and Recovery Act (S. 386 2009)

"Paulson … told us that there was a crisis and that he had a solution. He gave us the horns of a dilemma, two sharp, shiny points that we could impale ourselves on. One, that the financial system was going to collapse and implode, and the sky was going to fall. Certainly, we wouldn't want to choose that. The other, we could write a $700 billion blank check. Those were our two choices."

This statement was made by Todd Akin in the House debate (H.R. 1424 2008b, sec. 110th Congress, 2nd Session H10382-H10383) on the Emergency Economic Stabilization Act (EESA). The situation was dire, and Congress felt the need to react extensively and quickly. Before the enactment of the bill, the federal government had taken over the government-sponsored mortgage lenders Fannie Mae and Freddie Mac. Within five days before the initial proposal of the EESA, the financial insurer AIG received a bailout of $85 billion and Lehman Brothers filed the largest bankruptcy in US history. Panic was in the air, and legislators felt the pressure from their constituents via mail and phone calls and widespread media coverage of the crisis (chapter 5; CMF 2011).

The goal of the law was to alleviate the liquidity problems within the financial sector. The law enabled the Treasury Department to purchase so-called toxic assets from banks for up to $700 billion via the Troubled Asset Relief Program (TARP). Many mortgage-backed securities had become non-tradable. Financial institutions had to adjust their books to the drastic fall in prices. This revealed huge accounting losses. The solution was to sell them, but there was no institutional player ready to buy.[25] The federal government stepped in to buy these assets at a higher value than the market would pay for it in order to provide liquidity to banks. Additional relevant provisions of the law authorized the Fed to pay interest on reserves, introduced a cap on executive salaries and bonuses, the extension of the limit for FDIC-insured deposits to $250,000, and tax cuts for lower income brackets. As of April 2014, the CBO estimates the cost of TARP to be $27 billion, a $600 billion increase from the estimate reported in 2013 (CBO and Elmendorf 2014b).

The legislative development of the Emergency Economic Stabilization Act was just as indirect as it was for the HERA. The content of the EESA was inserted in a different bill that was subsequently

[25] See Sorkin (2010) for a review of the key people and their actions during those times.

no longer discussed. On September 20, Treasury Secretary Henry Paulson introduced a proposal for a bailout program for mortgage-related assets. It was only 2 ½ pages long and would have given significant and unchecked economic power to the Treasury (Paulson 2008). As Representative DeGette (H.R. 1424a 2008, sec. 110th Congress, 2nd Session) put it, the "initial proposal, which contained no oversight, no protections, from taxpayers … amounted to a blank check to the Treasury Department." I use September 20 as the adjusted introduction date of the bill since that was the first time the intention of the bill was revealed.

Within nine days, the bill was changed considerably under the auspices of Congressman Barney Frank. The initial 2 ½-page proposal grew to a 109-page bill. The House of Representatives rejected this version of the bill by 205 yay votes to 228 nays on September 29. The bill, H.R. 3997, took the name Defenders of Freedom Tax Relief Act of 2007. TARP was perceived as support for Wall Street while Main Street was suffering. The public outrage was enormous, and protests occurred in over a hundred cities (Schubert 2008). Subsequently, legislators included provisions that catered to the needs of Main Street to alleviate their concerns about TARP. The legislative process did not stop there. The bill was reintroduced and discussed under an amendment to the Wellstone Act (H.R. 1424a) in the Senate on October 1, 2008. Amending an existing bill in its entirety and adding the EESA ensured that the legislative process did not have to restart from the beginning. This, lengthier version of the bill passed the Senate on the same day, October 1, with 74 yay to 25 nay votes.

One day later, the House agreed by 263 yay to 171 nay votes to the Senate's amendments to the bill. The changes included among others tax cuts and increased levels of deposit insurance. The bill became law with President George W. Bush's signature on October 3, 2008. From the day of the Paulson proposal until its enactment, the bill grew from 2 ½ pages to 70,455 words. The legislative body decided on the Emergency Economic Stabilization Act within fourteen days, making it the

fastest law enacted by Congress during the Great Recession. Some observers considered the EESA to be an incredible shift of power to the Treasury, unprecedented outside of times of war (Shah 2009; Montgomery and Kane 2008).

American Recovery and Reinvestment Act of 2009—(H.R. 1 2009)

The American Recovery and Reinvestment Act of 2008 (ARRA) came close to being the fastest law enacted by Congress during the Great Recession, with twenty-three days from its introduction on January 26, 2009, until final points of disagreement were sorted out between the two chambers on February 13, 2009. President Obama signed the bill into law on February 17, 2009. The ARRA is over 100,000 words longer than the EESA—173,032 words compared to 70,455 words—and four hundred pages long. This is a tad longer than *Harry Potter and the Half-Blood Prince*, is just as riveting, and has as many alien terms as J. K. Rowling's book has spells. On a more serious note, this legislation was one of the most important laws passed as a response to the Great Recession and authorized the most discretionary spending of any law in US history. The original stimulus amount was set to be $787 billion. This sum was increased in Obama's 2012 budget to $840 billion (Recovery.gov 2014).

There had been discussions of a possible stimulus package before a bill arrived in Congress. A former member of the Council of Economic Advisers, Christina Romer, and Jared Bernstein, at that time staff economist of Vice President-elect Joe Biden, presented an estimate of the economic impact of a stimulus bill similar to the discussed prototype on January 9, 2009 (C. Romer and Bernstein 2009). Before that, a bill with a similar intention to the ARRA was discussed in Congress between the end of September and mid-November 2008, the Job Creation and Unemployment Relief Act of 2008 (H.R. 7110 2008). That bill was significantly smaller. The ARRA is seventeen

times longer than the stimulus bill from 2008. The Job Creation Act of 2008 was stopped due to President Bush's threat to veto the bill. The work on stimulus legislation was restarted when President-elect Obama was close to moving into the White House, with Democrats having won more seats in both chambers in the November 2008 elections (the work of the successive 111th Congress started on January 3, 2009).

Congress did not only have to evaluate the content of the bill, which included 173,032 words in its final form (153,286 words at its introduction into Congress on January 26, 2009), but also had to take into account a supplemental House conference report. The report added among other things supplemental appropriations to the ARRA. It was twice as long as the final bill, with 359,686 words—longer than Dodd-Frank, which is the fourth-longest law in the four decades of lawmaking analyzed in this chapter. One day after the report was filed, both the House and the Senate voted yes on it. Taking the average reading speed of a person as three hundred words per minute, it would take a congressperson thirty hours to read both the conference report and the law. Congress only had twenty-four hours to read the report and to vote upon it. The House agreed to the amendments suggested by the report with a vote of 246 yays to 183 nays and in the Senate with 60 yays to 38 nays. According to the latest CBO estimate, the cost of the law will amount to $830 billion between 2009 and 2019 (CBO and Elmendorf 2014a, 1–2).[26].

[26] The Recovery.gov (2014) website reports a sum of $840 billion.

Helping Families Save Their Homes Act of 2009—(H.R. 1106 2009) and (S. 896 2009)

On May 20, 2009, close to the June 2009 end of the NBER crisis period, the Helping Families Save Their Homes Act (HFSTHA) was passed. The intention of the law was to alleviate some of the pressure on homeowners brought about by the mortgage crisis. To improve the conditions in the mortgage market, the law allowed the FDIC and the National Credit Union Administration to increase the amount of deposits they could insure from $100,000 to $250,000. The HFSTHA made changes to the FDIC and gave it more financial leeway to deal with financial institutions on the verge of bankruptcy.

Most crisis laws had a shorter gestation period than the HFSTHA. If one looks only at S. 896, one gets the impression Congress enacted the bill swiftly. The bill was introduced into the Senate on April 24, 2009, by Senator Christopher Dodd (the same Dodd as in Dodd-Frank) and signed into law by President Obama on May 20, 2009. Congress discussed the law for twenty-seven days. However, this is misleading since this was not the first time the content of the HFSTHA was discussed in Congress. Rep. John Conyers introduced a bill with the same name on February 23, 2009 (H.R. 1106). This is the date of the bill's actual introduction. Congress discussed half of the legislative content and the intent of the HFSTHA for eighty-seven days. The law is 29,777 words long in its final version.

Dodd-Frank Wall Street Reform and Consumer Protection Act—(H.R. 4173 2010)

Most of the discussed laws either responded to the crisis with financial aid or intervened in specific areas of the economy, such as the housing market. The Dodd-Frank Wall Street Reform and

Consumer Protection Act (Dodd-Frank) is different since it primarily intended to alter the financial-regulatory landscape to prevent further crises like the one experienced between 2007 and 2009.

Dodd-Frank included changes for *all* federal financial-regulatory agencies to bring about more transparency, a reduction of systematic risk, an array of new tools to respond to crises, and greater protection for consumers. The bill was signed into law on July 20, 2010. One estimate, by McLaughlin and Greene (2014), states that Dodd-Frank and its prescriptions for rulemaking will increase regulatory restrictions by 32 percent in the financial sector. This would accumulate to more restrictions than during the thirteen years before 2010. This ratcheting up in regulatory content is clearly visible in figure 2.1. As of July 2016 77.5 percent of a total of 398 rulemaking requirements within Dodd-Frank have been finalized. The remaining 30 percent are still being developed (Davis Polk & Wardwell 2016). This is significant since Dodd-Frank is leading to a myriad of final rules with significant regulatory impact. Dodd-Frank generates a new framework for financial services, and many of the changes are still to come.

Dodd-Frank gives sweeping powers to new federal bureaus such as the Consumer Financial Protection Bureau (CFPB). The law states that the CFPB is allowed to regulate any behavior that is considered "unfair, deceptive, or abusive" (H.R. 4173 2010, 630). Every lawyer would rightly point out that these terms have to be defined within the law to be non-arbitrary and unambiguous. In a hearing before a subcommittee on oversight and government reform, it became clear that the CFPB decides by itself, case by case, what is considered "unfair, deceptive, or abusive" (Cordray 2012, sec. Oversight and Government Reform 67–69). The discretionary authority limned within Dodd-Frank infuses uncertainty into the part of the financial sector that has to comply with CFPB statutes (Greenspan 2010).

Dodd-Frank is the most extensive piece of legislation created during the financial crisis of 2007–2009. It was passed after the crisis period as declared by the NBER. I include the law since it was discussed for a long time during the financial crisis and it explicitly states that the legislative goal is to regulate the financial sector so that a financial meltdown will not happen again. However, Dodd-Frank still omits certain policy areas. The law does not address any of the problems of Fannie Mae and Freddie Mac, which is surprising in light of their important role during the crisis. With 357,386 words, Dodd-Frank is twice as long, as the second-lengthiest law of that period, the American Recovery and Reinvestment Act, which is 173,032 words. In the four decades of lawmaking analyzed in this chapter, Dodd-Frank is the fourth-longest law. Only the Patient Protection and Affordable Care Act, an appropriation law, and a reform of the tax code of the 99th Congress were longer.

The House passed the law on December 11, 2009, after only ten days, with a vote count of 223 yays to 202 nays. The bill's length was already substantial at that point, with over 270,000 words. The Senate needed more than five months to amend the bill, and passed it on May 20, 2010, with a vote count of 59 yays to 39 nays. The Senate persisted with its changes and called for a conference between the two chambers, which met seven times in nineteen days. The conference report was another hefty document full of legislative content that had to be read and understood by lawmakers before they passed the bill. The report was even longer than the final version of the law, with 387,912 words (H. Rept. 111–517 2010). More than two weeks after the conference, the bill was passed by both chambers and signed by President Obama on July 15, 2010.

There have been two main cost estimates by the CBO: The first one, in June 2010, suggested a reduction of the deficit by $2.3 billion from 2011 to 2015 (CBO and Fontaine 2010). The second

report, from March 2011, estimated an increase in the budget surplus of $3.2 billion between 2010 and 2020 (CBO and Elmendorf 2011). However, it is hard to assess the cost of Dodd-Frank since

- some of the regulatory content is still being developed;
- some of the independent regulatory agencies involved do not have to comply with the federal cost and benefit assessment standards typically required in the rulemaking process (GAO 2011); and
- fifty-seven of the final rules did not include any cost assessment and eighty-seven other final rules did not have any quantitative cost assessment (Rose and Walker 2013; McLaughlin and Greene 2014, 3–4).

Table 3.7: Overview of the Great Recession Laws

Law title	**Summary**	**Law**	**Congress**	**Days in Congress**[a]	**Word count**	**Cost to the federal government**[b]
Economic Stimulus Act (ESA)	Tax cuts and rebates	H.R. 5140	110th	17	3,859	$152 billion
Housing and Economic Recovery Act (HERA)	Mortgage-market reform, increase in housing insurance, unlimited liability for Fannie Mae and Freddie Mac	H.R 3221	110th	118	109,065	$24.9 billion
Unemployment Compensation Extension Act	Extending unemployment insurance	H.R. 6867	110th	73	722	$5.7 billion in 2008
Emergency Economic Stabilization Act (EESA)	Troubled Asset Relief Program	H.R. 1424	110th	14	70,455	$27 billion

American Reinvestment and Recovery Act (ARRA)	Fiscal stimulus bill	H.R. 1	111th	23	173,032	$840 billion
Help Families Save Their Home Act (HFSTHA)	Increased funding in the mortgage market	S. 896	111th	87	29,777	$8.2 billion
Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank)	Financial market reform addressing over 20 regulatory agencies	H.R 4173	111th	232	357,386	Surplus of $3.2 billion
Average				80.57 days	106,328	Net cost: $1,044.6 trillion
a) These calculations start with the (sometimes adjusted) date of introduction until the bill was signed into law. For further details, see the respective law's section in this chapter.						
b) These costs are all estimates and not exact. Some of the provisions of these laws are still being implemented or will only take effect in the future. The CBO frequently revises its estimates. I use only the latest estimates by the CBO.						

Concluding Thoughts on the Political Economy of Recessions

Crises are heterogeneous events, and the exposition of the last five economic crises has shown that clearly. Without the discussion of the political economy of crisis, it would be hard to understand why the dot-com crisis did not yield as many laws as the other crises or to understand why the laws that were passed were passed at all after laying dormant for month in Congress. Without the insights regarding the legislators' decade-long preoccupation with the savings and loan crisis, it would be hard to understand why the legislation of the early-1990s crisis was shorter than that of most other crises. The discussion of the political economy of the last five recessions has yielded crucial information regarding the circumstances legislators and the executive faced.

The variation among crisis responses does not lead to the conclusion that nothing can be said about crises. Crises and their backgrounds are heterogeneous, but they still exhibit a consistent pattern of

lawmaking that differs from normal times, although the pattern manifests itself in varying degrees. There are significant commonalities such as the faster enactment of laws during a majority of the crises as well as their greater length. This chapter reveals particularities of the political circumstances during crisis and shows important empirical manifestations of the theoretical considerations made in chapters 5 to 8.

Chapter 3 shows how conflicts between Congress and the president prevented extensive legislative responses to the mid-1970s crisis. Unity is often a feature during times of war and economic crisis. In chapter 6, I argue that unity contributes to faster and lengthier legislation. Nixon was able to implement widespread changes until he lost the trust of the public and Congress. Ford faced more pushback from Congress in the aftermath. The crisis still generated laws that fit the patterns of lawmaking of faster enacted and lengthier laws during crisis.

The chapter also shows how a president's disinterest in a policy field slows down legislation, as in the early-1990s crisis. This shows why entangled political economy matters. The president is an important node in the system of policymaking.

I show corporate scandals did not attract much legislative attention until the public's attention shifted to them. This speaks directly to chapter 5, in which I argue that voter behavior during crisis is a significant factor driving crisis legislation.

Further, I illustrate the sense of urgency throughout the different crises which led to fast enactment of the laws. And I reveal the importance of the four relevant stakeholder groups throughout the crises: voters and the media made Congress act to pass Sarbanes-Oxley; interest groups resisted deregulation in the early 1980s; bureaucratic agencies such as the FDIC demanded more power amid the savings and loan crisis.

These are only some of the examples of how the recessions are different from one another. In comparison to the pattern of lawmaking during normal times, the differences among the crises are less significant. In fact, it is rather surprising how different circumstances and economic problems during crisis lead to legislative proposals that all deviate from those of non-crisis times and the comparison laws. But to understand the relationships among and the incentive changes within the groups that influence policy, I need an adequate theoretical framework: entangled political economy.

Chapter 4: Political Economy, Entanglement, and Crises

The present chapter introduces entangled political economy (EPE) as the theoretical framework to explain why Congress passes longer legislation and does so faster during recessions compared to non-crisis times. Crisis research tends to single out one source of influence—for instance, interest groups or the role of ideology—and form theories on how this source of influence changes crisis decision-making. My goal is to study all four politically influential groups (voters, legislators, interest groups, and bureaucrats), the incentive changes for these groups, and the relevant interactions among these groups. In discussing EPE and distinguishing it from other theoretical approaches, I aim to make the underlying assumptions of my research transparent.

Theories based on a causal approach function well in a world in which many variables are fairly constant. In an undetermined world with a multitude of changing variables, the theories become less useful. The inherent complexity of crises, the interdependency of the groups, and the particularities of time and place render monocausal explanations and their epistemic yardstick—prediction (Friedman 1966)—unreliable. But the inherent complexity of crises does not render them unintelligible. Certain group behaviors are more likely than others; I lay out theoretical mechanisms for every group. These mechanisms are only apprehensible through the use of an EPE framework since it is captures the open-ended, interconnected, and complex nature of political exchange. The purpose of the theoretical part of my work is to form convincing theoretical accounts how the different nodes in the political system interact with one another and what behavior of groups can be expected while, at the same time, account for the patterns of lawmaking and the puzzle it presents. My aim, though, is not to test hypotheses but to present and solve the empirical puzzle.

An old joke tells about an economist who looks for her car keys (theoretical and empirical insights) only under the lamppost (data availability and simplified models) while at the same time being

unsure if she had lost the keys somewhere in the dark. She only looks under the lamppost because that is where the light is. With EPE, I look for the keys in the darkness and form conjectures about the keys' location.

Political economy and public choice are the building blocks of EPE. Both are crucial for the study of entangled phenomena but by themselves not sufficient. I lay out which parts of these building blocks are useful and on which margins they fall short. This enables me to distinguish EPE from already-existing approaches and shows why it is the appropriate lens for the study of crises. After a discussion on criticism of public choice, I present arguments for the explanatory power of EPE despite trade-offs that make EPE and its finding less quantifiable and predictively accurate. Then, I justify why I study voters, legislators, interest groups, and bureaucrats.

Entangled Political Economy

Wagner (2012b, 28) states that "entangled political economy is old and not new. It is a concomitant of treating economics as a social science, as against treating it as a science of individual action in an equilibrated society." Entangled political economy follows in but goes beyond the tradition of Virginia political economy (Boettke and Marciano 2015; Buchanan and Tullock 1974). EPE is explicit and consistent in its focus on exchange relationships, the emergent properties of society, and complexity; its skepticism toward prediction as the sole yardstick for evaluating social science; its acknowledgement of uncertainty; and finally its emphasis on the entanglement of the public and private spheres. Much of the modern literature on political economy and especially public finance treats the economy and government as separate spheres that influence each other on the margin. However, public policy emerges from a complex web of relationships—including exchange

relationships—among bureaucrats, voters, interest groups, and legislators embedded in an institutional context and disrupted by an exogenous shock.

Recent scholarship on EPE (Wagner 2016; 2012a; Runst and Wagner 2011; Smith, Wagner, and Yandle 2011) stresses the importance of exchange relationships within public choice and political economy. This literature does not depict government and the economy as separate but as entangled. This perspectives studies institutions are shaped through actions and exchanges of individuals. It is not important which sphere the individuals belong to. The institutional environment and the incentives are influenced not by government or the economy alone but by both. This is one key insight of EPE. EPE also focuses on the dispersed knowledge (Hayek 1945) of the agents interacting within a web of relationships. These agents act purposefully towards their heterogeneous goals and bring about unintended outcomes. These three aspects—the heterogeneous purposes of agents, the dispersed knowledge, and the entanglement of society—are the cornerstones of EPE. EPE is not alone in acknowledging the importance of entanglement. Entanglement is the main focus of pluralism (Dahl 1991a; Lindblom 1959). Ideal pluralism leads to a governance system in which interest group contest for political influence groups without the possibility of any one group dominating the others. Similarly, research on focusing events and agenda setting stresses the many influential actors within a polity. The entanglement of voters' desires and the other influences on the agenda are an integral part of Kingdon's (2014) framework.

Furthermore, Fritz Scharpf's actor centered institutionalism takes entanglement and the exchange relationships between the different political actors into account (Scharpf, 1997, 5-7). Mayntz and Scharpf (1995) focus on interactions between different agents independent of which sphere they belong to. Their approach shares the focus the entanglement as well as the catalactic aspect of EPE

(Mayntz and Scharpf, 1995, 43-44). The following quotation shows the many parallels between Scharpf's (1997, 11) approach and entangled political economy:

> Public policy is not usually produced by a unitary actor with adequate control over all required action resources and a single-minded concern for the public interest. Rather it is likely to result from the strategic interaction among several or many policy actors, each with its own understanding of the nature of the problem and the feasibility of particular solutions, each with its own individual and institutional self-interest and its own normative preferences, and each with its own capabilities or action resources that may be employed to affect the outcome.

Scharpf (1997) and Mayntz and Scharpf (1995) stress many of the same epistemic dimensions as I do in this chapter. Nevertheless, their approach is different since it focuses mostly on game theoretical models. I use game theory in chapter 6 but EPE is not bound to any kind of methodological starting point. The tools have to be chosen in the light of the task at hand. This provides the social scientist with a rich methodological tool box which is constrained by the epistemic street signs that lead the way.

How does the entanglement of a polity matter? Consider a metaphor Wagner (2016; 2012a; 2012b) invokes throughout his work. He compares a parade and a piazza.[27] to make an ontological point about the importance of entanglement. Both the parade and the piazza are forms of order. However, nobody would mistake a parade for a piazza. The piazza is, from a bird's-eye view, messy and seemingly chaotic while at the same time functioning perfectly well for the people who maneuver

[27] This peculiar word choice points to the influence of the early Italian fiscal sociologist whom Wagner and also James Buchanan studied extensively. On this point see my review of Wagner's book (von Laer 2014).

within it. The parade is orderly and well structured, and every person has their place. The parade has an equilibrium. The same cannot be said for the piazza and its properties. Both social phenomena, although both orderly in their own way, have different properties and require a different epistemic toolkit. Wagner uses this comparison to stress the importance of EPE. EPE does not recoil from the complexity of the piazza. On the contrary, it acknowledges the manifold parts and their interactions that eventually led to the order. These parts are the purposeful behavior of the individuals (studying individuals and not only the aggregate outcome), the incentive framework of the individuals, and the structure of the piazza (the outcome).

Like the activities in the piazza, policymaking, during crisis and non-crisis times, is an emergent phenomenon with a multitude of actors with different aims. These actors bargain with one another to attain their individual goals. Ex post, one can always say that an outcome is the result of one group's desire to achieve a certain policy. Ex ante, such an outcome is unknown and people have to strike bargains to come closer to their desired goal. No representative agent exists who can maximize a given social utility function through accessing aggregated preferences from voters, interest groups, and other stakeholders. Utility functions, aggregated preferences, and full information are not given within policymaking.

After the discussion on the metaphors of piazzas, the delineation of EPE to other approaches, and the importance of entanglement, I can now summarize the advantages of EPE for the study of crisis decision-making:

1. It is able to analyze behavior of public and private individuals in the same way. EPE perceives the differences in incentive structures between the public and private sectors but acknowledges that these are differences in degree and not in kind.

2. It is able to zoom into the specific processes and explains a social phenomenon from the bottom up.
3. It acknowledges the complexity of modern policymaking and its manifold actors. The polity is a network of different groups and agents struggling to exert influence. Some authors have argued that the influence of business trumps that of politics and that democracy is in disarray due to global regulatory arbitrage by businesses (Lindblom 1982) or that crises are times in which government is weak and overridden by the desires of corporations (Klein 2008). Entangled political economy does not take a stance on this. Whether government or business is more influential depends on the particularities of the political economy and the exchange relationships within it.
4. It allows me to study the interactions between the economy and the polity while depicting crises as exogenous to the entangled system. EPE's focus on endogeneity is distinctive. I too stress the endogeneity between the polity and the economy. However, my research focus would be different if I treated crises as endogenous. It would lead to a study on the emergence of crises and not on the political economy of crisis responses.

I have three reasons for spending this whole chapter on the EPE framework. First, I would like to avoid a certain pitfall. Schlager (2007, 293) writes that "explanations of the policymaking process rest in theories and models, which should be, but typically are not, grounded in a framework." In the upcoming section, I present the building blocks of my framework and how they speak to the theoretical chapters (5–8). This shields me from Schlager's (2007) criticism and makes sure that the subsequent chapters stand on firm ontological and epistemic grounds. Second, the present chapter delineates what I am studying and distinguishes my approach from other approaches. It explains and justifies my approach. Third, the chapter considers the predictive and explanatory limitations of

EPE. It shows the trade-offs involved in using EPE but argues for the greater benefits of using the framework rather than others.

Political Economy, Catallaxy, and Public Choice

The term *political economy* describes the study of exchange relationships. Even though the exchanges within public institutions differ from those within market institutions, the same—catallactic—lens can be employed to study these exchanges (Buchanan 1964).[28] Agents are influenced by their institutions and guided by complex needs, feelings, pressures, and beliefs. These factors can be incorporated within a political economy framework. This is essential to study concepts such as urgency, pressure, and uncertainty that are inherent to crises.

In contrast, neoclassical economics, and the Chicago variant of public choice (Wagner 2016, chapter 1; Wagner 2012a, 9–13), perceives economics primarily as a discipline, in which resources have to be allocated to the highest ends. This perspective often reduces complex phenomena to problems of calculation and maximization. It has been criticized on psychological (Kahneman 2003), epistemic (Wagner 2016; V. Ostrom 2008; Hayek 1996; 1989; 1942; Rothbard 1987; 1977), and experimental (Edidi 2012, 190–193) grounds.

---

[28] Exchanges between various parties take place in the market and within the polity, but they are different (Podemska-Mikluch and Wagner 2013). Exchanges in markets are voluntary and ex ante subjective-utility maximizing. Exchanges in the political realm can be coercive and thus ex ante utility has to be lower than in a situation of voluntary exchange (otherwise people would not have to be forced to perform an action in the first place). This is a positive statement and it does not entail any value judgment in regard to the potential ex post realized benefit of a forced exchange by political institutions. Additionally, exchanges within a polity often involve at least three different parties. There are the people who exchange and the party who faces consequences or costs. Market exchanges can be between just two parties.

The same narrow focus has found its way into the study of politics, as Wohlgemuth (2002, 228–229) explains: "Arrow's 'Impossibility Theorem' induced our most ingenious thinkers to discuss the virtues of democracy predominantly under the spell of logical puzzles within a closed static system in which there was no room for purposeful human action and social interaction." Microeconomic models can capture different risk structures and exogenous shocks. However, the models cannot take the complex exchange relationships that are the focus of the present work into account. This is not to say that neoclassical economic or rational choice do not take institutions into account. They do and institutions get even preferred attentions within research strands like rational choice institutionalism. Nevertheless, my criticism remains the same; the approach continues to be trapped in a tight neoclassical corset which "is founded on abstraction, simplification, analytical rigor, and an insistence on clean lines of analysis from basic axioms to analytical propositions to empirical implications" (Shepsle, 2006, 32). Shepsle goes on and shows the way forward which he sees in relaxing some of the assumptions and including research from a) bounded rationality, behavioral economics, transaction-costs economics, and analytical narratives (Shepsle, 2006, 33). Three of these four research areas, with the exception of transaction-costs economics, have been incorporated in my thesis.

Neoclassical economics is not useful for the task at hand since the assumptions of a narrow rational-choice model do not hold within a crisis. Uncertainty, ambiguity, stress, and fear are not part of the political economists' tool kit. Furthermore, Chicago public choice tends to depict the political and economic system as separate spheres. EPE, on the other hand, stresses the openness of the economic and political systems and the resulting interactions between the spheres. As Wagner (2016, chapter 1) writes, "prudent political action cannot be determined independently of the interests of relevant economic actors, nor can prudent commercial action be determined independently of the

interests of relevant political actors. Recognition of the entangled quality of political economy points toward several points of difference with common theories of political economy."

Individuals within the private sector have self-interested goals similar to those of individuals in the public sector. This is the so-called symmetry assumption. The symmetry assumption forces us to take into account that individuals (politicians, interest group representatives, bureaucrats, and voters) focus not only on maximizing the welfare of the public but also their own utility (Buchanan 2000; Brennan and Buchanan 1981). There is no a priori reason to presume that these goals are aligned. To capture these different interests and their manifestation within the emergent phenomenon of public policy, I choose a more qualitative approach with the focus on catallactic relationships between the polity and the economy. The assumptions that people respond to incentives and that institutions shape the behavior of agents are part and parcel of the political economists' perspective.

Public choice in the tradition of the Virginia school (Tullock 2004) is another building block of EPE. It applies the tools of economics to give an account of how political agents maximize votes, influence, and power; and bureaucrats their budget, staff, and importance. I follow Buchanan and Tullock (1974, 3–39) and build EPE upon the three foundational pillars of public choice: methodological individualism, (a broad conception of) rational choice, and politics as exchange. Rational choice in the broad sense is the insight that individuals act purposefully in pursuit of their desired goals. However, they can be mistaken, acting on false assumptions, and bounded in their rationality. They are not automata that calculate benefits and costs in nanoseconds and know how to allocate their time and resources to some optimal state.

The cornerstones of public choice were developed by Duncan Black, James Buchanan, and Kenneth Arrow in the late 1940s and early 1950s. It is called public choice not because there is a public that chooses, but because of the choices that occur within the public realm. The public-choice

perspective of "politics without romance" (Buchanan 1999) has improved our knowledge about the workings of government considerably. As Buchanan and Tullock (1974, 27) put it, "the ethical-economic arguments requires the initial acceptance of a skeptical or pessimistic view of human nature. Self-interest, broadly conceived, is recognized to be a strong motivating force in all human activity; and human action, if not bounded by ethical or moral constraints, is assumed more naturally to be directed toward the furtherance of individual or private interest."

Public choice includes complex utility functions (that make room for ideology, altruism, and self-interest) since it is not bound to a narrow conception of rational choice. Research applying a rather broad conception of homo economicus yields insights about ideology (Buchanan and Wagner 1977), logrolling, constitutional choice (Buchanan and Tullock 1974), rent-seeking (Tullock 2005a), rational ignorance (Downs 1957a), and group size (Olson 1965). However, this broader conception of rational choice is particular to the Virginia school of public choice (Tullock 2004) and related approaches like evolutionary public choice (Cantner and Wohlgemuth, 2013, 427). The latter stresses the importance of analyzing public policy as an emergent phenomenon (Cantner and Wohlgemuth, 2013, 427) similar to EPE. Public choice in general takes a much narrower view and is much closer to neoclassical economics.

The fundamental assumption is merely that public agents strive for what every human being strives for: maximization of one's own utility. What goes in the utility function is subjective and varies from the common good to pure self-interest. Nevertheless, a commonality in human behavior is the goal to reduce uneasiness (Mises 1998). Self-interest is always a part of the utility function. This reveals itself in the politician's wish to be reelected, in a bureaucrat's wish to have a bigger budget to accomplish more at his job, or when a voter wants to increase her own wage by demanding subsidies for the industry she works in. It is unlikely that the politician, the voter, or the bureaucrat will act

against their own beliefs. One rarely finds a politician who admits that her actions were inadequate to achieve her stated goals, or a bureaucrat who advocates the termination of his bureaucracy. Self-interest is a part of every political or economic action, and the acceptance of this axiom is the first step toward a unified model of human action. Public choice shows that the person in the voting booth is not fundamentally different from the person in the supermarket (Tullock 2005b, 17n8).[29]

Public choice is the primary discipline explaining how bureaucracies, voters, interest groups, and politicians behave. It is a core building block of EPE. However, I draw also from a variety of different theories to illuminate the incentive changes of the respective groups during crisis. Public-choice theories alone are not well developed for explaining agents' behavior during crisis. Reviewing the key anthologies for public choice, Congleton (2004) finds that the literature largely ignores crises and crisis management. Mueller (2003), in *Public Choice III*, does not discuss these issues at all. Neither do Persson and Tabellini (2000) in their textbook about public choice and (Chicago) political economy. Congleton (2004) does not find the terms crisis management in Rowley and Schneider (2004). Not one of the twenty-five essays in Mueller's (1997) *Perspectives on Public Choice* deals with crises. Neither does the Edward Elgar companion to public choice by Shughart and Razzolini (2003), nor Rowley and Schneider's (2008) *Readings in Public Choice and Constitutional Political Economy*.[30] A collection dedicated to policy challenges in a post–9/11 world surprisingly barely touches crisis (Shughart and Tollison 2006). Rowley (in Shughart and Tollison 2006, 33–54) is the

[29] Tullock plagiarized Buchanan on this.

[30] The same lack of theoretical considerations in regard to crisis is true for the public-finance literature that overlaps to some extent with public choice. Grossekettler is the only one, in Backhaus and Wagner (2005, 343–45), who mentions Peacock and Wiseman's work. He argues for Germany after 1989 as an example of the displacement effect. Other handbooks and textbooks do not deal with decision-making during crisis (Ulbrich 2011; Kaul and Conceicao 2006; Robbins 2005).

only one addressing crisis explicitly,[31] but not in a particularly public-choice fashion. In his essay, he distinguishes between Hobbesian and Lockean political economy and then provides an overview of American history and the role of crises. Surprisingly, there is no public-choice model of decision-making within that volume (Shughart and Tollison 2006).

Congleton (2004) is an exception to the neglect that is bestowed on the topic by public choice on crisis management. In Congleton's (2004) article "The Political Economy of Crisis Management," he adds significant concepts to the repertoire of the public-choice theorist. He describes a crisis as an event that creates a sense of urgency, that is unanticipated, and that changes economic agents' plans. According to Congleton, the combination of these factors leads to policies likely to be less well informed and more prone to error compared to non-crisis policies.

Building upon Congleton's example, the main goal of this work is to adapt and extend the rational-choice core to integrate crisis and its effects on public sector agents. With this approach, I hope to shed some light into the "black box" of crisis politics (Boin, McConnell, and 't Hart 2008, 7). EPE builds upon public choice but uses a soft rational-choice approach and deemphasizes the importance of prediction in favor of a framework that can take complexity into account. Additionally, EPE is open to using other theories if they provide insights into the institutional and behavioral contingencies that affect people. Public choice rarely looks beyond rational choice to inform its perspectives on incentives. It also often underemphasizes the emergent and entangled properties of modern societies. Therefore, public choice is not sufficient for my study. In the next section I go into detail about criticism of public choice and how EPE is a better approach when studying crises.

---

[31] Besides a chapter by Holcombe (95–114) who surveys the literature on government growth and discusses the ratchet effect and crises.

The Relevance of Criticism of Public Choice

Despite the absence of crisis relevant public-choice research, I acknowledge the benefits it has to offer. Some scholars see this differently. In this section, I introduce the criticism from Wittmann (1997) and Green and Shapiro (1994). Wittman (1997) acknowledges public choice as a useful tool but disagrees with the often-cynical conclusions. Wittman (1997) argues that democracy leads to efficient outcomes. Governments are efficient since they provide goods markets can only inefficiently provide and they let the market do the rest. This view ignores the persistence of agricultural subsidies, legislation in favor of interest groups, the provision of government postal services, and so on. Wittman also perceives voters as well-informed and rational agents. His Panglossian view is that voters have rational expectations about the performance of politicians. Wittman's voters are capable of rewarding welfare-enhancing legislative behavior and punishing welfare-decreasing policies. This model of legislators and voters is disproven by empirical facts (Somin 2013; Caplan 2007; Carpini and Keeter 1997). Additionally, Wittman (1997) makes a strong assumption when he postulates that voters vote rationally on issues as long as they are depicted on a simple left to right wing scale. As will be discussed in more depth in chapter 5, this postulate, which is part of the median-voter theorem, is inadequate in judging bundled goods such as political parties or candidates.

The more poignant criticism comes from Green and Shapiro (1994). They attack rational choice, the core of public-choice models. They argue that rational choice has not produced empirical sustained findings (Green and Shapiro 1994, 6). Critics claim Green and Shapiro misrepresented the theory, overstated their claim, used an unrealistically rigid yardstick for empirical sustainable findings, or ignored the rich empirical findings of public choice (Friedman 1995, 5). Green and Shapiro's (1994)

book dissects three main contributions in public choice: Arrow's impossibility theorem, Downs's conjecture that people only vote if the expected benefits exceed the costs of voting, and Olson's theoretical account of collective action and group formation. Green and Shapiro (1994) conflate two kinds of economic models as categorized by Pfleiderer (2014): bookshelf models and applied models. Bookshelf models are highly stylized models that provide novel insight and intuitions. They are not intended to be directly applicable to the real word. Applied models often build upon bookshelf models and make them more relevant to the real world. The works Green and Shapiro (1994) dissect are bookshelf models. Arrow, Downs, and Olson's models provide new intuitions and strong theoretical models. However, to do empirical research, the assumptions have to be adjusted to the relevant context and its institutions. If one, for instance, adds religious devotion to a utility function it might be able to explain why a certain organization persists even though free riding is not effectively punished (one of Olson's [1965] arguments is that free riding prevents efficient collective action). Downs's bookshelf model was similarly important. It raised the question of why people actually vote. Downs (1957) was the beginning of the discussion on motivations of voting and the knowledge of voters.

Thus, Green and Shapiro's (1994) criticism is somewhat misdirected when they criticize bookshelf models, which are models that provide intuitions as well as a starting point for further theoretical and empirical research. Applied models take more variables into account to provide an accurate account of the world in empirical terms.

Much of the criticism directed against public choice focuses on the behavioral assumptions of rational choice. I agree with many of the critics' objections, which are even more forceful when studying crises due to the heightened uncertainty and the relevance of behavioral dimensions of human action (see chapter 5). Public choice does not, for the most part, include insights from

ecological and bounded rationality (Todd and Gigerenzer 2003; Simon 1956) and does not take uncertainty seriously. EPE is the more appropriate framework to study crises due to its openness to complexity and the previously mentioned concepts. Public choice introduced the symmetry assumption, which was necessary to study politics and the economy using the same lens. It introduced economic and incentive-based reasoning to the study of politics and groups. EPE builds upon this and studies the interactions between the spheres—interactions that generate complex orders. Public choice continues to treat politics and economics as largely separate. This is inherited from the study of neoclassical economics in general. Neoclassical economics treats the economy as a set of contractual relationships maximizing individual utility, while treating the public sphere as producing public goods that cannot efficiently be produced by the market. The reality is that the economic and political worlds are much more intertwined. This entanglement is shown by the process of creating regulation, the interdependency of expectations and economic policy (von Laer and Martin 2016), and the prevalence of corporatism around the world. Overcoming the assumption of the economy and polity's separateness, and studying what happens in-between the spheres is an important step for studying recessions. Certainly, EPE has its methodological trade-offs. Using it, I forgo mathematical rigor as well as the capability of strong predictions. The following section justifies this trade-off and explains its benefits.

Complex Phenomena and the Explanatory Power of Entangled Political Economy

Each historical event is unique and cannot be repeated. Institutional diversity as well as the heterogeneity of crises are additional factors rendering the task at hand a rather complex one. From this it does not follow that one cannot find commonalities across crises. The literature on crisis management uniformly stresses the following attributes of crises: stress, ambiguity, increased levels

of uncertainty, urgency, threat, unexpectedness, and collective arousal (Boin, McConnell, and 't Hart 2008, 285–86; Boin et al. 2005, 87; Rosenthal, Hart, and Charles 1989, 10). The presented patterns of crisis lawmaking are additional evidence for the existence of commonalities across crises. Crises cannot be homogenous since if they were we would be able to design optimal responses to them. Further, it would be possible to predict crises with greater certainty since we would know what causes them. In a world of perennial uncertainty, we do not have access to this information. Dealing with crises is dealing with a phenomenon that surprises people.

Unfortunately, the predictive power of any theory dealing with heterogeneous and complex events is limited. One has to have an "appreciation for the contingent" (Gourevitch 1986, 34). Accordingly, I do not strive toward a grand and always-applicable theory of group behavior during times of crisis. The goal is to derive pattern predictions for individuals' behavior in crises and not universal predictions, applicable to all times and places. I follow Brennan and Buchanan (1981, 156) when they state that the explanatory power of an economic method is more important than its predictive power. Understanding the intricacies of the exchanges between different groups during crisis demands a less deterministic and more open framework such as EPE. Nevertheless, EPE and related frameworks are positioned well to be used for applied research.

For instance, Smith, Wagner, and Yandle (2011) apply EPE to the Troubled Asset Relief Program and the New Deal's National Recovery Administration (NRA). Their starting point is the disentangled approaches of most studies which locate the cause of the Great Recession either in markets or in government. The authors show the entangled relationships that lead to economic turmoil. The turmoil was not the outcome of a sequential relationship in which the equilibrium of markets was upset by a change in the political equilibrium or vice versa. Smith, Wagner, and Yandle (2011, 48) argue that "polity and economy are both arenas of activity that contain numerous

interacting enterprises that are connected in network fashion whose systemic properties depend on the structure of the network." In their article they trace pivotal interactions between the two spheres—interactions exemplified by meetings between Secretary of the Treasury Paulson and the heads of the financial institutions that later received TARP money. Additional evidence for entanglement is the interwoven nature of the mortgage market, which connects market participants implicitly protected by government-sponsored entities like Fannie Mae and Freddie Mac with the private insurance corporation AIG, which was bailed out by the federal government. Many more market institutions adapted to TARP and repositioned themselves to become eligible for TARP money (Smith, Wagner, and Yandle, 2011, 56–58). Similarly, the authors show how private enterprises quickly worked under the NRA and formed cartels that were enforced by the NRA. This effectively protected major corporations from new market entrants and maintained their market share (Smith, Wagner, and Yandle 2011, 60–63). EPE has also found its way into computer simulations. Maymin (2014) studied welfare effects in a model with repeated interactions between the public and private spheres and finds welfare losses with increasing interactions between the polity and the economy. This study is theoretical but shows the benefit of applying an entangled approach compared to equilibrium models that show a one-off effect of one sphere on the other (Wagner 2016, 35–40).

Another example of works that take the insights of EPE seriously are E. Ostrom (2014) and E. Ostrom (1990). Ostrom did not specifically rely on EPE, but her research eroded the distinction between the economy and the polity that is so prevalent in economics and political science. She showed the tragedy of the commons can be solved by both private and public actors as long as they adhere to some "design principles" when creating institutions that deal with a specific common-pool resource—for instance, irrigation systems. Ostrom's overcoming of the narrow view of the two spheres shed new light on theories dealing public-goods provision.

These examples of applying an EPE framework or of taking into account some of its insights show the differences between EPE and other frameworks. A rational-choice view of politics would have stated that TARP would not pass, since it was very unpopular with voters. And legislators' highest goal is reelection. Why did they vote for it? It cannot be campaign funds from financial groups since the groups did not contribute significantly during the Great Recession (see chapter 7). Digging deeper and understanding the interactions among key policy designers such as Ben Bernanke and Hank Paulson and the major banks provides a deeper understanding of how this policy came about. Similarly, Ostrom would never have discovered the shortcomings of public-goods theory by just adhering to the rational-choice orthodoxy that people do not work together if opportunities to free ride exist. Incentives matter, but they are shaped by the institutions that exist or that can be created through repeated exchanges between parties. These insights are what makes EPE powerful in explaining events and careful in making predictions. Public policy, as a complex phenomenon, results from exchanges between manifold individuals. One cannot assume that this exchange and bargaining process generates an outcome similar to what the utility function in benevolent representative-agent models predict. These models provide useful intuitions but fall short in explaining public policy.

It is appropriate to have humility concerning the predictive and explanatory power of one's model. Employing a variety of theories is especially valuable when studying complex phenomena. This is stressed by Rosenthal, Hart, and Charles (1989, 6) when they treat "crisis research and crisis management as innately interdisciplinary." My application of EPE is interdisciplinary and relies on different sources of data and theories. This sheds light on crises from different angles, which is crucial for understanding crises and their commonalities.

Why Voters, Legislators, Interest Groups, and Bureaucrats?

When researching political decision-making during crisis and normal times, I was struck by the manifold accounts of intergroup interactions and how they yield policy outcomes. Table 4's purpose is to show the breadth of scholarship on the different interactions among the four main groups within a polity.

Table 4: Research on Intergroup Relationships and Policy Outcomes

Relationship	**Scholarship and research paradigms**
Interest groups–legislators	Baumgartner et al. 2014; McCarty, Poole, and Rosenthal 2013; Tullock 2005a; Smith 1982; Madison 1787; chapters 6 and 7
Interest groups–bureaucrats	Coffee Jr. 2011; Yackee and Yackee 2006; research on the revolving door between these groups; chapter 8
Interest groups–voters	Olson's (1965) focus on concentrated benefits and dispersed costs; chapter 7
Legislators–bureaucrats	Mises 2007; Cohen, Cuéllar, and Weingast 2006; Tullock 2005c; Weingast 1984; Weingast and Moran 1983; Niskanen 1971; chapter 8
Legislators–voters	Somin 2013; Kuran and Sunstein 2007; Caplan 2007; Black et al. 1958; Hotelling 1929; chapters 5 and 6
Bureaucrats–voters	Crews 2015b; Yackee and Yackee 2006

Throughout this dissertation, I address additional dimensions such as the relationship of the federal government to the states (Greve 2012; Jonas 2012; Leeson and Sobel 2008), the relationship between the executive and judicative (Vermeule and Posner 2007; Epstein et al. 2005), and the relationship between voters and the media (Weber and Quiring 2012; Boomgaarden et al. 2011; Hetherington 1996). However, the main focus is on the four groups for the following reasons:

1. The entanglement of these groups is crucial in policymaking. Each analytical group has incentives specific to their institutional environment. To focus on the group-specific institutional environment and the corresponding incentives as well as the intergroup dynamics promises insights into policymaking not attainable when only studying one group.
2. Public choice, an integral part of EPE, has enriched the study of politics with studies about these groups. Most public-choice anthologies and handbooks address research questions about these four groups.
3. These groups represent core functions within any governance system: opinion formation (voters), opinion representation and agenda setting (legislators), agenda contestation (interest groups), and execution of the agenda (bureaucrats). The subsequent chapters show that the influence of the groups goes beyond these stylized functions.

Kahler and Lake (2013, 17) acknowledge the need to consider manifold groups and their interactions when they write, "With crises as both shocks to the system and turning points, the consequences of a crisis depend to a significant extent [sic] how groups are united and potentially reshaped by shared understandings of their political interest." Kahler and Lake (2013) and their contributors' focus is thus on the formation of coalitions influencing crises in the tradition of Gourevitch (1986). I agree on the importance of coalitions between interest groups and legislators in determining crisis outcomes (chapter 7). However, this interaction between interest groups and legislators is certainly not the only relevant one when dealing with public policy outcomes.

I try to remedy the neglect of studying several groups and their influence on the policy outcome during crisis by providing theoretical accounts of the four groups and their impact on the distinct pattern of crisis legislation. I do this through theoretical and empirical investigations of the intra- and intergroup dynamics that lead to the pattern.

Entangled Political Economy and Crisis Research

Recent work within political economy close to my approach has focused on the political economy of war (Coyne 2007), humanitarian efforts (Easterly 2015; Coyne 2013; Dutta, Leeson, and Williamson 2005), and Hurricane Katrina policy responses (Storr, Haeffele-Balch, and Grube 2015; Shughart 2011; Chamlee-Wright and Storr 2010a; Chamlee-Wright 2010b; Boettke et al. 2007; Sobel and Leeson 2006; Shughart 2006), as well as the enactment of crisis legislation during the Great Depression and Great Recession (Smith, Wagner, and Yandle 2011), suggesting the usefulness of a qualitative, quantitative, and entangled approach.

To summarize, EPE is the appropriate framework since

1. it stresses the importance of rational choice (broadly defined);
2. it allows and encourages one to go beyond rational choice narrowly defined as well as encouraging one to adapt bookshelf models (Pfleiderer 2014) to the institutional environment;
3. it stresses uncertainty, which becomes more pronounced during crisis;
4. it allows for comparison of different data and theories;
5. it stresses the entanglement of the economic and political realms;
6. it identifies pattern predictions and conjectures about likely behavior of groups instead of accurate predictions of human behavior; and
7. it is open-ended, embraces complexity, and treats political outcomes as emergent phenomena rather than merely the results of the will of one group or representative agent.

EPE is similar to other frameworks in that it uses methodological individualism and stresses the importance of incentives. However, EPE shows human beings to be purposeful agents who make

mistakes, are rationally bounded, and are guided by complex needs and wants that depend on their positions within institutions. These attributes make EPE the more appropriate framework for studying the patterns of lawmaking during crisis. Through the theoretical analysis of the four groups and their behavior during crisis I am able to generate pattern predictions of their influence on the patterns of lawmaking during crisis.

In the following four chapters, I apply EPE to study the four different nodes of the political system: voters, legislators, interest groups, and bureaucrats. I analyze the groups in separate chapters but not separately. The overall approach of the dissertation is the following: (1) Locating and demarcating my dissertation from already existing theoretical and empirical studies on crises (chapters 1 and 2). (2) Presenting the pattern of crisis lawmaking as the empirical phenomenon that ought to be explained theoretically. (3) Introducing entangled political economy as the appropriate research framework (chapter 4). (4) The remaining theoretical chapter provide and EPE explanation of the groups' influence on the pattern of crisis lawmaking (chapters 5–8). (5) Concluding thoughts on the patterns of lawmaking during crisis and the theoretical dynamics behind the pattern (chapter 9).

Chapter 5: Voter Behavior in Times of Crisis—Voting and Other Forms of Electoral Pressure

Peacock and Wiseman (1961) argue that an upward shift in voter tolerance regarding the size of government leads to increased government activity. Higgs (1987), in his study of government growth during crisis, agrees with Peacock and Wiseman's assessments of voters' demand for government action. Similarly, Boin et al. (2005, 1) start their book on crisis management with the claim that the citizenry turn to their political leaders for help. Rosenthal, Hart, and Charles (1989) argue that politicians have to show their power and leadership capabilities during crisis. These scholars from different disciplines seem to presume that the citizenry, during crisis, demands more government intervention. Besides polling data, they do not provide much evidence for this claim. The question becomes, how do citizens transmit their preferences during crisis? The occurrence of a crisis and the temporal proximity to elections might diverge significantly. The voting booth is unlikely to give politicians direct feedback about what course of action to take. Nevertheless, governments seem to react to collective uproar quickly. Politicians maximizing votes cannot be the sole explanation for this phenomenon. This seems puzzling and is not discussed in most models of voter behavior within the public-choice literature.

In this chapter, I provide a theoretical account relying on research on availability cascades by Kuran and Sunstein (2007) to capture how voters demand more government intervention in times of crisis. Understanding the pressure the citizenry puts on legislators is essential for understanding legislative behavior. Legislators depend on votes and public opinion. Already in 1777, Hume (2001) declared that government is ruled by nothing more than public opinion. The study of public opinion and its dynamics during crisis is my starting point. Besides voters, the other stakeholders during crisis are

legislators, interest groups, and bureaucrats. My study of those groups in later chapters is made easier by building a theoretical foundation of voter behavior during crisis. Crises, which affect policy spaces such as the economy or public safety, influence voters, who then influence legislators. This chapter shows the significance of voters during crisis and the entangled nature of crises and political decision making. Entangled political economy sheds new light on the relationship between voters and legislators. Most models only focus on elections and how voters' preferences translate into policy. However, voters influence legislators in other ways—especially during crisis. Voters write letters, protest, and are a crucial part of public opinion formation. If public opinion focuses on a given topic, then legislation is likely to follow (Koch-Baumgarten and Voltmer 2010; Walgrave and Van Aelst 2006). This is independent of elections and shows that voters within an entangled political economy have additional functions beyond voting.

The structure of this chapter is as follows: First, I discuss evidence of the ambivalent relationship of citizens to their government. Citizens tend to be skeptical of their government's ability to address social problems during both crisis and non-crisis times. At the same time, they do seem to ask for more government action when a crisis occurs. Next, I discuss public-choice models of voter behavior. Clearly, citizens have an influence during crisis, but it is unclear how it works outside of the voting booth. I find public choice inadequate to explain voter influence during crisis. To lay the foundation for a better answer, I discuss the effect of crises on people, drawing on the political-science literature on crisis management. Having laid out definitions of concepts, I discuss availability cascades. The next section breaks down the implications of availability cascades and crisis research for the individual. This discussion yields a decision making matrix for the individual, providing an understanding of the choices and incentives individuals face during crisis. The last section finds that voters, when faced with a crisis, increase their attention to public policy. The increased pressure from the public tends to generate a response from legislators, who want to relieve the public from

their suffering and relieve themselves from the burden of too much public attention and too many demands.

The Ambivalent Relationship of Citizens to Their Government

Since the 1970s, scholars have been showing that Western citizens increasingly distrust their governments (Putnam 2001; Crozier, Huntington, and Watanuki 1975). In the 1980s and 1990s, though, cross-country studies showed that trust in government was no longer universally declining (Klingemann and Fuchs 1995; Kaase 1995). However, the decline in trust re-emerged and has been accelerating, with Gallup polls showing a record 75 percent of Americans calling the federal government the biggest threat to the nation's future (Jones 2013b). Further, the US Census shows that since 1964 (when the Census Bureau's records on the subject start), the general trend has been for voters to participate less in elections. This applies to citizens of all educational backgrounds (Census 2014). Admittedly, citizens have not expressed their lack of interest and declining trust as vocally as when they protested against the Vietnam War or the Watergate affair in the 1970s. However, the trend exists nonetheless, and it applies to all branches of government. A Gallup poll with 1,500 respondents finds that trust in all three branches of the federal government has been declining; and trust in legislative and juridical bodies, in particular, was in 2014 the lowest since 1973 (Jones 2014). A similar pattern emerged for a majority of countries in Europe in the 1980s (Newton and Norris 2000) and has continued from the early 2000s until today (TNS Opinion & Social 2013).

During the last century, a contradictory pattern in times of crisis emerged. When the nation faced severe distress, the citizenry seemed not to have much doubt that government was the best institution to turn to for help. Crisis, as I define it, implies urgency and the widespread perception of a threat and tends to be connected to a rise of approval ratings of leaders, governments, and the

administration. Famously, George W. Bush achieved the highest ratings a US president ever had after the 9/11 attacks (Hetherington and Nelson 2003, 37). Even in such Democratic strongholds as California, Bush's ratings jumped from 42 percent in the first week of September 2001 to 74 percent in the weeks just after the attack (DiCamillo and Field 2008). This phenomenon, often called the rally-around-the-flag effect, is found in several Western nations, although most of the literature has focused on the United States. The war over the Falkland Islands has been studied widely, with many scholars agreeing on the significant positive effect of the war on Thatcher's public support and its contribution toward her subsequent re-election (Lai and Reiter 2005, 258; Nadeau, Niemi, and Amato 2000, 153). Support for the incumbent government tends not to increase when the threat perception is not widely shared, as Lai and Reiter (2005) have shown with their study about public opinion and UK involvement in international conflicts. The focus of my dissertation is on events perceived by a large majority of the citizenry as a threat.

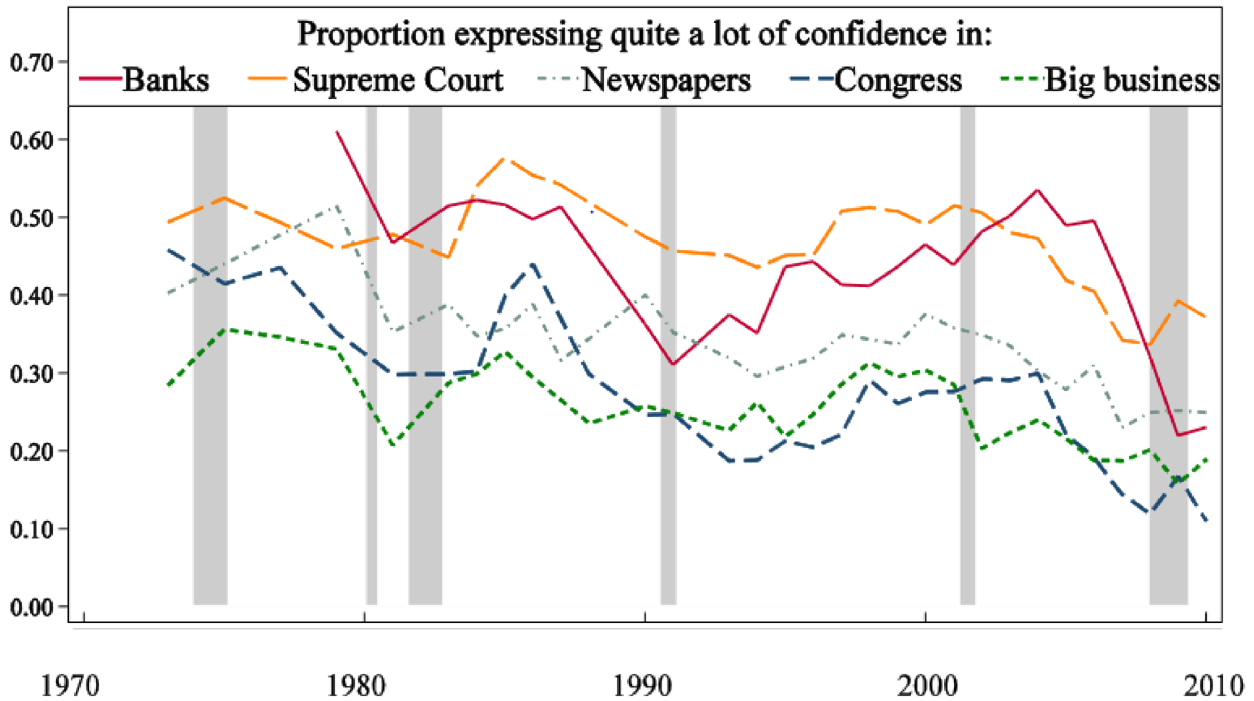
There appear to be no studies analyzing rally-around-the-flag effects for economic crises. This is either because such effects do not occur during economic crisis or because such a case does not fit the framework of the rally effect, which relies theoretically on (a) a perceived threat from outside the society and (b) an increase in patriotism, neither of which occur when a nation's own economic institutions are at the center of the crisis (Lai and Reiter 2005, 256–57). The non-existence of rally effects during economic crises does not contradict the ratchet-effect hypothesis because the government might grow even if approval for the incumbent party does not increase. That citizens feel dissatisfied with their country's situation does not preclude the possibility that they approve policies that lead toward more government.

Citizens and the media state questions about government involvement during economic crises, in particular in binary terms: markets vs. governments. It seems intuitive that the citizenry looks toward

the more stable sector, government, during times of economic turmoil. Many people lose their jobs, their savings, and their homes during such times. This leads to a distrust of and frustration with markets. It seems unlikely that citizens would emphasize the self-healing mechanisms of markets during such times.

It is true that people judge government to a large extent by economic performance. Former UK prime minister Harold Wilson (quoted in Watt 1968) made this case strongly: "All political history shows that the standing of the government and its ability to hold the confidence of the electorate in the general elections depend on the success of its economic policy." Thus, there is little doubt that governments experience a dent in public trust during crisis. However, the question is about the relative trust of government and markets. Citizens' trust in Congress had been low for many years before the recent financial crisis (2007–9), but it increased slightly during the crisis. The decline in trust then resumed, but it did not decline nearly as much as did confidence in the banking system or big business. Indeed, a decline in trust in the banking system had the strongest correlation with economic crises from 1970 to 2010, compared to all four other institutions presented in figure 5.1 (Stevenson and Wolfers 2011, 2–3).

Figure 5.1: Trust during Recessions



The declining trust in their government's effectiveness appears when polls ask citizens whether government acts appropriately in response to a crisis. In a Gallup poll from 2013, over 77 percent of a thousand US citizens believed that the federal government causes serious harm to the nation (Newport 2013). In the same year, another Gallup poll found that the two thousand participants in the survey considered President Obama especially unable to solve the country's problems and to manage government effectively (Jones 2013a).[32] This criticism does not apply only to President Obama. In a 2008 poll, the overall verdict of over a thousand participants was that Obama, Senator

[32] However, it is often the case that a representative figure of the government such as the president is perceived as more capable compared to government as a whole.

John McCain, Democratic and Republican leaders, Secretary of the Treasury Henry Paulson, and former president Bush all acted inappropriately in response to the crisis (Saad 2008).

However, amidst the crisis, only 5 percent of US citizens surveyed on September 30, 2008, thought it would be a good idea for the government to do nothing. The vast majority—87 percent—expected recession or other major problems if Congress were to not act (Gallup 2008, 2).[33] The same picture emerges from surveys of citizens' opinions on government performance during Hurricane Katrina and the destruction of huge parts of New Orleans. Looking back, when over a thousand individuals were asked in a 2010 CBS poll what was the biggest contributing factor to the destruction of New Orleans, 58 percent said either the public provision of levees or the poor disaster response of the federal government. When asked whether the government could have done more, 63 percent said yes; in particular, 60 percent said government should have spent more on disaster relief (Pollingreport 2014). The same poll asked people whether the federal government was prepared for another, similar incident. Fifty-nine percent said no (Pollingreport 2014). However, when asked whether the government could have done more, 63 percent answered in the affirmative; 60 percent said government should have spent more on disaster relief (Pollingreport 2014). These polls show a clear pattern: The electorate doubts the efficacy of governments' response to a crisis. Despite their critical stance, voters' demand for government action persists. In the recent financial crisis in particular, legislators had to cater to the broader needs of the public, such as by including some provisions for Main Street while bailing out Wall Street. The House of Representatives had initially voted down the Emergency Economic Stabilization Act, a proposal to bail out the banks (September 29, 2008). Citizens did not blindly support all policies, especially if the policies aimed

[33] Agreement on concrete policies was not as clear as the view that government has to do something. Only a small majority—50 percent to 41 percent—considered the stimulus plan to be a good thing (Pollingreport 2014).

toward helping the very financial institutions believed to have caused the financial crisis. But overall demand for government action had not vanished.

A revised bailout proposal had a small majority of supporters: 56 percent in a Gallup and *USA Today* poll on September 24, 2008. Only 11 percent of the over a thousand citizens surveyed stated that government should take no action (*USA Today* 2008). The revised bill gave tax breaks and also increased FDIC deposit insurance from $100,000 to $250,000 to appeal to a broader public. Congress signed the altered form of the Emergency Economic Stabilization Act into law a few days after the vote on the first proposal, on October 3, 2008. The act established the Troubled Asset Relief Program, which gave the Treasury power to purchase up to $700 billion in troubled assets. The day the act was passed, 50 percent were for it and 41 percent against (Gallup 2008, 1). This shows that voter demand for government action persisted but legislators had to cater to broader needs from the public than merely bailing out banks.

The polling data presented in this section reveal citizens' ambivalent relationship to their government. On the one hand, the public questions the efficacy of government intervention during times of crisis. On the other hand, they demand more government action. However, how do citizens make their preferences heard in the absence of elections?

Public Choice and the Transmission of Voter Preferences

Identifying the mechanism by which the electorate makes policymakers receptive to public demands is key to understanding how crises shape politics. It is and ought to be public opinion that influences politics in a democracy. Public opinion can bring down individual politicians, as when German politicians plagiarized parts of their PhDs—in the cases of Karl-Theodor zu Guttenberg and Silvana

Koch-Mehrin[34]—and whole regimes, as with mass protest in 1989 within East Germany. However, while the public may protest in the face of some atrocities or injustices, such protests are not very common.

Most public-choice perspectives revolve around the voting mechanism. They provide many insights about voters' motivation, how closely voting correlates with policy outcomes, and how the institutional framework changes the electoral outcome. However, the economics of politics tends to ignore how opinions are formed within the electorate (Wohlgemuth 2002, 227) since the models assume perfect knowledge and given preferences. With these conditions, questions concerning opinion formation become void.

Scholars have developed many heuristics to explain how voters form their preferences. The standard model has been that voters act to maximize their utility resulting from parties' expected policy outcomes. Voters transmit their preferences, via the voting booth, to politicians, who craft policies accordingly. Theories about voter ignorance and rational irrationality have challenged this standard voter model. Voters are ignorant because the costs of gathering all the relevant information are too high, given the infinitesimal likelihood that any one vote changes the outcome of an election (Downs 1957a); this behavior is called rational ignorance. For US presidential elections, a voter has a one in 60 million chance of casting a decisive vote (Somin 2013, 63). Studies have shown how politically ignorant the electorate is (Somin 2013; Caplan 2007; Carpini and Keeter 1997). Voters tend not to know what branch of government can declare war, who their representative is, or what policies are currently being discussed. Brennan and Buchanan (1984) explain this ignorance with a sports analogy. They see voting as a similar expression to cheering for one's sports club. People

---

[34] These are only two examples among many scandals (WiWo 2014).

know that cheering will not help their team, but they do it anyway. Rational irrationality (Caplan 2007) is another reason why voters do not hold beliefs aligned with the expected outcome of elections. The costs to individuals of being misinformed and irrational are very low. Voters can hold irrational and unquestioned beliefs because the costs are dispersed throughout a whole nation. Politicians cater to these beliefs and produce correspondingly inadequate policies.

Discussions of these concepts add an expressive dimension of voting to the purely instrumental dimension. Theories of instrumental or expressive voting suggest that voters vote to signal to their peers that they have the "right" beliefs or because they derive pleasure from the act of voting itself. The expressive component of voting is an answer to the "paradox of voting" (Downs 1957b), which states that within a (narrow) rational-choice framework, (instrumental) voting does not make sense when the decisiveness of one's vote approximates zero.

The expressive component of voting explains why it is still rational to vote for individuals for non-instrumental reasons. As Akerlof (1989, 1) puts it,

> information is interpreted in a biased way which weights two individualistic goals; agents' desires to feel good about themselves, their activities and the society they live in, on the one hand, and the need for an accurate view of the world for correct decision making, on the other hand.[…] Because any individual's influence on the public choice outcome is close to zero, each individual has an incentive to choose a model of the world which maximizes his private happiness without any consideration of the consequences for social policy.

Crises can happen anytime and seldom coincide with elections. Even if an election takes place, it is unclear how voters form semi-uniform preferences for more government activity. The standard

models of voter behavior do not seem to fully capture the mechanism of voter influence on policy within a crisis. This leads to two questions the literature does not address:

1. What is the mechanism by which the public is able to form a fairly homogenous policy preference?
2. How, in the absence of direct democracy or immediate elections, does the public transmit its policy preference to legislators?

In the next section, I embed Kuran and Sunstein's (2007) research on availability cascades within a discussion of crises to answer these two questions.

Availability Cascades and Crises

An availability cascade, as defined by Kuran and Sunstein (2007, 683), is "a self-reinforcing process of collective belief formation by which an expressed perception triggers a chain reaction that gives the perception of increasing plausibility through its rising availability in public discourse." I argue this process of collective belief formation tends to be more relevant in crisis than the previously discussed concepts concerning voter influence. I aim not to replace any public-choice voter models but to add a piece to the puzzle of how voter preferences are transmitted in times of crisis.

The availability heuristic is the phenomenon whereby people's subjective assessment of a given event depends on the ease with which they can bring to mind similar events (Kuran and Sunstein 2007, 685). Kuran and Sunstein take this concept from cognitive psychology and argue that it can be amplified to the point that voices critical of a position become exceedingly rare. The increased availability of a popular explanation reinforces the public's acceptance of it. This is not irrational, because the complexity of the environment warrants that people use mental shortcuts to make the

world understandable; obtaining information is costly, and human beings have to rely on other people's opinions and unquestioned rules of conduct to make life in modern society possible (Hayek 1973). However, the effects of the availability heuristic can become problematic if they result in policies that are not questioned. If an individual holds a false belief on an issue only affecting them (for instance, the effect of sugar on their teeth), then the costs are born by the individual. However, false beliefs on public issues are much harder to detect, and the costs are born only to a small extent by the individual.

For availability cascades to happen, two different albeit connected processes have to occur: informational cascades and reputational cascades. In an informational cascade, people base some of their beliefs on the beliefs of others, especially if information on a given issue is not obtainable or too costly for the individual to obtain (Kuran and Sunstein 2007, 686). In a reputational cascade, a person holds a given position not because of a personal belief but rather because they expect reputational benefits from their position. As more people adopt a view, more benefits arise from holding the same view, and the effect cascades. In the following paragraphs, I connect the stylized facts of a crisis to availability cascades to understand how crises are fertile ground for availability cascades.

When citizens are faced with an event potentially or directly threatening a nation, they find the problem of coping with it overwhelming. How they cope depends on how they formulate the problem. Opinion formation involves the formation of theoretical conjectures (Wohlgemuth 2002, 229). If citizens formulate an answer on an abstract level at which the solutions are not clear or at which the tools to address the problem are outside of their reach, the problem seems insoluble. However, if they formulate the problem as occurring within the immediate environment in which they can take action, the problem still causes uneasiness because a pre-existing course of action has

to be revisited and potentially given up, but the less abstract solution is within the individual's reach. An economic crisis causes both micro- and macrolevel problems. Individuals must take action when they want to improve their situation. Increased uneasiness leads to action. However, decisions by individuals such as employers, employees, and entrepreneurs cannot address macrolevel problems because of the particular way these problems are framed. Questions about monetary policy, supply-side or demand-side stimulus, or the regulatory framework, and the complex array of explanatory variables that comes with these questions, do not enter voters' decision-making matrix. Opinions can be formed on these questions but particular courses of action do not follow because these problems are framed as (a) too detached from their immediate environment, (b) too technical, and (c) outside voters' set of available means.

These macrolevel questions are raised foremost by the media and in the public discourse. The media focuses on these aspects of the crisis because they can provide data relevant and exciting to their consumers on such topics as employment, sales, and gross domestic product. If the media covers a certain topic more widely, it is more likely that the topic will influence conversations within the public sphere. Weber and Quiring (2012, 46) showed that a decline in stock market prices led to more coverage of the Great Recession. They found that the financial crisis of 2007–2009 was addressed in 69 percent (n=674) of their studied newscasts (Quiring and Weber 2012, 37). The reporting of the events surrounding the Sarbanes-Oxley Act were similarly intense. Between January and July of 2002, 77 percent of all news about business addressed corporate scandals (Romano 2004, 141). A sharp decline of the stock market in conjunction with a lull in employment led Congress to accelerate its legislative action and pass Sarbanes-Oxley. The bill had not seen much action until the stock market declined considerably (Romano 2004, 116–118).

On the other hand, a story about how an owner of a mom-and-pop store can stabilize her business by cutting wages and improving management is not newsworthy. Coverage of more aggregated and abstract content suggests solutions that are outside of the individual's set of choices. This is the case because individuals seem not to connect macroeconomic data to their lives (Boomgaarden et al. 2011, 372). Language about stimulus packages and central bank interventions suggest the average voter that government has the appropriate macroeconomic tools to provide solutions.

A hindrance to finding effective policies is that these complex phenomena are hard to understand. The narrative to solve a crisis often sounds straightforward: increase spending, restructure debt, increase aggregate demand, improve central-bank transparency, and so on. Psychological research (Fernbach et al. 2013) has shown that people advocate positions with confidence even if their knowledge is superficial. Said confidence often decreases significantly if they have to explain the solution and its workings in detail. However, in urgent situations as well as in most media formats, there is little time and space to go into great detail about policy solutions. The tendency of our minds to make us confident in a given solution and the lack of pushback are likely to lead to less reflective policy recommendations.

Such sensemaking by the public and legislators is influenced by the tendency of the media to report negative information. The media does this because it caters its messages to the demands of the consumer, who has a tendency to engage more with negative news (Pratto and John 1991; Fiske 1980). The consumer is especially attentive to news about a contracting economy (Ju 2008; Soroka 2006).

Through their analysis of several case studies, Kuran and Sunstein (2007) put forward strong arguments about how the media often amplifies irrational belief formation when faced with a crisis. Simon also (1998, 220) identifies cascading in the media during crisis:

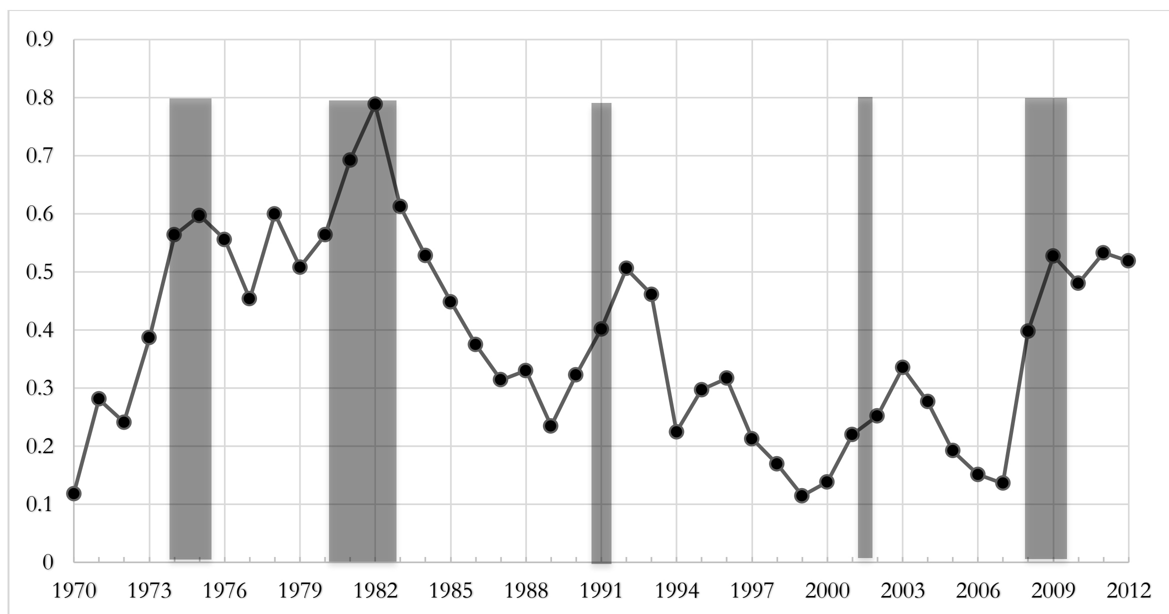
> The media carry stories about environmental scares, people become frightened, polls then reveal their worry, and the worry is then cited as support for policies to initiate action about the supposed scares, which then raise the level of public concern. The media proudly say "We do not create the 'news.' We are merely messengers who deliver it." The data show that the opposite is true in this case.

Macrolevel problems in subjects as the environment, international relations, and the economy are inherently complex and may be interpreted from different perspectives. The inherent complexity of a nation's economy is heightened during times of high volatility, as in a crisis. Crises thus are fertile ground for manifold explanations and narratives. The availability of certain information is crucial for a cascade to occur. The media, whether it is the originator or the amplifier of public opinion, is an important source for information. The media is relevant in agenda setting, especially if a crisis is severe. Research by Eisensee and Strömberg (2007), studying five thousand natural disasters, shows that less intense natural disasters can be crowded out by other events in the media. They also find that the media coverage of an event largely determines whether public relief payments will be handed out. Media coverage influences other economic and public-choice phenomena, such as redistribution, voter turnout, and government accountability (Eisensee and Strömberg 2007, 695).

Reports on crises and governments' responses dominate the media. A study analyzing reporting on the German government's crisis policies in 2008 confirms this; it found that 69 percent of all 980 analyzed television newscasts and 85 percent of all 656 articles in print media analyzed covered government interventions. The crisis was covered in multiple sections or articles within a newspaper or program (Kepplinger, Weber, and Geis 2012, 37–39). The reporting of the events surrounding the Sarbanes-Oxley Act was similarly intense. Between January and July of 2002, 77 percent of all news about business addressed corporate scandals (Romano 2004, 141). A complex event provides a

richer pool of information and potential explanations to report on. Especially during times when people are losing jobs and are desperate, legislators look to the media to assess what the public believes (Koch-Baumgarten and Voltmer 2010, 2). Legislators cannot simply do nothing because that would most likely decrease their popularity. Politicians cannot dismiss voters' preferences repeatedly and stay in power (Lee, Moretti, and Butler 2004). Figure 5.2 below depicts the percentage of US citizens naming economic conditions as their primary concern. The data stem from the Policy Agendas Project (Baumgartner and Jones 2015). The high levels of concern from the public correlate strongly with the shaded crisis periods.

Figure 5.2: Social Cascades and Crises



The issue of economic stability was on the agenda of the legislators during the crises due to the pressure generated by the citizens and the media. Availability cascades concerning a specific policy area leads to increased focus of legislators that area and subsequently to lengthier and/or more frequent legislation.

The media widely covers crises affecting a whole nation. This and the fact that it tends to focus on bad news means information causing uneasiness is more available in public discourse. The individual's perception of the riskiness of a threatening event increases. This kind of public discourse often leads them to presuppose that only government can address a crisis. This statement and the previous analysis of the media's focus are supported by coverage of the financial crisis of 2008 in Germany. The perception that that crisis was unprecedented and severe led media outlets in 75 percent of cases (n=282) to favor government intervention (Quiring and Weber 2012). The same study (Quiring and Weber 2012, 301–3) found that in 93 percent of cases (n=101), the media demanded that the government intervene to fulfill its duty to protect its citizenry.

A significant percentage of surveyed people doubt the efficacy of government. However, few people argue that government does not need to respond at all to crises. Voices advocating a government solution to a crisis can make their case more easily than advocates of alternative responses. People in favor of a government response simply say "government has to do *x*." Opponents have to put forth a twofold argument. They first have to make a case against government intervention. Second, they have to present an alternative solution. The burden of proof lies on dissenters. Research about the psychology of dissent provides insight as to why going against the dictum of public opinion might be difficult. Berns et al. (2005) show that going against a group's belief activates brain regions responsible for emotional arousal; such dissidents perceive their opposition as dangerous. These feelings represent a "natural" threshold, an additional cost dissidents have to bear.[35]

[35] For an overview of studies discussing the psychology of dissent and the situations in which dissent is likelier and unlikelier, see Jetten and Hornsey (2014).

Public discourse about government responses is not about whether the government has to respond at all but about what exactly it should do. The logic of the previous paragraph works similarly here. Dissenters denouncing the efficacy of a proposed government plan find themselves in a difficult situation because of the prevailing bias toward government action. The important thing to take away from this discussion is that the public discourse frames the question of how to solve a crisis in a way that precludes a whole set of other possible solutions; potential solutions from civil society, markets, or nonprofit organizations are not likely to appear relevant. One should note it is entirely possible that a set of policies is popular yet counterproductive (Caplan 2007, 207).

Admittedly, the above arguments are more relevant in the case of an economic crisis or natural disaster than a direct attack by a foreign government, especially since the narrative surrounding an economic crisis is likely not to see the solution within the very same markets that experienced a crisis. One can find casual evidence for this in popular slogans adopted by the Occupy Wall Street movement—"Capitalism is the crisis" and "Capitalism isn't working"—and cover headlines of popular newspapers from 2008 onward such as *Time*'s "The Price of Greed" or the German weekly newspaper the *Stern*'s "Greed and Megalomania."[36]

These preliminary considerations of likely societal responses indicate the public's tendency to have somewhat homogenous preferences that contribute to availability cascades during crisis. Exogenous shocks affecting the polity, though heterogeneous in nature, nevertheless have similar attributes. I will present these attributes in the next section and connect them to Kuran and Sunstein's theoretical discussion of the foundations of availability cascades.

---

[36] Own translation from the German "Gier und Größenwahn."

Stylized Facts of a Crisis and the Attributes of Availability Cascades

In ordinary circumstances, a polity is not particularly susceptible to cascading. Legislative processes take time; lawmakers consult expert opinion and citizens to form opinions on issues. This process of public reasoning, imperfect even in ordinary circumstances, is severely impaired during crisis, by the nature and effects of crises on people's faculty of reason.

Kuran and Sunstein (2007) go through an extensive list of factors that lead to the formation of an availability cascade. In this section, I assess crisis features stressed in the political-science literature. These features show significant overlap with the attributes Kuran and Sunstein outline. These attributes taken together do not necessarily constitute an availability cascade, but they are powerful enough to provide a fertile ground for such a cascading process of belief formation to occur.

Each crisis is unique and will not be repeated. However, this does not mean one cannot find commonalities among crises. Economic crises and wars have similar effects on people. Both types of event carry with them uneasiness, angst, concerns about the future, and threats to people's livelihood. To understand the shared aspects of availability cascades and crises, we need a clear understanding of what a crisis is and what effects it has. For this, I consult the political-science literature on crisis management. To recapitulate, I define a crisis as a temporary event that threatens a majority of people in their livelihood and/or safety in a given geographical area. As with availability cascades, it is not relevant whether the threat is real or only perceived as real. The political-science literature on crisis management stresses uniformly the following key attributes of crises: stress, ambiguity, increased levels of uncertainty, urgency, threat, unexpectedness, and collective uproar (Rosenthal, Hart, and Charles 1989, 10; Boin et al. 2005, 87; Boin, McConnell, and 't Hart 2008, 285–286).

Stress can be divided into eustress and distress. Experiencing moderate amounts of stress can reinvigorate a person and increase productivity. However, if stress levels are too high, they can have increasingly negative effects. High levels of stress are prevalent during crisis. Stress impairs people's ability to process information (which is especially important during a crisis because the influx of information tends to increase) and decreases the number of available choices they perceive (Staw, Sandelands, and Dutton 1981, 505; Boin et al. 2005, 28–30). Heiner (1983) argues that when human beings are confronted with a large-scale problem and they do not possess any expertise in dealing with it, it is likely they will try to rely on rules that restrict their options. The uncertainty and complexity of the situation thereby become manageable. Applying this argument to crises, it is likely that political action relies on previously used policies, even if they have shown themselves lacking. These statements are substantiated by research on the status quo bias (Kahneman, Knetsch, and Thaler 1991; Samuelson and Zeckhauser 1988). People believe something must be done to respond to a crisis. Their choices are likely confined by the policy proposals that come from the institutional knowledge of bureaucracies, skill set of politicians, and collective preferences of voters.[37] To make a crisis manageable, a polity has to ignore some of the plethora of circumstances and factors involved. People and governments fall back into previously used routines when the problem at hand is perceived as too big (Heiner 1983). Crises need fast responses, and relying on past policy responses allows policymakers to work speedily. In chapter 3, I outlined how Keynesian stimulus policies were undermined by the stagflation in the 1970s. However, stimulus and monetary policy remained expedient tools with which government could act quickly. They were used again excessively amidst the Great Recession.

[37] The discussion of Kingdon's policy, political, and problem stream in chapter 7 is relevant in this context.

A crisis is **ambiguous** because of its many possible interpretations. The complexity of the phenomenon and people's limited access to relevant information and the computational limitations invite many possible interpretations of the same phenomenon. These interpretations reflect ideological predispositions to some extent. After many years, the verdict is still out regarding the main contributors to the stock market crash in 2007 and subsequent financial crisis. Free-market types focus on the loose monetary policy of the Federal Reserve, the role of Fanny Mae and Freddie Mac, and the regulatory framework altered through the Community Reinvestment Act and the fair-housing policy. Economists more inclined to support an interventionist government argue that the Federal Reserve did too little and that the fault was to be found in insufficient regulation of new securities, free-market reforms within the banking sector, and the irrational exuberance of markets driven by herd behavior. Both narratives can be supported by evidence, depending on the theoretical framework (or ideological framework) one uses. The narrative that prevails during a crisis determines to a large extent policymakers' responses. The narrative a majority of citizens selects results from their collective ideology, the nature of the crisis, the information available, their interpretation of similar incidents in the past, and their understanding of the solutions to the past incidents. To provide an example, the Great Recession was immediately compared to the Great Depression by pundits and the media. The public narrative on the Great Depression is that it was a failure of laissez-faire and that it was cured by massive spending in World War II (Higgs 1997). The public selected remedies to today's crisis accordingly. To avoid a Friedmanite monetary shock (Friedman and Schwartz 1963), the money supply was increased extensively; and Keynesian stimulus packages were deemed another appropriate remedy. This is especially curious because the stagflation during the 1970s seemed to have destroyed the Keynesian intellectual edifice (chapter 3). Nevertheless, the Keynesian resurrection came fast and without a second thought. The intensity of

the crisis and the subsequent ambiguity made Keynesian policies appear to be the appropriate response.

Uncertainty is another key aspect of crisis. A crisis is a rapid exogenous change to the environment. By its very nature, it upsets the plans and goals of individuals. Individuals have to reevaluate their means and sometimes their ends. Uncertainty regarding what is happening and what to do prevails. Since Frank Knight's (1921) book *Risk, Uncertainty, and Profit*, economists have distinguished between situations in which the outcomes of actions are probabilistically known and situations in which we do not know such outcomes. The latter situations are characterized by uncertainty, which, by Knight's definition, entails three claims about ignorance: (1) We are ignorant about the entirety of the present circumstances. (2) We are ignorant about what will happen in the future. (3) We are ignorant of what will happen in the future after we decide to act (Knight 1921, 201–2). Uncertainty is a perennial fact of human life and does not only occur in crisis. A voter facing uncertainty regarding potential relocation, promotion, tasks, and so on faces more uncertainty when their company is in the midst of economic crisis than in normal circumstances. A war, a terrorist attack, or a financial crisis threatens people's livelihood directly. If large segments of society see their plans unwillingly changed by an exogenous shock, they may desire a return to the status quo ante. Requests for government responses to the undesired, altered environment seem likely. However, it is unclear what the right response is under heightened uncertainty. Decision-making in a crisis is complex; it is innately difficult to decide what the relevant pieces of information are and more importantly what is not known. Newell (1968, 13) puts it like this: "In complex situations … there is great uncertainty over what information is entering into [judgment].… If only the task environment were appropriately described, the nature of the judgment would be clear." Addressing the same problem, Morgenstern (1963, vii) warned us over half a century ago: "We must carefully distinguish between what we think we know and what we really do and can know." It is doubtful that times of

crisis are conducive to the sort of contemplation Morgenstern encourages us to engage in. Due to the uncertainty within the economy, citizens will look for security from the more stable realm of society—that is, politics. However, this relative increase in the citizenry's trust in government is not absolute. In chapter 3, I discussed the Watergate scandal and the mid-1970s crisis. The public's trust in government was shattered. Subsequently, President Ford was not able to push through reforms as easily as his predecessor, Nixon. The pattern of lawmaking during crisis persisted, but there was more pushback against legislative proposals compared to other crisis periods. This leads to the next concept: **urgency**. The definition of crisis in both Hermann (1972) and Rosenthal, Hart, and Charles (1989, 18) includes urgency. Many pressing issues in every polity warrant change and reform, such as the pension system in Germany, the retiring of the baby boomers in the United States, and the increasing public and private debt in many Western nations. However, these issues are not so pressing as to warrant an immediate governmental response. Undoubtedly, voices critical of the status quo can be found in the media and the public, but such issues do not threaten the stability of the polity (yet). If people see a situation as urgent, the time to develop policies is limited. Information cannot be gathered thoroughly. There might be no time to consult expert commissions or to wait for academic reports. Sensemaking during a crisis has to happen quickly because the threat and the fear are immediate. Fear is the reason why worst-case scenarios become more prominent in public discourse. People perceive news about events that have the potential to harm them, and that they associate with fear, as important (Young 2003). Discussions about crises tend to overstate the importance of worst-case scenarios; the low probability of these scenarios makes the salience of these events in the public discourse disproportionate (Sunstein 2003; Tversky and Kahneman 1974). During the recent financial crisis, the worst-case scenario invoked was a repeat of the Great Depression. The severity of this historic event in the public mind contributed to the perceived urgency of the financial crisis.

People are likely to interpret stalling and careful (and thus slow) contemplation of all the relevant variables as a failure of leadership. They demand a solution and that it be sooner rather than later. Voters and decision-makers have the strong urge to jump to conclusions from the limited data they have access to. However, research in cognitive psychology has shown that this can lead to false conclusions. As Kahneman (2011, 79) puts it, "jumping to conclusions is risky when the situation is unfamiliar, the stakes are high, and there is no time to collect more information." Urgency as an inherent part of a crisis explains why availability cascades become so much more likely in a crisis. Relying on the informational and reputational heuristic is rational from an individual's perspective. However, the aggregation of individuals' opinions that results in availability cascades is likely to cause individuals to misinterpret the event and lead to incomplete, false, and potentially, socially harmful policy preferences (Congleton 2004a). Urgency combined with uncertainty and the flood of information renders it impossible for policymakers and voters to make perfectly informed decisions.

These considerations run counter to the "wisdom of crowds" hypothesis (Surowiecki 2004). This research argues that people act more rationally as a collective than as individuals. However, Surowiecki's analysis applies mostly to optimization problems with a fairly well-defined and confined set of outcomes. A crisis situation is different because it is open-ended, uncertain, and ambiguous. These environmental circumstances are beyond the narrow conditions necessary for the "wisdom of crowds" to emerge.[38]

Summarizing six studies on the "illusion of explanatory depth," Alter, Oppenheimer, and Zemla (2010) show that people tend to think in very abstract terms about concrete concepts and claim they understand them. The literature reveals that people tend to think "they are more competent than

---

[38] For a more thorough discussion of Surowiecki's argument, see Caplan (2007, 6ff.).

they actually are" (Alter, Oppenheimer, and Zemla 2010, 436). If asked to explain the workings of particular phenomena in detail, they become less convinced they are knowledgeable. In crisis situations, people do not have much time to explain and reflect on policies. The urgency makes it more likely that decision makers and the public have only a superficial understanding of the policies involved. Nixon's price controls exemplify this. No economist would advocate price controls, since they do not work. However, once Nixon announced his radical steps to the nation, the policy's approval rating reached as high as 75 percent (Healy 2011).

For a crisis to affect the whole country and the national government, **collective uproar** is a prerequisite. Particularly in Western societies where politicians are dependent on voters' perceptions, a public outcry has to be answered. As stated by Hume (1907, 1:110),

> nothing appears more surprising … than the easiness with which the many are governed by the few; and the implicit submission with which men resign their own sentiments and passions to those of their rulers. When we inquire by what means this wonder is effected, we shall find that because Force is always on the side of the governed, the governors have nothing to support them but opinion. It is, therefore, on opinion that government is founded; and this maxim extends to the most despotic and most military governments, as well as to the most free and most popular.

If the public or the most vociferous groups can make their demands spread through the media and other channels, a response from the rulers becomes more likely. One of the main tasks of government is to protect its citizenry. If the citizenry feels threatened, it naturally turns to the government for solutions. Kahneman (2011, 322–323) makes this point about availability cascades in times of crisis when he writes, "An extremely vivid image of death and damage, constantly reinforced by media attention and frequent conversation, becomes highly accessible.… The

emotional arousal is associative, automatic, and uncontrolled, and it produces an impulse for protective action." Economic crises are less threatening than terror attacks or wars but still highly unsettling. During the Great Recession, the dominant themes in the media were crashing stock market prices and footage of neighborhoods with foreclosed homes. During the mid-1970s crisis, portrayals of ever-rising prices for daily goods were widespread in the media. During the 1980s, long lines in front of gas stations showed that there were severe problems with the economy. In each case, the coverage of the economic events was constant and widely available in most media. This availability of information of the dire circumstances influences the public's perception of the danger of a particular event.

Kuran and Sunstein (2007, 703) write, "People tended to form their risk judgments largely, if not entirely, on the basis of information produced through a social process, rather than through personal experience or investigation." Thus far, I have argued that crises trigger a social process resembling availability cascades. Table 5 draws from Kuran and Sunstein's (2007, 709) list of attributes that amplify an individual's perception of risk. The third column is added to show how these different features correspond to a crisis.

Table 5: Characteristics of Availability Cascades during Crisis

Risk trait	**Aggravating feature**	**Additional dimension induced by crises**
Familiarity	New	Unique historical event: different spheres of society involved, different groups affected, different regions, etc.
Personal control	Uncontrollable	Macrolevel problems seem uncontrollable for the individual voter
Voluntariness	Involuntary	Non-voluntary
Media attention	Heavy media coverage	Widespread (Quiring and Weber 2012)
Impact on children	Children at special risk	

Impact on future generations	Future generations at risk	Especially during economic crisis, deficits and debt tend to increase (Reinhart and Rogoff 2011a). Aspects of generational justice tend to be raised subsequently.
Reversibility	Irreversible	Often perceived as only partially irreversible when the government takes proper measures.
Identifiability of victims	Victims known	Many people will feel the adverse effects of crisis.
Accompanying benefits	Benefits clear	Crises can be seen as windows of opportunity.
Source	Human-generated	Economic crisis and war originate from people. Natural disasters do not, except for phenomena caused by global warming.
Trust in relevant institutions	Low trust in institutions	Trust in institutions tends to go down (exception: rally-around-the-flag effect). In the case of an economic crisis, regulatory agencies, the market, and economists are seen to have failed. In the case of natural disaster, forecasters and often government disaster-response units are perceived to have failed.
Immediacy of adverse effects	Immediate	Immediate and urgent
Understanding	Mechanism poorly understood	The complexity of the economy, the financial markets, the regulatory body, and the potentially infinite number of causal factors make economic crises innately hard to grasp. Foreign affairs and war are complex social phenomena with a multitude of actors.
Precedents	History of accidents	The categories of war and economic crisis are well understood. The particularities of specific events are complex and differently interpretable.

Availability cascades help us to understand how the electorate's demands get translated into government policy in the absence of an election. Not the event itself but the narrative surrounding it is the decisive factor in voter preference formation and subsequent policymaking. Our mind is particularly well designed to make sense of the world with only a few data points (system 1, in the language of dual-processing accounts of reasoning: Kahneman 2011, Evans 2008). It is a process that works fast and to a large extent automatically. The introduction of more variables requires a more analytical and effortful mode of thinking (Evans 2008, 263ff.). The narrative surrounding a

crisis is likely to be easily understandable and devoid of high levels of complexity. The more (cognitive) effort needed to partake in public discourse, the higher the opportunity costs rise, especially since not all people have the same disposition for reflection and critical thinking (Stanovich and West 1998). These considerations lead me to believe that a crisis narrative tends to be significantly simpler than the facts, historical circumstances, and underlying variables warrant.

Another reason why it is unlikely for a crisis to trigger a cascade that accurately reflects the underlying variables of the event is the inherent complexity of the economy, foreign relations, and society. Even economists, who have a set of undisputed microeconomic tools, do not agree on basic questions within the profession. Fourcade (2010) makes this point in her extensive sociological research, embodied in her book *Economists and Societies: Discipline and Profession in the United States, Britain, and France, 1890s to 1990s*. Fourcade (2010) shows that experts in the field do not agree on simple economic questions. Asking questions of ninety-five mostly economics professors from different countries, she reveals interesting insights in the divergence of answers about key economic issues. Asked whether "tariffs and quotas reduce welfare," 95 percent of US, 70 percent of French, and 84 percent of British economists agree. In France, 27 percent disagree with that statement compared to 3 percent in the United States and 15 percent in the U.K. The divergence becomes larger when the economists were asked whether "reducing the influence of regulatory authorities (e.g., in air traffic regulation) would improve the efficiency of the economy." In the United States, 75 percent agreed and 21 percent disagreed. In France, only 37 percent agreed and a majority of 56 percent disagreed (Fourcade 2010, 6). The wide variety of answers shows that there is no widespread agreement within the profession about core theoretical issues and their empirical implications. Thus, the experts' partial consensus cannot be an unfailing safeguard in the face of an availability cascade since the cascade affects influences the experts' identification of a risk and the proposal of a remedy. Our rational faculties are impaired in situations of fear; experts are not exceptions to this, as Slovic

(1987, 281) has documented. Even in normal times, one has to be careful when relying on experts. Tetlock (2005) analyzed ten thousands of expert predictions and compared them to the actual events. The best of the experts turned out to predict only a little bit better than chance. Crises, being heterogeneous and complex events, are harder to assess.

Voting as a mechanism for preference transmission can be discounted in such an environment. A stronger influence on policy comes from availability cascades, which speaks to the second question posed at the beginning of this chapter. Voter influence is not direct, via the ballot box, but indirect, through the fast formation of opinion surrounding an event. The topic is being discussed in the media, at work, and subsequently in public institutions. The pressure arising from the omnipresence of the topic puts pressure on the government to act. Crises unfold differently, and pressure fluctuates. The first accounting scandals during the dot-com crisis generated insufficient public uneasiness to push Congress to act fast. Sarbanes-Oxley was pushed around in Congress for nearly a year before it was enacted hastily within a month. The timing had to do with the breaking of the second accounting scandal: WorldCom.

The remedies for solving the crisis will differ. However, it is unlikely that many solutions will be sought outside of the government. No other institution is perceived to be as capable of reacting to the demands of the public (for financial support, regulatory control, additional protection by the police and military, and legislation forbidding certain business practices). Voters, the media, or politicians would have no reason to demand public action if everyone believed that private action was sufficient for ameliorating a crisis. But it is difficult to imagine a politician or a journalist describing the desolate state of society only to end with the conclusion that we do not have to worry since citizens adapt their behavior to the new conditions. Even if someone in the public spotlight had such a radical opinion, it would not be in their self-interest to raise it. Sending a message of

government non-action translates in the public discourse into a message of despair, stagnation, and affront to the elected representatives.

To conclude, politicians have to act to some extent in the voter's interest to be relevant today and electable in the future because rational ignorance decreases during crisis. The electorate pays more attention to politicians' actions during such times. Thus, they exert increased pressure, and tracking of legislators' activities by the uneasy electorate makes it likely that the public demands will lead to corresponding actions by politicians. As Blinder (1987, 196) puts it, "the successful politician instinctively feels what the voter feels, regardless of what facts and logic say. His guiding principle is neither efficiency nor equity but electability—about which he knows a good deal."

Having analyzed the stylized attributes of crises and the likely societal responses, I now discuss the incentives faced by individuals. This model functions as a microfoundation for explaining the decisions voters face in times of crisis.

The Decision-Making Matrix of Exercising Voice in Crisis

The courses of action for an individual are limited during a crisis. If the situation has altered significantly for an individual, there are two immediate options: either to improve her situation, to the extent her means permit, or to not do anything. A third option is political. She can become active politically, voice her preferences, and work toward policies that ease her situation, hoping legislators will take up her plea and develop programs to alleviate her pain.[39] However, this option

---

[39] Already-established programs such as deposit insurance or payments for unemployed people will enter the private decision-making tree at position 1 in figure 5.3 below.

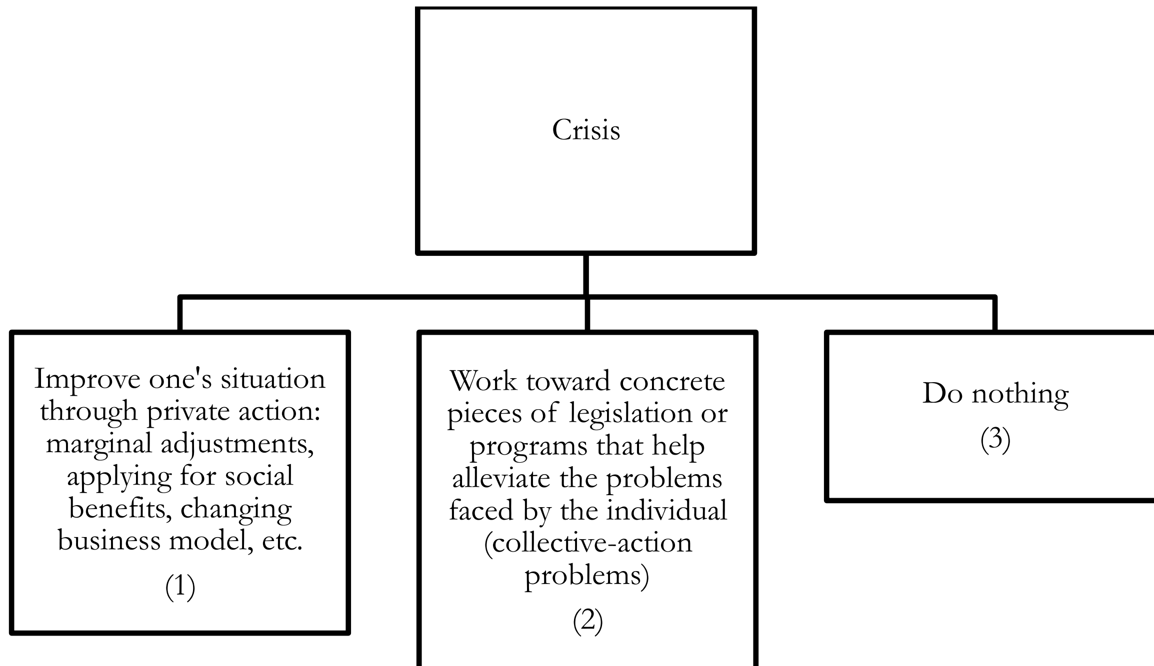
has significant costs connected to it due to collective-action problems (Olson 1965). An individual private actor is unlikely to invest the time and energy to set up or to become active in an organization that will lead to the establishment of a particular set of policies the individual deems advantageous in her particular situation. This is particularly true during economic crises because they do not affect the citizenry homogeneously.

Different sectors face different economic struggles. The automobile sector, for example, was detached from the meltdown of the housing market in the United States after 2007. Nevertheless, the decline in demand for the automobile sector in the United States and Germany led government to implement stimulus programs for the car industry. Many other sectors had similar demand-side problems but were not favored by the government. Only politically influential sectors are likely to be bailed out. There will not be public support for industries not deemed highly important, as with the technology sector in 2001. It is easier for the public to get behind policies that aim toward a general stimulus.

Depending on the circumstances, citizens might hold back on private actions if they anticipate a beneficial government program. They must take some action because a crisis upsets plans. Not reacting and thus forgoing the opportunity to adjust their plans to the new circumstances tends to be costly. An individual with imperfect access to information experiences the crisis within a certain environment that provides limited options, such as applying for welfare, liquidating one's business, bargaining lower input prices, or even moving away. Decision-making is challenging, and uncertainty plays a major role. If the individual chooses to participate in public discourse instead of relying only on private action, they face different payouts. They can decline to participate in the discussion with neighbors, coworkers, friends, or anyone at all. The costs of this course of action are negligible, but one forgoes the significant benefits of social discourse. A crisis is likely to be on the mind of most

people in the individual's social circle. Not participating in discussions on a topic that affects the individual seems like a forgone opportunity to influence others, reflect, and deliberate. Figure 5.3 shows the possible choices an individual can make on a private level.

Figure 5.3: Private Decision-Making Matrix for Citizens during Crisis



It is popular wisdom that good news is not newsworthy. However, Berger (2013) casts doubt on this perspective. He cites empirical studies that show that more uplifting and positive content is more widely shared on the Internet than negative news. When taking a closer look at the data, one finds that it is true that positive content gets shared more on average but that it depends on what kind of emotions the message conveys. Messages of anger and anxiety arouse and are consequently more widely shared than passive negative emotions such as sadness (Berger 2013). Anger about an exogenous event that made an individual worse off and that they were not at fault for seems natural. Anxiety is a natural response to a rapidly changing environment that upsets plans. The public uproar in the face of bankers' compensations during the first years of the financial crisis is a good example of how messages of anger may spread widely. Occupy Wall Street and the Tea Party movement are

good examples of how anxiety and anger lead to the mobilization of millions of citizens. Thus, it is more likely that one partakes in public deliberation during times of crisis.

In a crisis, if a citizen decides to voice an opinion, they can make two cases: for government intervention of some sort to alleviate the suffering of the fellow citizens hit by the crisis, or against government intervention. A government solution is easy to argue for since government can just forbid certain practices that have been identified as being responsible for a crisis (examples from the financial crisis of 2007 are special-purpose vehicles and certain types of securitization instruments). Many experts perceive the economy as a system of levers and knobs that can be used to steer the economy back on the right path. Arguing against a government solution is costlier, in part because it requires an individual to propose a solution based on private, non-governmental mechanisms. Arguing against expert knowledge and proposing such a novel approach to solving a crisis necessitates huge amounts of theoretical and empirical knowledge. The individual is pressed to make the case why government cannot do anything to help people. These are not the only costs. Someone arguing against government action also risks their reputation. Kuran and Sunstein (2007) argue that within a reputational cascade, people adopt views that might conflict with their own views because doing so has reputational benefits and avoids reputational costs. This effect is called preference falsification. In Wohlgemuth's (2005, 17) words, individuals experience *Isolationsfurcht*—the fear of isolating themselves when going against popular opinion.[40] Individuals subsequently adopt opinions to improve others' perception of them, independently of their own beliefs. Not having any opinion is unlikely since that "is tantamount to not having any individuality, identity, character, self," as Hirschman (1989, 75) puts it. Hirschman (1989, 76) continues and makes his case even stronger

[40] Wohlgemuth (2002, 235) elaborates on said effect in his earlier work on opinion falsification.

when he writes that "indifference, or weakly held opinions have long met with utmost contempt, while approval and admiration have bestowed on firmness, fullness and articulateness of opinion." These social pressures on the individual are stronger during a crisis in which the stakes for society are higher. Not having an opinion or being reluctant to make decisive calls concerning policy is likely to be met with contempt. One's social status is in danger when taking a neutral or defensive position.

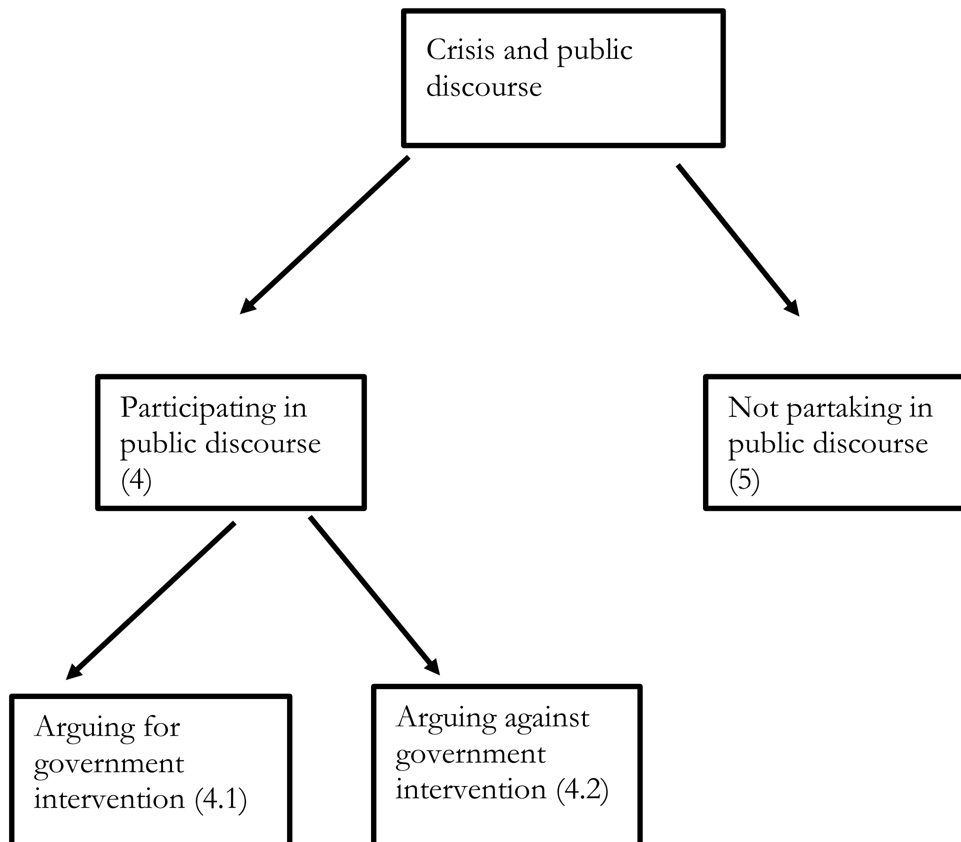
Further, an argument opposing government involvement means criticizing the people in a democracy and the efficacy of the institutions of democracy. A position of non-interference implies in many people's minds a position of stagnation. This is not an opinion anybody wants to put forward in the face of widespread suffering and angst. The critics have to argue against the group that might benefit from the policy. Arguing against the government support of General Motors and the cash-for-clunkers program during the bailouts of 2008 and 2009 translates to arguing against the auto workers and their suppliers. The bailout of Chrysler during the 1980s crisis is another manifestation of this. Even if the programs had significant flaws and huge costs, one would have had a difficult time arguing against help for people who were suffering within such industries.

In every crisis, there will be people directly affected by it and people who are not. The uneasiness felt by people who have suddenly become unemployed or even homeless is necessarily higher than that of the person who only feels the crisis remotely. An individual who faces the uneasiness that comes with suddenly becoming unemployed or homeless has a significant incentive to act within their private sphere as well as in public discourse to overcome the uneasiness. It is likely that a rational individual will advocate any help offered by the government even if they perceive it to be suboptimal. The costs of voicing one's opinion are low, the potential payoffs are clear, and the costs are widely dispersed. This theoretical description manifested in the Great Recession. In 2008, US

constituents reached out to a greater extent to their representatives than before and after the financial crisis (CMF 2011, 2).

There are not many incentives for a suffering individual to be critical of any given proposed program as long as there seems to be some personal gain in the future. This weighs even stronger in light of research showing that avoiding loss mobilizes people more strongly than achieving gains (Kahneman 2011, 289–297; Kahneman, Knetsch, and Thaler 1991; Hansen 1985). Figure 5.4 depicts the individual's choices when acting within some sort of public discourse.

Figure 5.4: Decision-Making Matrix for Citizen Participating in Public Discourse (numbers indicate corresponding paragraphs in the text)



That policy decisions in response to crises may be skewed and cause government agencies to fail has been empirically verified in many studies on the Federal Emergency Management Agency, particularly in the aftermath of Hurricane Katrina (Storr, Haeffele-Balch, and Grube 2015; Grube and Storr 2013; Chamlee-Wright and Storr 2010a; Chamlee-Wright and Storr 2010b; Boettke et al. 2007; Sobel and Leeson 2006). However, the possibility that the citizen knows of government failure does not change their demand for government activity during crisis. Perversely, the government actions that result from the above-described opinion formation tend to lead to government failures and to diminish citizens' trust in the public sector. These failures are likely during crisis (Congleton 2004a). Sunstein (2003, 122), in his article "Terrorism and Probability Neglect," argues along similar lines when he writes "it is predictable that in the aftermath of a terrorist attack, the public will alter its behavior and demand a substantial governmental response — even if the magnitude of the risk does not warrant that response, and even if the danger is far less than that presented by other hazards that do not greatly concern people. Hence, an act of terrorism will have a number of 'ripple effects' … including a demand for legal interventions that might not reduce risks and that might, in fact, make things worse." Sunstein (2003) shows in this article how fear leads to skewed policy decisions since it impairs the rational faculties of the mind. However, he does not refer to the problem of how these skewed preferences are transmitted, which is the focus of the present text.

The argument put forward in this chapter is that the public will respond to what is unknown and threatening with demands for the familiar protective force of government. At this point, though, we do not know whether availability cascades emerge to the same extent during natural disasters and recessions. My argument has approached different types of crisis in the same way. However, there are likely to be differences in voter response to these events that are worthy of exploration. The arguments presented in this chapter are not capable of capturing a situation in which a government is at the center of a crisis that coincides with a substantive distrust of that government. This is so

even though the availability cascade presents an informative framework of how the citizenry will form its views on the narrative surrounding such a crisis. Greece in the aftermath of the financial crisis of 2008 is such a case. The government, faced with a situation of bankruptcy, was not able to fulfill the demands of the citizenry. It had to cut pensions, fire public employees, and implement reforms. The situation was met with violent protest and public outrage.

At the beginning of this chapter, I set out two questions. The arguments provided in this section give a straightforward answer to the first question: why voters seem to be able to form semi-uniform preferences in times of crisis. Citizens derive significant benefits from using other people's opinions as a heuristic and endure enormous informational costs if they go against the crisis narrative. Similarly, reputational costs shape the debate in such a way that the conclusion will almost inevitably be that government "has to do something."[41] If my argument is correct, then it is relatively easier and more comfortable to hold pro-interventionist beliefs in times of crisis. This effect will be further amplified by the empirical fact that most people only discuss politics with other people whom they agree with (Gerber et al. 2012). Thus, voicing one's (potentially falsified) (Kuran and Sunstein 2007, 716–717) preference for higher levels of government activity during crisis has ceteris paribus more appeal than the alternatives.

Conclusion

[41] This analytical statement only applies to the question of whether the government has to take action. The arguments become weaker when discussing concrete policies. Availability cascades are likely to still play a role in determining policy, but the reputational costs of arguing against concrete policy proposals are smaller since the informational costs of forming an opinion about a given policy are smaller compared to forming an opinion about government involvement as a whole.

Standard public-choice models of voter behavior are insufficient in explaining how the preferences of voters translate into policy during times of crisis. In this chapter, I showed that availability cascades fill this gap. I match Kuran and Sunstein's list of criteria that contribute to the emergence of an availability cascade with the stylistic facts of a crisis derived from the crisis-management literature. Sensemaking in a crisis, as well as policy formation, are both likely to be affected by an availability cascade. From this it follows that voters do not (necessarily) use the ballot box to express their policy preferences, but rather express their preferences through a widespread adoption of a particular narrative. This does not mean that everybody will agree on the particular explanations for how a crisis came about or what the best course of action is to counteract a crisis. However, the formation of opinions about a particular crisis will lead in most cases to a strong demand for government action. Indeed, individuals' framing of the crisis leads to semi-uniform responses and excludes potential solutions. This is important to realize since it (a) explains why deteriorating trust in public institutions tends not to matter in a crisis, (b) provides a theoretical explanation as to how and why voters demand government action in times of crisis, and (c) shows where standard public-choice models fall short. The assertion within the crisis-hypothesis and crisis-management literature that government "just has to do something" is theoretically substantiated by my arguments in this chapter.

Furthermore, this chapter stresses the importance of an entangled political economy approach. Voters and the public exercise influence in manifold ways—not only via voting. They write letters to Congress and are part of a public narrative that influences decision-making in Congress. People are concerned about the economic conditions, and the media reports widely on the conditions, which further increases the public's uneasiness. In turn, legislators look to the media to assess what the public believes (Koch-Baumgarten and Voltmer 2010, 2–3). Once media coverage intensifies, policymakers design public policy in response. The media cannot be ignored easily. Walgrave and

Van Aelst (2006) find that twelve out of nineteen examined studies show a strong effect of media coverage on policymaking. This connection is likely to be stronger during crisis since it will be focused on by the media to a large extent.

The influence of voters on legislative behavior is not only determined by the political structures that channel political influence by voters. The choice architecture of voters is influenced by external factors that other theories often treat as exogenous. Voters are workers, unemployed people, or retirees. If they lose their job or receive fewer public benefits due to a crisis, their political preferences change—sometimes radically so, as during an availability cascade. An entangled perspective of voter behavior during crisis yields insights that isolated theories overlook. Entangled political economy yields two additional theoretical insights. 1. The nature of entanglement makes some groups more relevant during crisis than others. The auto industry and other well-organized sectors are more closely entangled with the polity than other groups, such as the software industry (see chapter 3's discussion of the dot-com crisis). This makes their policy preferences more visible. 2. An availability cascade is triggered by the general uneasiness of the electorate. Something will be done, but often this "something" is directed toward policies that improve the position of more entangled groups.

Entanglement is crucial for my whole study. The theoretical contributions of the present chapter lay the foundation for the subsequent chapters on the behavior of legislators, bureaucrats, and interest groups. The arguments presented in this chapter explain the demand side of the patterns of crisis lawmaking. The next chapter discusses the supply side, dealing with legislative behavior. The patterns of lawmaking, voter behavior and its impact on legislative outcomes, and the influence of interest groups and bureaucrats can be understood through entanglement.

Chapter 6: Legislating during Crisis—a Christmas Tale

Building up on the insights on voter behavior from the previous chapter, I now move on and provide the theoretical explanations for the behavior of legislators in producing lengthier and faster legislation. I build upon a variety of theories to develop an account of what I call the *Christmas tree law* dynamic. This dynamic is an explanation for why legislators act swiftly and extensively during crisis. The Christmas tale starts with the urgency created by the crisis and the subsequent availability cascade of voter demands.

Within a crisis environment, the administration and Congress know that "something has to be done." Once they agree on the rough outline of this "something," Congress wants to send a strong signal to the voter, the media, and other stakeholders that they are in control of things. This shared understanding that something has to be done leads to a window of opportunity for lawmakers to add more content to a crisis bill. The checks and balances from normal times no longer work in the same way. In addition, the costs of disagreeing with crisis legislation become high due to the pressure on Congress as well as the increasing length of a bill during crisis.

The interdependencies among the various spheres within society become apparent. People suffer, markets crash, the media reports, and eventually the legislators act. Sometimes, as in the case of the dot-com bubble, legislators delay making decisions until another crisis renews the sense of urgency and forces them to act. Legislators, as powerful and influential as they are, are still considerably susceptible to widely reported events that generate pressure from the citizenry and other groups.

Before I explain the Christmas tree–law dynamic during crisis, I have to evaluate several other theories. The theoretical discussion in this chapter starts with public-choice theories (on the median voter, logrolling, and business cycles) and moves to models more at home in political science such as

agenda setting and ideology. The median-voter theorem and a plethora of other theories of legislative decision-making, however, provide insights into parts of the utility function of legislators but not the whole of it. Entangled political economy creates a conceptual space for fluid interactions within the polity, the economy, and society at large. This chapter provides one entangled account of crisis decision-making that relies on theories that take the exchange relationships among different groups into account.

Median-Voter Theorem

I start with the median-voter theorem due to its immediate relevance for the behavior of legislators. The theorem assumes that politicians want to be reelected, and for that, they need votes. Thus, voters voice their policy preferences at the voting booth, and politicians try to maximize their votes by mirroring the positions of the public and, in particular, the median voter. The median voter's position splits the range of electoral positions in half on a one-dimensional spectrum such as from left to right wing. Some voters want radical left-wing policies on a given issue, and some want radical right-wing positions. One version of the median-voter theorem depicts the concentration of policy positions with a bell curve, with most policy positions being in the middle. If a politician wants to capture most of the votes within an electorate and not only the extreme positions, then she has to cater to the preferences of the median voter.

Most applications of the theorem assume that legislators have complete information on voter preferences and that these preferences are single peaked.[42] The legislator simply takes these

[42] There are median-voter models with multiple peaks and dimensions. However, the predictive power of these models decreases with more peaks and dimensions.

preferences and translates them to policy. This theory yields useful intuitions, although it simplifies reality. But it has shortcomings that matter for the political economy of crisis. First, beyond the voting rules, the theorem is institutionally antiseptic. It largely ignores crises and their effects, as outlined in chapter 5. Second, the theorem only forms conjectures on legislative and median-voter behavior if the preferences are single peaked and on a single scale. Where models based on the theorem take a more complex approach, their predictive power declines (Holcombe 1989, 115). Economic-crisis responses and financial regulation, at the center of my analysis, cannot easily be depicted on a single scale since different policy goals concerning such topics as homeownership, financial innovation, international competitiveness, and fairness in executive pay all relate to recessions. It seems like an impossible task for legislators to disentangle the policy positions for all these different areas. Furthermore, a rich literature shows additional dimensions of voting behavior (Mueller 2003, 116, Fn 22). Third, the legislative application of the median-voter theorem assumes reelection is the only goal of the legislators and further that the policy decision of the legislators adequately mirrors the preferences of the voter.[43] Chapter 5 showed that voters are ill informed, rationally irrational, and prone to availability cascades. These insights are already sufficient to explain a discrepancy between voter preferences and policy outcomes. Public choice itself realizes the limits of the median-voter theorem and supplies additional theories of the legislative decision-making nexus. Still, some empirical studies have found value in the median-voter perspective (Congleton 2004b).

---

[43] In Downs's (1957, 137) detailed exposition of the underlying assumption of his model of the median voter, one can easily find more problematic aspects for the study of legislators, such as the unlimited power of politicians, the non-existence of other obstacles within the legislative process, and omniscience. Further, the utility functions of the voters are the only variables legislators take into account for their decision-making.

Nevertheless, in a world in which legislators have access to full information on voter preferences, the patterns of crisis lawmaking can be easily explained through the median-voter theorem. In chapter 5, I argued that the electorate wants something to be done. This something has to be enacted fast due to the urgency of the crisis. Legislators read this situation perfectly and pass extensive legislation fast. The law has to be visible. Visibility is achieved through lengthier laws. However, this theoretical reasoning is unfalsifiable since every legislative outcome can be explained by stating that it is what the voters want. Without a discussion of voter-preference formation during crisis such as that in chapter 5, the median-voter theorem would not have a foundation to stand on. The question of how opinions are formed is void in a world in which preferences are given. In an uncertain and imperfect world, the preferences of voters are not accessible to legislators. Rational ignorance and the narrow assumptions of the model are problematic when studying entangled policy outcomes.

Logrolling

The study of logrolling is a dominant strand within public choice. Logrolling is the process of legislative vote trading. One legislator agrees to a proposal of another legislator in exchange for his support on a different motion. Logrolling is an important aspect of legislative behavior, and it is perennial in a democracy. How is logrolling affected by a crisis, and what effects does it have on lawmaking? There are four conceivable ways logrolling can influence crisis legislation:

1. Due to the urgency of a crisis, a compromise has to be found fast, and logrolling intensifies. The result is lengthier laws and laws passed more quickly. This logic entails that laws become lengthier if Congress is divided by party since logrolling is more important during such times. However, empirically, both divided and undivided Congresses have produced lengthier laws (table 2.5).

2. During times of urgency, time to strike bargains may be scarce and logrolling becomes less intense. Bargaining on different proposals can filter out bad proposals. With more time to negotiate, legislators strike better deals and remove harmful or superfluous legislative content. In this scenario, logrolling functions as a system of checks and balances that prevents laws from becoming too extensive. This process fails during crisis, and laws become longer.[44] The American Recovery and Reinvestment Act (Great Recession), the Emergency Economic Stabilization Act (Great Recession), the Economic Recovery Tax Act (early 1980s), and the Tax Reduction Act (mid-1970s) could be interpreted as evidence of this dynamic. These laws were enacted quickly and were extensive. Filtering through logrolling, which works during times of normalcy, did not arise for these crisis laws. On the other hand, some lengthy laws were debated in Congress for a long time, such as Dodd-Frank (Great Recession), the Energy Policy and Conversation Act (mid-1970s), and the Federal Deposit Insurance Corporation Improvement Act (early 1990s). The studied crisis cases do not provide clear evidence for the hypothesis that logrolling wanes during crisis.

3. Logrolling is a function of time. The more time, the lengthier the law. This does not seem to be the case since the pattern of lawmaking during crisis shows longer and faster laws compared to the financial comparison laws (appendix 2) and the average non-crisis law.

4. Logrolling does not happen during crisis. Logrolling is often difficult to identify since it happens in "smoked filled room but there are still sufficient amount of cases to doubt the validity of the hypothesis that logrolling does not matter" (Mueller 2003, 109).

---

[44] I am indebted to Mark Calabria for pointing me to the importance of conflicting ideologies in improving due diligence.

Logrolling is relevant in circumstances in which individual preferences for policies vary in kind and intensity. This variation in preferences might become stronger when dealing with crisis legislation that changes the status quo significantly. Preferences might diverge more for crisis laws compared to a bill that deals with an emotionless topic such as fisheries in New England. On the other hand, the urgency of a crisis might make legislative preferences more homogenous, comparable to the logic of choice outlined for voters in chapter 5. Legislators want to "do something" and are more willing to give in to legislative proposals that go against their preferences. Both possibilities are difficult to verify since logrolling by definition functions without an explicit contract (Buchanan and Tullock 1999, 159–61). This is one of the reasons for the limited number of empirical studies on vote trading in the United States. Stratmann (1995), in the early 1990s, was one of the first to study logrolling in the United States. He used roll-call data to assess the amount of logrolling within the Democratic Party and found evidence for logrolling in a variety of different contexts (Stratmann 1995, 453). This approach cannot shed light on logrolling outside of official roll calls. It seems plausible that logrolling also takes place before an actual vote. Majorities for laws that require bipartisan consent need to be secured first, particularly for crucial laws for the administration, such as responses to crises.

Logrolling might be able to explain the pattern of crisis lawmaking, but further evidence is needed to make that case. Logrolling provides conflicting hypotheses. It cannot be discounted as a factor, and there is evidence of it for some crisis laws (see the discussion below on Christmas tree laws). However, logrolling by itself cannot explain the pattern of lawmaking during the last five recessions.

Ideology

Similarly to logrolling, ideology as a concept can be interpreted in different ways about its influence on the pattern of crisis. Research has shown that during non-crisis times, ideology is a strong indicator of the voting behavior of congresspersons (Poole and Rosenthal's 2001; 2000). Ideology is an important component in many studies on legislative behavior. Public choice has successfully used ideology to understand the trajectory of government debt in the aftermath of the Keynesian ascension (Buchanan and Wagner 1977) and to study voting behavior (Kalt and Zupan 1984; Kau and Rubin 1979). Ideology is also an important piece of work on irrational rationality (Caplan 2007). In his view, voters are ignorant of basic facts about economics since the costs of being irrational are very low. Ideological convictions, though often based on empirically falsified claims, are rewarding since they signal and bolster a reputation of righteousness. Thus, ideology is not alien to the public-choice literature; but it is not a cornerstone of it. This is understandable since ideology and its effects are difficult to track.

Recent research by McCarty, Poole, and Rosenthal (2013) argues that crisis legislation tends to be insufficient due to ideological clashes, institutional shortcomings, and the influence of interest groups. Ideology prevents fast and proper responses to crises and even exacerbates them. This is the opposite of Higgs' work as well as Wagner, and Buchanan's thesis, which portray crises as moments for legislators to opportunistically increase the power of government. Any ideology that would prevent government from expanding is cast aside, and interventionist rhetoric adopted. Subsequently, government becomes less constrained and grows. I find that both theoretical positions are wrong on some margins. I start with discussing the work of McCarty, Poole, and Rosenthal (2013).

McCarty, Poole, and Rosenthal (2013) argue that ideology is one of the reasons why necessary policy will not be enacted after a crisis. The authors claim that ideology leads to polarization, which

undermines the quality of policymaking. However, even in the case of a uniform Congress, the authors are equally unsatisfied with the outcome. The 101st and 102nd Congresses—during the early '90s crisis—as well as the 110th and 111th Congresses, had a majority of Democrats. The legislators during the early 1990s enacted five laws, the second-highest count of crisis laws among my crisis cases. These laws increased regulation substantially, as figures 2.6, 2.7, and 2.8 show. The same is the case for the Great Recession and Dodd-Frank. The growth rate of regulation in the aftermath of Dodd-Frank was unprecedented. There were no interparty clashes in the respective Congresses, but McCarty, Poole, and Rosenthal (2013) do not find the outcome satisfactory. In their account, the 1990s was an era of regulation that came too little, too late. Their assessment of Dodd-Frank is similarly pessimistic. Their main argument is that the law does not do anything to solve the "too big to fail" problem and even exacerbates it (McCarty, Poole, and Rosenthal 2013, 254–258). This is correct, but then one has to question the claim that ideology is the problem here since neither ideological conflict nor the absence of it seems to generate policies the authors find desirable. Empirically, Mayhew (1991) has shown that divided government neither reduces nor increases legislative output. However, a recent study shows that Congresses with a larger share of Democrats enact more extensive laws (Jones and Whyman 2014, 44).

Concerning the significance of ideological heterogeneity, I put forward a different interpretation based on my data. I venture that ideological heterogeneity can actually lead to better policies. Dodd-Frank is a massive law, and there were fewer checks and balances in place during its enactment. If there is consensus within a party, then it is likely that legislators will add more and more content to a bill. They can do this since the lack of opposing forces leads to fewer checks and balances and less filtering. Why would a Republican senator object to a proposal from a Republican congresswoman? It is conceivable, but the threshold for criticism is higher. Verstyuk (2004) argues that Republicans and Democrats are better suited for different economic problems. If Congress is divided, it is more

likely that it will consider different approaches and engage in a division of labor. Showing solidarity with one's party is relevant. Republicans have more incentives to push against inadequate proposals from Democrats, and vice versa. The filtering process and a division of labor do not take place in the same way if Congress is united.

The same insights about the benefits of clashing ideologies in filtering out bad policy proposals can be wielded against Higgs (1987) and Buchanan and Wagner (1977). They depict ideology as uniformly tending toward one result—more government. However, this ignores the checks and balances ideology might inject. Legislative conflicts still occur during crisis, especially in the later stages. The urgency of the situation, which carries with it a potentially more interventionist stance, does not persist. Urgency becomes less of an influence on the public and legislators since they get used to the situation. Partisanship once more becomes necessary to differentiate oneself from the political competition. Theriault (2008, 12–15) finds evidence for this pattern and shows that partisanship has intensified. Following 9/11, it diminished, only to reemerge in later stages of the crisis. Partisanship is still relevant when deciding on the long-run regulatory responses to a crisis.

Ideology matters, but research is not unequivocal about how much and in what sense it matters (Tollison 1988, 351–52). Considering the literature and my data, I cannot conclude whether ideology works to the detriment of policymaking. Congruence of ideology might lead to bad policies, good policies, or both, depending on the circumstances. Incongruence might work as an effective filter for bad policy proposals, or it might lead to gridlock. These options are all possible, and future studies of ideology ought to be aware of the following two-by-two matrix of possibilities. I include representative literature advocating the respective views.

Table 6.1: Ideology and Its Interpretation

Cohesion/outcome	Good	Bad
Yes	Decisive policymaking, fast reaction, no ideological conflicts	Less due diligence, fewer checks and balances (Higgs 1987; Buchanan and Wagner 1977)
No	Filtering out bad policy proposals, a lot of due diligence, balanced proposals (Surowiecki 2004; Dahl 1991)	Gridlock, blind ideological commitment without consideration of quality of policy proposal (McCarty, Poole, and Rosenthal 2013)

From my presented data, I cannot reach a verdict about which force is the strongest. However, one pattern seems to emerge: there is more regulatory expansion of government when cohesion is high. Three of the five crisis episodes occurred with a united Congress: the mid-1970s, the 1990s, and the Great Recession at the time of the 111th Congress. The 111th Congress had a Democratic majority and a Democratic president. The result was the fourth-longest legislation out of Congress in the last four decades. There was no filtering process, and proposal after proposal was added to Dodd-Frank. Similarly, the early-1990s crisis produced the ninth-lengthiest piece of legislation of that decade (102nd–106th Congresses) as well as the lengthiest financial legislation, the Federal Deposit Insurance Corporation Improvement Act. The 1970s are slightly different since this was the first time a president was faced with a Congress of a different party. This and the political economy aspects mentioned in chapter 3 made the legislative response less extensive compared to the other crisis periods. Nevertheless, the unified Congress of the 1970s altered the international monetary order and changed economic policymaking under the banner of the "New Economic Policies." Such drastic changes seem less likely when Congress is split.

The literature is divided on the significance of ideology and how it matters for legislative voting in non-crisis times. Bender and Lott Jr (1996, 68) summarize this when they write that "the theoretical and empirical work [on legislators' ideology] has taken almost every conceivable position," including

the position that ideology does not matter all that much (Peltzman 1984). In conclusion, the literature on ideology provides different conclusions regarding the behavior of lawmakers during crisis.

Political, Budget, and Legislative Business Cycles

In the mid-1970s, Nordhaus (1975) pioneered the literature on political business cycles and found that democracies devise policies focused on the short run and discounting the long-term needs of the public. Legislators accept long-run higher inflation rates to get the short-run employment growth that is critical for reelection (Nordhaus, 1975, 187–188). This is done by manipulating the money supply. One infamous example is the political manipulation of the economy by President Nixon. Recordings of conversations revealed the president's attempts to push the Federal Reserve chairperson, Arthur Burns, to manipulate interest rates to spur economic growth (Abrams and Butkiewicz 2012; Abrams 2006).[45] Such policies focus on the short run and create inflation in the long run. Chapter 3 showed this to be true for the Nixon era. Much of the literature on political business cycles deals with macroeconomic cycles and the influence of the Fed in creating them.

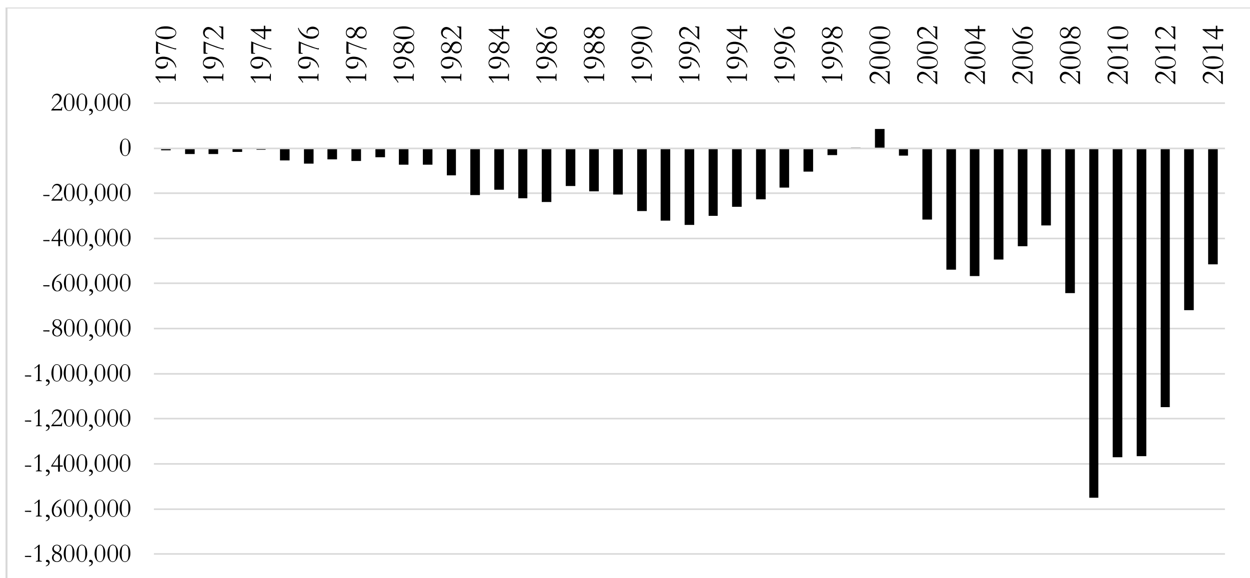
Similarly, political budget cycles focus on the role of public spending to create short-term favorable economic conditions. These cycles create more debt in the long run. The empirical evidence for political budget cycles is mixed and tends to be stronger for developing countries than for developed countries (Shi and Svensson 2006; Persson and Tabellini 2005; Shi and Svensson 2003). Good economic conditions are pivotal for the reelection prospects of legislators and presidents

[45] Rogoff (1988, 53n1) called Nixon the "all-time hero of political business cycles."

(Hetherington 1996; MacKuen, Erikson, and Stimson 1992; Chappell and Keech 1985). Increased spending, tax cuts, and lower interest rates are the prescription of the Keynesian model and the preference of the opportunistic politician. However, the Keynesian consensus broke down in the ’70s. Increased public spending during crisis was met with ideological opposition.

Looking at the budget surpluses and deficits from 1970 to 2014 depicted in figure 6.1, one can see budget deficits occurring after all crisis periods except the dot-com crisis (OMB 2015). At first sight, this suggests that political business cycles do not only occur closely before elections but also after crises. I stressed in chapter 5 the importance of crisis policies for the electorate and the subsequent election results. Even if a crisis is not close to an election year, the pressure on legislators is sufficient to make a political business cycle occur. In the following paragraphs, I take a closer look at the data and factors that undermine the hypothesis of political business cycles during crisis.

Figure 6.1: Budget Surplus or Deficit, 1970–2014



The spending increases after the mid-1970s and the early-1980s crises were rather small. Nevertheless, there seems to be at least somewhat more spending after crises. This is not necessarily evidence for political budget cycles since these deficits are likely to be caused by other factors. First among these factors is automatic stabilizers such as unemployment insurance and Social Security payments, which increase during times of higher unemployment. Additionally, one has to take into account the tax revenue lost when economic activity deteriorates. Reviewing the crisis laws, I find that all recessions, except the mild early-1990s crisis, led to tax cuts or stimulus packages.[46] These policies cause deficits, aim toward increasing economic activity, and suggest a political budget cycle. One of the main assumptions of political-business-cycle theories is the opportunistic behavior of legislators. While I adhere to the notion of politics without romance, I consider it to be too cynical to depict the enactment of laws as motivated solely by the desire for reelection. It surely is one of the factors but not the sole explanation for the spending patterns during crisis.

Another category of political business cycles deals with legislative cycles. The research hypothesizes that legislators use legislation to signal to voters that the voters' interest is represented well. Evidence for such cycles in the Czech (Brechler and Geršl 2014) and Italian parliaments (Lagona, Maruotti, and Padovano 2012; Lagona and Padovano 2008) shows that legislation increases at the beginning and the end of an election cycle. Another explanation for this behavior is the opportunistic intention of legislators to bind the next party to a certain set of policies. They might intend this in order to ensure certain policies get implemented or to make the political or economic

---

[46] Mid-1970s: Tax Reduction Act and Revenue Adjustment Act
Early 1980s: Economic Recovery Tax Act
Dot-com: Job Creation and Worker Assistance Act
Great Recession: Economic Stimulus Act and American Recovery and Reinvestment Act

conditions more difficult once it becomes clear that political power will be transferred to a different party (Alesina and Tabellini 1990; Persson and Svensson 1989). Legislative business cycles are unfortunately much under-researched. Future research might uncover the existence of these cycles during crisis. My data in chapter 2 represent evidence for such a cycle.

Political business cycles expect opportunistic behavior of politicians before elections to ensure reelection. My data add a new dimension to legislative-business-cycle theory in particular. Legislators want to signal their competence when addressing crises. Since crises are memorable for voters, the signal increases legislators' chances of reelection. One way of signaling competency is to quickly enact extensive legislation. The legislators' need to signal, in conjunction with agenda-setting theory, sets the stage for my account of legislators' behavior during crisis. These arguments are important buildings block for the Christmas tree–law dynamic. In the next section, I address crisis-induced changes to political agenda setting and their relevance for Christmas tree laws.

Agenda Setting and Policy Streams

Why are some issues more salient than others? Public choice provides explanations for which candidates have an influence on the agenda and who wins when voting preferences diverge. It does not teach us how specific issues come onto the agenda. The median-voter theorem provides an answer, but my criticism in this and the previous chapter revealed the shortcomings of the theorem as a single explanatory theory during crisis. The literature on agenda setting, spearheaded by Schattschneider (1975) and Bachrach and Baratz (1962) and systematized by Kingdon ([1995] 2014), provides insights into agenda setting.

In his over two hundred conducted interviews, Kingdon (2014) finds evidence for incremental policymaking as analyzed by Lindblom (1959). Kingdon (2014, 79) states that "if a program has basically settled down into a stable pattern, for instance, few questions are raised about it, there is little controversy surrounding it, and whatever changes that do occur are modest." Crises disrupt this stable pattern. This can happen quickly. Foreshadowing the findings of punctuated-equilibrium theory, Kingdon (2014, 80) presents evidence for sudden and substantive changes to an administration's agenda. Some of these changes are radical departures from the previous agenda. Kingdon argues that these changes occur when the political, problem, and policy streams come together.

The political stream is the current political willingness of legislators and the administration to enact policies. The political stream can be changed by the national mood, a change of administration, or a change of the ideological disposition of Congress, which comes about through elections (Kingdon 2014, 168). The policy stream is the current policy proposals within and around Congress and the administration. The problem stream is the events that catch the attention of Congress. A crisis, by definition, is part of the problem stream. However, it is a more salient issue than increased public expenditure or bad results on educational rankings like PISA. The public's attention is directed to an economic crisis through an availability cascade.

Kingdon (2014) argues throughout his book that a window of opportunity opens up when all three (political, policy, and problem) streams come together. Kingdon's approach needs a different emphasis when we address crises. Crises, as I define them, are events in which the public is hurting. The political and problem streams are merged from the outset. In the case of an availability cascade, legislators are under increased public scrutiny. They are under pressure to find a response to the crisis. The policy stream seems to be full of ideas with which to tackle economic problems. Spending

laws and tax cuts are straightforward policies that signal to the public that something is being done. With the exception of the early-1990s crisis, stimulus laws or spending cuts were enacted in all crisis episodes. The early-1990s laws injected financial resources into key institutions and extended unemployment insurance and benefits repeatedly. There is no need for any grand ideas in the policy stream when a nation experiences a recession. A recession, if severe enough, merges the political, the problem, and, eventually, the policy streams. This logic explains the fast enactment of crisis laws.

What about the length of laws? Why would legislators load so much content in crisis laws compared to non-crisis laws? Kingdon (2014, 176) shows that at any given time, there are more policy ideas within the policy stream than could be feasibly implemented. Normally, if legislators were to load a bill with too much content, other legislators would push against it, and the window of opportunity would close. Kingdon (2014, 176) writes that a legislator would in such a situation "conclude that the subject is too complex, the problems too numerous, and the array of alternatives too overwhelming. Their attention drifts away to other, more manageable subjects." However, if the window of opportunity comes hand in hand with crisis-generated pressure and urgency, their attention cannot drift away easily since the focus of the electorate and the media remains (chapter 5). In such a case, the bill becomes overloaded with ideas that were part of the policy stream for many decades, and the bill eventually passes.

Kingdon's (2014) framework generates many of the same insights as entangled political economy. One cannot accurately understand crisis decision-making without analyzing the groups influential within the streams. Each stream—policy, politics, and problem—has various and changing groups that set the tone within a political discourse and within a crisis. The joining of the streams is more likely during crisis, but the process of how they come together and what the resulting policies are is

unique to each crisis. To conclude, Kingdon (2014) and the literature on agenda setting provide a firm understanding of how crisis legislation rises to the top of the political agenda.

Christmas Tree Laws

Legislators have a strong desire to signal to voters that they are the right people in charge. Indecisiveness during an availability cascade with public opinion demanding more government activity seems like a wrong posture if legislators seek reelection. This is a convincing explanation as to why legislation during crisis is more extensive and enacted faster. Legislators want to signal[47] decisiveness by passing longer laws and doing so more quickly. This is likely to generate more media coverage and voter attention than a careful deliberation and shorter, piecemeal legislation. Former congressman Barney Frank (2009) remarked pithily on the Great Recession that "no one has ever gotten reelected where the bumper sticker said, 'It would have been worse without me.' You probably can get tenure with that. But you can't win office." He is right about that, but it seems even more convincing that no politician will ever be reelected with the slogan "It would have been better without me." Politicians want to signal that they are the right people to address a crisis. This desire leads to dynamics that produce Christmas tree laws, which are longer and enacted faster than normal laws. Christmas tree laws are not a new phenomenon, as this quote from Senator Anderson (quoted in *Time* 1956, 19) shows: "This bill gets more and more like a Christmas tree; there's something on it for nearly everyone." Christmas tree laws have recurred throughout Congress's existence. President

[47] The signal is not ideologically neutral. The final law will reflect the preferences of congresspersons, their ideology, and constituents' preferences. Calabria (2014) argues that Dodd-Frank would look different if Republicans had had a majority in Congress. This insight does not reduce the explanatory power of signaling. It just concerns the content of the signal.

Reagan (1987) complained about them in his State of the Union Address in 1987: "The budget process is a sorry spectacle. The missing of deadlines and the nightmare of monstrous continuing resolutions packing hundreds of billions of dollars of spending into one bill must be stopped." Normally, Christmas tree laws occur before Congress adjourns or as part of omnibus laws. I argue that crises provide fertile ground for Christmas tree laws. At the onset of a crisis, congresspersons agree that something has to be done. Policy proposals come at them from the White House, high-level bureaucrats, committees, and from other congresspersons. Once a rough outline of a bill is agreed upon, the floodgates open to more proposals. Congresspersons want to enact something sufficiently visible to signal to the voters that they are the right people in charge. The content of the signaling laws is not very important. I argued in chapter 5 that a crisis pierces temporarily through the fog of ignorance. However, that does not mean voters suddenly study legislative proposals in detail. It is more likely that they pay attention to the rhetoric and the political narrative and not the actual content. Congresspersons cannot add whatever content they want, as the protests against TARP have shown, but they have leeway, especially if the content is technical and unexciting.

The biggest stimulus in the history of the United States was enacted within twenty-three days. It was over 170,000 words long and distributed $840 billion. The Christmas tree law dynamic explains how the ARRA was possible. Older proposals, pork barrel spending, and other pet projects made it into the draft with surprising speed. This point is made by Congressman Miller, who writes that "it [the ARRA] devotes billions of dollars to special interest groups' pet projects and commits vast sums of money to long term spending priorities that do nothing to stimulate the economy." The "long-term spending priorities" are robustly correlated with, first, whether the relevant distributive committees had Democratic majorities, and second, recipient states' prior ability to secure federal funds (Young and Sobel 2013, 467).

Why would a responsible legislator allow such lawmaking? Legislators have to be aware of the potential harm to their reputation if they push against legislation that the public perceives as a desperately needed remedy for a crisis. This potential increases their incentive to vote yay on crisis laws and decreases the incentive to oppose a bill. Congresspersons are aware that the president and their peers want to signal their competency by passing a law. They share an understanding that torpedoing crisis relief would harm the polity as a whole. Therefore, everyone's pet policy proposal has a chance to find its way into the law. Congresspersons hang their legislative ornaments on the Christmas tree law. The lengthier and more complicated the law, the more discussion there should be. However, crises do not allow for this, and congresspersons are repeatedly urged to act fast and stay united during the debates on crisis laws such as the ESA, TARP, ARRA, the Patriot Act, Sarbanes-Oxley, and so on (see chapter 3). The following quotations illustrate this dynamic.

Congressman Waxman during the debates on the EESA (H.R. 3997 2008, 10390):

> Nobel Prize economists have recommended alternative approaches, but almost all of them have said, "Don't leave without passing something." This is a Republican bill which must pass with bipartisan votes. Many Democrats don't like it. Many Republicans are choking on it. We aren't going to get another bill or a better bill this year, but we will be back to make real reforms, more reforms next year. For now, it would be irresponsible to do nothing.

Senator Reid (H.R. 3763B 2002, S6754) during the debates on Sarbanes-Oxley: "I believe we have a situation that cries out for passing this legislation as quickly as possible."

Congressman Weller (H.R. 3090 2001, H7234) during the debates of the Economic Security and Recovery Act: "This legislation deserves bipartisan support. Let us join President Bush. Let us pass this legislation and move quickly."

Congress stressed urgency also during the debates on the ARRA, as Congressman Kucinich's (H.R. 1 2009b, H741) statement shows: "Our economy is failing. Millions of jobs have been lost. We need to act now." This sentiment was similarly expressed by Congresswoman Ms. Jackson-Lee (H.R. 1b 2009, H714): "I believe that H.R. 1 can be supported by every member of the House. I am hopeful that my colleagues will be mindful of the words of our President, Barack Obama, and pass this important and much needed legislation without further delay."

This dynamic contributes to lengthier laws that are enacted quicker. To understand the laws and demand time for considering them would be depicted as stalling and harmful by the opposing party and opposing congresspersons.

The costs to disagree with legislative proposals are high during crisis. Furthermore, the costs of disagreement rise with the length of legislation. It is relatively easy to voice one's criticism of a single policy proposal. However, if a law includes dozens and dozens of proposals, one's criticism becomes harder to formulate due to the following reasons:

1. The time pressure does not allow extensive research to form valid and convincing arguments.
2. Responses to recessions or national-security issues require a high level of expertise. The level of complexity is depicted below in figure 6.4. This means that only certain legislators are likely to understand the law, its content, and its ramifications. Congresspersons who feel that a law might be going too far might not have the expertise to argue against it. The importance of expertise also leads crisis policies to be devised by people in critical positions, such as committee chairpersons and high-level bureaucrats. During times of urgency, it is even harder to argue against such authorities.

3. Due to the shared understanding that something ought to be done, the willingness to compromise and to allow for additional content is higher. Odishaw (1988, 74) argues, "The larger the appropriations package, the easier it is for members of Congress to sneak special requests into the package while remaining insulated from public accountability." This becomes self-perpetuating. Additional content becomes more likely, which makes the bill lengthier, which then invites even more content.
4. Criticizing a whole law, one that the executive or certain factions within Congress argue is desperately needed, can be counterproductive, while criticizing certain sections leads either to logrolling, cloture votes,[48] or fast compromises.

The Christmas tree–law dynamic (henceforth Christmas dynamic) seems intuitive, and the history of crisis lawmaking provides evidence. The following statements from congresspersons underscore different aspects of the Christmas dynamic. Senator Gramm (quoted in Romano 2004, 119n231) hinted at the Christmas dynamic during the debates on Sarbanes-Oxley: "If people on Wall Street are listening to the debate and trying to figure out whether they should be concerned about this bill, I think they can rightly feel that this bill could have been much worse. I think if people had wanted to be irresponsible, this is a bill on which they could have been irresponsible and *almost anything would have passed on the floor* of the Senate" (emphasis added).

[48] The use of cloture votes has been rising since the 1970s. Using the data from the Vital Statistics on Congress project (Ornstein et al. 2014), I find that cloture votes became more prevalent during the crisis periods. The 93rd Congress set the first record with thirty-seven attempts to use cloture during the 1970s crisis. The 94th Congress only decreased the number of attempts to twenty-seven, which was also unprecedented before the 1970s crisis. The use of cloture votes jumped for both the early 1980s and early 1990s crises. The latter crisis and the 102nd Congress set a new record with forty-seven attempts to invoke cloture. Another record was set during 9/11 with sixty-one cloture votes. That number went down until the Great Recession. The 110th Congress invoked cloture 112 times and the 111th Congress 91 times. Cloture succeeded for the 110th Congress sixty-one times and for the 111th Congress sixty-three times. The sense of urgency shut down debate and made Congress make laws more quickly.

Further evidence for the Christmas dynamic comes from the Job Creation and Worker Assistance Act of 2002 (H.R. 3090 2002). The urgency of the crisis situation was stressed by Representative Lindner (H.R. 3090 2001, H7225) when he stated: "President Bush has called upon the Congress to quickly send him legislation that he can sign into law to avoid such a scenario. With all of these events in mind, it is imperative for the House of Representatives to take prompt action on legislation that will provide our economy with a jump-start, and H.R. 3090 does just that." The Christmas tree character of the law was pointed out by Representative Frost (H.R. 3090 2001, H7226) during the same debate when he stated that "they [Republicans] hope to ram through a bill that simply repackages a whole host of expensive tax breaks that Republicans have been pushing for years." He went on to explain (H7227) that "the truth is some Republicans believe the public is distracted by the war on terrorism and sees an opportunity to slip in a grab bag of special interest goodies that will neither stimulate the economy nor make a single American safer."[49]

Another example of the Christmas tree dynamic stems from the mid-1970s crisis. The Public Works Employment Act of 1976 (S. 3201 1976, 76) was enacted after my chosen crisis period. However, its purpose was antirecessionary, as stated by Congress. As already alluded to in chapter 3, Congress and President Ford were battling over many legislative proposals during that time. This was also the case with S. 3201. Congress wanted to spend more money on tax cuts and stimulus packages. Similarly, in the case of the ARRA many of the projects were not "shovel ready" but made it into the law nevertheless. President Ford tried to veto the law but was overridden by a two-thirds majority of Congress. The presidential spokesperson (quoted in *Wall Street Journal* 1976) stated that the law "is a Christmas tree bill that includes a number of 'pet' local projects." President Ford also

---

[49] This quotation speaks to the importance of ideological disagreement in performing checks in the lawmaking process, as discussed in the ideology section above.

directly criticized the "pork barrel approach" of the stimulus bill when he vetoed the law (Ford 1976).

The intense pressure on Congress is mentioned in congressional debates surrounding crisis laws. During the discussion of the EESA, Representative Tiahrt (H.R. 3997B 2008, H10390) put it boldly when she said that "there is something wrong with the way we are proceeding. The arguments use fear to build confidence. We are on an artificial deadline, rushing to judgment, fearful we can't get there in time. No one has addressed the fundamental reason that has brought us to this state of fear." The urgency and the rush happen throughout crises, as this statement by Congressman Dogget (H.R. 3997B 2008, H10365) shows: "like the Iraq war and the PATRIOT Act, this bill [TARP] is fueled by fear and hinges on haste. So much is missing.… All of us want to avoid further economic deterioration. Action or inaction today—that is a false choice. It is a matter of having never seriously considered any alternative in these negotiations to handing over $700 billion." This sentiment was shared by Congressman Visclosky (H.R. 3997B 2008, H10367), who detected a repeated pattern during crisis: "The Bush Administration is rushing us into spending $700 billion without stopping to think things through, because there just isn't time for thinking. They say, trust us, this is necessary. I've heard this before. To me it sounds like what we were told about Iraq: that we had to go to war right away, because of the Weapons of Mass Destruction that Saddam Hussein possessed. Oh, that's right, they didn't exist. We were told 'Trust us.'… Now it's 'trust us' again. I didn't then, and I don't now."

As discussed in the next section, congresspersons had little to no time to deliberate on the content of the Patriot Act. During the debates on the Patriot Act, congresspersons showed themselves to be frustrated with the lack of transparency in the lawmaking process. The law was written by bureaucrats of the Department of Justice and coordinated with the executive. Attorney General

Ashford, in the Bush administration, was a crucial figure compiling the Patriot Act. Ashford disregarded the discontent of congresspersons and (quoted in CNN 2001) stated: "I've asked the Congress very clearly for additional tools to reduce the risk of further incidents. And I believe it is time for us to understand that tools can reduce the risk of terrorism; talk won't." Some of the tools the Patriot Act provided to federal enforcement agencies were sufficiently broad and ill-defined that they have been used for drug enforcement and other non-terror-related activities (Cooke 2011; Eggen 2008; 2003). The "frantic policy change" (Cohen, Cuéllar, and Weingast 2006, 689) after 9/11 brought with it changes law-enforcement agencies desired for reasons beyond fighting terrorism.

A Christmas dynamic does not mean a blind accepting of all proposals. H.R. 3090 went through many iterations after October 2001 before it passed in September 2002. However, many laws, due to their limited time in Congress, cannot have been treated with the same due diligence. It would have been hard if not impossible for congresspersons to read, understand the ramifications of, and filter out bad proposals within the following acts:

- Economic Recovery Tax Act of 1981—86,315 words—22 days
- Patriot Act—56,346 words—23 days
- Emergency Economic Stabilization Act—70,455 words—27 days
- American Recovery and Reinvestment Act—173,032 words—23 days

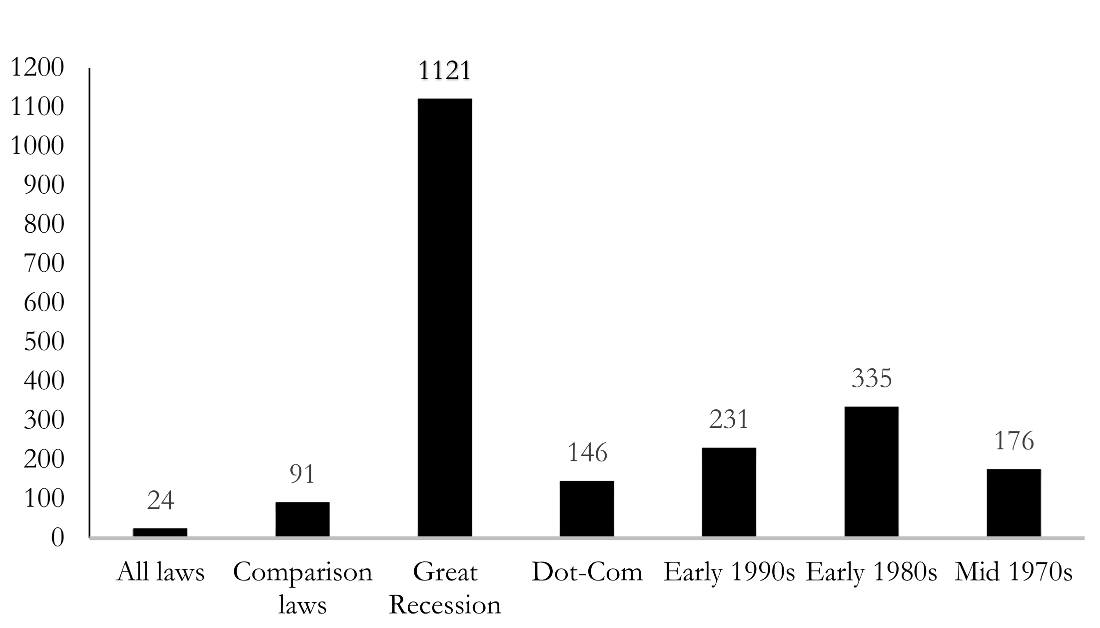
The "Read The Bill" (2013) project provides similar evidence when stating the number of pages and the hours the bill was available before debate started in Congress:

- ARRA—1,000 pages—13 hours
- EESA—169 pages—29 hours
- HERA—694 pages—19 hours

- FISA Act of 1978 Amendments Act—114 pages—17 hours
- Patriot Act—241 pages—0 hours

Another way of depicting the difference in crisis laws is figures 6.2 and 6.3. The following figures compare the words congresspersons had to read per day from the introduction of a bill until it became law. This comparison is crude and does not take into account the time it took to read different iterations of the bills or conference reports. These numbers do not include congressional reports, readings of minutes from congressional hearings, consultancy from experts, and so on. Nevertheless, the comparison reveals the different nature of crisis laws.

Figure 6.2: Words to Read per Day in Congress: Crisis Averages

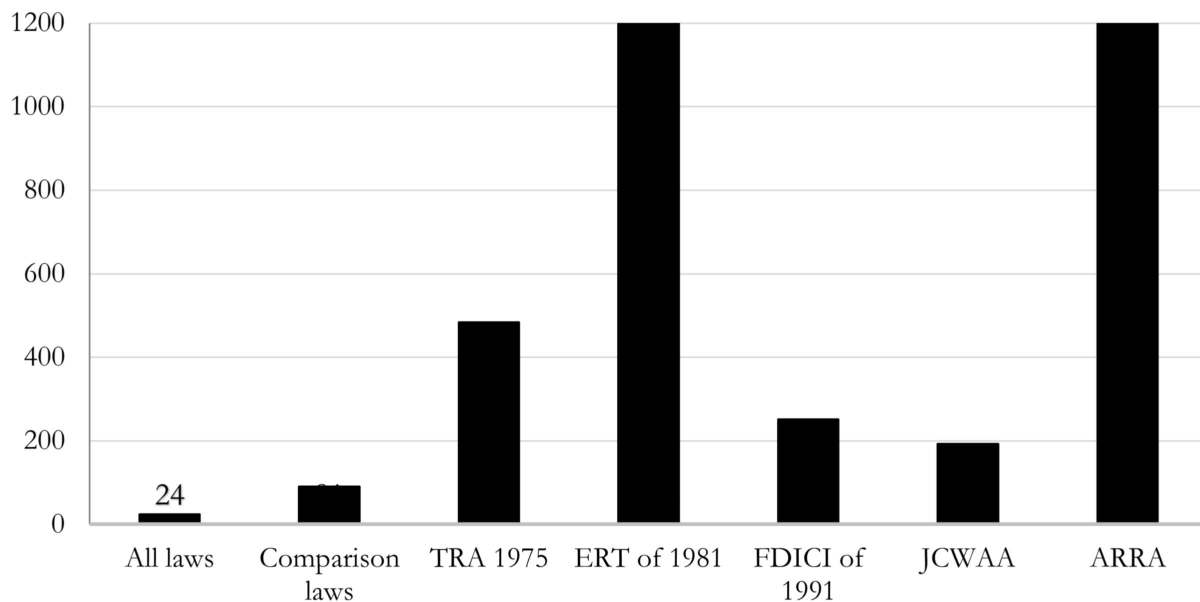


Bills have to go through different committees and other checks such as hearings to assess the ramifications and consequences of laws for different interest groups and society as a whole. These

checks are limited when Congress makes crisis laws. There is merit to the argument that should act swiftly, but acting swiftly can involve significant costs.

Figure 6.3 shows the lengthiest laws that took Congress the least time to discuss for each crisis period. The compared laws are the following: Tax Reduction Act (TRA), Economic Recovery Tax Act (ERT), Federal Deposit Insurance Corporation Improvement Act (FDICIA), Job Creation and Worker Assistance Act (JCWAA), and American Recovery and Reinvestment Act (ARRA).

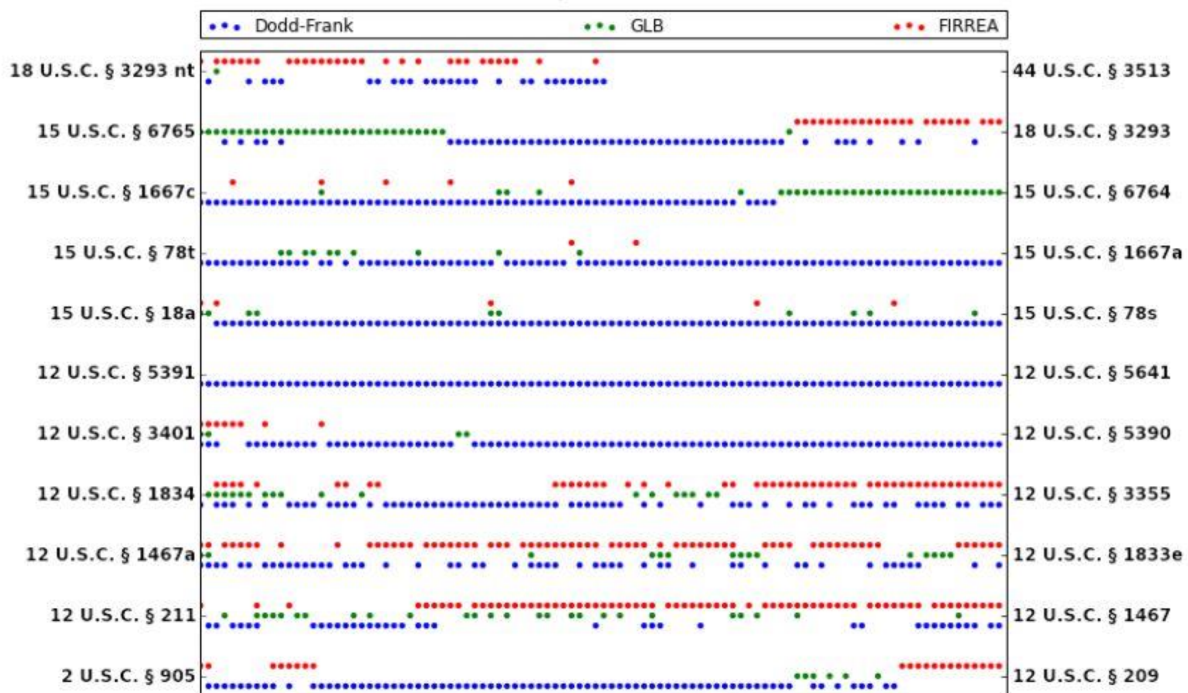
Figure 6.3: Words to Read per Day in Congress: Individual Laws



Modern laws and their interactions with existing statutes are complex. It is doubtful that each congressperson has a firm understanding of all of the ramifications of a law with fifty thousand words in a complicated area such as economic or financial regulation. One can get an impression of the interconnectedness of modern financial-regulatory lawmaking through figure 6.4. Li et al. (2015,

331) used software engineering to capture the US Code and show its development. Figure 6.4 illustrates the progression of references to previous laws. Each dot represents one reference or change to the US Code. Keeping track of how the law interacts with the existing code is not the only complication legislators face there are additional bureaucratic guidelines and potential legal decisions on the laws.

Figure 6.4: Sections in the US Code Affected by Dodd-Frank, the Gramm-Leach-Bliley Act (GLB), and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)



Laws become lengthier due to an erosion of the checks and balances within Congress and the increased number of policy proposals. The longer the law, the more difficult it becomes for a

legislator or party to vote against it. If the law is short and addresses only a single regulatory issue, it is relatively easy to vote against it. If the law is long, extensive, and presented as an encompassing answer to a crisis, legislators face higher costs of disagreement. The cost of disagreement for congresspersons are a combination of the difficulty of arguing against lengthier laws and public opinion that wants something to get done. Exemplary of the latter was the absence of antiwar arguments after 9/11. The media generally did not offer dissenting views on the Iraq War and the War on Terror, or it marginalized dissenting views (DiMaggio 2009, 63–68, 80–81). This media pressure illustrates why the incentives to conform are strong for pundits, congresspersons, and the public (chapter 5) alike. If a bill has some good and a couple of bad or superfluous parts, and other congresspersons, the media, and the public see it as a remedy for the crisis, legislators have to be cognizant of the political consequences of arguing against it. Throughout my research, I encountered quotations where congresspersons explicitly state that a bill is flawed but that it should be passed nevertheless since something has to be done. Illustrative is Representative Sensenbrenner's (Congress 2001, H7196) statement: "Mr. Speaker, this legislation is not perfect, and the process is not one that all will embrace. However, these are difficult times that require steadfast leadership and an expeditious response. The legislation is desperately needed, and the President has called on Congress to pass it now." Congress passed it even without knowing what was in it, as Congressperson Obey (H.R. 2975 2001, H6766) stressed: "I do not, and neither do most of the Members of this House, have any real idea about what is in this bill or what the consequences are." The admitted imperfection of laws is not unique to the Patriot Act. Congresswoman Capito (S. 896 2016, H5762) said the following on the Helping Families Save Their Home Act: "Mr. Chairman, S. 896 is far from a perfect bill, but S. 896 no longer contains what I believe were harmful bankruptcy provisions which could have further paralyzed the mortgage finance market."

Time is a precious resource, and it should not be wasted, especially not during crisis. However, modern lawmaking is intricate and complicated. Laws ought to stand the test of time. The Christmas dynamic opens up the floodgates for policy proposals that have been sitting on the shelf It is unclear how well these off-the-shelf proposals match the particularities of crises, which are heterogeneous in nature.

Conclusion

Stigler (1971, 3) formulated a pessimistic perspective on the study of politics, describing it as "imponderable, a constantly and unpredictably shifting mixture of forces of the most diverse nature, comprehending acts of great moral virtue (the emancipation of slaves) and of the most vulgar venality (the congressman feathering his own nest)." Practitioners of entangled political economy get excited by Stigler's quotation since the EPE approach allows for a study of the "shifting mixture of forces." This is the epistemic and ontological starting point of EPE and its relatively broad conception of human action. Stigler's more mathematical approach, as sophisticated as it is, runs into difficulties. EPE, while eschewing the narrow focus on prediction in studies à la Stigler, is able to generate insights into the complex processes during crisis, as I explained in this chapter.

I started with public-choice accounts of legislative behavior. Public-choice models depict the legislator as being largely a puppet of different factions. Self-interest being at the heart of public choice, the models suggest that in most cases reelection is the goal, or at least a crucial means, of the legislator. For this, she needs votes, political support, and campaign contributions. Thus, legislators depend on interest groups for financial support, bureaucrats for political influence, and voters for reelection. As to voters, the median-voter theorem provides useful intuitions regarding their influence on the legislator. But it is not sufficient to explain how voter preferences are transformed and transmitted during crisis. This is mostly due to the demanding assumptions of the model, such as voters' knowledge about legislators' policy positions and the single-issue space. In chapter 5, I showed the importance of voter-preferences formation and transmission during crisis. These aspects are ignored by the median-voter theorem.

Logrolling leads to different outcomes, sometimes preventing laws, sometimes enabling extensive changes within policy. I found similarly conflicting effects within the research on ideology. The

literature reaches no certain conclusions on how ideology or logrolling changes the pattern of crisis lawmaking. Next, I found that crises weaken the checks and balances within a legislative assembly. They make a joining of the political, problem, and policy streams highly likely. This opens an opportunity for legislators to load laws with more proposals and pass them faster.

Legislators want to signal to voters and the media that they are addressing a crisis adequately. They understand that something has to be done. The entangled groups increase their pressure on Congress, given the higher levels of uneasiness among the electorate or within the groups. Once a legislative outline is proposed, it becomes opportune to add content to laws since most people agree on the need to pass something to address the crisis. The costs to disagree with crisis legislation are higher compared to normal laws. This leads to longer and faster laws since those are more likely to satisfy the demand driven by an availability cascade. This explanation is the supply-side explanation for the demand-driven (via availability cascades) process occurring during crisis. This explanation fits the data presented in chapters 2 and 3 as well as the empirical results of Dua and Smyth (1993). They show that when the electorate worries about a single issue (in their case unemployment), it is likely that subsequent policy overreaches.

Smaller laws and laws passed more slowly do not send as clear of a signal to the electorate as extensive laws and laws passed faster. The content of the legislation becomes less important since urgency trumps the need to understand the underlying problems that led to a crisis. Romano (2014, 27) puts it bluntly when she writes: “Human nature, in this context, is that legislators will find it impossible to not respond to a financial crisis by ‘doing something,’ that is, by ratcheting up regulation, instead of waiting until a consensus understanding of what has occurred can be secured and a targeted solution then crafted, despite the considerable informational advantage from such an approach, which would, no doubt, improve the quality of decision-making.” Table 6.2 summarizes

the merits of the different theoretical accounts and their ability to explain the pattern of crisis lawmaking.

Table 6.2: Overview of Theories of Legislative Behavior during Crisis				
Theory	**Speedier enactment of laws**	**Lengthier laws**	**Ambiguous**	**Compatible with availability cascades**
Median-voter theory	X	X	-	-
Logrolling	-	-	X	-
Ideology	-	-	X	-
Legislative business cycles	X	X	-	-
Agenda setting and policy streams	X	X	-	X
Christmas tree laws	X	X	-	X

The crisis-induced incentives lead to a semi-uniform demand for the government to do something. This translates into incentives for lawmakers to pass extensive laws quickly. One might say that the recessions were so severe that the government had no other choice than to react in the way it did. This may very well be true. Whether these laws are the appropriate means of handling crises and can prevent future crises can neither be answered in a single dissertation nor with the data presented in this chapter.

Chapter 7: The Role of Interest Groups during Crisis

The previous two chapters expounded on the relationship between the electorate and legislators. During economic crises, voters increase their demand for legislation and pressure lawmakers to do something. Due to the importance of economic conditions for reelection, legislators signal to the public that they have addressed the economic ills. In this chapter, the analytical focus turns to providing a theoretical explanation of interest-group behavior and the pattern of lawmaking during crisis. To achieve this, I employ an entangled political economy framework. The EPE insight about the complexity of exchange relationships that bring about crisis policies is especially relevant when studying interest groups. The demands of interest groups are heterogeneous and the goals of interest groups are often conflicting. There is a multitude of different interest groups that often have conflicting goals. In this chapter, I discuss a variety of theories on interest-group behavior from economics and political science. Aided by the theories, I discuss some relevant data on interest-group spending, campaign finance, and the income of economically relevant congressional committees. The discussion culminates in theoretical pattern predictions about interest-group behavior during crisis from an entangled political economy perspective.

Crises and Theories of Interest-Group Behavior

Already in 1776, Adam Smith (1982, 145) was talking about the power of interest groups and declared that they tend to collude. He writes, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." However, Smith did not think the government was capable of addressing collusion. The same passage continues with the observation (which is often omitted) that

"it is impossible indeed to prevent such meetings, by any law which either could be executed or would be consistent with liberty and justice. But even though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary." The influence of business in politics has been noted for centuries, and it persists.

Rent-seeking[50] behavior emerged in the run-up to the Great Recession. Interest-group-driven deregulation has been identified as one of the factors that led to the Great Recession (FCIC 2011; Baker 2010). The Financial Crisis Inquiry Commission (FCIC 2011, xviii) concludes that "the financial industry itself played a key role in weakening regulatory constraints on institutions, markets, and products." The FCIC (2011, xviii) corroborates this by noting the industry's expenditure of $2.7 billion on lobbying from 1999 to 2008. The power of interest groups, and especially the influence of the financial sector, is stressed by representatives of the whole ideological spectrum, including the left, the right, and classical liberal. It is interesting that the same analysis is seldom employed regarding financial regulation in the aftermath of the Great Recession. Do legislators overcome the power of interest groups during a crisis? The affirmative answer to this question seems unlikely, particularly in the face of an all-time high of lobbying spending by the US financial sector (Center for Responsive Politics 2015).

On the other hand, during recessions businesses have fewer financial resources. Why would they spend additional sums of money on gaining political influence? Interest groups might even cut down

[50] Rent-seeking and interest-group activity are not synonyms. Rent-seeking describes the deliberate attempt by interest groups to secure political rents through lobbying. A cross example is to fill the wallet of an official who is giving out government contracts in return. Surely, all interest-group activity aims to secure benefits for interest groups. However, some benefits are purely informational. Gaining knowledge about planned regulation and details of rulemaking requires interest groups to spend resources on observing the political process. This sort of behavior does not aim toward rent extraction or rent creation but simply tries to stay up to date.

on rent-seeking since the policymakers act under enormous time pressure and are unlikely to support all crisis-stricken industries. Several suffering industries compete for legislators' attention and is uncertain about whether a given industry's policy position will be adopted The volatility of policymaking during such times makes the potential rewards much higher but also increases the risks. These risks are not negligible, since interest groups know that they do not succeed in influencing politics all the time.[51] Theories of interest-group behavior do not agree on the amount of influence interest groups have within the political process. I start by discussing economic theories.

Economic Theories of Interest-Group Behavior

Underlying most interest-group theories within public choice is the economic theory of legislation (Becker 1983; Peltzman 1976; Stigler 1971). According to it, law redistributes property rights to groups with relatively more influence. Other groups are potentially harmed by the redistribution.[52]

This redistribution does not necessarily reflect majority positions of voters. Olson (1965) provides insights into the prerequisites of successful interest-group activity. He argues that smaller groups succeed more since they (a) can monitor and punish free-riders, (b) are more likely to have uniform interests, (c) are more likely to have pre-political interests that bind them together, (d) have lower setup costs, and (e) are more capable of providing incentive schemes rewarding members.

---

[51] See the discussion below on Baumgartner et al. (2014), Baumgartner et al. (2009), and Burstein and Linton (2002) on the limited reach of interest-group spending on outcomes.

[52] Here we see a fundamental difference between market exchanges and political exchanges. Market exchanges can occur between two parties. Political exchanges are always between at least three groups. One exchange takes place between the bargaining parties—for instance, legislators and interest groups. The result of a change in policy is also borne by third parties, as, for instance, voters who pay for the newly distributed property rights (Wagner 2012b).

Interest groups seek policy changes and subsidies, which translates into rent-seeking. Rent-seeking and its costs have become a severe problem for many nations. Summarizing the empirical evidence on the costs of rent-seeking, Mueller (2003, 355) shows that the costs are significant and range from 3 percent of Gross National Product (GNP) (when only taking regulation and non-transfer payments into account) to even 50 percent of GNP for the United States. A more recent estimate by Angelopoulos, Philippopoulos, and Vassilatos (2009, 281) for twelve European countries shows that 18 percent of all collected tax revenues are extracted as rents. Rent-seeking is universal to Western nations.[53] The amount of interest groups has grown significantly since the 1960s and early 1970s (Baumgartner and Leech 2001, 1191). This has induced more competition on K Street, the seat of many lobbying firms in Washington, DC. Walker (1991, 68) found that 70 percent of business groups face political competition from other groups. However, the growth of interest-group activity does not automatically lead to the extraction of more rents. Alves and Meadowcroft (2013) explain why, theoretically and empirically. They depict revenues from rent-seeking as a bell-curve distribution. After a certain point, the required resources to gain an additional dollar of political rents become too high. There are simply not enough rents to distribute when many interest groups join the race for the same resources (Alves and Meadowcroft 2013, 12–13). Accordingly, interest groups will not spend an infinite amount on rent-seeking.

However, this bell curve might shift to the right due to an exogenous shock that uncovers new regulatory or redistributive policy proposals previously not thought to be in the policy stream. As shown in chapters 2 and 3, more extensive legislation becomes enacted during crisis compared to

[53] This does not mean that developing countries or non-democracies are exempt from rent-seeking. Rent-seeking has different dynamics in different institutional frameworks. It is not easy to stay in power as a dictator. Rents have to be carefully administered and distributed to build the coalitions necessary to sustain power (Cox, North, and Weingast 2015).

normal times. Rent-seeking might become more attractive as a source of revenue or as a means to reduce competition. This is especially the case since rent-seeking must not be costly for large businesses. As Coen, Grant, and Wilson (2010, 14) put it, "we must also ask how far big business reaches its lobbying rationality threshold when we consider that for a giant oil firm, the total cost of government relations activities in one year may amount to no more than fifteen minutes of turnover." Wall Street, like the oil industry, also has considerable profit margins.

The reason for the sustained success of rent-seeking can be found in the quip "concentrated benefits and dispersed costs." Groups that are organized and capable of overcoming the Olsonian collective-action problems can seek benefits by lobbying the government. The resulting favorable regulation or received payments provide concentrated benefits for the group. The costs are dispersed throughout the whole industry and all taxpayers. The group that gains the benefits has a strong incentive to seek and maintain the rents (Tollison 1988, 344–345). The taxpayers suffering only a minuscule loss are often not even aware how their tax dollars are being spent. Overcoming this information asymmetry and forming broad coalitions against the groups that gain the concentrated benefits is highly unlikely. Once established, the rents become entrenched. This is the core explanation for why, for instance, agricultural subsidies still exist despite all the evidence that they harm developing countries and consumers (Anderson, Martin, and Valenzuela 2006; Hix and Høyland 2005, 283–289; Wise 2004).

The interest-group demand for rents is straightforward. What about the supply side? Legislators may want to produce legislative proposals to increase the well-being of the public. However, legislators' primary goal is reelection. Campaigning is costly, and politicians need interest groups for funding and support. A standard model of legislative action is the interest-group theory of government, in which legislators supply legislation according to the demands of their constituents and interest

groups (McCormick and Tollison 1981). The well-being of the public as a whole becomes secondary to the demands of specific groups. Interest groups are important for political support, funding, and delivering votes. The model portrays the legislator as a rational actor who wants to increase her welfare through reelection and accumulation of power. A wealth of evidence from different policy sectors shows a correlation between constituencies' interests and the voting behavior of politicians. A far-from-exhaustive list of examples relevant to crises includes spending on disaster relief (Leeson and Sobel 2008), stimulus spending (Young and Sobel 2013), and the policies in the run-up to the Great Recession designed to increase homeownership and lax mortgage-lending practices (McCarty, Poole, and Rosenthal 2013; Congleton 2009). Financial interest groups, which are often the most relevant during crisis, have also been shown to be effective in "buying" legislative votes (Stratmann 2002). The next section provides arguments that question the efficacy of interest groups and presents arguments for the political need for interest-group activity.

The Demand for Information and the Limited Reach of Interest Groups

Beyond rent-seeking, another reason interest groups exist is the informational needs of a modern democracy. Legislators' need for consultation and data presents them with a quandary, especially during recessions. During crises, the public demands policies such as cutting bankers' bonuses and increasing regulation. On the other hand, policymakers are rarely experts on financial markets. They need to work together with the industry to learn more about the products they are considering regulating. Legislators have to walk a thin line between, first, catering to the public's demands and keeping the self-interest of interest groups at bay, and second, not destroying their relationship with the interest groups that finance their campaigns. Legislators need interest groups since elections cannot generate sophisticated regulation of the financial sector for many reasons. To name three:

1. Elections in the United States for the federal government (which enacts most financial regulation) are too blunt of a mechanism to precisely transmit the public's policy preferences.
2. The public cannot voice its preferred regulatory goals through direct democracy at the federal level (for instance, though a yes-or-no vote for bank bailouts).
3. The public tends not to have expert knowledge about financial regulation, derivatives, international-banking laws, and the like. It barely has any knowledge about the workings and the state of the Union (Somin 2013; Caplan 2007; Carpini and Keeter 1997).

Financial regulation has to rely on other inputs than the public vote. Interest groups are an alternative source for policymakers to gather information about adequate policies. The complexities of lawmaking make it necessary for policymakers to rely on the industry and their insider knowledge. We should not see the influence of interest groups as ex ante solely bad or good. Interest groups can function as sources of dissenting views for legislators and bureaucrats who have to make policy in an increasingly complex world. For an interest group to become successful in Washington, it must have a good reputation and supply high-quality information that benefits policymakers (Lohmann 1995). Money alone is often not sufficient. What matters is a relationship between businesses and legislators that depends on reciprocity. Another benefit from interest groups comes about when achieving their goals coincides with increasing the public welfare. They do not need to be mutually exclusive.

The logic of dispersed costs and concentrated benefits makes it unlikely to find many win-win-win (public, legislators, and bureaucrats) situations when examining the political influence of interest groups—especially since the Olsonian constraints of effective group formation weigh heavily on taxpayers and other dispersed-cost bearers. Another reason for interest-group activity is the need of the interest groups themselves for information. The changes brought about through the thrift-

industry legislations of the 1980s, the Federal Deposit Insurance Corporation Improvement Act, Sarbanes-Oxley, and Dodd-Frank were extensive. Getting information about the intention behind the rules and about the rulemaking is pivotal for market participants to gain a competitive advantage over others. Thus, an increase in interest-group spending might reflect efforts to gather information from the policymaker. This does not necessarily translate into a higher level of influence on policymaking.

Economics and public choice mostly presuppose that rent-seeking is effective. The literature shows that there are diminishing marginal returns for rent-seekers (Alves and Meadowcroft 2013; Murphy, Shleifer, and Vishny 1993; Olson 1965) but that the overall cost of rent-seeking is rather costly for society. Nevertheless, the high costs of rent-seeking do not equate to an unmitigated influence of interest groups over the polity. Some evidence suggests the power of interest groups is limited. The most recent evidence stems from Baumgartner et al. (2014). In their study, building on their earlier work (Baumgartner et al. 2009), they assess 2,221 interviews of lobbyists and insiders about ninety-eight different policy issues. They find that the outcomes desired by interest groups do not correlate with the money spent, aside from rare exceptions. Baumgartner et al. (2014, 4; 2009, 173) list a variety of studies confirming their finding. Burstein and Linton (2002) also find empirical evidence of the limited effects of interest-group spending. Kaiser (2014, 127), who sees in lobbying a great threat to American democracy, does not always detect an influence of financial interest groups either. He writes about the principal architects of Dodd-Frank that "in 2007–8, Frank recorded financial sector donations of $1,041,298; Dodd received $6,081,836. Both insisted that accepting this money had no impact on their approach to regulatory reform, and in terms of specific issues, there is no evidence to the contrary. They both supported reforms that the big banks bitterly opposed."

This does not mean rent-seeking and interest-group formation are fruitless. Without the involvement of competing interest groups, an issue could become dominated by only one side. Competition among interest-group lobbies representing a multitude of entities with different resources (Baumgartner et al. 2009, 87–89) keeps the policy process in balance (Baumgartner et al. 2014, 7). Furthermore, interest-group spending is beneficial for the groups in other ways than just the influence on the political agenda. Correia (2014) shows that long-term political spending leads to fewer prosecutions by the Securities and Exchange Commission (SEC).

The argument of Baumgartner et al. (2014) can be interpreted as evidence for incremental policymaking. As long as the interest groups compete with one another, larger changes to policy are unlikely. Interest groups with a radical policy agenda are offset by interest groups with different ends. The fact that interest-group activity favors the status quo (in democracies) can also be observed in the recent work of Heckelman and Wilson (2015). One example stems from policymaking surrounding Sarbanes-Oxley (Romano 2004, 187–192): Even without taking unions into account (which are often a counterweight to business interests), the business community had conflicting interests. This prevented businesses from associating to provide a unified agenda to lawmakers. More broadly, the degree of competition varies among industry sectors. Financial interest groups do not face the same level of competitive pressure as, for, instance groups influencing international trade, environmental, or energy policies (Scholte 2013; Pagliari and Young 2013, 579).

The above theoretical approaches yield diverging intuitions concerning the strength of interest groups during crisis. Evidence suggests high social costs of rent-seeking, limited reach of any particular interest group, and a considerable amount of stability within the system. Interest groups rarely capture the agenda to transform it radically.

Patterns of Interest-Group Behavior during Crisis

It is the "moneyed interest" that dominates politics when the public is not aroused (McCarty, Poole, and Rosenthal paraphrasing Schattschneider 2013, 259). But how do interest groups behave when the public is aroused? First, I present an overview of interest-group spending over the last several decades. Admittedly, it is notoriously difficult to capture the full amount of interest-group spending on politics. Many businesses and associations give money for political ends via intermediaries who do not have to disclose where the money comes from. Companies can give money in several ways without their name showing up on a check. Nevertheless, transparency in spending has increased in the United States.

The Washington Representatives directory counted four thousand lobbyists in the United States in 1979. In 1999, the number reached over eleven thousand (Grossman and Helpman 2001, 2–3). It grew to over thirty-two thousand lobbyists in 2013 (Washington Representatives 2013). Lobbyists spent cumulatively $2 billion annually with an extra $500 million every election cycle (Center for Responsive Politics 2015). Interest-group spending has risen in a linear fashion for many years. Figure 7.1 shows the annual spending of interest groups on politics from 1998 to 2015 in billions of dollars (Center for Responsive Politics 2015).

Figure 7.1: Total Annual Interest Group Spending, 1998–2015 (in Billions of Dollars)

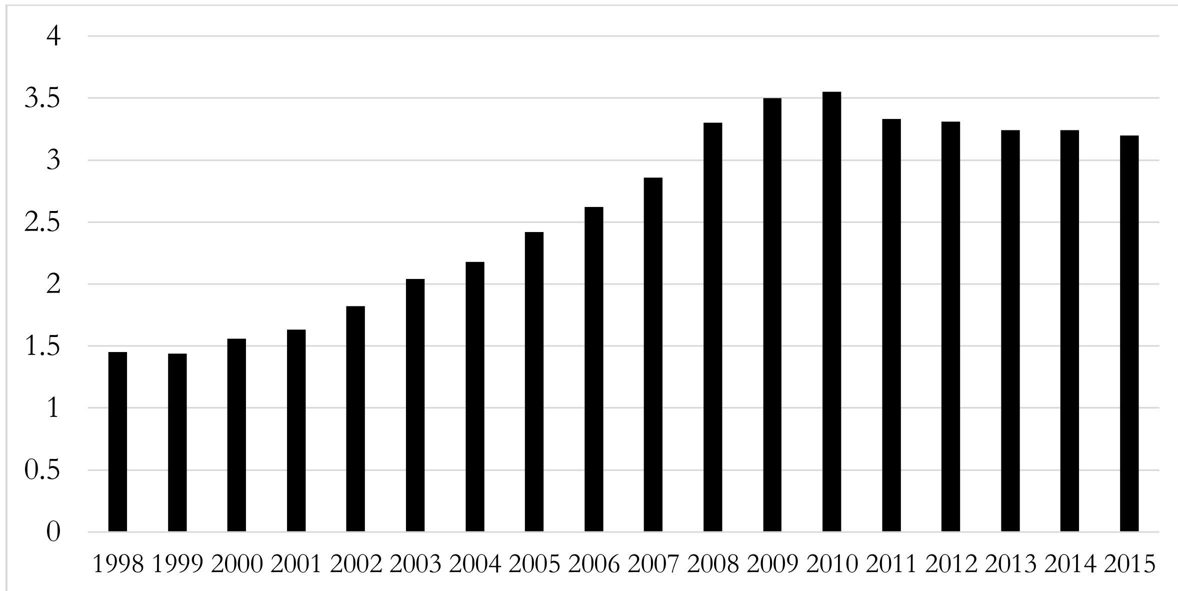
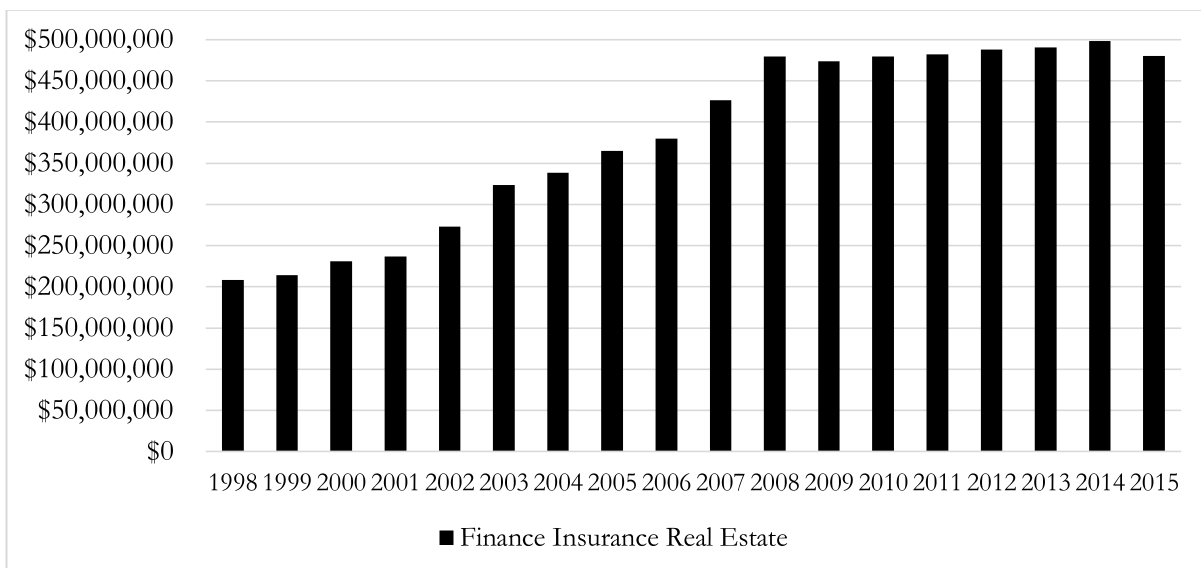


Figure 7.2 shows the annual lobbying spending over the same period for the sectors related to finance, insurance, and real estate (Center for Responsive Politics 2015).

Figure 7.2: Annual Spending by Sectors Related to Finance, 1998–2015



Even though interest-group spending rose throughout the Great Recession, it is not clear that this is due to the crisis. The Supreme Court's *Citizens United* ruling in 2009—at the start of the recession—allowed unlimited interest-group spending as part of the political process protected under the First Amendment. This opened the floodgates for money in politics.

Figure 7.3 shows the trend of congressional spending on campaigning from 1974 to 2012 (Ornstein et al. 2015). The growth in expenditure correlates with an increase in congressional income from interest groups. Figure 7.4 depicts the trend of contributions by political-action committees (PAC) to Congress from 1978 to 2012 (Campaign Finance Institute 2015) and figure 7.5 the money received by PACs for both the House and the Senate from 1992 to 2012 (Ornstein et al. 2015).

Figure 7.3: Congressional Campaign Expenditure, 1974–2012 (in millions of dollars)

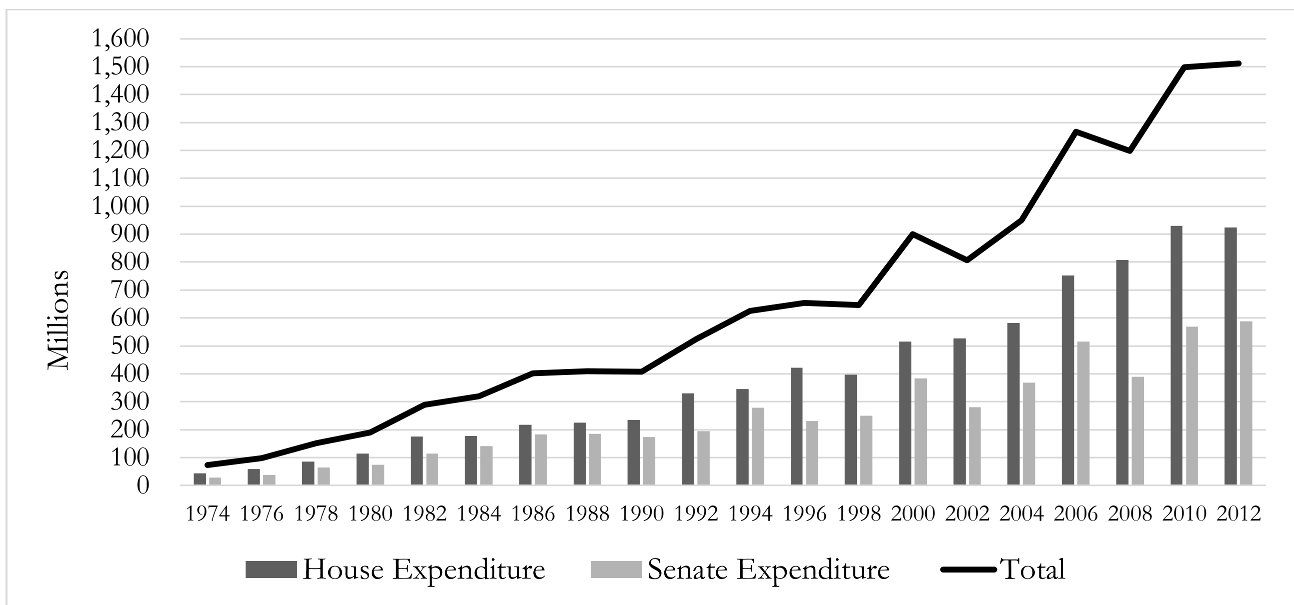


Figure 7.4: PAC Contributions to Congress 1978–2012 (in Millions of Constant 2014 Dollars)

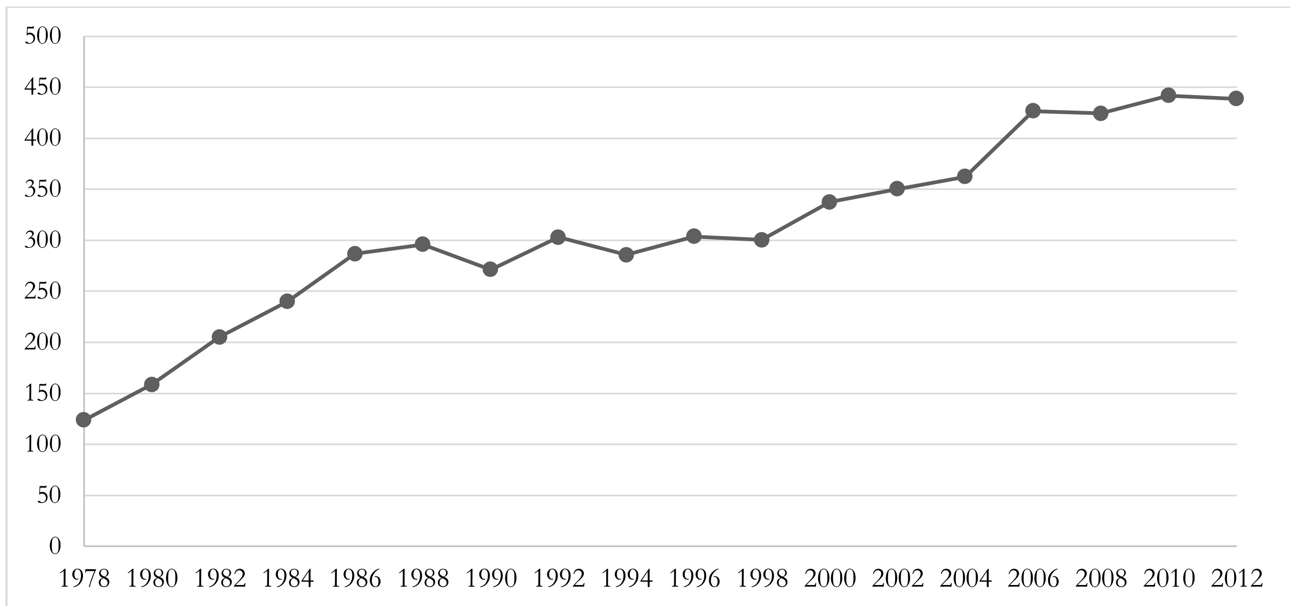
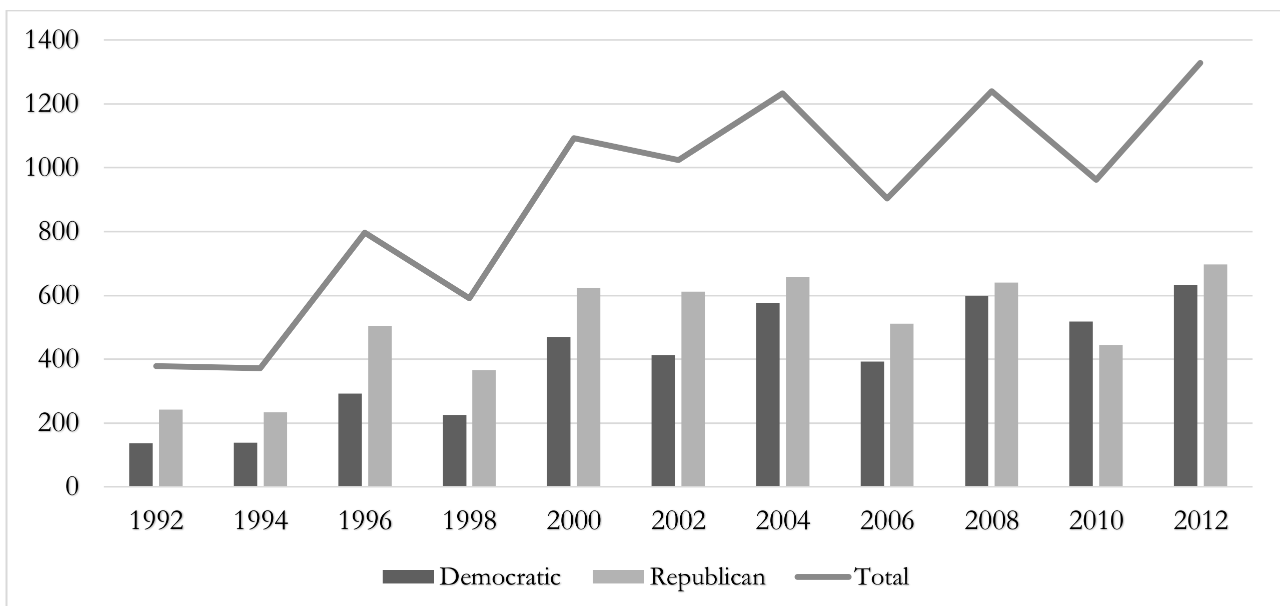


Figure 7.5: Money Raised by National Party Committees 1992–2012 (in Millions of Dollars)



The five figures show a tendency for higher spending on campaigns and greater receipts. These data

include interest-group contributions as well as money from voters The five figures show either weak or no positive correlation of the crisis periods and interest-group spending. Even in the Great Recession, the uptick might be simply the result of the *Citizens United* ruling.

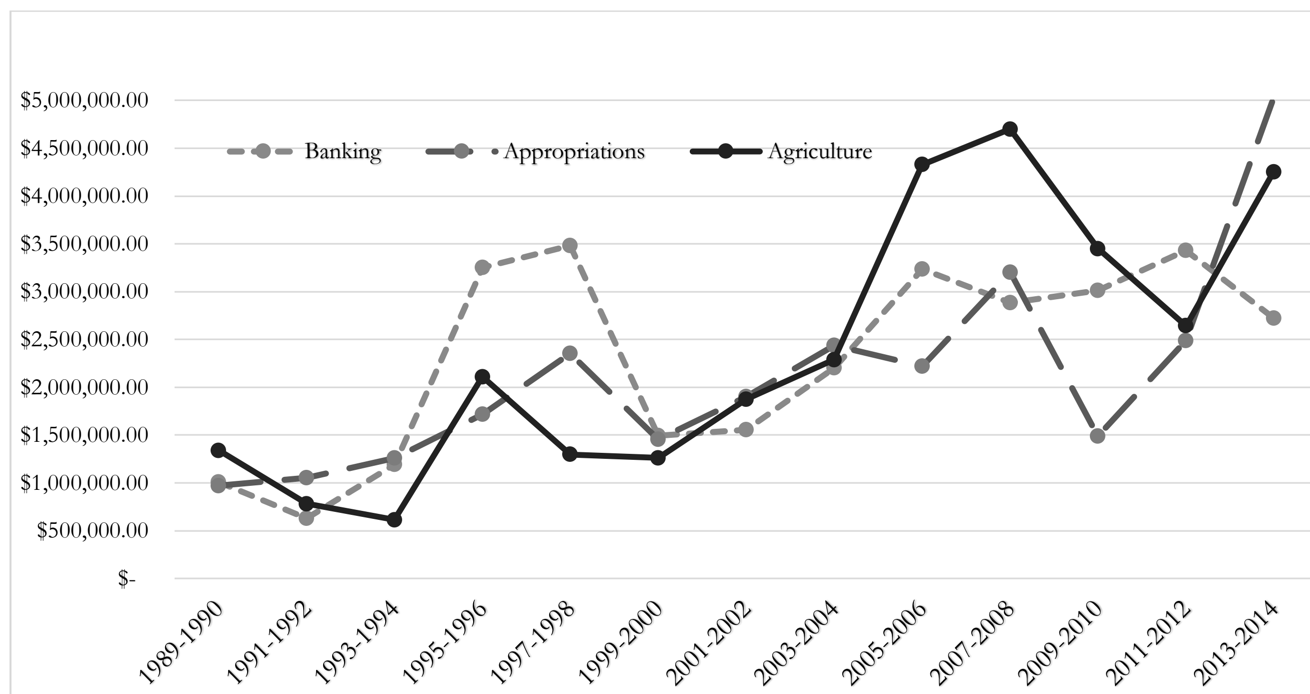
In the following section, I present my data on interest-group receipts by Senate members. I track the interest-group money received by senators on the banking, housing, and urban-affairs committee, the appropriations committee, and the committee on agriculture, nutrition, and forestry from 1989 to 2014. If interest groups were more active during times of crises, one would expect higher average receipts for powerful economic committees such as the ones on banking or appropriations. The committee on agriculture functions as a benchmark that should not be affected much by interest-group activity during crisis;[54] I tracked a total of 160 senators over twenty-five years. The historical data on committee members comes from the Senate (2014) and Charles and Woon (2011). I gathered the data on all receipts greater than two hundred dollars from Influence Explorer (2016). Figure 7.6 below shows the average monetary sum received by members of the three Senate committees.[55]

---

[54] I am aware that the agricultural committee decides on important economic issues such as commodity futures and farm credits. However, compared to the other committees, the committee's involvement in economic matters is significantly less during crisis compared to the other two committees.

[55] Every two years, roughly one-third of senators run for reelection. During those years, the sums received for campaigning rise. However, this does not skew my data, since these fluctuations even out throughout the years. Some senators receive their campaign finances in part from self-funding. This can be part of the represented funds. In a couple of cases, there were no data for senators during specific years. This was due to limitations stemming from the Federal Election Commission. I have removed the zero income years from the averages. For the collected data see von Laer (2016), and for a detailed description of the data, visit http://realtime.influenceexplorer.com/download-index/2016/.

Figure 7.6: Senate Committee Campaign-Finance Receipts, 1989-2014



As in the case of the other data presented above, no spikes appear for the economically relevant committees during crisis, although receipts trend upward for all committees. My evidence is consistent with the finding that interest-group activity has little bearing on legislative outcomes during crisis (Baumgartner et al. (2014), Baumgartner et al. (2009), Burstein and Linton (2002), Romano 2004, 184–186, 184, Fn. 367). This does not mean interest groups do not exercise influence through already-existing connections to senators. However, it casts doubt on the assertion that interest groups try to gain additional influence or protections during crisis by increasing their political spending. If they do, it does not show up in the Federal Election Commission's data. Inside the Beltway, the Senate committee on banking is called a "money committee" since its members do not have a problem raising money from the financial industry (Kaiser 2014, 127–130). This might be

the case in general, but the interest-group spending does not correlate with the activity of that committee while drafting crisis legislation.

Entangled Interest-Group Activity during Crisis

Even though, as I noted, my data do not show a spike of interest-group spending and activity during crisis, one cannot conclude that interest groups are inactive. Legislators, high-level bureaucrats, and interest groups establish relationships before a crisis. Interest groups do not necessarily need to provide additional resources to legislators during a crisis. They can make promises for future campaigns of legislators or attractive consultancy contracts. Such promises would not show up in higher interest-group spending during crisis years. Additionally, influence on lawmaking does not only take place on the legislative but also the executive level. Coffee Jr. (2011) argues that it was in the interest of financial institutions that Congress delegated most of the rulemaking following Dodd-Frank since interest groups' influence on the executive is greater than on the legislature. Yackee and Yackee (2006) provide evidence for Coffee Jr.'s argument. They show that businesses are the only group that has a systematic impact on the outcomes of rulemaking. In this section, I discuss this and nine other aspects of interest-group activity during crisis that are relevant for an entangled political economy approach.

Depending on the nature of the crisis and the policy sector involved, various interest groups with different agendas are involved. Entangled political economy stresses the importance of the heterogeneity of various actors and their incentives. The heterogeneity becomes quite apparent when studying interest-group activities and their impact on lawmaking. Industries affected by crises have the strongest incentive to lobby for governmental aid or legal protections. At the same time, many interest groups have an interest in keeping regulation out of a specific sector while some interest

groups try to push for specific regulation. It is difficult to impossible to anticipate which interest groups will win out. Nevertheless, based on others' research, the presented data, and other chapters in this dissertation, I can form several pattern predictions of entangled interest-group behavior during crisis:

1. Neither legislators nor interest groups want to be perceived as a threat to the stability of the polity. They advertise crisis policies as remedies for the ills that a crisis generated. Interest groups only get their way when they have the trust of legislators and high-level bureaucrats.

Interest groups cannot make the impressions of undermining the policy process since otherwise they would lose influence and credibility with legislators. Thus, even if it hurts them, interest groups with an interest in maintaining the status quo or even rolling back government regulation are more likely to seek compromises than complete reversal of crisis policies. As Baumgartner et al. (2014; 2009) showed, interest groups rarely are capable of capturing the political agenda. Thus, they prefer to work on the margins of laws to mitigate the effects on their industry. This was, for instance, the case for the regulation of derivatives after the Great Recessions. A report by Public Citizen (2010) showed that a coalition of financial and non-financial firms (which often were end users of derivatives) outnumbered pro-reform interest groups eleven to one with 903 lobbyists working against reform and 79 for reform of derivatives. This reasoning explains part of the increased length of laws during crisis. The need for compromises, the legislative bargaining, and the multitude of different interest groups generate laws that are complicated, full of exceptions, and increasingly lengthy in terms of words. Interest groups sometimes spend simply because, as a Wall Street representative in Washington put it, they "want them [Congress] to be reasonable! You want to defeat the craziness" (Kaiser 2014, 131). Interest-group activity during crisis is about checks and

balances and marginal influence, not radical change in the political agenda. If the agenda changes radically, then that is more likely the result of forces from the legislative side or the White House.

2. The logic of concentrated benefits and dispersed costs works similarly among interest groups as in the general public. It is not as pronounced since the number of interest groups is smaller than the general public and the costs of being informed are lower. However, the logic still applies since the group that would benefit the most from a regulation has a financial incentive to lobby the government. Even if the harm to other groups is sufficiently high, it is more difficult for them to make the case since (a) the public insists that something has to be done (see chapters 5 and 6) and (b) it is not an easy sell for an interest group to propose to maintain the status quo when whole policy sectors are on fire and legislators and the public consider a policy as a remedy. It is more likely that interest groups and regulators will find a compromise that will adjust existing law and add content. Interest-group voices that demand less regulation or non-interference in a crisis run into the same problems as voters and legislators that I described in the previous chapters. During crises, it is much harder to find the time, arguments, and influence to make the case that a policy does more harm than good.

The logic of concentrated benefits and dispersed costs creates winners and losers. Some interest groups with good ties to the government and significant political leverage (due to the systemic nature of their business, the amount of jobs they represent, etc.) are likely to reap political favors such as subsidies, stimulus packages, and bailouts. Nevertheless, a majority of interest groups have to bear the dispersed costs of higher costs of doing business, higher taxes, and a future debt burden (von Laer and Martin 2016; Higgs 1997). One example of this is Dodd-Frank. The costs of compliance for smaller banks have increased tremendously. Barely any new banks register anymore, and bigger banks gained an even bigger market share than before the crisis (von Laer and Martin 2016; Peirce 2013). If interest groups are economically significant and represent many thousands of

jobs, then their influence in politics grows compared to industries that suffer less, have less influence in the media, or are not tightly connected to government. Legislators are driven by voters and crisis-relevant industries over other interest groups.

3. Crises lead to repeated exchanges between certain private and public actors. One view about interest-group activity is that "Washington is all about connections" (Blanes i Vidal, Draca, and Fons-Rosen 2012, 3731). The need for connections to gain political influence leads to the situation in which the majority of profit generated by lobbying firms stems from employees with former work experience in the federal government (Blanes i Vidal, Draca, and Fons-Rosen 2012, 3736). The longer the relationship between an industry and the federal government, the more likely are they to establish trust and a flow of information. Relationships are the cornerstone of modern lobbying (Groll and McKinley 2015). The advantages are not based on superior knowledge or insights but are based on the relationships. This is shown by the significant drop in revenue generated by a lobbyist when their former contact loses their political position (Blanes i Vidal, Draca, and Fons-Rosen 2012, 3732). The comparative advantage of one interest group over another results from repeated exchanges that are to a certain extent contingent on the politico-economic history of the country as well as the importance of the sector for the country's economy. Industries that encompass labor unions, employ many people, or are otherwise central to the economic system are more likely to have political allies acting on their behalf than industries that do not have these attributes. EPE and recent economic research agree that repeated relationships, which can be reinforced through crises, are important variables influencing policy outcomes (Groll and McKinley 2015; Groll and Ellis 2015; Blanes i Vidal, Draca, and Fons-Rosen 2012). Other evidence suggests that the superior information of financial interest groups leads them to capture the regulatory process due to their repeated interactions with regulators (Pagliari and Young 2013, 577).

Interest groups with repeated exchanges have an advantage compared to interest groups that are younger or historically have not had much influence on the federal government. To illustrate: The financial sector, with its strong impact on the health of the economy, has better standing and more influence compared to newer financial firms representing crypto currencies. Even if we assume the newer firms create significant social gains, it is unlikely they will win against traditional financial interest groups in lobbying battles over regulation. Interest-group activity is about long-term relationships that provide the groups with access in order to voice their concerns. It does not guarantee influence, but it guarantees them a voice. Theoretically, any group can gain access to Congress, but a group that has given to congresspersons is much more likely to receive a hearing compared to a group that has not established a relationship with congresspersons. And groups can easily establish relationships through financial contributions.

In the studied crisis periods, the government formed coalitions with suffering and economically relevant institutions. This led to bailouts and government assistance: bailouts in the thrift industry during the 1980s and early 1990s; bank rescues throughout different crisis periods; TARP; massive purchases of toxic assets by the Fed; bailouts of Franklin National, AIG, Continental Illinois, repeated bailouts in the auto industry like Chrysler, the nationalization of Fannie and Freddie; and the list goes on (see chapter 3 for detail). Congress provided all of this industry support during crisis. It might be that these deals were struck in smoke-filled rooms hidden away somewhere on K Street. However, it seems more likely that the political stakes were too high and the public pressure too much to let these businesses fail.

An effective coalition and its repeated exchanges leads to significant influence on lawmaking, as Romano (1997, 381–383) shows. She tracks the history and influence of a coalition of farmers, futures exchanges, and banks on securities regulation over nearly two decades from 1974 to 1992

and finds a significant impact of their lobbying. Historical work is necessary to establish which groups rose to the position of agenda setters. The approach of studying coalitions and their influence in a given crisis (Gourevitch 1986) seems more fruitful than studying interest groups as a whole during crisis. Certainly, some interest groups have better starting positions than others (see the discussion on [1] and [2] above), but it does not follow that the influential interest groups and their connections to legislators remain the same throughout time.

These coalitions emerged within crises—not from increased rent-seeking but from already-established connections between business and government and from the political stakes involved. Interest-group spending does not have to increase to utilize already-established relationships with political actors. An additional factor explaining more exchanges among some interest groups, legislators, and high-level bureaucrats stems from the superior expertise of some interest groups. Financial markets, often on center stage in economic crises, are complicated. Legislators need to interact with the industry to receive information necessary for lawmaking. Already-existing ties between economically (and therefore politically) relevant institutions and government as well as the legislators' need for information from industries leads to repeated exchanges between government and certain industries.

4. Interest-group activity differs according to the type of crisis law. Passing packages with bailouts and other financial help to interest groups has a different dynamic than passing laws dealing with regulatory content. Repeated exchanges and the economic relevancy of an interest group make certain interest groups more likely to receive bailouts than other interest groups. Bailouts are mostly decided quickly due to the urgency of the situation. In this case, interest groups reach out and make their case that their financial situation is desperate. Legislators react quickly since the political fallout from the economy deteriorating further or tens of thousands losing their jobs is too much of a

political risk for legislators. The decision to bail out an interest group is mainly political, as, for instance, in the case of the Troubled Asset Relief Program. Many banks did not want to take the money but were forced to do so anyway in order not to undermine the banks that had taken the money. TARP was mostly driven by Secretary of the Treasury Paulson, Bernanke, and a team of high-level bureaucrats. Banks were involved but were put under a lot of pressure to reach an agreement among themselves and with the Treasury. Many bankers disagreed but faced pressure from the government to come to a decision quickly (Paulson 2013; Engelen et al. 2011, 228–229; Congleton 2009). TARP, while giving significant financial benefits to some banks, did not result merely from lobbying but from the crisis-induced circumstances.

In regulatory matters, the dynamics of interest groups are different. Here, interest groups do not drive the length of legislation but merely react to the legislators' activity on the topics relevant to them. They intervene on the margin and try to find compromises that do not deviate too much from the status quo. Since crisis lawmaking is open to many different legislative proposals (see chapter 6), many interest groups become active to seek influence in lawmaking or, more often, rulemaking. More interest groups become active in regulatory matters than bailouts, which mostly target large and economically relevant industries.

The presented empirical data does not allow me to conclude that industry representatives have a major influence on the lawmaking process. Nevertheless, it seems likely that traditional theories of regulation and regulatory capture (Stigler 1971) remain relevant. Those theories suggest that lengthier regulation is more beneficial for markets incumbents since they increase the entry costs and shield incumbents from new competition. The pattern of lawmaking found in this thesis lends evidence to those claims. Similarly, McCarty McCarty, Poole, Rosenthal (2013) argue that the systematic influence of interest groups prevents government to adapt necessary policy changes.

However, due to the lack of firm empirical evidence of the influence I am not able to proof these theories to be true.

5. A crisis makes some form of advocacy more feasible than others. In non-crisis times, grassroots activists mobilize constituencies to put pressure on Congress. It often takes as little as ten thousand calls to congresspersons over a couple of days to make them question a discussed amendment or bill (Goldstein 1999). However, this way of organizing pressure on Congress is time intensive. Even with Internet-based mass-communication channels, a crisis is less likely to generate issue-specific grassroots campaigns. As shown in chapter 5, the public is occupied with the crisis and wants to see something done. It is, relative to non-crisis times, more interested in what Congress is doing. Due to the constraints of grassroots organizing, other forms of interest-group activity become more feasible.

Additionally, financial interest groups form coalitions to achieve their policy goals. They even subsidize other groups to become part of the coalition and provide information and material to make other groups' advocacy easier (Mahoney 2008, 168). During crisis, interest groups have less time to form a coalition to achieve significant influence. Lawmaking during crisis is often volatile and interest groups are uncertain what kind of legislative proposal will end up in a law. Without knowing the law's content or the future details of the rules to be made by federal regulatory agencies, it becomes more difficult for interest groups to form coalitions. Forming coalitions becomes more viable the longer the rulemaking and lawmaking take. Interest groups had ample room to form coalitions and to influence rulemaking after Dodd-Frank as argued by Coffee Jr. (2011).

6. During normal times, interest groups are seldom capable of hijacking the political agenda due to the competition from other groups. Many policy issues compete for the attention of the legislators,

and some groups make sure to keep at bay other groups with an opposing agenda. However, during crisis, this system of checks and balances is undermined. This does not mean that hijacking becomes possible. However, due to the focus of the electorate on Congress and the subsequent focus of congresspersons on certain crisis-relevant policy areas, legislators discuss more proposals. Legislators direct their attention much more narrowly to few policy fields. The Christmas tree dynamic leads to lengthier laws. The crisis-relevant industries have to work harder to keep up with the many changes. Their activity is a by-product of the legislators' eagerness to do something.

7. The previous point finds its limitations with the increased awareness of the public (chapter 5) as well as the legislators' need to focus on a policy area and to leave a mark (Culpepper 2010). Interest groups that are perceived as the source of a crisis cannot easily lobby for public resources. The public does not take it well when big business receives taxpayers' money while the rest of society suffers. Two of the biggest political movements, Occupy Wall Street and the Tea Party, emerged after the bailouts of the financial industry during the Great Recession. The pressure on Washington was huge, which was a reason why policymakers had to push TARP through so quickly.
Culpepper (2010) makes a similar argument about interest-group activity. He argues that interest groups capture regulatory processes more effectively when the policy issues are non-salient. As long as politics is "quiet," they can influence and shape it to their liking. Culpepper (2010, 189) asks why legislators would "challenge business on how to run business if the public does not vote on the basis of these issues." However, once a policy area becomes salient, the public, the media, and politicians become more interested in it. As elaborated in chapter 5, voters vote on the health of the economy, and crisis decision-making matters significantly for the electoral outcome. Subsequently, the influence of interest groups wanes since they cannot risk a public outcry when the public detects rent-seeking. This analysis applies to bailouts and tax cuts for certain industries. Technical issues

within complicated areas of policy are unlikely to generate a lot of attention from the media, the public, or congresspersons.

8. The spatial distribution of interest groups and the relative influence of congresspersons matters. Mian, Sufi, and Trebbi (2010) analyzed the voting behavior of politicians concerning the Emergency Economic Stabilization Act and the American Housing Rescue and Foreclosure Prevention Act, which catered to the interest of Wall Street (special interest) and constituents in danger of experiencing mortgage foreclosure (constituent interest) respectively. The more politicians received financial contributions from the financial sector and the more the supporters suffered from mortgage foreclosures, the likelier it became that the politicians would vote for the bills (largely irrespective of their ideological preferences). The politicians vote that way to protect jobs, and thus voters, as well as ensuring ongoing financial support from these institutions.

9. The relative influence of interest groups also depends on which congresspersons are sitting on the relevant committees. "This affords congressmen," as Romer and Weingast (1991, 180) put it, "the ability to specialize on issues that relate to their constituents by obtaining membership in a committee with a policy jurisdiction that is important to the constituency. Because few congressmen can credibly claim a key role in major new legislation, the committee system affords opportunities for many members to specialize and build a reputation for expertise and influence in a specific area." A congressperson with good ties to the industry and who is the chairperson of the banking and finance committee is more likely to have influence on a crisis law than a congressperson who does not have these advantages. Similarly, a committee chair who does not like to work with financial interest groups is unlikely to follow their advice. The influence of the interest groups is weaker in that case.

Crisis laws are emergent phenomena resulting from the manifold interactions among the different nodes of the system. Entanglement is at the heart of interest groups' activity since their main purpose is to use private money to seek public favors.

Conclusion

We can tie together several strands of the literature to make sense of the pattern of lawmaking and the contribution of interest groups to it. As we have seen, financial regulation is mostly crisis regulation, as revealed in figure 2.7 and the work of Banner (2002; 1997). Lawmakers tend to stay away from financial regulation due to the time it requires during normal times. They leave it to bureaucrats and interest groups to figure out the details (Culpepper 2010). This changes during crisis. Legislators have to show leadership and that they are doing something. Therefore, their activity drives lengthier and faster pieces of legislation. Interest groups in the middle of the crisis might benefit during the rulemaking process, but their influence is limited during the lawmaking process. Most interest groups prefer the status quo but cannot influence policymakers very much due to the increased awareness of the public as well as the increased level of political entrepreneurship that does not rely solely on interest-group expertise. Interest-group activity does not drive crisis legislation. Crisis legislation drives interest-group activity. Interest groups have to attain more information and have to respond to more legislative proposals compared to normal times. Additionally, crises create regulatory responses, which extends the circle of political decision-makers. Crisis legislations are complex, intertwined (see figure 6.4), and full of exceptions. This leads to an incentive for interest groups to influence the new policy sphere. Entanglement becomes part of lawmaking during crisis. A simple rule with no exceptions would not invite lobbying since success at lobbying would be severely limited. In a complex environment with delegated rulemaking, interest

groups' activity has higher payouts compared to a world with less government power and complexity.

Surely, interest groups influence lawmaking and especially the bureaucratic rulemaking later on. But I do not find much theoretical or empirical evidence for relatively more influence of interest groups during the lawmaking process. The agenda is set by the legislators and the Christmas tree dynamic. Once lengthier and faster bills are outlined, interest groups change the agenda on the margin. The previous discussion of the nine points of interest-group entanglement and the presented theories and data raise doubts about the benefits of crisis legislation for interest groups. Legislators, with their goal to leave a mark and to signal leadership, produce laws that are often reactionary, ad hoc, and even if innovative, later undermined by exceptions through the interest-group influence within the rulemaking process. This does not seem like a recipe for good policymaking. Research on major financial laws enacted in response to crisis—such as Dodd-Frank, Sarbanes-Oxley, and laws concerning the thrift debacle—shows they all have significant flaws and often do not achieve their policy goals (Bainbridge 2010; Greene et al. 2013; Romano 2004; 1997; Romer and Weingast 1991). The pattern of lawmaking is not the result of heightened interest-group activity. Heightened interest-group activity rather is the result of the increased activity by Congress. Interest groups have to become more politically active to be prepared for the extensive regulatory changes enacted during crisis.

Chapter 8: Bureaucratic Behavior during Crisis

Boin et al. (2005, 12) write that "the nature of crisis undermines the rigid structure and well-defined purpose of bureaucracies." How do bureaucracies react when their structure is threatened? Do they see an opportunity to tackle the crisis-induced problems, do they seek to attain more power, or do they try to shield themselves from public criticism? In this chapter, I present different theoretical accounts and empirical evidence on the patterns of bureaucratic behavior during crisis. I find that economic bureaucracies do not grow uniformly throughout crises but that particular agencies gain a lot more influence. One reason for this is federal caps on the growth of bureaucratic budgets. These caps put limitations on federal agencies as to how much staff they can add. Nevertheless, I show that bureaucratic activity increases during crisis. The theoretical conclusions and evidence suggest that legislators delegate more lawmaking to bureaucrats. This leads to laws that are lengthier, passed faster, and benefit legislators, bureaucrats, and interest groups (Coffee Jr. 2011; Yackee and Yackee 2006; Stigler 1971). The delegation of lawmaking authority from Congress to bureaucrats is in the interest of both parties. Bureaucrats can implement the rules that govern their own behavior and maintain the integrity of their organization. Lawmakers can protect themselves against more criticism and are capable of producing crisis laws faster with the help of bureaucracies. Bureaucracies exercise influence on lawmaking from the conceptual stage, often located in the White House, till its implementation. The process of designing these laws and implementing them is entangled. Personal relationships between congresspersons, committee members, and bureaucrats are decisive in determining the content of crisis laws. The entanglement between Congress and bureaucracy is a fact in crisis and non-crisis times. However, I lay out several reasons why the delegation of lawmaking to bureaucrats becomes even more attractive to congresspersons and bureaucrats during crisis.

I first present data on the activities of federal agencies over time. I next present standard theories of bureaucratic behavior. The empirical and theoretical overview sets the stage for my own theoretical contribution to the literature on bureaucracy.

The Influence of Bureaucracies and Their Activity

Bureaucracies are crucial in designing rules for the federal government. In 2012, Congress passed 127 pieces of legislation. Regulatory agencies acted more. They adopted 3,708 regulations in 2012 (Crews 2013, 3). This means nearly 97 percent of all new regulatory rules were issued by bureaucracies and not by democratically elected representatives. In other words, bureaucracies issued twenty-nine times more rules than Congress. This ratio went up to fifty-one in 2013 (Crews 2014, 3). Regulatory content comes in a variety of forms springing from agencies that do not need Congress to act. These forms include the already-discussed executive orders, but also executive memoranda and guidance principles (Crews 2015b, 12–30).

As already discussed in chapter 2, the Code of Federal Regulations does not reveal a pattern of regulation during recessions. However, we can zoom in on the rules issued by agencies relevant during times of recession. For this, I look at the patterns of financially and economically relevant agencies and their annual rulemaking from 1993 to 2013 in table 7.[56]

[56] While the Consumer Financial Protection Bureau and the Financial Stability Oversight Board issue rules relevant for the financial sector, I ignore them since they have only issued rules since 2012.

Table 7: Annual Rulemaking of Economically Significant Agencies—1993–2013

Year/ Agency	'93	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13
Commodity Futures Trading Commission	21	13	9	12	19	21	30	19	15	15	11	14	19	25	32	56	68	83	33
Department of Labor	129	119	132	149	151	156	141	102	89	88	93	93	94	96	104	99	90	98	94
Federal Reserve System	38	40	36	30	22	33	32	24	18	18	17	13	20	18	26	22	29	25	16
Federal Trade Commission	12	17	19	16	16	14	13	10	12	14	15	16	14	17	20	19	24	23	20
National Credit Union Administration	21	12	14	14	26	16	22	20	27	26	27	29	24	22	24	24	28	31	24
Securities and Exchange Commission	86	102	79	83	80	77	80	73	71	79	64	71	76	72	74	75	107	89	76
Small Business Administration	77	18	15	25	35	41	37	40	33	29	34	32	28	26	39	51	48	43	30
Total	**384**	**417**	**401**	**427**	**448**	**358**	**356**	**290**	**268**	**273**	**266**	**274**	**282**	**284**	**328**	**356**	**405**	**404**	**306**
Average	**54.9**	**45.9**	**43.4**	**47.0**	**49.9**	**51.1**	**50.7**	**41.1**	**37.9**	**38.4**	**37.3**	**38.3**	**39.3**	**39.4**	**45.6**	**49.4**	**56.3**	**56.0**	**41.9**
Average of all agencies issuing rules	**83.9**	**79.3**	**74.7**	**77.3**	**73.2**	**75.8**	**72.7**	**67.5**	**68.8**	**65.9**	**65.5**	**65.4**	**62.6**	**64.6**	**65.2**	**68.1**	**66.6**	**65.5**	**53.3**

Source: Crews 2015a; Crews 2004; Crews 2000

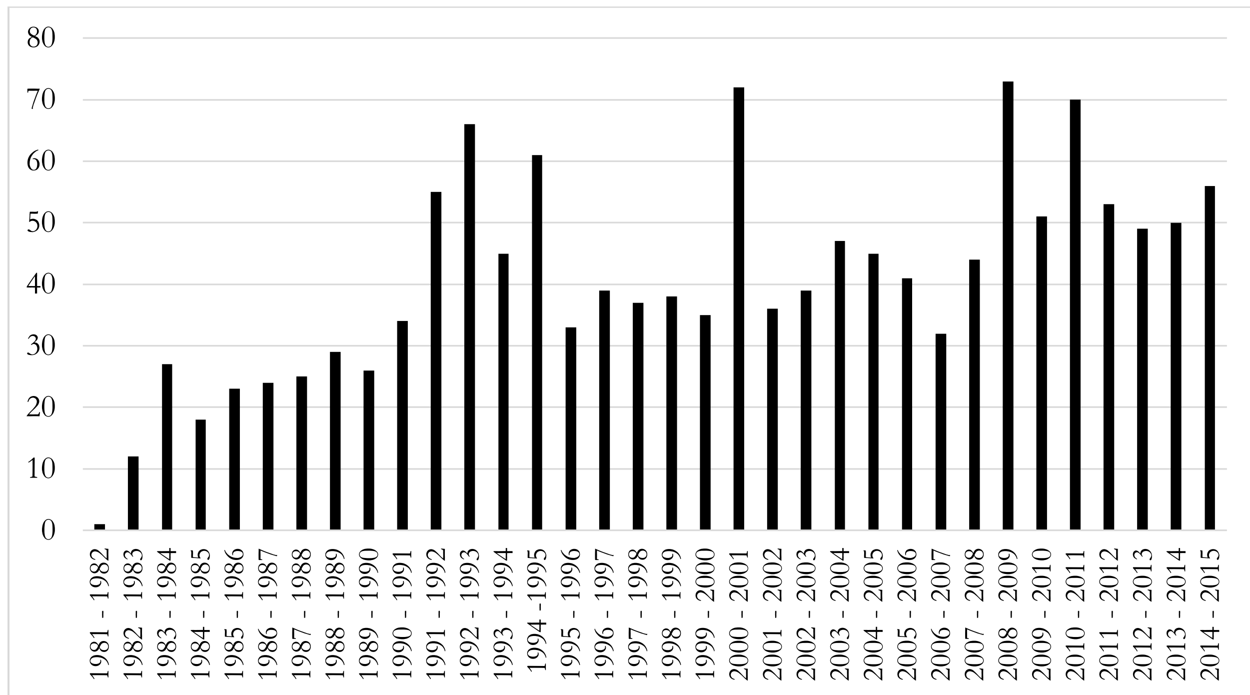
Note: I calculated the average of all agency rules only for agencies that issue rules on a consistent basis (more than five years in a row)

I do not have data from before 1993. Thus, I only assess rule creation during the dot-com bubble and the Great Recession. The Great Recession led to more rulemaking by the economically relevant agencies in 2009 and subsequent years. The same is the case for the dot-com crisis. Additionally, the growth of rulemaking for the economically relevant agencies might be due to enacted legislation and cannot be attributed unequivocally to an endogenous increase in bureaucratic activity.

With a longer time horizon, one can see a connection between bureaucratic rulemaking and economic crises. Figure 8.1 shows the economically relevant rules issued from 1981 to 2015

(Regulatory Studies Center 2015). I define economically relevant rules as rules that have an impact on the economy of at least $100 million.

Figure 8.1: Economically Significant Rules, 1981–2015



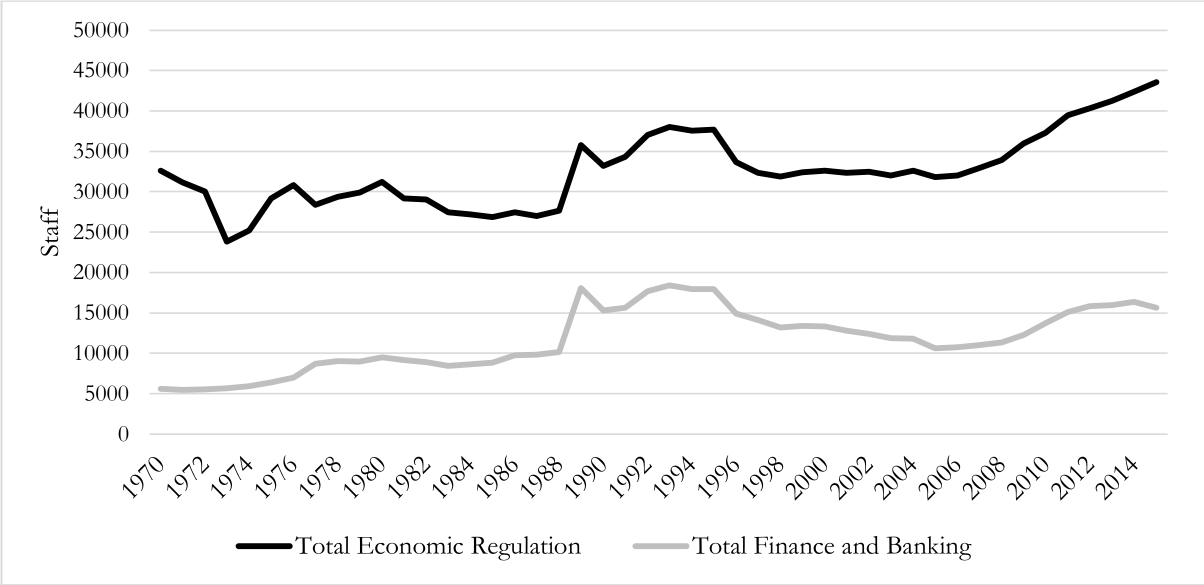
One can see a spike for the early 1980s, the early 1990s, the dot-com bubble, and the Great Recession. However, as in table 7, I am not able to differentiate between endogenous and exogenous, legislative rulemaking.

Additional evidence of increased regulatory activity in the Great Recession lies in increased staff for economically relevant agencies. Dudley and Warren (2008, 22; 2013, 17) find that economically relevant regulatory agencies received 30 percent more funding in 2012 than in 2007. This 30 percent figure ignores regulation about the environment and the workplace. The increase in funding came with an increase of 17 percent in staff in the same period (Dudley and Warren 2013, 23; Dudley and Warren 2008, 28). These budgetary increases were stronger for economically relevant agencies than for other federal bureaucracies. The focus on Wall Street and its regulation has continued, as Dudley and Warren (2015, 1) find when they write that this "is evident in the budget increases for the

Consumer Financial Protection Bureau, the Securities and Exchange Commission and the Commodity Futures Trading Commission." This insight corroborates Dunleavy (1991), who argues that regulatory agencies have a greater interest to pursue bigger budgets and more influence compared to redistributive agencies. The increased legislative activity in this period translated into an increased need for additional bureaucrats. However, the budget only increased for certain and not for all regulatory bodies (Dudley and Warren 2016).

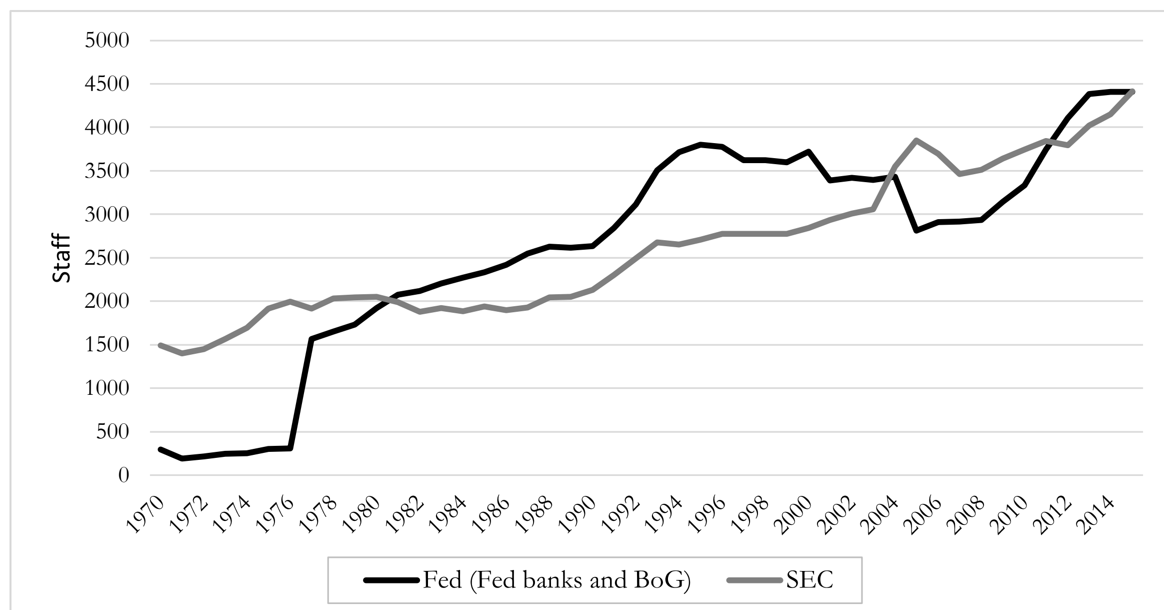
Another reason for the growth of bureaucracy is the benefits subordinates yield to the supervisor. This "bureaucratic imperialism," as Tullock (2005, 6:145–147) called it, leads to an increase in staffing beyond what is necessary for the bureaucracy to fulfill its mandate. However, looking at figure 8.2 (Dudley and Warren 2016), it seems that the number of bureaucrats within economic regulatory agencies has not increased much during crisis and not very much in general. Crises do not appear to generate the form of bureaucratic imperialism that Tullock was talking about.

Figure 8.2: Staff in Economic Regulatory Agencies, 1970–2014



Zooming in on staff development for some particular agencies, one can detect a crisis pattern. Figure 8.3 (Dudley and Warren 2016) shows staff numbers for all of the Fed banks and the Board of Governors (BoG) as well as staff numbers for the Securities and Exchange Commission (SEC).

Figure 8.3: Staff for the Fed and the SEC, 1970–2014



One can clearly see that the Fed gained staff during three crisis periods: the early 1970s, the mid-1990s, and the Great Recession. The Fed did this despite the criticism it received during the inflationary period of the 1970s and in the aftermath of the Great Recession. More research has to be done to find out whether the Fed agencies gained staff because they requested the power or as a result of legislators' decisions.

Theories of Bureaucratic Behavior and Recessions

What do bureaucrats want? In rational-choice theory, the answer is the maximization of utility. The following models provide some insights into the utility function of bureaucrats. One classical approach is the so-called bureaucratic-dependency model (Niskanen 1971). It depicts the legislator as disadvantaged compared to the more knowledgeable civil servant, who knows how to satisfy their preferences by outmaneuvering the legislator. Bureaucrats have longer mandates than lawmakers.

This results in their having relatively more institutional knowledge (Bara and Pennington 2009, 155–156). They can use it to hide or manipulate information to their advantage. Everyone who has watched the British political comedy *Yes, Minister* or *The Thick of It* understands these dynamics very well. At face value, these models are capable of explaining the observed patterns of crisis legislation. A crisis presents an opportunity for bureaus to increase their budget and influence, as they have an incentive to do, according to Niskanen (1971). One example is the Federal Reserve System, which, despite being the target of much criticism during and after the financial crisis, gained enormous influence and power at that time (Peirce and Greene 2013). Similarly, the FBI and CIA also gained more powers in the aftermath of 9/11 despite their shortcomings revealed after 9/11.

Studies such as McCubbins, Noll, and Weingast (1987), Weingast and Moran (1983), and Weingast (1984) argue against the notion that bureaus have absolute power. They show that legislators can rule over bureaucrats through imposing administrative procedures and budgetary controls and empowering commissioners. These procedures give lawmakers time to react to bureaucratic rulemaking, to involve the public, and to limit the power of bureaus. This theoretical account of legislative behavior is epitomized by congressional deliberation on the American Recovery and Reinvestment Act, the extensive stimulus package. The law is lengthy enough to provide specific procedures to reduce the discretionary power of bureaucracies. Discretion was nevertheless possible due to the sheer amount of funds to distribute and the complexity that came with that. Dodd-Frank was even more complex than the ARRA. The financial-sector reform law instructed more than twenty federal agencies to create close to four hundred new rules, which are often ill-defined, as in the case of the rule that intends to prevent "unfair, deceptive, or abusive" lending practices (Rose and Walker 2013). Congress also spent much time deliberating on the Homeland Security Act for the same reason. It changed nearly every section of the proposed bill to control bureaucracies and to serve its interests (Cohen, Cuéllar, and Weingast 2006, 714–715). The interest of committees to

protect their jurisdiction, regardless of the social benefits or harms, was exhibited in the regulatory decisions (many of them made during crisis) concerning securities regulation from 1974 to 1992 (Romano 1997). Cohen, Cuéllar, and Weingast (2006, 716) points out the dangers of this political interest when they write that "members of Congress have greatly hindered DHS's [Department of Homeland Security] ability to address the pressing problems of terrorism by prescribing constraints on spending that have little or nothing to do with homeland security but everything to do with their reelection prospects." McCubbins, Noll, and Weingast (1987) shows that legislators are not the helpless victims of bureaucratic will. Nevertheless, regulatory decision-making has been transferred from Congress to bureaucrats (as I will discuss below).[57]

Mainly three reasons explain the transferal of decision-making rights from legislators to bureaucrats, and these reasons account for the interests of the legislators and bureaucrats alike.

First, government and regulation have become increasingly complex. This makes a division of labor necessary in which lawmakers decide on the policy direction and bureaucrats on the details. The knowledge of the bureaucrat is required to embed any new rule within a system of already-existing rules. The sheer amount of information and opinions makes interest groups an integral part of the policymaking. The same reason makes bureaucrats necessary to establish policies that are somewhat consistent with already-existing rules. Crews (2015b) has empirically verified the importance of bureaucracies in designing federal rules. However, bureaucracies, which might be capable of implementing rules effectively within an already-existing body of law, does not necessarily reflect the intentions of lawmakers. Extensive reforms moving policy away from the status quo are unlikely in a system in which the institutions to be reformed are implementing those very reforms. There is a

[57] Individual legislators and committee members still can exercise ex post control (Rao 2015, 1481–1482).

clear principal-agent problem. Lawmakers have specific goals, and bureaucrats have to comply. However, the bureaucrats have significant discretion in how they interpret the intentions of lawmakers as well as discretion in implementing laws. I conjecture that this creates a process of bargaining between legislators and bureaucrats that leads to compromises codified in lengthier legislation but not in extensive reforms. Most US bureaucracies fall into the category of autonomous administrations (Knill 1999, 114). The informal and formal processes that give power to bureaucracies are entrenched. Major bureaucracies have legislative councils whose purpose is to adjudicate between the bureaucracies, with their expertise and desires, and Congress, with its own lawmaking efforts. Shobe (2016, 15), whose work builds upon fifty-four interviews with bureaucrats on the relationship between bureaucrats and legislation, writes, "Not only do agencies have expertise, but they have the staff to exploit that expertise to their benefit both before and after legislation is enacted."

Another argument that raises questions about the appropriateness of US technocracy is the lack of checks and balances constraining bureaucrats. Checks and balances exist within Congress but not for bureaucrats who decide what rules to implement and how. Decisions on legislative content and its execution take place in the shadows through informal conversations between committee members and bureaucrats (Walker 2016, 12, 36).

The second explanation why deferring power to bureaucracies is desirable is more cynical. It is best introduced by Machiavelli's prescription that "princes should delegate to others the enactment of unpopular measures and keep in their hands the distribution of favors." Neither legislators nor bureaucrats like to take the blame for failures. Loss aversion weighs heavily on the decision-maker, and legislators like to avoid blame more than they like to be able to claim success. This logic coheres with the discussion on voter behavior from chapter 5. This is also Weaver's (1986) argument that

the public's negativity bias leads to legislators being loss averse. Blame avoidance in government leads policymakers to delegate decision-making to bureaucrats. According to Hood (2010, 69), this creates organizational structures "in directions very different from those suggested by other design principles. In particular, when deflecting or diffusing blame is of the essence, the emphasis typically goes on designing organizations to achieve disconnection among different units and disconnection from past structures—the very reverse of what are ordinarily considered to be desiderata of good public organization." This blame avoidance does not stop at the legislator. It extends to the bureaucrats.[58] The most well-known example is the Food and Drug Administration and its overinvestment in safety to avoid blame (Montazerhodjat and Lo 2015; Kazman 1990). Thus, it is a very sensible strategy to delegate decision-making to have someone else take the blame. From an economic point of view, this diffusion of responsibility is a utility-maximization strategy. Blame seems to be constant during crisis, but it is not always a successful strategy (Boin, McConnell, and 't Hart 2008, 298–301). Whatever the strategy of bureaus and legislators, they are keen to avoid blame for any aspects of the crisis and to avoid future fallout from suboptimal policymaking. Bureaucrats have to carefully balance their focus to avoid blame with their desire to implement changes and maintain or gain for more influence.

Moe (1990) provides a third reason why delegating authority to bureaucrats might be advantageous. Moe (1990, 227) lays out the following problem faced by any incumbent government when creating public policy. He writes: "While the right to exercise public authority happens to be theirs [the incumbent government] today, other political actors with different and perhaps opposing interests may gain that right tomorrow, along with legitimate control over the policies and structures that

[58] Hood (2010, 42, 70) provides an overview of agencies' and legislators' strategies to avoid blame.

their predecessors put in place. Whatever today's authorities create, therefore, stands to be subverted or perhaps completely destroyed-quite legally and without any compensation whatever-by tomorrow's authorities." This is a common problem which can be addressed with the following solution (Moe 1990, 227): "Because the dangers of political uncertainty can be anticipated from the outset, however, today's authorities need not leave their creations unprotected. They can fashion structures to insulate their favored agencies and programs from the future exercise of public authority." Thus, governments have an incentive to lay out clear instructions for bureaucrats so that future governments cannot easily undermine the political will of today. This incentive structure can contribute to the length of legislation. Dodd-Frank and the ARRA can be seen as examples of that. These laws contain detailed directives for the bureaucrats which make them among the lengthiest laws in the last four decades of lawmaking. Hereby, the political end of creating sustainable public policies is more important than an effective organizational structure for bureaucracies (Moe, 1990, 228). The political manipulation of bureaucracies has also been addressed by institutional changes. There is a worldwide trends of creating more independent government agencies (Roberts 2010b, 201). However, the will of the incumbent government is not absolute even if they have the majority in both houses. The American governmental system is fragmented by design. Thus, compromise is always necessary (Moe, 1990, 229-230). This process of bargaining and potentially logrolling can similarly lead to lengthier legislation.

Now, I would like to go back to the politics of blame avoidance and how it was practiced during the Great Recession. In the next several paragraphs, I introduce quotations and quantitative evidence that show that financial regulators knew about the risks in the financial sector, though they argued that they did not and that they were not responsible. The quotations and evidence stem, if not differently indicated, from Barth (2016). Legislators were quick to blame the supposedly lax regulation of previous years, capitalism, and greed. However, individual lawmakers such as former

New York governor Spitzer (quoted in Roberts 2010a, S61) located the fault within regulatory agencies such as the SEC and its "inaction while blatant abuses stared it in the face." Spitzer (S61) went on to claim that the SEC was "intellectually or ideologically unwilling to confront powerful market players."

The SEC, on the other hand, issued a statement by its inspector general that "identified precisely the types of risks that evolved into the subprime crisis." Anton Valukas, an examiner in the Lehman Brothers bankruptcy, agreed with this when he stated that "the SEC knew about these excesses and did nothing." Officials of the administrations (such as Bernanke, Paulson, Geithner, and Rubin) denied this and spoke of a "hundred years flood" that was an "unprecedented and unforeseeable market collapse."

The problem was known, though. With high precision, the FDIC identified "79% of banks to fail before they failed." However, according to the FDIC's material loss reviews, it did not act promptly in 95 percent of the cases to address the identified problems. To summarize, there was much blame to be passed around, and there is not much evidence that regulators demanded more responsible behavior in the aftermath. It is astonishing that the Fed gained more influence and power after the Great Recession despite having been criticized for (a) not identifying the bubble, (b) not pricking the bubble, and (c) not adequately regulating the financial instruments that contributed to the recession (McLaughlin, Reese, and Sherouse 2016). Similarly, the mortgage lenders Fannie Mae and Freddie Mac, despite being in the eye of the toxic-mortgage hurricane, have not had to face any more oversight or regulation since the crisis. They were not even addressed by the encompassing Dodd-Frank regulation. Blame is often passed around, but it is unclear that there are corresponding consequences.

To review, there is considerable conflict between the theoretical accounts of bureaucratic decision-making, including about where these theories locate the power. Niskanen (1971) and the literature building upon him attribute the power to the bureaucrat. McCubbins, Noll, and Weingast (1987) and the literature they represent argue that this power is not absolute and that the legislator manipulates the procedures to exercise power over the bureaucracies. It is likely that bureaucracies contribute to the length of crisis legislation with already-existing policy proposals. Due to the complexities of modern democracies, bureaucrats often become technocrats. Technocratic policy suggestions can explain how lengthier laws get enacted in less time. Another explanation for the patterns of lawmaking is the need for legislators to control bureaucracies. Legislators have to act fast to please the public. However, they do not have sufficient time to design thorough laws. Thus, they push that task (potentially also to avoid future blame if something goes wrong) onto bureaucrats. Nevertheless, legislators do not want to give total discretion to bureaucrats. Accordingly, they increase the length of laws to limit the discretion of the bureaucrats. This was the case for the ARRA and also for Dodd-Frank. They gave clear instructions to the bureaucracies but made them do most of the distributive (ARRA) and regulatory (Dodd-Frank) work of fleshing out the rules left unspecified in the laws.

The discussed theoretical works yield different intuitions concerning the locus of power. It seems likely that sometimes bureaucrats implement their desired changes, and other times Congress prevails over bureaucratic demands. Individual agencies such as the Fed (McLaughlin, Reese, and Sherouse 2016), the homeland-security apparatus (Cohen, Cuéllar, and Weingast 2006), the FDIC (Hendrickson 2011, 174–187), and the Treasury (Roberts 2010a, S60–61) have all gained considerable power during crisis. Nevertheless, the presented data do not show systematic increases in bureaucratic staffing or funding during such times. The standard accounts of bureaucratic behavior do not provide conclusive evidence of what happens inside bureaucracies during crisis. The

next section seeks to remedy this by presenting an entangled approach to bureaucratic behavior during crisis.

An Entangled Theory of Bureaucratic Behavior during Crisis

Bureaucracies and their agents, crucial nodes of the policy-making system, do not have uniform preferences. Their incentives during a crisis depend on their mission, their political connections, their role in the crisis, and their political aspirations. Budget maximization and an increase of power might be in the interest of key bureaucrats within an institution, but one cannot assume the whole bureaucracy to have this goal. Bureaucrats might want to move up the bureaucratic hierarchy to move toward a more desirable position within the web of federal agencies. This does not require budget maximization but strategic political decision-making and connections. A crisis is a window of opportunity as well as a huge risk for individual careers. While bureaucrats are unlikely to be fired for failing at the organizational mission, they clearly have the incentive not to become the scapegoat. Therefore, blame avoidance is a strong incentive for bureaucrats in crisis.

Entanglement stresses the importance of the circumstances of time and place as well as the institutional setup to attain an understanding of the incentives for relevant nodes in the political system. If the bureaucrat's agency is politically criticized, blame avoidance and mitigating the fallout of a failure in overseeing the economy becomes her central focus. However, if the bureaucrat is effective in avoiding blame or is not negatively affected by the economic situation, she may be able to use the crisis to further her own agenda. This entails budget maximization (of her individual department and not necessarily the whole bureaucracy), increase of staff, and most importantly, extension of jurisdiction and influence.

Accordingly, bureaucrats have a host of different options to achieve their personal goals during a crisis. These options include the following:

1. jumping agencies[59] to achieve a more desirable position (Downs 1967);
2. increasing the influence of their division or agency (Tullock 2005c);
3. avoiding blame (Hood 2010; Weaver 1986); and
4. maximizing their budget (Niskanen 1971; Downs 1967).

Dunleavy (1985) makes the crucial point that the utility function of the bureaucrats can be depicted on a scale from more individualistic goals like (1) and (2) to more collectivistic goals like (3) and (4). Accordingly, Dunleavy (1985, 302) writes, "we should expect bureaucrats to put their efforts primarily into individual utility-maximizing strategies, implying that their energies will only be displaced into the pursuit of collective goods as other options are foreclosed or become fully exploited." During crisis, more-collective forms of blame avoidance become crucial as well as individualistic maneuvering of high-level bureaucrats to gain more power for themselves and for their agencies. Bureaucrats at the top of agencies have many options and also face more risks. Lower-level bureaucrats are unlikely to be affected by a crisis. They also do not have many opportunities to improve their position in the hierarchy or the influence of the bureaucracy in general. A budget increase, postulated to be the highest goal of bureaucrats, does not readily translate into individual benefits (Dunleavy 1985, 302). It is diffused throughout the agency and will only benefit certain individuals within a bureaucracy. Furthermore, increasing staff numbers might not be universally desirable by bureaucrats either. Niskanen would say that it is desirable but neither Dunleavy (1985) nor Pennington (2000) concur. Pennington (2000, 96) makes the point quite

[59] A term that Downs (1967) coined.

concisely when asking "Why should senior bureaucrats care how many workers perform the refuse collection or fill the potholes in the road?" Higher level bureaucrats are rather interested in having a convenient and interesting job which might include the outsourcing of lower-ranked personnel.

There is no one utility function expressing what the main bureaucrat or even a group of main decision-makers want during a recession. Bureaucracies are not a monolith and one cannot assume that there is one set of preferences for the main bureaucrat or even a group of main decision makers. These vary according to the bureaucrats' position in the hierarchy, their direct reports, their long-term vision for the organization, and their career plans. Those preferences are also affected by the crisis-induced conditions. Some of these reasons contribute to the fact that bureaucracies tend not to uniformly grow or shrink in size during crisis. The previous point laid out an entangled approach to bureaucratic behavior. The next section applies this perspective more specifically to crisis lawmaking and bureaucratic influence.

There are two distinct dynamics in place during crisis lawmaking. The Christmas tree–law dynamic is one part of the equation. The other part concerns the conception and implementation of laws, which is open to influence by different stakeholders. Due to the speed of lawmaking and the increased legislative content, lawmakers have less time to consult stakeholders and listen to technical expertise for any given proposal. The latter is supplied largely by executive agencies and their bureaucrats. There is not enough time to discuss details of a given proposal. The lengthier a law becomes, the more legislative power and discretion is delegated to executive agencies. Congress has its own legislative council which has the purpose to draft legislation. However, 74 percent of the respondents in Shobe (2016, 20–21) stated that they either often or sometimes write bills on congressional request. These legislative processes mostly take place in the shadows (Walker 2016).

This is not a new phenomenon, as this quotation by James Craig Peacock (quoted in Walker 2016, 5–6) from 1961 shows:

> For it cannot be overlooked that, in Washington, at least, the extent to which the spade work of the actual drafting of important legislation has been shifted all the way back to the agency level, is a major phenomenon of present day government.… Indeed, the executive branch of the Government is no longer even expected to confine itself to the mere making of recommendations or proposals. It is practically expected to implement them in the form of already drafted bills.

This does not mean congresspersons do not have influence. Language by bureaucracies is most often adapted by Congress. However, the majority of the bureaucratic-generated content stays the same (Shobe 2006, 23–24). It is in the interest of both the bureaucrats and the lawmaker for the lawmaker to delegate. Bureaucrats prefer discretion over tight rules. Based on extensive interviews with over twenty federal agencies, Walker (2016, 17) finds that overall themes of "flexibility," "drafting broadly," and "preserving regulatory authority" were quite common in the agency interviews conducted for this study. A general theme emerged during the interviews that most legislative activity initiated in Congress has the potential to harm the agency's current authority, so in many circumstances the agency's primary objective is to minimize the harm and preserve the agency's existing regulatory authority.

Respondents to Shobe's (2016, 24) interview question also revealed that bureaucrats have their own agenda. One respondents said: "We usually will help out Congress any time they request technical assistance. However, if our department hates a bill, we don't want to fix it for them because from our perspective it can't be fixed. If we strongly oppose the bill we are not going to help them make

technical changes to make it better." Shobe (2016, 36–37) also finds that that 67% of his surveyed bureaucrats prefer always or often "open-ended language." One interviewee put it straightforwardly "We usually want the broadest authority we can get. We don't know when we will get another chance to get a bill passed" (Shobe 2016, 37).

This preference for "flexibility" becomes more important during crisis. Congress wants to change many things quickly. They cannot carefully draft legislative texts themselves. They rely on drafts from agencies. Due to the short time there will be ambiguity within the legislative texts. Bureaucracies have to figure out how to implement the law and create standards and guidelines for laws (which in themselves have regulatory content). To provide an example from Dodd-Frank: The law is the fourth-longest law in my data series. For every word of the law, the two dozen agencies involved in the process created forty-two additional words of rules (Davis Polk & Wardwell 2013). This does not include the additional words in documents that interpret the rules and provide guidelines for private and public institutions.

Lawmakers like to delegate lawmaking since it allows them to avoid blame while still being able to influence how bureaucrats implement law. Using informal and formal means, legislators influence executive agencies as the agencies implement a law to achieve goals that support their reelection or benefit their constituency and interest groups (Rao 2015). Aranson, Gellhorn, and Robinson (1982) argue that delegated rulemaking, which is largely shielded from the public eye, strengthens the iron triangle (interest groups, bureaucrats, and legislators). Another added benefit of delegating to agencies is stressed by Rao (2015, 1482), who writes that because "delegations reduce the cost of legislation, delegating policymaking to agencies will leave legislators with more time and resources to provide constituent services and engage in other activities that improve their chances of reelection. Reelection will often turn less on enacting legislation and more on satisfying certain core

constituents." This incentive is even stronger during crisis, when a congressperson must correspond more with the concerned public and media.

In chapters 5 and 6, I argued that there are stronger incentives for Congress to be united. Ideological bickering and contrarian attitudes are costlier when the attention of the hurting public is directed to the body politic. The seminal work of Epstein and O'Halloran (1999, chapter 6) showed that executive agencies have more discretion under a unified government than under a split Congress. Again, there is evidence that crises lead to fewer checks and balances on lawmaking since laws have to be made quickly. The lack of checks and balances and the unity of government make it more likely that more provisions are added to bills (Christmas tree dynamic), which then are delegated to bureaucrats to implement. Walker (2016, 36) also sees this risk when he writes that "the relationship between individual members of Congress (and congressional committees) and federal agencies may elevate the risk that agency legislating in the shadows leads to excessive delegation of interpretive and policymaking authority in ways that contravene the will of the collective Congress." If Congress is divided the dynamic of lawmaking and bureaucratic involvement changes so that bureaucrats become more focused on controlling legislation than to pass it. Shobe (2016, 43) explains and quotes interviewees:

> Respondents also explained that in times of divided government, interbranch competition increases and agencies are more likely to try to stop legislation than promote it because Congress is most likely trying to constrain agencies. As one respondent remarked: "When there is a Democratic President and Republican house, Congress is not looking to expand the agency's authority." Another explained: "When the opposing party has power our goal is less to create statutes and more to

> stop statutes and to stop implementation that goes against our policy goals.

In addition to the de facto legislative power of bureaucrats who flesh out the content of a law, delegation also allows bureaucrats to interpret the very rules that guide their future behavior (Walker 2016, 3–4). Bureaucrats are incentivized to interpret rules during the rulemaking process in a way that benefits them by yielding them more power, furthering the reach of the agency, or protecting the agency from future criticism. These goals can apply to the agency as a whole or the individual bureaucrat who works on fleshing out the content of a rule. This interpretative work is sometimes difficult, as this statement of a high-level bureaucrat (quoted in Walker, 2016, 34n137) shows:

> Having seen how congress legislates—and knowing how much drafting is done by basically know-nothing congressional staffers, I think it is basically impossible to generalize about whether terms are intended to be used consistently—most often the drafters, as well as their legislator bosses, have no clue what is already in the statute that they are adding to or amending. I wish I could be more positive, but have you read the shit that congress churns out[?]

This strong sentiment was shared by several other bureaucrats in the study by Walker and sources cited therein (2016, 34n139). This nescience by congressional staffers and their bosses leads to more work for the bureaucrats and subsequently also to more interpretative room as they implement the statutes.

The institutional framework, hierarchies, and formal norms are important. Most commonly, however, the content of laws is developed in interactions between committee members and technical experts from bureaucracies as well as between other nodes in the entangled system. The

experts' informal advice is often not technical but still substantive (Walker 2016, 12). Walker (2016, 10–19) discusses extensive interview material that reveals the interactions. One bureaucrat (quoted in Walker 2016, 11) participating in the survey states, "When the real work gets done, it's the subject matter experts at the agency and at the congressional committee that interact. I can guarantee you that they have their direct lines." Shobe's (2016, 33) interview-based study raises similar sentiments "The more policy oriented it gets the more levels of bureaucracy it has to be cleared through.… If I want to provide policy input but don't want to go through a bunch of layers of bureaucracy then I pick up the phone" and another response (Shobe 2016, 43) was that "We have a close relationship with the committees we work with.… We have built up a lot of trust and have a big role to play. This facilitates our ability to promote compromises."

Shobe (2016, 42–44) also finds that half of the respondents in his interviews were former employees of Congress or the administration. The revolving-door phenomenon occurs for interest groups and bureaucrats. These relationships and the frequent informal conversations have the added advantage that policy is discussed but it does not have to go through the official clearing mechanisms and checks and balances that the Office of Management and Budget requires. Personal relationships between bureaucrats, Congress, and the White House are key throughout the different policy-making stage (from inception to implementation. Shobe (2016, 5) finds that

> respondents described various personnel and political factors that determine how, and to what extent, agencies play a role in originating and reviewing legislation. Some of these factors would be difficult for outsiders to detect, like the personal relationships between agency and congressional staff. Agencies have to cultivate relationships with congressional staff to ensure they have an opportunity to be a player in the legislative process. Many respondents previously worked for a

> congressional committee and described a revolving door between agency legislative staff and Congress that allows agencies to maintain influence with congressional staff.

Additionally, many crisis laws originate from the president's administration. Bureaucrats are commonly relied upon to advise administrative staff when drafting bills. However, it is not only advice. Often the legislative texts are written without a request by legislators. Subsequently, these texts are then presented to Congress or the administration. Shobe (2016, 18) found that 80 percent of his interviewed bureaucrats either always or often write proposals without a request from the legislative branch or the White House. Thus, bureaucrats have an influence in all stages in the lawmaking process: during inception in Congress or in the White House (Shobe 2016, 4; Walker 2016, 2); during the deliberations on a bill in Congress; and during implementation, when executive agencies give substance to rules laid out in laws (Crews 2015b). During non-crisis times, it is more likely that at every stage bureaucracies compete more fiercely with other bureaucracies and interest groups. Due to the time pressure, the administration and Congress are less open to involving more stakeholders. The Christmas tree–law dynamic in conjunction with disproportionate influence by bureaucrats leads to lengthier, more discretionary, and faster-enacted laws.

Bureaucrats are not innocent bystanders reacting to the flood of new rules that crisis legislation generates. They have significant influence throughout the process of drafting and implementing of the legislation. To reiterate; bureaucrats frequently propose bills, they draft bills unrequested, they provide informal drafts and expertise to congressional staffers and the White House [which is outside the control mechanisms of formal clearance processes and documentation (Shobe 2016, 6,

32–33; Walker 2016)], they are influential during congressional debates and shape bills in real-time,[60] they interpret the language in laws, they are generating additional legislative content on the basis of the laws, and they generate guidelines for third-party stakeholders to guide their behavior in concurrence with the law and the bureaucrats' goals. During time of crisis and increased unity of Congress, bureaucracies are likely to be even more influential in the lawmaking process compared to normal times.

Due to the superior knowledge of agency experts, they shape policy proposals in such a way that they become more aligned with already-existing statutes, the preferences of the agency, and the general policy goal. In this sense, the congressional-dominance model (Weingast and Moran 1983) as well as the theories that locate the power in the hands of bureaucrats à la Niskanen (1971) and Tullock (2005) are all relevant. Bureaucrats are not totally free to write into the statutes whatever they want. It is a constant exchange mostly between congressional or White House staffers and the agencies embedded within a system of already-existing rules and guidelines for agencies. This leads to laws that become lengthier since they have to be embedded within a complicated network of already-existing law while at the same time satisfying the different stakeholders from the White House, Congress, bureaucracies, and interest groups. It is nothing new that power struggles are at the heart of policymaking. That does not seem to change in crises, as Cohen, Cuéllar, and Weingast (2006) in the case of homeland security and Romano (1997) in the case of securities regulation have shown. Cohen, Cuéllar, and Weingast (2006, 693–694, 695–698) argue that Congress and individual committees were focused more on keeping power than reforming the national-security system in a

[60] One of Shobe (2016, 26) interviewed bureaucrats states "During markups we are there and set up a war room so we can quickly review amendments and send our comments back." Eighty-three percent of Shobe's surveyed bureaucrats declared that they are often or always involved in the markup phase of laws.

way that would increase the flow of communication in the aftermath of the 9/11 attacks. Similarly, the ARRA has been shown to cater to the needs of legislators and their electorates and less to the needs of areas in economic distress (Young and Sobel 2013).

During times of increased legislative activity, bureaucrats have to give themselves more leeway in interpreting the rules. One way of doing this is to extend the content of the laws to allow for a broader interpretation of the rules. During the crisis, there is not enough time to analyze all the potential ramifications of a law in detail. Therefore, legislative ambiguity becomes even more desirable than during normal times.

Conclusion

In this chapter, I continued the theme of chapters 5–7 and compared theories about political groups, including my entangled political economy approach, regarding their merit in explaining the patterns of crisis lawmaking. It is difficult, if not impossible, to assess the relative bargaining power of these groups a priori in a complex system of entangled political economy (Wagner 2016; Wagner 2012a). As in the other chapters, theories that aggregate individual preferences to a lesser extent were capable of illuminating the dynamics of crisis decision making. Dunleavy (1991) and his "bureaucracy shaping" approach stress the various incentives faced by bureaucrats depend on the institutional framework, the role of the bureaucracy, the position of the bureaucrats, and the situation of time and place. Bureaucrats do not have uniform preferences for bigger budgets or more personnel as Niskanen claims.

Using Dunleavy (1991) and other theories of bureaucratic behavior as cornerstone, I built my I theory of bureaucratic behavior and its entangled nature during crisis. Crises make united

government more likely than non-crisis times. Unity increases the level of deference to bureaucracies. Legislative decision from the conceptualization of policy to its implementation is heavily influenced by bureaucrats. The majority of the processes that design policy are determined by informal relationships by members of the administration, Congress, and experts in agencies. Bureaucrats are highly influential as this statement from Shobe's (2016, 18) surveys shows: "It is no secret that the President proposes bills to Congress. But where does that language come from? It doesn't appear by magic. Someone in an agency is the one who wrote it."

Bureaucrats are influential and responsible for up to 50 percent of the statutory language within bills (Shobe, 2016, 22). This might increase due the time pressure during crisis. However, this also shows that bureaucrats are not omnipotent and that there are other sources for legislative content which stresses the importance of taking an entangled perspective when studying lawmaking. Interest groups, the White House, congresspersons and their staff are other nodes in a system of exchange relationships that eventually lead to a final law.

I argue that both legislators and bureaucrats prefer to delegate legislative decision-making to bureaucrats. This provides benefits for legislators by letting them do the following:

- avoid blame by shifting responsibility;
- claim successes if the agency does something right;
- save time, which they can spend on taking care of their constituency;
- react fast and extensively to signal to the public that "something is being done"; and
- as committee members, retain mechanisms ex post to get bureaucracies to implement changes that benefit them.

And it provides the following benefits for bureaucrats:

- ensures new laws are compatible with existing statutes;
- gives them interpretative power to increase or maintain their agency's control;
- allows them to work with interest-group representatives to generate private benefits and save time;
- increases the importance and relevance of their agency; and
- lets them implement their favored policy goals.

Empirically, I have not found evidence for systematic growth of bureaucracies during crisis. Nevertheless, during some of my crisis periods, new agencies were created or already-existing ones made more powerful. This has been the case with the Fed, the FDIC, the Department of Homeland Security, the Transportation Security Administration, the Public Company Accounting Oversight Board, the Consumer Finance Protection Bureau, and the Financial Stability Oversight Council. The time pressure in conjunction with the overlapping incentives to delegate more decision-making power to bureaucrats leads to a more extensive mandate for bureaucrats. They seem to have more influence during the lawmaking process during crisis. Government tends to be more united and the lack of time allows for fewer checks and balance. Legislators want to implement policy fast and need to rely on agency-originated proposals, expert advice, and implementation. These theoretical considerations suggest that the locus of power moves from Congress and the White House to bureaucrats.

Chapter 9: The Entangled Political Economy of Crises

The last eight chapters contributed to crisis research in two ways: First, I showed a unique pattern of legislation during crisis (chapters 2 and 3). Laws became lengthier and were enacted faster during the last five recessions. Second, chapters 5 to 8 explained this process through studying the four main groups within a democracy (voters, legislators, interest groups, and bureaucrats). These chapters not only focused on the incentive changes within each group during crisis but also discussed the interdependency among the groups using an entangled political economy approach.

The introduction delineated my approach from and situated it in the already-existing research on crisis on at least three margins: (1) Most research on crises shows that the outcome of policymaking during crisis is different. (2) Studying the pattern of lawmaking during crisis in a quantitative manner has not, to my knowledge, been done before. (3) My study focuses on the microfoundations of the four different groups and their behavior during crisis. The previous chapters address the incentive changes and consults a variety of literatures to form political theoretical conjectures about the behavior of the groups and their influence during crisis on the patterns of lawmaking.

In chapters 2 and 3, I introduced the patterns of lawmaking that emerged throughout the last five recessions. Through compiling different data sources via Visual Basic, I created a database that tracks all laws from Congress from 1973 to 2014. In these chapters, I identified the crisis laws and compared their word count and their time in Congress to the average non-crisis laws. A clear pattern emerged: The twenty-three crisis laws are on average ten times longer than the average law of the four decades of lawmaking. All crisis laws, on average, get enacted 120 days quicker than the average non-crisis law. These correlations continue to be significant when comparing the crisis laws to the average financial-regulatory law (appendix 1). My discussion of quantitative and qualitative data

contributes to research on crises. The other contribution lies in the analysis of the four influential groups within crises (votes, legislators, interest groups, and bureaucrats).

My view, formulated and substantiated in chapters 1 and 4, is that the entanglement of policymaking matters. Throughout this dissertation, I have pursued a dual approach of analyzing the four influential groups and their incentives during crisis while also taking the interdependencies among these groups into account. Chapter 4 argues that entangled political economy serves as a useful framework to study crises. Literature from political science to political economy stresses the interdependence and the importance of the different groups. Entangled political economy, with its methodological proximity to public choice, has shown itself to be useful in illuminating the incentive changes and the consequences at the microlevel of relevant groups during crisis.

Chapter 5 discussed the choice architecture of voters during crisis. The outlined mechanism explains how voters form preferences and transmit them during crisis. Additionally, chapter 5 provides an explanation for why voters act rationally when they advocate for more government activity during crisis while at the same time complaining about the inefficacy of government. Crises temporarily lift the fog of ignorance due to the increased political awareness of the suffering public. This makes legislative decisions in crises more memorable to the public and thus important to the legislators and the next elections. This does not imply that the voters' preferences for policies will not be systematically wrong about what is the best policy to respond to a crisis. On the contrary, evidence shows that voters are systematically mistaken about the effects of their economic ideas (Somin 2013; Caplan 2007). Legislators have a strong personal interest to respond to the increased awareness of the public. Legislators respond swiftly and extensively. The short-term promise to alleviate collective suffering has political benefits. The costs of the intervention occur in the future, and legislators and voters discount them (Wagner 2012b; Amador 2008; Persson and Tabellini 1990; Alesina and

Tabellini 1989). These costs are dispersed across the public, and the benefits of spending during times of crisis outweigh the short-term costs in the political calculus (Olson 1965).[61]

During crises, legislators feel pressure from their constituency and the increased media coverage. In chapter 6, I argue that legislators are aware of the importance of the economic conditions for reelection. It is clear to Congress and the executive that something ought to be done. Once that something is decided upon, the floodgates are open for adding content to the laws. Congresspersons know that a bill will go through since otherwise the obstructionist party would be blamed for not helping the suffering public. These circumstances create what I call Christmas tree laws—laws to which legislators and bureaucrats attach their desired policies. This is one of the reasons why laws become lengthier. Additionally, lawmakers want to pass something extensive and pass it fast to signal to their constituency that they are doing everything in their power to address the crisis.

These complex laws—on national security and financial markets, in particular—require a lot of information, studies, technical consulting, and the like. Therefore, legislators depend on interest groups for information (chapter 7). However, a danger lies in the possibility that interest groups will manipulate the legislators or bureaucrats by feeding them information and recommendations that benefit their business but not necessarily the public. I have not found evidence of increased interest-group activity during crisis when looking at interest-group spending patterns, income of legislators, and Senate-committee interest-group receipts. However, within the literature and from my qualitative data (chapter 3), I found evidence for the influence of interest-group and legislative coalitions. The coalitions' interest groups gain political favors in the form of bailouts and other

[61] This is only the case as long as the polity has some ways of borrowing money. The so-called austerity policies in countries like Greece, Portugal, and Spain in the aftermath of the Great Recession are a different response since their governments cannot afford to spend to tackle the crisis. They have to find alternative ways to deal with recessions.

government programs. I argue that these favors result from the importance of these industries, the threat of failure presented by the crisis, the political stakes involved in preserving these industries, and the previously formed relationships between the government and the industry. The favors are not necessarily the result of rent-seeking in the midst of the crisis. Crisis legislations drives interest group activity. Interest groups react to the crisis and make changes on the margin while the bulk of the content of crisis laws come from legislators and bureaucrats.

Bureaucrats are the last discussed group that is influential within democracies (chapter 8). The theoretical literature provides different intuitions concerning the locus of power. Some depict it within the legislature and some within the bureaucracy. I argue that incentives of bureaucrats and legislators overlap during crisis leading to more deferred rulemaking. The data does not reveal a systematic growth of bureaucratic power. However, legislatures commonly establish new agencies or expand the power of certain existing agencies such as the Fed, the FDIC, the Department of Homeland Security, the Transportation Security Administration, the Public Company Accounting Oversight Board (Sarbanes-Oxley), and the Consumer Finance Protection Bureau (Dodd-Frank). Those agencies gained considerable staff and regulatory influence during crisis.

In non-crisis and crisis times, government works imperfectly, as does any institution made and led by people. The prerequisite for good lawmaking is a system of checks and balances to adjudicate among all the different interests that try to capture lawmaking (Madison 1787). This system is hampered during crisis. Working under stress (Boin et al. 2005, 29–31), within a limited time frame, and under pressure from an array of different interest groups is not the best recipe for high-quality legislation. The shortcomings of these laws are sometimes admitted, as these statements of Congressman Barney Frank (H.R. 1424b 2008, H10371, H10373) show: "this choice—*while admittedly an expensive and imperfect one*—provides the urgent injection of vast government resources to

unclog the financial arteries of our capital markets so that our economy can, *hopefully*, begin to function more normally once again [my emphasis].” And “in conclusion, the bill [Dodd-Frank] before us is still imperfect, but for the good of our Nation we should pass it.” Similar arguments can be found in the debates on 9/11-related laws, as the following statement by Congressman Sensenbrenner (H.R. 3162. 2001, H7196) during the discussion on the Patriot Act shows: “this legislation is not perfect, and the process is not one that all will embrace.”

Most of the remainder of this chapter addresses marginal policy suggestions to improve the system of checks and balances. Before I discuss these policy changes, I discuss the epistemic insights of my study and provide arguments for reform of the crisis decision-making framework.

Epistemic Considerations and the Need for Reform

The present work generates social-scientific insights in at least three ways: First, it adds to our understanding of the four studied groups and their behavior during crisis at a theoretical and an empirical level. Second, it stresses the interactions among the different groups. Voters strongly influence legislators with or without upcoming elections. Bureaucrats and legislators both have an incentive to defer lawmaking to bureaucrats. Legislating is taking place in the shadows during crisis, even more so than during normal times (Walker 2016). Interest groups attempt to resist sharp deviations from the status quo. If they fail to influence lawmaking, they still can affect the rulemaking at the bureaucratic level. Voters during crisis are more attentive to interest groups and intervene when they detect favoritism (e.g., Occupy Wall Street and the protests against TARP). This discussion leads me to the third advantage: the importance of entangled political economy and the already-mentioned metatheoretical considerations of chapter 4. Entangled political economy emphasizes concepts and approaches that are difficult to capture with other frameworks. One

example is uncertainty, which increases during crisis. It is of utmost importance whether one models decision-makers as possessing a probability distribution of future events and their outcomes or whether one accepts uncertainty in the Knightian sense. Incomplete information in a complex environment needs a "less determinate and flexible theory of choice" (McGinnis 2000, 61). My broad conception of rational choice allowed for this flexibility throughout this dissertation. Another metatheoretical insight is the dissertation's relevance for methodological pluralism. Incentives change for different groups differently during crisis. Interdisciplinary approaches and openness to methodological pluralism helps to capture these changes. My research yields relevant insight on crisis behavior while employing research from behavioral science, crisis management, political science, public choice, and more. Zooming in on the microfoundations of these groups, while taking the entanglement of the polity seriously, is yet another advantage of entangled political economy compared to other approaches.

Acknowledging and embracing the complexity and heterogeneity of crisis do not have to lead to feelings of desperation for the researcher of complex phenomena. The metatheoretical considerations stressed in my work limit the absoluteness of any theoretical or empirical statement on the nature of crises. Entangled political economy eschews monocausal explanations of complex phenomena. Theories that operate with many constant variables might be mathematically accurate, but they ignore the importance of these variables in bringing about a particular social phenomenon. Chapters 5 to 8 showed the benefits of studying more groups and their exchanges. This has yielded novel insights into the dynamics between these groups that would not have been possible when holding voter preferences or agency behavior constant. These theoretical insights are pattern predictions that state that certain behavior of the groups in crises is likely but cannot be predicted with accuracy. An economic crisis that coincides with a fiscal crisis, as in the case of Greece, potentially brings about different patterns of lawmaking—especially since the institutional

framework and the public narrative about the reasons for the crisis differ from those during a "normal recession." One might argue that this lack of predictive power is a shortcoming of my approach. I see it rather as an advantage since it provides new insights into the theoretical dynamics between groups. Below, I outline a whole host of new research questions generated by my dissertation and EPE. Many of these questions are more narrow compared to the one set out in this work. Narrower questions and fewer variables allow for less entangled and less complex methods. I am not saying that EPE is superior for every social scientific question. On the contrary, EPE allows for methodological pluralism and sees the benefit in employing different theories for different questions. However, EPE makes an epistemic point that social phenomena in general are hard to predict and that researchers ought to take complexity into account to understand how a given social phenomenon comes about.

This also means that the predictive power of any theory cannot be the sole yardstick to evaluate the quality of the research. This point has been made eloquently by Elinor Ostrom (2010, 665):

> To explain the world of interactions and outcomes occurring at multiple levels, we also have to be willing to deal with complexity instead of rejecting it. Some mathematical models are very useful for explaining outcomes in particular settings. We should continue to use simple models where they capture enough of the core underlying structure and incentives that they usefully predict outcomes. When the world we are trying to explain and improve, however, is not well described by a simple model, we must continue to improve our frameworks and theories so as to be able to understand complexity and not simply reject it.

Some authors take this complexity and draw radical conclusions. Huemer (2012) praises inactivity of government as a solution to complexity. Huemer argues that social science is messy, and public

policies and their effects are often unclear. He demands greater care in dealing with public policy since the social sciences are epistemologically not developed enough to understand cause and effect for policies dealing with complex social phenomena. Huemer's argument might be overstated. I built my research on the empirical pattern of lawmaking during crisis. My theoretical contribution paints a somewhat dismal picture of the main groups and their incentives during crisis. However, chapters 5–8 remain theoretical in nature. They are only the beginning of forming conjectures about behavior during crisis. These theories have to be tested. Nevertheless, the data and theories presented throughout crisis lead me to believe that there is a case to be made to have some additional checks and balances during crisis.

Our limitations to understand and successfully manipulate complex phenomena (Hayek 1973; 1964; 1945), the ignorance of voters (Somin 2013; Caplan 2007), and the fallibility of experts (Fourcade 2010; Tetlock 2005) and politicians all weigh heavily during crisis. Decision-makers are necessarily limited in their knowledge of complex events. Even if data are available, complex organizations and government rarely interpret the data uniformly (Boin et al. 2005, 22). Decision-makers do not have a complete choice set in which they merely maximize probabilities and choose policies accordingly. Particularly in a world in which sensible people can disagree on policy issues, we need institutions that allow for reasonable pluralism, which Rawls (2005, 144) considered to be the "outcome of the free exercise of human reason under conditions of liberty." A social-welfare-enhancing institutional framework ought to take these limitations into account and provide a solid foundation to mitigate the effects of these constraints. The insights from the individual chapters throughout this dissertation substantiate the complexity of crisis decision-making. In the next section, I outline incremental changes that might improve decision-making on the margin.

Policy Proposals to Improve Legislation during Crisis

My work points to several margins on which crises create a suboptimal environment for political decision-making. With the exception of Posner and Vermeule (2007), I have not found many authors satisfied with political decision-making during crisis. Some authors say too much gets done, others state that not enough or not the right things get done. There is considerable debate about the value of stimulus, monetary policy, supply-side economics, tax cuts, and other means to improve economic conditions. These debates have been going on for centuries and it should not come as a surprise that some people doubt the efficacy of said crisis policies. More doubts about the efficacy are raised when taking into account that crisis policies are often enacted without sufficient information about what has led to a crisis in the first place.

Admittedly, I do not provide a yardstick to evaluate the laws and their effectiveness. However, the fact that virtually every scholar finds much to be desired in past policies (see the literature review in chapters 1 and 2); the backward-looking nature of crisis policymaking (Romano 2014a; 2014b; Hall 2013; Banner 2002; Banner 1997, 199);[62] the presented evidence about the problematic relationship between cascading opinion formation and legislative activity (chapters 5 and 6); the politics of blame avoidance, deferred lawmaking (chapter 8), and interest-group influence (chapter 7); and the case

[62] Dodd-Frank and all other Great Recession crisis laws were enacted before the official report of the Financial Crisis Inquiry Commission came out.

studies on the insufficiency of past crisis decision-making[63] make a strong case for the need for more substantive reform.[64]

My view is that the rules that govern crisis decision-making determine to a large extent the policy outcomes. The previously mentioned confluence of problems makes it unlikely that crises constitute an environment conducive to good policymaking. To overcome some of these problems, I address concrete changes to the legislative decision-making structure in the next section. These suggestions are incremental and pragmatic.

The first incremental improvement is a wider use of sunset provisions during crisis decision-making. Sunset provisions are built-in temporal limitations on a law. Once a sunset provision is part of a law, the law has to be revisited after a certain amount of time. Congress then has to vote to extend the period in which the law is active or to remove the law. Especially during times of great urgency in which a lot of legislative proposals make it into law, it makes sense to revisit certain provisions. The regulatory density of the crisis laws is considerable and so are costs for businesses (von Laer and Martin 2016; Higgs 1997). Revisiting laws enacted during times of stress and lack of deliberation is sensible. New data and insights about the causes of a given crisis can be incorporated.

---

[63] To provide a brief overview of the criticism that were cited throughout the thesis:
On the Chrysler bailout: See Wolfson (1986, 85).
On the policy mistakes during the savings-and-loan crisis: See (Hendrickson 2011, 174–84).
On Sarbanes- Oxley: See Romano (2004).
On Dodd-Frank: See McCarty, Poole, and Rosenthal (2013), Coffee Jr. (2011), and Bainbridge (2010).
On ARRA, stimulus packages: See Young and Sobel 2013; Taylor 2011; Cogan and Taylor 2010.

[64] Romano (2014a; 2014b; 2004) describes the dynamics (she calls it an "iron law") of legislative responses to financial crisis in the following way: "(i) enactment is invariably crisis driven, adopted at a time when there is a paucity of information regarding what has transpired, (ii) resulting in off-the-rack solutions often poorly fashioned to the problem at hand, (iii) with inevitable flaws given the dynamic uncertainty of financial markets, (iv) but arduous to revise or repeal because of the stickiness of the status quo in the U.S. political framework of checks and balances." Bainbridge (2010) builds on Romano's framework and finds evidence for the same patterns of lawmaking during the passing of Dodd-Frank.

However, sunset provisions have to be implemented carefully. Imagine Dodd-Frank, with its 357,386 words, had a sunset provision. As of July 2016, Dodd-Frank has not been entirely implemented. Many rules and their enforcement are still unclear. As sensible as sunset provisions are, a complete reversal of Dodd-Frank and all its rules would be even worse. Businesses and banks have to deal with uncertainty concerning Dodd-Frank's rules now, but they would have to deal with an entirely new dimension, the possibility of going back to the status quo ante, which would introduce even more uncertainty. This argument is only relevant when talking about sunset provisions applied to the whole law. When applying sunset provisions to certain parts of a law, the uncertainty increases less. These context-dependent aspects of sunset clauses ought to be taken into account when attempting to improve lawmaking during crisis. Another prerequisite is a guaranteed enforcement of the sunset provisions. Congress has often neglected to do this (Fahrenthold 2012). Another way of increasing time for deliberation on lawmaking during crisis would be to make sunset provisions mandatory on passages that will have an economic impact of $100 million or more.

Another incremental solution is to transfer lawmaking responsibilities from legislators to experts. This solution is technocracy, and it is not new. Greater independence from politicians in policymaking has been successfully implemented for monetary policy. The move toward central bank independence is one move that seems to have weakened political business cycles (Klomp and de Haan 2009; Drazen 1999). Former Fed vice chairman Alan Blinder (1998, 55–56) argues that the long time horizon necessary in monetary policy requires distance from the more short-term focus of politicians. Independence has been extended to regulators (Roberts 2010a). The number of independent technocratic agencies has grown tremendously in the United States and around the world (Roberts 2010b, 201). On the surface, independence seem sensible. However, the underlying interest of politicians and interest groups to capture the policymaking process for their own ends does not wane just by a simple transfer of power from one set of actors to another. Their influence

is now simply redirected to another level of decision-making. The previous chapter explained in detail how today's technocratic approach to lawmaking works. The described incentives of bureaucrats and lawmakers encourages "legislating in the shadows" (Walker 2016) that still serves the individuals' and not necessarily the public interest.

Additionally, technocrats continue to depend on information from the industries they regulate. Relationships form, information and personnel exchange (revolving-door phenomenon), and eventually rules alter in the industry's interest (Coffee Jr. 2011; Yackee and Yackee 2006). In democracies, the media, think tanks, and the public are responsible for being vigilant about political decision-making. This vigilance is harder if decision-making is transferred farther away from the public eye, to the rooms of independent agencies without democratic accountability. Chapter 7 discussed the behavior of the SEC and the FDIC in the run-up to the Great Recession. What other reasons than political ones could have led the bureaucracies to not act on their knowledge about the instability of the subprime-mortgage market and the banks that held them? If one does not take seriously the pervasiveness of the incentives that make political and interest-group players influence the regulatory system, technocracy can only be considered a form of "naïve institutionalism," as Roberts (2010, S59) calls it.

Another incremental improvement to policymaking during crisis could be mandatory minimums concerning how long lawmakers have to discuss legislations. However, this would contravene the ability of legislators to be able to react fast during crisis. A more suitable approach is to demand minimum periods when laws overstep a certain word limit (for instance, twenty thousand words[65]).

[65] Which is slightly more than the average of non-crisis financial-regulatory legislation. This threshold would ensure that most non-crisis laws do not fall into this time prescription.

This would ensure that there is considerable debate and that the public has time to react to the proposed changes. There is a trade-off between having legislators respond fast and getting sufficient feedback from the public, the media, consultations, committees, and the like. The already-discussed questionable record of crisis legislation moves the weight of the evidence in favor of such waiting periods. However, one can always argue that it would have been worse if a given piece of lengthy legislation had not been enacted swiftly. I am not able to settle this issue here, but it is a viable option to try to limit the weight of the legislative ornaments on a Christmas tree law.

Others solutions to Christmas tree laws, which have been widely accepted on the state level, are line item vetoes and restrictions on a single subject. The latter rule forces lawmakers to address one policy area in a law and nothing more. Thus, a bill about financial regulation cannot be at the same time about healthcare. However, it is likely that this is difficult to enforce during crisis. Stimulus bills by their very nature aim toward shovel-ready projects, which can be in a variety of sectors ranging from infrastructure projects, to the arts, to renovations of government property. Stimulus might be one topic but could include a variety of different items within it. Urgency during recessions will make it likely that such a law would be pushed through. The other rule to reduce the likelihood of Christmas tree laws are item vetoes. This is a veto option for the president on parts of a bill and not the whole bill. This could help filter out bad policy proposals within a bill without undermining all of the legislative content.

These potential changes to policymaking need to be discussed since, clearly, crisis decision-making follows different patterns than normal political decision-making. The US democratic system is built on checks and balances. These checks and balances are weakened during crisis but could be strengthened by marginal reforms. Nevertheless, the incentive changes for the groups described in the previous chapters would not go away. Neither would one’s interest in using a crisis to further

one's agenda. Incremental changes have limited power to keep this self-interest at bay. Future research is necessary to understand whether there is a deeper problem with crisis decision-making.

Entangled Political Economy and the Scholarly Road Ahead

Seeking out patterns of lawmaking during crisis yielded intuitions and theoretical conjectures about the dynamics of crisis decision-making. It showed the relevance of the topic and the need for an entangled approach. However, much more can be done; and as with every scholarly work, it raises a multitude of new questions and avenues for research. In the following, I will go through the chapters and outline research questions in the hope that more scholars will tackle the patterns of lawmaking during crisis.

Chapter 5 on voters showed that there are additional means for how the public influences policymaking besides voting. Future studies of EPE have to tackle two research problems for my argument based on availability cascades to become more empirically relevant. First, EPE needs to study the connection between voter-opinion formation, the media, and Congress. There is a clear connection between media coverage and public policy (Koch-Baumgarten and Voltmer 2010; Walgrave and Van Aelst 2006). How does this dynamic change during crisis? Chapter 5 argues that the media contributes to an availability cascade, which makes voters focus on and worry about crises. This link has to be clearly shown by a systematic examination of opinion polls, media studies, and congressional voting behavior. Connected to this is the need for studies looking at other ways that voters influence Congress. One anecdotal example how the public exercises influence is the vote of Barbara Lee after 9/11 against the resolution called Authorization of the Use of Military Force. The law is the foundation of the War on Terror. Lee was the only person in Congress voting against it, and she received over 60,000 pieces of mail after her decision. Most of them were negative

and even aggressive. This pressure before and after votes surely has an effect on the voting behavior of politicians. Future studies could examine the amount of mail congresspersons receive and how it changes during crisis. Legislators listen to their constituencies, and they have to do so not only in elections but throughout their terms.

The second avenue for future research is to study the entanglement of specific groups and their influence on the public narrative. Larger employers with strong unions, such as the firms in the car industry, are often at the center of debates during economic crises. They are well connected and speak for a large group of people who fear for their jobs. Future studies of EPE and crises need to better understand the network of influence whose attributes make specific businesses or individuals more powerful in the policymaking process during crisis. Chapter 5 laid the foundation to understand voters' influence and their general policy preferences toward more government involvement. The specific policies and the content of the laws benefitting certain groups is based on different dynamics that future studies ought to examine.

As mentioned in chapter 6, Christmas tree laws are not a new phenomenon. Historically, Christmas trees laws were mostly reported on in regards to omnibus laws passed shortly before Congress adjourns. In this work, I have excluded omnibus laws since omnibus laws address a wide variety of issues and only marginally touch on crises. Thus, they fell outside of my definition of a crisis law. Nevertheless, a closer study is warranted because we know that these laws are used to implement crisis-specific policies such as the cash-for-clunkers program, which supported the car industry. A comparison between omnibus Christmas trees and crisis Christmas trees seems like a fruitful avenue of research to assess the commonalities and differences in lawmaking.

A better understanding of the pattern of lawmaking requires more insights about the process of amending bills. Research has shown that most pork originates in committees and through

negotiations behind closed doors (Boubacar and Foster 2014, 14). Scholars of government need to analyze the relationships behind amendments and their history. The Christmas tree law dynamic hypothesizes that much of the content that ends up in a Christmas tree laws was discussed in Congress and its committees prior to that. Studying in detail the legislative history of some of the amendments would provide insights into the patterns of lawmaking.

Another interesting research question is about the correlation between ideological coherence in Congress before and after the enactment of legislative changes. Maltzman and Shipan (2008) find that laws have tended to be amended more after their passing when the enacting congresspersons were ideologically divided. Does this pattern hold with crisis laws, or does the short-run unity of Congress prevent any future amendments? Additionally, cloture votes and their dynamic during crisis and non-crisis times ought to be studied carefully as well. I find that during 9/11 as well as the Great Recession there were significantly more cloture votes. Is this to shut down debates to push a bill through Congress faster? Answers to these questions would provide new evidence on how urgency affects the behavior of Congress.

Chapter 6, on the Christmas tree dynamic, raised many questions about how lawmaking actually works. There is much more research required to learn "how the sausage is made." The institutional process is clear, but there is more to it in practice. Chapter 8 argued that while much research focuses on lawmakers, content is actually generated by bureaucrats. How bureaucrats influence the process and through which informal and formal mechanisms they do it has been neglected in the literature.

Interest groups and their success depend on certain factors (Olson 1965), such as the significance of an interest group for the overall economy and the relative influence of interest groups on the political process. Interest groups can be successful during crisis in securing rents, but the same

cannot be said for the whole interest group population. Similarly, as discussed in chapters 6 and 8, influence can only be gained through personal connections. More research is necessary to establish how these relationships come about and how they are maintained. The revolving door phenomenon is well known, but there is not much research on how the relationships work and what kind of exchanges take place between people on the Hill and interest group representatives.

Since the interest group spending and campaign receipts do not tend to correlate with crises, future research ought to study other potential means of influence by interest groups such as phone calls, visits, or letters to congresspersons. Letters and e-mails received by congresspersons have increased (CMF 2011) over time. An interesting question to study is how correspondence changes during crisis and whether one can detect a higher amount of visits, mail, or phone calls from interest group representatives.

One of the more provocative hypotheses of chapter 7 is that interest groups are more reactive than proactive during crisis since they cannot keep up with the flurry of congressional activity. This hypothesis could be tested by assessing how much legislative content is influenced by interest groups during normal times (by assessing the interest groups' lobbying position and the legislative outcome) compared to crisis times. It might be that interest groups do not have extensive influence on lawmaking in Congress but that their lobbying has shifted to the bureaucracy since bureaucrats are especially influential during crisis in initiating, influencing, and interpreting laws.

Furthermore, interest group research ought to pay attention to the web of relationship of chairs of committees that yield extensive regulatory power. The data I have collected for Senate committee members and their campaign contributions showed that the committee chairs clearly received more money than normal committee members. The question is whether this increase in interest group

spending on committee chairs translates into more influence on lawmaking or functions more as a source of informational advantages for interest groups.

Moving on to chapter 8, recent works by Shobe (2016) and Walker (2016) both stress the underexplored nature of bureaucratic lawmaking. Scholars have focused extensively on the de facto rules and institutions. Comparative and conceptual studies are widespread, but insights about the informal processes behind laws ranging from conception until implementation are rarely discussed. The relationships between individuals in an entangled web of committees, the administration, higher-level bureaucrats, and even the courts that decide on ambiguous language within laws is a determining factor in modern lawmaking. These relationships have been ignored by most theories of bureaucratic behavior due to the difficulty of modeling those informal relationships. Nevertheless, on a conceptual level as well as on an empirical level, as shown by the extensive qualitative interviews by Shobe (2016) and Walker (2016), entanglement is a strong factor in the lawmaking process.

The reality is that bureaucrats have influence throughout the lawmaking process, sometime even originating statutes without a mandate from Congress. The interpersonal dynamics between bureaucracies and Congress are an important factor in determining legislative content. These insights undermine the explanatory power of public-choice theories that depict legislators as producers of laws that cater to voters and constituencies alone. Legislators' policy goals cannot be achieved without significant support from bureaucracies and their experts. Chapter 8, with its insights on the exchanges between legislators and bureaucrats, opens up new empirical avenues to study how legislative content is created.

Going forward, research has to uncover these informal processes to learn more about the individuals' goals and the outcomes of bargaining. What do legislators and the other stakeholders

intend and expect when delegating lawmaking to agencies? How do these preferences compare to the goals of the bureaucrats, and how often are they in conflict? How does this process affect lawmaking and its content, especially during crisis? My theoretical insights from chapter 8 yielded some useful intuitions on the entangled bureaucratic web of relationships. Future studies have to uncover through interviews and other empirical explorations how lawmaking actually works and whether it differs during crisis.

EPE focuses on the exchange relationships that underlie social phenomena. EPE can be applied via interviews, process tracing, network analysis, analytical narratives, and more. My study focused on providing theoretical explanations for the pattern of lawmaking observed during recessions. I analyzed the four groups that influence policymaking and described their interactions and the incentives they face. I hope future work will pick up where I have left off and continue to illuminate crisis decision-making.

Conclusion

Democratic decision-making is supposed to be the bedrock of all policymaking. Voters vote politicians into office. However, throughout this dissertation I have argued that influence on policymaking is exercised in a myriad of ways—especially during crisis. Even in the absence of elections, voters have a strong influence on the direction of political decision-making through the pressure generated via availability cascades. This provides the rough direction for policymaking, which is more likely to be in favor of interventions and legislation that signal that something is being done. Legislators are eager to respond to the electoral and media demand for policies, and they create Christmas tree laws as a response. Those laws are made in haste and consist of policy proposals that previously were sitting on the shelves. There is not much time to analyze a crisis

situation accurately and to form a comprehensive response. Content creation is pushed to interest groups and even more so to bureaucrats. Politically powerful industries can be successful in securing rents, but that cannot be said for interest groups in general. Their impact is rather marginal. This is not the case for bureaucrats. They have extensive powers to interpret, change, and create policy content during times of crisis. Urgency makes them the primary instigators of bills, the bills' interpreters, and the bills' final implementers. This process takes places mostly outside of the official lawmaking process. This, as well as the influence of interest groups and the work of committees, is the powerful force that create laws. Lawmaking is entangled and depends on informal and formal relationships among the four groups. Democracy and voting play a part in this, but if one seeks an understanding of the process that creates the legislative content one ought to take entanglement seriously. Democracy also depends on an exchange of opinions and the contestation of ideas. However, during crisis there are strong incentives to conform with the majority that wants government to do something. Voters, legislators, and interest groups alike face strong obstacles to voicing their opposition. Checks and balances, so important for political decision-making, are undermined during crisis. Voting and voicing dissenting views become a threat to individuals within the crisis-lawmaking process. This recurrent theme emerged throughout chapters 5–7 and should be taken seriously by scholars when studying crisis lawmaking.

My contributions are twofold:

1. To show that times of crisis lead to different policy outcomes. I presented a pattern of lawmaking that leads to faster-passed and lengthier laws by studying over four decades of lawmaking by Congress. My results are that the analyzed crisis laws (n=23) get enacted in average 121 days quicker than the average law (n=11,584) and contain ten times more words. Compared to the average

comparison law dealing with financial markets (n=51), crisis laws continue to be unique with 82 days faster enactment and a length that is three times as much as the average comparison law.

2. I showed that entangled political economy provides a novel perspective on policymaking and is able to theoretically explain the pattern of lawmaking during crisis, where other theories lack explanatory power.

No theoretical framework can explain everything. However, to get closer to a more complete understanding of a social phenomenon one needs to study the institutional framework, the incentives, and the entangled relationships between people. Only recently have scholars started to look at the informal relationships between Congress and bureaucrats, and their studies have untangled a complex web of relationships that determines lawmaking to a significant extent. Similar to this research, my work in laying out the empirical puzzle and the theoretical hypothesis in this dissertation shows the benefits of taking a less aggregated view and looking at the intergroup relationships that determine policymaking. I sincerely hope that my empirical and theoretical contribution will encourage more research approaching questions of lawmaking from an entangled political economy point of view.

References

Abrams, Burton A. 2006. "How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes." *The Journal of Economic Perspectives* 20 (4): 177–88.

Abrams, Burton A., and James L. Butkiewicz. 2012. "The Political Business Cycle: New Evidence from the Nixon Tapes." *Journal of Money, Credit and Banking* 44 (2–3): 385–99.

Ackerman, Bruce. 1991. We the People: Foundations. Cambridge: Harvard University Press.

Akerlof, George A. 1989. "The Economics of Illusion." *Economics and Politics* 1: 1–15.

Alesina, Alberto, and Guido Tabellini. 1989. "External Debt, Capital Flight and Political Risk." *Journal of International Economics* 27 (3–4): 199–220.

———. 1990. "A Positive Theory of Fiscal Deficits and Government Debt." *The Review of Economic Studies* 57 (3): 403–414.

Alesina, Alberto, and Roberto Perotti. 1995. "The Political Economy of Budget Deficits." *Staff Papers - International Monetary Fund* 42 (1): 1–31.

Alesina, Alberto. 2010. "Tax Cuts vs. 'Stimulus': The Evidence Is In." *Wall Street Journal*, September 15. http://online.wsj.com/article/SB10001424052748704271804575405311447498820.html.

Alter, Adam L., Daniel M. Oppenheimer, and Jeffrey C. Zemla. 2010. "Missing the Trees for the Forest: A Construal Level Account of the Illusion of Explanatory Depth." *Journal of Personality and Social Psychology* 99 (3): 436–51.

Alves, André Azevedo, and John Meadowcroft. 2013. "Hayek's Slippery Slope, the Stability of the Mixed Economy and the Dynamics of Rent Seeking." *Political Studies* 62 (4).

Amador, Manuel. 2008. "Sovereign Debt and the Tragedy of the Commons." *Manuscript*. Stanford. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.178.7517&rep=rep1&type=pdf

Anderson, Kym, Will Martin, and Ernesto Valenzuela. 2006. "The Relative Importance of Global

Agricultural Subsidies and Market Access." *World Trade Review* 5 (3): 357–376.

Angelopoulos, Konstantinos, Apostolis Philippopoulos, and Vanghelis Vassilatos. 2009. "The Social Cost of Rent Seeking in Europe." *European Journal of Political Economy*, The Role of Institutions in Economic Outcomes, 25 (3): 280–99.

Aranson, Peter H., Ernest Gellhorn, and Glen O. Robinson. 1982. "Theory of Legislative Delegation." Cornell Law Review 68: 1.

Bachrach, Peter, and Morton S. Baratz. 1962. "Two Faces of Power." *American Political Science Review* 56 (4): 947–952.

Backhaus, Jürgen G, and Richard E. Wagner. 2005. *Handbook of Public Finance*. Boston: Kluwer Academic Publishers.

Bagehot, Walter. 1888. Lombard Street: A Description of the Money Market. Kegan, Paul & Trench.

Baier, Scott L., Matthew Clance, and Gerald P. Dwyer. 2012. "Banking Crises and Economic Freedom." SSRN Scholarly Paper ID 2117883. Rochester, NY: Social Science Research Network. http://papers.ssrn.com/abstract=2117883.

Bainbridge, Stephen M. 2010. "Dodd-Frank: Quack Federal Corporate Governance Round II." SSRN Scholarly Paper. Rochester, NY: Social Science Research Network. http://papers.ssrn.com/abstract=1673575.

Baker, Andrew. 2010. "Restraining Regulatory Capture? Anglo-America, Crisis Politics and Trajectories of Change in Global Financial Governance." *International Affairs* 86 (3).

Banner, Stuart. 1997. "What Causes New Securities regulation–300 Years of Evidence." *Washington University Law Quarterly* 75: 849.

———. 2002. Anglo-American Securities Regulation: Cultural and Political Roots, 1690-1860. Cambridge: Cambridge University Press.

Bara, Judith, and Mark Pennington. 2009. Comparative Politics. London: SAGE.

Bartels, Larry M. 2014. "Ideology and Retrospection in Electoral Responses to the Great Recession." In *Mass Politics in Tough Times: Opinions, Votes and Protest in the Great Recession*, edited by Nancy Bermeo and Larry M. Bartels. Oxford: Oxford University Press.

Barth, James. 2016. "Financial Regulation and the Financial Crisis." presented at the Financial Markets Regulation Seminar—Mercatus Center and the Institute for Humane Studies, San Francisco, January 6.

Bartlett, Bruce. 2009. "Not Utterly Keynesian in Every Detail." *Financial Times*, January 14. www.ft.com/cms/s/0/ddf6ea26-e1db-11dd-afa0-0000779fd2ac.html?siteedition=intl.

Baumgartner, Frank R., and Beth L. Leech. 1998. *Basic Interests: The Importance of Groups in Politics and in Political Science*. Cambridge: Cambridge University Press.

———. "Interest Niches and Policy Bandwagons: Patterns of Interest Group Involvement in National Politics." *The Journal of Politics* 63 (4): 1191–1213.

Baumgartner, Frank R., and Bryan D. Jones. 2010. *Agendas and Instability in American Politics*. Chicago: University of Chicago Press.

———. 2015. "Gallup Most Important Problem Data." *Policy Agendas Project*. www.policyagendas.org/page/trend-analysis.

Baumgartner, Frank R., Jeffrey M. Berry, Marie Hojnacki, Beth L. Leech, and David C. Kimball. 2009. *Lobbying and Policy Change: Who Wins, Who Loses, and Why*. University of Chicago Press.

———. 2014. "Money, Priorities, and Stalemate: How Lobbying Affects Public Policy." *Election Law Journal: Rules, Politics, and Policy* 13 (1): 194–209.

Becker, Gary S. 1983. "A Theory of Competition among Pressure Groups for Political Influence." The Quarterly Journal of Economics, 371–400.

Bender, Bruce, and John R. Lott Jr. 1996. "Legislator Voting and Shirking: A Critical Review of the Literature." *Public Choice* 87 (1–2): 67–100.

Berger, Allen N., Anil K. Kashyap, Joseph M. Scalise, Mark Gertler, and Benjamin M. Friedman. 1995. "The Transformation of the US Banking Industry: What a Long, Strange Trip It's Been." *Brookings Papers on Economic Activity*, 55–218.

Berger, Jonah. 2013. *Contagious: Why Things Catch On by Berger, Jonah*. New York: Simon & Schuster.

Bernanke, Benjamin. 2004. "The Great Moderation." In *Remarks by Governor Ben S. Bernanke*. Washington D.C. www.federalreserve.gov/boarddocs/speeches/2004/20040220/default.htm.

Berns, Gregory S., Jonathan Chappelow, Caroline F. Zink, Giuseppe Pagnoni, Megan E. Martin-Skurski, and Jim Richards. 2005. "Neurobiological Correlates of Social Conformity and Independence during Mental Rotation." *Biological Psychiatry* 58 (3): 245–253.

Bjørnskov, Christian. 2015. "Economic Freedom and Economic Crisis." *Research Institute for Industrial Economics*. Working Paper, no. 1056. www.ifn.se/eng/publications/wp/2015/1056.

Black, Duncan, Robert Albert Newing, Iain McLean, Alistair McMillan, and Burt L. Monroe. 1958. *The Theory of Committees and Elections*. Springer.

Blanes i Vidal, Jordi, Mirko Draca, and Christian Fons-Rosen. 2012. "Revolving Door Lobbyists." The American Economic Review 102 (7): 3731–48.

Blinder, Alan S. 1987. Hard Heads, Soft Hearts: Tough-Minded Economics for a Just Society. New York: Basic Books.

———. *Central Banking in Theory and Praxis*. Cambridge, MA: MIT Press.

Bloom, Howard S., and H. Douglas Price. 1975. "Voter Response to Short-Run Economic Conditions: The Asymmetric Effect of Prosperity and Recession." *American Political Science Review* 69 (4): 1240–1254.

BLS. 2015a"Unemployment Data." *Bureau of Labor Statistics*. www.bls.gov/data/#unemployment.

———. 2015b. "Overview of BLS Statistics on Inflation and Prices."

www.bls.gov/bls/inflation.htm.

Boettke, Peter, and Alain Marciano. 2015. "The Past, Present and Future of Virginia Political Economy." *Public Choice* 163 (1–2): 53–65.

Boettke, Peter, Emily Chamlee-Wright, Peter Gordon, Sanford Ikeda, Peter T. Leeson, and Russell Sobel. 2007. "The Political, Economic, and Social Aspects of Katrina." *Southern Economic Journal*, 363–376.

Boin, Arjen, Allan McConnell, and Paul 't Hart, eds. 2008. *Governing after Crisis: The Politics of Investigation, Accountability and Learning*. Cambridge: Cambridge University Press.

Boin, Arjen, Paul 't Hart, Eric Stern, and Bengt Sundelius. 2005. *The Politics of Crisis Management: Public Leadership under Pressure*. Cambridge: Cambridge University Press.

Bologna, Jamie, and Andrew T. Young. 2015. "Crises and Government: Some Empirical Evidence." *Contemporary Economic Policy (Forthcoming)*. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2313846.

Boomgaarden, Hajo G., Joost van Spanje, Rens Vliegenthart, and Claes H. de Vreese. 2011. "Covering the Crisis: Media Coverage of the Economic Crisis and Citizens' Economic Expectations." *Acta Politica* 46 (4): 353–79.

Boubacar, Inoussa, and Samuel Foster. 2014. "Analysis of Small Business Owners' Perception of the Patient Protection and Affordable Care Act: Evidence from Wisconsin Farmers." *Economics, Management, and Financial Markets* 9 (1): 11–20.

Brändström, Annika, Fredrik Bynander, and Paul 't Hart. 2004. "Governing by Looking Back: Historical Analogies and Crisis Management." *Public Administration* 82 (1): 191–210.

Brechler, Josef, and Adam Geršl. 2014. "Political Legislation Cycle in the Czech Republic." *Constitutional Political Economy* 25 (2): 137–153.

Brennan, Geoffrey, and James Buchanan. 1981. "The Normative Purpose of Economic 'science':

Rediscovery of an Eighteenth Century Method." *International Review of Law and Economics* 1 (2): 155–66.

———. 1984. "Voter Choice: Evaluating Political Alternatives." *American Behavioral Scientist* 28 (2): 185–201.

Buchanan, James M. 1964. "What Should Economists Do?" *Southern Economic Journal* 30 (3): 213–22.

———. 1974. "Good Economics--Bad Law." *Virginia Law Review* 60: 483.

———. 1999. "Politics without Romance: A Sketch of Positive Public Choice Theory and Its Normative Implications." In *The Logical Foundations of Constitutional Liberty*. Liberty Fund.

———. 2000. *Politics as Public Choice*. The Collected Works of James M. Buchanan 13. Indianapolis: Liberty Fund Inc.

Buchanan, James M., and Gordon Tullock. 1974. *The Calculus of Consent: The Foundations of Constitutional Democracy*. Ann Arbor, Michigan: University of Michigan Press.

Buchanan, James M., and Richard E. Wagner. 1977. *Democracy in Deficit: The Political Legacy of Lord Keynes*. Academic Press New York.

Burstein, Paul, and April Linton. 2002. "The Impact of Political Parties, Interest Groups, and Social Movement Organizations on Public Policy: Some Recent Evidence and Theoretical Concerns." Social Forces 81 (2): 380–408.

Caggiano, Julie R., Therese G. Franzén, and Jennifer L. Dozier. 2010. "Developments in State and Federal Mortgage Lending Laws: Predatory Lending and Beyond." *The Business Lawyer*, 583–593.

Calabria, Mark A. 2014. "Political Bubbles: Financial Crises and the Failure of American Democracy by Nolan McCarty, Keith Poole, and Howard Rosenthal." *Cato Journal* 34: 189.

Calomiris, Charles W., and Gary Gorton. 1991. "The Origins of Banking Panics: Models, Facts, and Bank Regulation." In *Financial Markets and Financial Crises*, 109–174. Chicago: University of

Chicago Press. http://www.nber.org/chapters/c11484.pdf.

Campaign Finance Institute. 2015. "PAC Contributions to Congressional Candidates 1976-2014." The Campaign Finance Institute - Data. http://cfinst.org/data.aspx.

Caplan, Bryan. 2007. The Myth of the Rational Voter: Why Democracies Choose Bad Policies. Princeton: Princeton University Press.

Carpini, Michael X. Delli, and Scott Keeter. 1997. *What Americans Know about Politics and Why It Matters*. New Haven: Yale University Press.

CBO, and Douglas W. Elmendorf. 2011. "Review of CBO's Cost Estimate for the Dodd-Frank Wall Street Reform and Consumer Protection Act." Cost Estimate Pub. No. 22078. Washington, D.C.: Congressional Budget Office. www.cbo.gov/publication/22078.

———. 2014a. "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output in 2013." Report Pub. No. 45122. Washington, D.C.: Congressional Budget Office. www.cbo.gov/publication/45122.

———. 2014b. "Report on the Troubled Asset Relief Program - April 2014." Report. Washington, D.C.: Congressional Budget Office. www.cbo.gov/publication/45260.

CBO, and Peter H. Fontaine. 2010. "Cost Estimate on H.R. 4173 Dodd-Frank Wall Street Reform and Consumer Protection Act." Cost Estimate Pub. No. 21563. Washington, D.C.: Congressional Budget Office. www.cbo.gov/publication/21563.

CBO, Peter H. Fontaine, and G. Thomas Woodward. 2008a. "Cost Estimate on H.R. 5140, Economic Stimulus Act of 2008." Cost Estimate Pub. No. 19471. Washington, D.C.: Congressional Budget Office. www.cbo.gov/publication/19471.

———. 2008b. "Cost Estimate on H.R. 3221, Housing and Economic Recovery Act of 2008." Cost Estimate Pub. No. 20090. Washington, D.C.: Congressional Budget Office. www.cbo.gov/publication/20090.

———. 1991. "The Economic and Budget Outlook: Fiscal Years 1992 - 1996." Washington, D.C.: Congressional Budget Office. www.cbo.gov/sites/default/files/102nd-congress-1991-1992/reports/91-cbo-002.pdf.

CBO. 1982. "The Prospects for Economic Recovery - Part I." Washington, D.C.: Congressional Budget Office. www.cbo.gov/sites/default/files/97th-congress-1981-1982/reports/doc03b-entire_1.pdf.

Census. 2014. "Current Population Survey, Historical Table A-2." www.census.gov/hhes/www/socdemo/voting/publications/historical/index.html.

Center for Responsive Politics. 2015. "Lobbying Database." Center for Responsive Politics. www.opensecrets.org/lobby/index.php.

Chamlee-Wright, Emily. 2010. The Cultural and Political Economy of Recovery: Social Learning in a Post-Disaster Environment. Vol. 12. New York: Routledge.

Chamlee-Wright, Emily, and Virgil Henry Storr. 2010a. *The Political Economy of Hurricane Katrina and Community Rebound*. Cheltenham: Edward Elgar Publishing.

———. 2010b. "Expectations of Government's Response to Disaster." *Public Choice* 144 (1/2): 253–74.

Chancellor, Edward. 2000. Devil Take the Hindmost: A History of Financial Speculation. New York: Plume.

Chappell, Henry W., and William R. Keech. 1985. "A New View of Political Accountability for Economic Performance." *American Political Science Review* 79 (1): 10–27.

Charles, Stewart III, and Jonathan Woon. 2011. "Congressional Committee Assignments, 103rd to 112th Congresses, 1993--2011." http://web.mit.edu/17.251/www/data_page.html#2.

Cho, Zachary A. Goldfarb, David, and Binyamin Appelbaum. 2008. "Treasury to Rescue Fannie and Freddie." *The Washington Post*, September 7, sec. Business. www.washingtonpost.com/wp-

dyn/content/article/2008/09/06/AR2008090602540.html?hpid=topnews.

CMF. 2011. "How Citizen Advocacy Is Changing Mail Operations on Capitol Hill." Washington, D.C.: Congressional Management Foundation. https://ex.democracydata.com/18F4F9D0F7AFBAE420E22C999F7DF3FF0DB8D54D/33de1c8c-3c64-40bd-a868-5888ad3106ee.pdf.

CNN. 2001. "Attacks Rooted in Afghanistan - October 2, 2001." http://edition.cnn.com/2001/US/10/02/inv.ashcroft.terrorism/index.html.

Coen, David, Wyn Grant, and Graham Wilson, eds. 2010. "Political Science: Perspectives on Business and Government." In The Oxford Handbook of Business and Government, 1st ed. Oxford: Oxford University Press.

Coffee Jr., John C. 2011. "Political Economy of Dodd-Frank: Why Financial Reform Tends to Be Frustrated and Systemic Risk Perpetuated." *Cornell Law Review* 97: 1019.

Cogan, John F., and John B. Taylor. 2010. "What the Government Purchases Multiplier Actually Multiplied in the 2009 Stimulus Package." Working Paper 16505. National Bureau of Economic Research. www.nber.org/papers/w16505.

Cohen, Dara Kay, Mariano-Florentino Cuéllar, and Barry R. Weingast. 2006. "Crisis Bureaucracy: Homeland Security and the Political Design of Legal Mandates." *Stanford Law Review* 59 (3): 673–759.

Congleton, Roger D. 2004a. "The Political Economy of Crisis Management: Surprise, Urgency, and Mistakes in Political Decision Making." *Advances in Austrian Economics* 8: 183–203.

———. 2004b. "The Median Voter Model." In *The Encyclopedia of Public Choice*, 707–712. New York: Springer.

———. 2009. "On the Political Economy of the Financial Crisis and Bailout of 2008-2009." Public Choice 140 (3/4): 287–317.

Congress. 2001. “House Debate on the USA PATRIOT Act.” Congressional Record. www.congress.gov/congressional-record/2001/10/23/house-section/article/H7159-3.

———. *House of Representatives Debates Economic Stimulus Act of 2008*. Washington, D.C.: Government Printing Office. www.gpo.gov/fdsys/pkg/CREC-2008-01-29/pdf/CREC-2008-01-29-pt1-PgH485-6.pdf.

Cooke, Mark. 2011. “Mission Creep: The Patriot Act and the War on Drugs.” *American Civil Liberties Union of Washington*. October 28. https://aclu-wa.org/blog/mission-creep-patriot-act-and-war-drugs.

Cordray. 2012. *How Will the CFPB Function Under Richard Cordray?,*. Washington, D.C. http://oversight.house.gov/wp-content/uploads/2012/06/01-24-12-Subcommittee-on-TARP-Financial-Services-and-Bailouts-of-Public-and-Private-Programs-Hearing-Transcript.pdf.

Correia, Maria M. 2014. “Political Connections and SEC Enforcement.” Journal of Accounting and Economics 57 (2–3): 241–62.

Cowen, Tyler. 2007. “Shock Jock.” *The New York Sun*. www.nysun.com/arts/shock-jock/63867/.

Cox, Gary W., Douglass C. North, and Barry R. Weingast. 2015. “The Violence Trap: A Political-Economic Approach to the Problems of Development.” Available at SSRN 2370622. http://papers.ssrn.com/sol3/papers.cfm?abstract-id=2370622.

Coyne, Christopher J. 2007. After War: *The Political Economy of Exporting Democracy*. Stanford, Calif.: Stanford University Press.

———. 2013. *Doing Bad by Doing Good: Why Humanitarian Action Fails*. Stanford: Stanford Economics and Finance.

Cray, Douglas W. 1974. “Moore Uncertain of Recession: People and Business.” *New York Times*, November 1.

Crews, Clyde W. 2000. "Ten Thousand Commandments: An Annual Policymaker's Snapshot of the Federal Regulatory State." Washington D.C.: Competitive Enterprise Institute. https://cei.org/studies-issue-analysis/ten-thousand-commandments-annual-policymaker%E2%80%99s-snapshot-federal-regulatory-s-1.

———. 2004. "Ten Thousand Commandments: An Annual Policymaker's Snapshot of the Federal Regulatory State." Washington D.C.: Competitive Enterprise Institute. http://cei.org/sites/default/files/Wayne%20Crews%20-%2010,000%20Commandments%202004.pdf.

———. 2013. "Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory State." Washington D.C.: Competitive Enterprise Institute. http://cei.org/sites/default/files/Wayne%20Crews%20-%2010,000%20Commandments%202013.pdf.

———. 2014. "Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory State." Washington D.C.: Competitive Enterprise Institute. http://cei.org/sites/default/files/Wayne%20Crews%20-%20Ten%20Thousand%20Commandments%202014.pdf.

———. 2015a. "Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory State." Washington D.C.: Competitive Enterprise Institute. https://cei.org/sites/default/files/10%2C000%20Commandments%202015%20-%2005-12-2015.pdf.

———. 2015b. "Mapping Washington's Lawlessness 2016: A Preliminary Inventory of 'Regulatory Dark Matter.'" Issue Analysis 6. Washington D.C.: Competitive Enterprise Institute. https://cei.org/sites/default/files/Wayne%20Crews%20-%20Mapping%20Washington's%20Lawlessness.pdf.

Crozier, Michel, Samuel P. Huntington, and Joji Watanuki. 1975. *The Crisis of Democracy*. Vol. 70. New York University Press New York. http://messhall.org/wp-content/uploads/2011/09/1975-TC-The-Crisis-of-Democracy.pdf.

Culpepper, Pepper D. 2010. Quiet Politics and Business Power: Corporate Control in Europe and Japan. Cambridge, Mass: Cambridge University Press.

Dahl, Robert A. 1991a. *Democracy and Its Critics*. New Haven: Yale University Press.

———. 1991b. *Bureaucracy, Democracy and Public Choice*. Harvester: Wheatsheaf: Hemel Hemsted.

Davis Polk & Wardwell. 2013. "Dodd-Frank Infographic." www.davispolkportal.com/infographic/july2013infographic.html.

Davis Polk & Wardwell. 2016. "Dodd-Frank Six Year Anniversary Report." New York: Davis Polk & Wardwell LLP. www.davispolk.com/sites/default/files/2016-dodd-frank-six-year-anniversary-report.pdf.

de Rugy, Veronique, and Allison Kasic. 2011. "The Never-Ending Emergency: Trends in Supplemental Spending." No. 11-30. Mercatus Working Paper. Washington, D.C.: Mercatus Center. http://mercatus.org/publication/never-ending-emergency.

DiCamillo, Mark, and Marvin Field. 2008. "Strong Support in California for Military Action against Terrorists. Many Fear Future Attacks Are Likely Bush's Job Approval Ratings Soar." The Field Poll. The Field Institute. http://fieldrc1.securesites.net/fieldpollonline/subscribers/Rls2008.pdf.

DiMaggio, Anthony. 2009. When Media Goes to War: Hegemonic Discourse, Public Opinion, and the Limits of Dissent. New York: NYU Press.

Downs, Anthony. 1957a. *An Economic Theory of Democracy*. New York: Harper and Row.

———. 1957b. "An Economic Theory of Political Action in a Democracy." *Journal of Political Economy* 65 (2): 135–50.

———. 1967. *Inside Bureaucracy*. Boston: Little Brown.

DPC. 2008. "Legislative Bulletin of the Housing and Economic Recovery Act of 2008." *Democratic Policy Committee*. July 25. www.dpc.senate.gov/dpcdoc.cfm?doc_name=lb-110-2-123.

Drazen, Allan. 1999. "Central-Bank Independence and Political Business Cycles." In *Central Banking, Monetary Policies, and the Implications for Transition Economies*, 55–71. Springer. http://link.springer.com/chapter/10.1007/978-1-4615-5193-5_4.

Drazen, Allan, and William Easterly. 2001. "Do Crises Induce Reform? Simple Empirical Tests of Conventional Wisdom." *Economics and Politics* 13 (2): 129–157.

Dua, Pami, and David J. Smyth. 1993. "Survey Evidence on Excessive Public Pessimism about the Future Behavior of Unemployment." *Public Opinion Quarterly* 57 (4): 566–574.

Dudley, Susan, and Melinda Warren. 2008. "Regulatory Agency Spending Reaches New Height: An Analysis of the U.S. Budget for Fiscal Years 2008 and 2009." 2009 Annual Report 30. Regulators' Budget Report. George Washington University Regulatory Studies Center and the Weidenbaum Center on the Economy, Government, and Public Policy.

———. 2013. "Sequester's Impact on Regulatory Agencies Modest An Analysis of the U.S. Budget for Fiscal Years 2013 and 2014." 2014 Annual Report 35. Regulators' Budget Report. St. Louis and Washington, D.C.: George Washington University Regulatory Studies Center and the Weidenbaum Center on the Economy, Government, and Public Policy.

———. 2015. "2016 Regulators' Budget: Increases Consistent with Growth in Fiscal Budget." Regulators' Budget Report. St. Louis and Washington, D.C.: George Washington University Regulatory Studies Center and the Weidenbaum Center on the Economy, Government, and Public Policy. http://regulatorystudies.columbian.gwu.edu/sites/regulatorystudies.columbian.gwu.edu/files/downloads/2016_Regulators_Budget.pdf.

———. 2016. "Data on Regulatory Staffing and Spending." 2016. St. Louis and Washington, D.C.: George Washington University Regulatory Studies Center and the Weidenbaum Center on the Economy, Government, and Public Policy.

Dunleavy, Patrick. 1985. "Bureaucrats, Budgets and the Growth of the State: Reconstructing an Instrumental Model." *British Journal of Political Science* 15 (3): 299–328.

Dutta, Nabamita, Peter T. Leeson, and Claudia R. Williamson. 2005. "The Amplification Effect: Foreign Aid's Impact on Political Institutions." *Department Economics, George Mason University*. http://www.peterleeson.com/Amplification_Effect.pdf.

E. Stanovich, Keith, and Richard F. West. 1998. "Cognitive Ability and Variation in Selection Task Performance." *Thinking & Reasoning* 4 (3): 193–230.

Easterly, William. 2015. The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor. New York: Basic Books.

Edidi, Massimo. 2012. "The Cognitive Explanation of Economic Behavior" From Simon to Kahneman." In *Handbook of Knowledge and Economics*, edited by Richard Arena, Agnès Festré, and Nathalie Lazaric. Cheltenham: Edward Elgar Publishing.

Eggen, Dan. 2003. "Patriot Act Used for More than Anti-Terror / Justice Report Also Reveals 50 Secretly Detained after 9/11." *San Francisco Gate*. http://www.sfgate.com/news/article/Patriot-Act-used-for-more-than-anti-terror-2646640.php.

———. 2008a. "FBI Found to Misuse Security Letters." *The Washington Post*, March 14, sec. Nation. http://www.washingtonpost.com/wp-dyn/content/article/2008/03/13/AR2008031302277.html.

Eisensee, Thomas, and David Strömberg. 2007. "News Droughts, News Floods, and U. S. Disaster Relief." *The Quarterly Journal of Economics* 122 (2): 693–728.

Epstein, David, and Sharyn O'halloran. 1999. Delegating Powers: A Transaction Cost Politics Approach to Policy Making under Separate Powers. Cambridge: Cambridge University Press.

Epstein, Lee, Daniel E. Ho, Gary King, and Jeffrey A. Segal. 2005. "Supreme Court during Crisis: How War Affects Only Non-War Cases, The." *New York University Law Review* 80: 1.

Evans, Jonathan St BT. 2008. "Dual-Processing Accounts of Reasoning, Judgment, and Social Cognition." *Annual Review of Psychology.* 59: 255–278.

Fahrenthold, David A. 2012. "In Congress, Sunset Clauses Are Commonly Passed but Rarely Followed through." *The Washington Post*, December 15. https://www.washingtonpost.com/politics/in-congress-sunset-clauses-are-commonly-passed-but-rarely-followed-through/2012/12/15/9d8e3ee0-43b5-11e2-8e70-e1993528222d_story.html.

FCIC. 1997. *History of the 1980s: An Examination of the Banking Crises of the 1980s and Early 1990s.* Vol. 1. 2 vols. Washington, D.C.: Federal Deposit Insurance Corporation.

———. 2011. "The Financial Crisis Inquiry Report." Washington, D.C.: Federal Crisis Inquiry Commission. www.gpo.gov/fdsys/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf.

www.fdic.gov/bank/historical/history/87_136.pdf.

———. 2015. "Failed Banks." https://fdic.gov/bank/individual/failed/.

Fernbach, Philip M., Todd Rogers, Craig R. Fox, and Steven A. Sloman. 2013. "Political Extremism Is Supported by an Illusion of Understanding." *Psychological Science* 24 (6).

Fettig, David. 2002. "Lender of More Than Last Resort." *Federal Reserve Bank of Minneapolis*. www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3392&.

Fiske, Susan T. 1980. "Attention and Weight in Person Perception: The Impact of Negative and Extreme Behavior." *Journal of Personality and Social Psychology* 38 (6): 889–906.

Ford, Gerald. 1975. "Gerald Ford's 1975 State of the Union Address."

www.ford.utexas.edu/library/speeches/750028.htm.

———. 1976. “Presidential Veto Message: Ford Vetoes Second Jobs Bil.” *CQ Almanac*. https://library.cqpress.com/cqalmanac/document.php?id=cqal76-864-26179-1186357.

Fourcade, Marion. 2010. Economists and Societies: Discipline and Profession in the United States, Britain, and France, 1890s to 1990s. Princeton: Princeton University Press.

Frank, Barney. 2009. “The House Holds a Hearing on the Semi-Annual Report of The Fed on Monetary Policy.” *The Washington Post*, July 21, sec. Politics. www.washingtonpost.com/wp-dyn/content/article/2009/07/21/AR2009072101505.html.

Franzese, Robert J. 2002. “The Positive Political Economy of Public Debt: An Empirical Examination of the OECD Postwar Experience.” *SSRN eLibrary*. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1084130&download=yes.

Friedman, Jeffrey. 1995. “Economic Approaches to Politics.” *Critical Review* 9 (1–2): 1–24.

Friedman, Milton. 1966. “The Methodology of Positive Economics.” In *Essays In Positive Economics*. Chicago: University of Chicago Press.

Gallup. 2008. “Views on the Financial Crisis.” *Gallup-Poll*. www.gallup.com/poll/110797/Views-Financial-Crisis.aspx#2.

GAO. 2011. “Dodd-Frank Act: Agencies’ Efforts to Analyze and Coordinate Their Rules.” http://www.gao.gov/products/GAO-13-101.

Gardner, Jennifer M. 1994. “The 1990-1991 Recession: How Bad Was the Labor Market?” Monthly Labor Review. Washington, D.C.: Bureau of Labor Statistics. www.bls.gov/opub/mlr/1994/06/art1full.pdf.

Gerber, Alan S., Gregory A. Huber, David Doherty, and Conor M. Dowling. 2012. “Disagreement and the Avoidance of Political Discussion: Aggregate Relationships and Differences across Personality Traits.” *American Journal of Political Science* 56 (4): 849–874.

Goldfarb, Brent, David Kirsch, and David A. Miller. 2007. "Was There Too Little Entry during the Dot Com Era?" *Journal of Financial Economics* 86 (1): 100–144.

Goldstein, Kenneth M. 1999. Interest Groups, Lobbying, and Participation in America. Cambridge, Mass.: Cambridge University Press.

Goodfriend, Marvin. 2011. "Central Banking in the Credit Turmoil: An Assessment of Federal Reserve Practice." *Journal of Monetary Economics* 58 (1): 1–12.

Gourevitch, Peter A. 1986. Politics in Hard Times: Comparative Responses to International Economic Crises. Ithaca: Cornell University Press.

Grant, J. Tobin, and Nathan J. Kelly. 2008. "Legislative Productivity of the U.S. Congress, 1789–2004." *Political Analysis* 16 (3): 303–23.

Green, Donald P., and Ian Shapiro. 1994. Pathologies of Rational Choice Theory: A Critique of Applications in Political Science. Cambridge: Cambridge University Press.

Greene, John R. 2015. "Gerald Ford: Domestic Affairs—Miller Center." *Miller Center*. http://millercenter.org/president/biography/ford-domestic-affairs.

Greene, Robert W., Lawrence J. White, Patrick A. McLaughlin, James Broughel, J. W. Verret, and Hester Peirce. 2013. Dodd-Frank: What It Does and Why It's Flawed. Mercatus Center at George Mason University.

Greenspan, Alan. 2010. "Fear Undermines America's Recovery." *Financial Times*, October 6. www.ft.com/cms/s/0/4524339a-d17a-11df-96d1-00144feabdc0.html.

Greve, Michael S. 2012. *The Upside-Down Constitution*. Cambridge, Mass: Harvard University Press.

Groll, Thomas, and Christopher J. Ellis. 2015. "Repeated Lobbying by Commercial Lobbyists and Special Interests." SSRN Scholarly Paper ID 2710191. Rochester, NY: Social Science Research Network. http://papers.ssrn.com/abstract=2710191.

Groll, Thomas, and Maggie McKinley. 2015. "Modern Lobbying: A Relationship Market." DICE

Report 13 (3): 15.

Grossack, Irvin M., and Michele Fratianni. 1971. "New Economic Policies: Three Viewpoints." *Business Horizons* 14 (5): 5–26.

Grossman, Gene M., and Elhanan Helpman. 2001. Special Interest Politics. Boston: MIT Press.

Grube, Laura, and Virgil Henry Storr. 2013. "The Capacity for Self-Governance and Post-Disaster Resiliency." *The Review of Austrian Economics*, 1–24.

H. Rept. 111-517. 2010. "H. Rept. 111-517 - Dodd-Frank Wall Street Reform and Consumer Protection Act." Legislation 111–517. Conference Report on H.R. 4173. Washington, D.C.: House of Representatives. https://beta.congress.gov/congressional-report/111th-congress/house-report/517.

H.R. 1. 2009a. "H.R.1 - 111th Congress (2009-2010): American Recovery and Reinvestment Act of 2009." Legislation. https://beta.congress.gov/bill/111th-congress/house-bill/1.

H.R. 1. 2009b. "House Debate on ARRA." Legislation. https://www.congress.gov/congressional-record/2009/1/28/house-section/article/H620-1.

H.R. 1424. 2008a. "Emergency Economic Stabilization Act of 2008." Legislation. October 3. http://beta.congress.gov/bill/110th-congress/house-bill/1424?q=%7B%22search%22%3A%5B%22H.R.+1424%22%5D%7D.

H.R. 1424. 2008b. *House of Representatives Debates the Emergency Economic Stabilization Act of 2008*. Washington, D.C.: thomas.gov. http://beta.congress.gov/congressional-record/2008/09/29/house-section/article/H10337-1.

H.R. 1550. 2009. "H.R.1550 - 111th Congress (2009-2010): Consumer Assistance to Recycle and Save Act of 2009." Legislation. https://beta.congress.gov/bill/111th-congress/house-bill/1550?q=%7B%22search%22%3A%5B%22Consumer+Assistance+to+Recycle+and+Save+Act%22%5D%7D.

H.R. 2166. 1975. "Tax Reduction Act." Legislation. March 29. www.congress.gov/bill/94th-congress/house-bill/2166?q=%7B%22search%22%3A%5B%22%5C%22hr2166%5C%22%22%5D%7D&resultIndex=1.

H.R. 2346. 2009. "H.R.2346 - 111th Congress (2009-2010): Supplemental Appropriations Act, 2009." Legislation. https://beta.congress.gov/bill/111th-congress/house-bill/2346?q=%7B%22search%22%3A%5B%22H.R.+2346%22%5D%7D.

H.R. 2640. 2009. "H.R.2640 - 111th Congress (2009-2010): Consumer Assistance to Recycle and Save Act." Legislation. https://beta.congress.gov/bill/111th-congress/house-bill/2640?q=%7B%22search%22%3A%5B%22Consumer+Assistance+to+Recycle+and+Save+Act%22%5D%7D.

H.R. 2975. 2001. "House Debate on the Patriot Act." Legislation. October 12. https://www.congress.gov/congressional-record/2001/10/12/house-section/article/H6726-4.

H.R. 3090. 2002. "Job Creation and Worker Assistance Act of 2002." Legislation. March 9. www.congress.gov/bill/107th-congress/house-bill/3090?q=%7B%22search%22%3A%5B%22extended+unemployment+compensation%22%5D%7D&resultIndex=2.

H.R. 3090. 2001. "House Debate on the Job Creation and Workers' Assistance Act of 2002." Legislation. October. www.congress.gov/congressional-record/2001/10/24/house-section/article/H7225-2.

H.R. 3162. 2001. "House Debate on the USA PATRIOT Act." Congressional Record. www.congress.gov/congressional-record/2001/10/23/house-section/article/H7159-3.

H.R. 3221. 2008. "H.R.3221 - 110th Congress (2007-2008): Housing and Economic Recovery Act

of 2008." Legislation. July 30. http://beta.congress.gov/bill/110th-congress/house-bill/3221.

H.R. 3435. 1991. "Resolution Trust Corporation, Refinancing, Restructuring, and Improvement Act of 1991." Legislation. December 12. www.congress.gov/bill/102nd-congress/house-bill/3435?q=%7B%22search%22%3A%5B%22%5C%22hr3435%5C%22%22%5D%7D&resultIndex=13.

H.R. 3763. 2002. "Senate Debate on the Sarbanes Oxley Act." Legislation. https://www.congress.gov/congressional-record/2002/senate-section/page/S6779-6793.

H.R. 3763. 2002B. "Sarbanes-Oxley Act of 2002." *Library of Congress*. www.congress.gov/bill/107th-congress/house-bill/3763?q=%7B%22search%22%3A%5B%22Sarbanes-Oxley+Act+2002%22%5D%7D&resultIndex=1.

H.R. 3997. 2008. "House Debate on Emergency Economic Stabilization Act." Legislation. www.congress.gov/congressional-record/2008/09/29/house-section/article/H10337-1.

H.R. 3997. 2008B. "H.R.3997 - 110th Congress (2007-2008): Defenders of Freedom Tax Relief Act of 2007." Legislation. September 29. http://beta.congress.gov/bill/110th-congress/house-bill/3997?q=%7B%22search%22%3A%5B%22H.R.+3997+%22%5D%7D.

H.R. 4173. 2010. "H.R.4173 - 111th Congress (2009-2010): Dodd-Frank Wall Street Reform and Consumer Protection Act." Legislation. https://beta.congress.gov/bill/111th-congress/house-bill/4173?q=%7B%22search%22%3A%5B%22Dodd-Frank%22%5D%7D.

H.R. 4242. 1981. "Economic Recovery Tax Act of 1981." Legislation. August 13. https://www.congress.gov/bill/97th-congress/house-bill/4242.

H.R. 4986. 1980. "Depository Institutions Deregulation and Monetary Control Act of 1980." Legislation. *Library of Congress*. March 31. www.congress.gov/bill/96th-congress/house-bill/4986?q=%7B%22search%22%3A%5B%22%5C%22hr4986%5C%22%22%5D%7D&r

esultIndex=1.

H.R. 5140. 2008. "H.R.5140 - 110th Congress (2007-2008): Economic Stimulus Act of 2008." Legislation. https://beta.congress.gov/bill/110th-congress/house-bill/5140?q=%7B%22search%22%3A%5B%22H.R.+5140+Economic+Stimulus+Act+of+2008%22%5D%7D.

H.R. 5860, William. 1980. "Chrysler Corporation Loan Guarantee Act of 1979." Legislation. January 7. /www.congress.gov/bill/96th-congress/house-bill/5860?q=%7B%22search%22%3A%5B%22Chrysler+Corporation+Loan+Guarantee+Act+1979%22%5D%7D&resultIndex=2.

H.R. 6267. 1982. "Garn-St. Germain Depository Institutions Act of 1982." Legislation. October 15. www.congress.gov/bill/97th-congress/house-bill/6267.

H.R. 7110. 2008. "H.R.7110 - 110th Congress (2007-2008): Job Creation and Unemployment Relief Act of 2008." Legislation. https://beta.congress.gov/bill/110th-congress/house-bill/7110?q=%7B%22search%22%3A%5B%22Job+Creation+and+Unemployment+Relief+Act+of+2008%22%5D%7D.

H.R. 9968. 1975. "Revenue Adjustment Act." Legislation. December 23. www.congress.gov/bill/94th-congress/house-bill/9968?q=%7B%22search%22%3A%5B%22%5C%22hr9968%5C%22%22%5D%7D&resultIndex=2.

Hall, Peter A. 2013. "The Political Origins of Our Economic Discontents: Contemporary Adjustment Problems in Historical Perspective." In *Politics in the New Hard Times*, 129–49. The Great Recession in Comparative Perspective. Ithaca: Cornell University Press.

Hansen, John Mark. 1985. "The Political Economy of Group Membership." *The American Political Science Review*, 79–96.

Hayek, Friedrich A. 1942. "Scientism and the Study of Society." *Economica* 9 (35): 267–91.

———. 1945. "The Use of Knowledge in Society." *The American Economic Review*, 519–530.

———. 1964. "The Theory of Complex Phenomena." In *The Critical Approach to Science and Philosophy*, edited by Mario Bunge. London: Collier McMillan.

———. 1973. *Law, Legislation, and Liberty Vol. 1: Rules and Order*. Chicago: University of Chicago Press.

———. 1996. *Individualism and Economic Order*. New edition. Chicago: University of Chicago Press.

Healy, Gene. 2011. "Remembering Nixon's Wage and Price Controls." *Cato Institute*. www.cato.org/publications/commentary/remembering-nixons-wage-price-controls.

Heckelman, Jac C., and Bonnie Wilson. 2015. "Interest Groups, Democracy, and Policy Volatility." Contemporary Economic Policy 34 (2).

Heilbroner, Robert L. 2011. The Worldly Philosophers: The Lives, Times And Ideas Of The Great Economic Thinkers. New York: Simon and Schuster.

Heiner, Ronald A. 1983. "The Origin of Predictable Behavior." *The American Economic Review* 73 (4): 560–95.

Hendrickson, J. 2011. *Regulation and Instability in US Commercial Banking*. London: Palgrave Macmillan. https://sisis.rz.htw-berlin.de/inh2014/12431373.pdf.

Hermann, Charles F. 1972. International Crises; Insights from Behavioral Research. New York: Free Press.

Hetherington, Marc J. 1996. "The Media's Role in Forming Voters' National Economic Evaluations in 1992." *American Journal of Political Science*, 372–395.

Hetherington, Marc J., and Michael Nelson. 2003. "Anatomy of a Rally Effect: George W. Bush and the War on Terrorism." *Political Science and Politics* 36 (1): 37–42.

Higgs, Robert. 1987. Crisis and Leviathan: Critical Episodes in the Growth of American

Government. New York: Oxford University Press.

Higgs, Robert. 1997. "Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed after the War." *Independent Review* 1 (4). www.independent.org/publications/tir/article.asp?a=430.

———. 2008b. "The Complex Course of Ideological Change." *American Journal of Economics and Sociology* 67 (4): 547–565.

———. 2009. Depression, War, and Cold War: Challenging the Myths of Conflict and Prosperity. Oakland: Independent Institute.

Hirschman, Albert O. 1989. "Having Opinions–One of the Elements of Well-Being?" *The American Economic Review*, 75–79.

Hix, Simon, and Bjørn Høyland. 2005. The Political System of the European Union. Second. London: Macmillan.

Hoff, Joan. 2011. "Presidents and Their Debts, F.D.R. to Bush." *The New York Times*. www.nytimes.com/roomfordebate/2011/07/20/presidents-and-their-debts-fdr-to-bush/nixons-keynesian-solution.

Holcombe, Randall G. 1989. "The Median Voter Model in Public Choice Theory." *Public Choice* 61 (2): 115–25.

———. 1993. "Are There Ratchets in the Growth of Federal Government Spending?" *Public Finance Review* 21 (1): 33–47.

Hood, Christopher. 2010. The Blame Game: Spin, Bureaucracy, and Self-Preservation in Government. Princeton: Princeton University Press.

Hotelling, Harold. 1929. "Stability in Competition." *The Economic Journal*, 41–57.

Huemer, Michael. 2012. "In Praise of Passivity." *Studia Humana* 1 (2): 12–28.

Hume, David. 1907. *Essays: Moral, Political, and Literary*. Vol. 1. London: Longmans, Green, and

Company.

———. 2001. *Of the First Principles of Government*. Charlottesville: University of Virginia Library.

Influence Explorer. 2016. "Real-Time Federal Campaign Finance." Influence Explorer. http://realtime.influenceexplorer.com/newest-filings/.

Inman, Robert P. 2010. "States in Fiscal Distress." National Bureau of Economic Research. www.nber.org/papers/w16086.

Janis, Irving L. 1972. Victims of Groupthink: A Psychological Study of Foreign-Policy Decisions and Fiascoes. Vol. viii. Oxford: Houghton Mifflin.

Jetten, Jolanda, and Matthew J. Hornsey. 2014. "Deviance and Dissent in Groups." *Annual Review of Psychology* 65 (1): 461–85.

Jonas, Jiri. 2012. "Great Recession and Fiscal Squeeze at U.S. Subnational Government Level." *International Monetary Fund*, IMF Working Papers, 12/184: 39.

Jones, Bryan D., and Frank R. Baumgartner. 2005. *The Politics of Attention: How Government Prioritizes Problems*. Chicago: University of Chicago Press.

Jones, Bryan D., and Michelle C. Whyman. 2014. "Lawmaking and Agenda Setting in the United States, 1948–2010." In *Agenda Setting, Policies, and Political Systems: A Comparative Approach*, edited by Christoffer Green-Pedersen and Stefaan Walgrave. Chicago: University of Chicago Press.

Jones, Jeffrey M. 2013a. "Obama's Perceived Honesty, Crisis Management Key to Approval." *Gallup-Poll*. www.gallup.com/poll/163331/obama-perceived-honesty-crisis-management-key-approval.aspx.

———. 2013b. "Record High in U.S. Say Big Government Greatest Threat." *Gallup-Poll*. http://www.gallup.com/poll/166535/record-high-say-big-government-greatest-threat.aspx.

———. 2014. "Americans' Trust in Executive, Legislative Branches Down." *Gallup.com*.

www.gallup.com/poll/175790/americans-trust-executive-legislative-branches-down.aspx.

Ju, Youngkee. 2008. "The Asymmetry in Economic News Coverage and Its Impact on Public Perception in South Korea." *International Journal of Public Opinion Research* 20 (2): 237–249.

Kaase, Max. 1995. *Beliefs in Government*. Vol. 5. Oxford: Oxford University Press.

Kahler, Miles, and David A. Lake, eds. 2013. *Politics in the New Hard Times: The Great Recession in Comparative Perspective*. Ithaca: Cornell University Press.

Kahneman, Daniel, Jack L. Knetsch, and Richard H. Thaler. 1991. "Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias." *The Journal of Economic Perspectives* 5 (1): 193–206.

Kahneman, Daniel. 2003. "Maps of Bounded Rationality: Psychology for Behavioral Economics." *The American Economic Review* 93 (5): 1449–1475.

———. *Thinking, Fast and Slow*. London: Penguin Books Ltd.

Kaiser, Robert G. 2014. Act of Congress: How America's Essential Institution Works, and How It Doesn't. New York: Vintage.

Kalt, Joseph P., and Mark A. Zupan. 1984. "Capture and Ideology in the Economic Theory of Politics." *The American Economic Review*, 279–300.

Kau, James B., and Paul H. Rubin. 1979. "Self-Interest, Ideology, and Logrolling in Congressional Voting." *Journal of Law & Economics* 22: 365.

Kaul, Inge, and Pedro Conceicao. 2006. *The New Public Finance: Responding to Global Challenges*. Oxford: Oxford University Press.

Kazman, Sam. 1990. "Deadly Overcaution: FDA's Drug Approval Process." *Journal of Regulation and Social Costs* 1 (1): 35–54.

Kepplinger, Hans Mathias, Mathias Weber, and Stefan Geis. 2012. Lehman Brothers Und Die Folgen: Berichterstattung Zu Wirtschaftlichen Interventionen Des Staates. Springer DE.

Kindleberger, Charles P. 2001. *Manias, Panics and Crashes*. New York: Springer.

Kingdon, John W. 2014. *Agendas, Alternatives, and Public Policies*. 2nd ed. Harlow: Pearson.

Klein, Naomi. 2008. *The Shock Doctrine: The Rise of Disaster Capitalism*. 1st edition. New York: Picador.

Kliesen, Kevin L. 2003. "The 2001 Recession: How Was It Different and What Developments May Have Caused It?" *Federal Reserve Bank of St. Louis Review*.

Klingemann, Hans-Dieter, and Dieter Fuchs. 1995. *Citizens and the State*. Vol. 1. OUP Oxford.

Klomp, Jeroen, and Jakob de Haan. 2009. "Central Bank Independence and Financial Instability." *Journal of Financial Stability* 5 (4): 321–38.

Knight, Frank H. 1921. *Risk, Uncertainty and Profit*. New York: Hart, Schaffner and Marx.

Knill, Christoph. 1999. "Explaining Cross-National Variance in Administrative Reform: Autonomous versus Instrumental Bureaucracies." *Journal of Public Policy* 19 (2): 113–39.

Koch-Baumgarten, Sigrid, and Katrin Voltmer. 2010. "Mass Media and Public Policy: Is There a Link?" In *Public Policy and the Mass Media: The Interplay of Mass Communication and Political Decision Making*, edited by Sigrid Koch-Baumgarten and Katrin Voltmer. Studies in European Political Science. New York: Routledge.

Kramer, Gerald H. 1971. "Short-Term Fluctuations in US Voting Behavior, 1896–1964." *American Political Science Review* 65 (1): 131–143.

Kuran, Timur, and Cass R. Sunstein. 2007. "Availability Cascades and Risk Regulation." *Stanford Law Review* 51 (4).

Kuran, Timur. 1997. Private Truths, Public Lies: The Social Consequences of Preference Falsification. Cambridge: Harvard University Press.

Lagona, Francesco, and Fabio Padovano. 2008. "The Political Legislation Cycle." *Public Choice* 134 (3–4): 201–229.

Lagona, Francesco, Antonello Maruotti, and Fabio Padovano. 2012. "The Opposite Cycles of Laws

and Decrees." *Centre Condorcet for Political Economy Working Paper*, no. 1. http://www3.eeg.uminho.pt/economia/nipe/docs/Actividades_Seminarios/2012/2012-03-28_Padovano.pdf.

Lai, Brian, and Dan Reiter. 2005. "Rally 'Round the Union Jack? Public Opinion and the Use of Force in the United Kingdom, 1948–2001." *International Studies Quarterly* 49 (2): 255–272.

Lakachman, Robert. 1973. "Nixonomics: Who's Running This Thing?" *New York Times*, December 2.

Lee, David S., Enrico Moretti, and Matthew J. Butler. 2004. "Do Voters Affect or Elect Policies? Evidence from the US House." *The Quarterly Journal of Economics* 119 (3): 807–859.

Leeson, Peter T., and Russell S. Sobel. 2008. "Weathering Corruption." *Journal of Law and Economics* 51 (4): 667–81.

Leoni, Bruno. 1961. *Freedom and the Law*. Indianapolis: Liberty Fund.

Li, William, Pablo Azar, David Larochelle, Phil Hill, and Andrew W. Lo. 2015. "Law Is Code: A Software Engineering Approach to Analyzing the United States Code." *Journal of Business & Technology Law* 10: 297.

Lindblom, Charles E. 1959. "The Science of 'Muddling Through.'" *Public Administration Review* 19 (2): 79–88.

———. 1982. "Politics and Markets." *Ethics* 92 (4): 720–732.

Lohmann, Susanne. 1995. "Information, Access, and Contributions: A Signaling Model of Lobbying." Public Choice 85 (3–4): 267–84.

MacKuen, Michael B., Robert S. Erikson, and James A. Stimson. 1992. "Peasants or Bankers? The American Electorate and the US Economy." *American Political Science Review* 86 (3): 597–611.

Madison, James. 1787. "The Federalist No. 10." *November* 22 (1787): 1787–88.

Mahoney, Christine. 2008. Brussels Versus the Beltway: Advocacy in the United States and the European Union. Georgetown University Press.

Maltzman, Forrest, and Charles R. Shipan. 2008. "Change, Continuity, and the Evolution of the Law." *American Journal of Political Science* 52 (2): 252–67.

Markham, Jerry W. 2000. "Banking Regulation: Its History and Future." *North Carolina Banking Institute* 4: 221.

Massad, Tim. 2012. "The Response to the Financial Crisis." Treasury Notes. Washington, D.C.: U.S. Department of the Treasury. www.treasury.gov/connect/blog/Pages/financial-crisis-response-in-charts.aspx.

Mayhew, David R. 1991. *Divided We Govern*. New Haven: Yale University Press.

Maymin, Philip Z. 2014. "A New Algorithmic Approach to Entangled Political Economy: Insights from the Simplest Models of Complexity." In *Entangled Political Economy*, 18:213–36. Advances in Austrian Economics 18. Bingley: Emerald Group Publishing Limited.

Mayntz, Renate, and Fritz W. Scharpf. "Der Ansatz des akteurzentrierten Institutionalismus." In *Gesellschaftliche Selbstregelung und politische Steuerung*. Campus Verlag, 1995

McCarty, Nolan, Keith T. Poole, and Howard Rosenthal. 2013. *Political Bubbles: Financial Crises and the Failure of American Democracy*. Princeton: Princeton University Press.

McCormick, Robert E., and Robert D. Tollison. 1981. Politicians, Legislation, and the Economy: An Inquiry into the Interest-Group Theory of Government. Boston: M. Nijhoff.

McCubbins, Mathew D., Roger G. Noll, and Barry R. Weingast. 1987. "Administrative Procedures as Instruments of Political Control." *Journal of Economics & Organizations.* 3: 243.

McGinnis, Michael Dean. 2000. Polycentric Games and Institutions: Readings from the Workshop in Political Theory and Policy Analysis. University of Michigan Press.

McLaughlin, Patrick A., and Omar Al-Ubaydili. 2013. "RegData." http://regdata.mercatus.org/.

McLaughlin, Patrick A., and Robert Greene. 2014. "Dodd-Frank's Regulatory Surge: Quantifying Its Regulatory Restrictions and Improving Its Economic Analyses." Mercatus on Policy.

Arlington: Mercatus Center.
http://mercatus.org/sites/default/files/McLaughlinGreene_QuantifyingDoddFrank_MOP_022614.pdf.

McLaughlin, Patrick A., Chad Reese, and Oliver Sherouse. 2016. "Dodd-Frank and the Federal Reserve's Regulations." Washington, D.C.: Mercatus Center. http://mercatus.org/publication/dodd-frank-and-federal-reserve-s-regulations?utm_source=Email&utm_medium=newsletter&utm_campaign=FMWG.

Meltzer, Allan. 2010. "Allan Meltzer: Why Obamanomics Has Failed - WSJ.com." *The Wall Street Journal*. http://www.wsj.com/articles/SB10001424052748704629804575325233508651458.

Mises, Ludwig von. 1998. *Human Action: Scholars Edition*. Auburn: Ludwig von Mises Institute.

Montazerhodjat, Vahid, and Andrew W. Lo. 2015. "Is the FDA Too Conservative or Too Aggressive?: A Bayesian Decision Analysis of Clinical Trial Design." SSRN Scholarly Paper ID 2641547. Rochester, NY: Social Science Research Network. http://papers.ssrn.com/abstract=2641547.

Montgomery, Lori, and Paul Kane. 2008. "Bush Enacts Historic Financial Rescue," October 4, sec. Business. http://www.washingtonpost.com/wp-dyn/content/article/2008/10/03/AR2008100301108.html.

Morgenstern, Oskar. 1963. *On the Accuracy of Economic Observations*. 2nd ed. Princeton: Princeton University Press.

Morris, Frank E. 1982. "Depository Institutions Deregulation and Monetary Control Act of 1980." Boston: Federal Reserve Bank of Boston. http://bostonfed.org/about/pubs/deposito.pdf.

Mortensen, Peter B. 2013. "A Bibliography of Punctuated Equilibrium Studies." Policy Agendas Project. www.policyagendas.org/sites/policyagendas.org/files/PET-biblio-2014.pdf.

Mueller, Dennis C. 1997. *Perspectives on Public Choice: A Handbook*. Cambridge: Cambridge University

Press.

———. Public Choice III. Cambridge; New York: Cambridge University Press.

Murphy, Kevin M., Andrei Shleifer, and Robert W. Vishny. 1993. "Why Is Rent-Seeking So Costly to Growth?" The American Economic Review 83 (2): 409–14.

Musgrave, R. A. 1969. *Fiscal System*. New Haven: Yale University Press.

Nadeau, Richard, Richard G. Niemi, and Timothy Amato. 2000. "Elite Economic Forecasts, Economic News, Mass Economic Expectations, and Voting Intentions in Great Britain." *European Journal of Political Research* 38 (1): 135–170.

NBER. 2014. "Business Cycle Dating Procedure." *The National Bureau of Economic Research*. www.nber.org/cycles/recessions_faq.html.

NCSL. 2012. *State Sovereignty of Financial Services*. Washington, D.C.: National Conference of State Legislators and Interstate Commerce. www.ncsl.org/documents/standcomm/sccomfc/BankingFinancialServices_July2012.pdf.

Newell, Allen. 1968. "Judgment and Its Representation." In *Formal Representation and Human Judgment*, edited by Benjamin Kleinmutz. New York: John Wiley.

Newport, Frank. 2013. "Most in U.S. Say Politics in Washington Cause Serious Harm." *Gallup-Poll*. http://www.gallup.com/poll/159728/say-politics-washington-cause-serious-harm.aspx.

Newton, Kenneth, and Pippa Norris. 2000. "Confidence in Public Institutions: Faith, Culture or Performance?" In *Disaffected Democracies: What's Troubling the Trilateral Countries?* Princeton: Princeton University Press.

Niskanen, William A. 1971. *Bureaucracy and Representative Government*. Piscataway: Transaction Books.

Nixon, Richard. 1971. "Address to the Nation Outlining a New Economic Policy: 'The Challenge of Peace.'" *The American Presidency Project*. www.presidency.ucsb.edu/ws/?pid=3115.

North, Douglass C. 1990. Institutions, Institutional Change and Economic Performance.

Cambridge: Cambridge University Press.

Obama, Barack. 2014. "We Can't Wait." *The White House*. www.whitehouse.gov/economy/jobs/we-cant-wait.

Odishaw, Courtney P. 1988. "Curbing Legislative Chaos: Executive Choice or Congressional Responsibility Notes." *Iowa Law Review* 74: 227–48.

Olson, Mancur. 1965. *The Logic of Collective Action*. Cambridge: Harvard University Press.

OMB. 2015. "Historical Tables." *White House*. www.whitehouse.gov/omb/budget/Historicals.

Ornstein, Norman J., Thomas E. Mann, Michael J. Malbin, Andrew Rugg, and Raffaela Wakeman. 2014. "Vital Statistics on Congress: 6.7 Attempted and Successful Cloture Votes." Chapter 6: Legislative Productivity in Congress and Workload. Strengthening American Democracy 4 of 101. Washington, D.C.: American Enterprise Institute, Campaign Finance Institute, Brookings Institute. www.brookings.edu/research/reports/2013/07/vital-statistics-congress-mann-ornstein.

———. "Vital Statistics on Congress: 3 Campaign Finance in Congressional Elections." Chapter 6: Legislative Productivity in Congress and Workload. Strengthening American Democracy 4 of 101. Washington, D.C.: American Enterprise Institute, Campaign Finance Institute, Brookings Institute. www.brookings.edu/research/reports/2013/07/vital-statistics-congress-mann-ornstein.

Ostrom, Elinor. 1990. Governing the Commons: The Evolution of Institutions for Collective Action. Cambridge: Cambridge University Press.

———. 2010. "Beyond Markets and States: Polycentric Governance of Complex Economic Systems." *The American Economic Review* 100 (3): 641–72.

———. 2014. "Collective Action and the Evolution of Social Norms." *Journal of Natural Resources Policy Research* 6 (4): 235–252.

Ostrom, Vincent. 2008. The Intellectual Crisis in American Public Administration. University of Alabama Press.

Pagliari, Stefano, and Kevin L. Young. 2013. "Leveraged Interests: Financial Industry Power and the Role of Private Sector Coalitions." Review of International Political Economy 21 (3): 575–610.

Paqué, Karl-Heinz. 1990. "Pattern Predictions in Economics: Hayek's Methodology of the Social Sciences Revisited." *History of Political Economy* 22 (2): 281–94.

Paulson, Hank. 2008. "Text of Draft Proposal for Bailout Plan." New York Times. http://www.nytimes.com/2008/09/21/business/21draftcnd.html.

Peacock, Alan T., and Jack Wiseman. 1961. *The Growth of Public Expenditure in the United Kingdom*. Princeton: Princeton University Press.

Peirce, Heather. 2013. Regulatory Burdens: The Impact of Dodd-Frank on Community Banking. Washington, D.C. http://mercatus.org/sites/default/files/Peirce_RegBurden_testimony_071713.pdf.

Peirce, Hester, and Robert Greene. 2013. "The Federal Reserve's Expanding Regulatory Authority Initiated by Dodd-Frank." *Mercatus Center*. http://mercatus.org/sites/default/files/The-Federal-Reserve-Expanding-Regulatory-Authority.pdf.

Peltzman, Sam. 1976. Toward a More General Theory of Regulation. National Bureau of Economic Research Cambridge. http://www.nber.org/papers/w0133.

———. "The Growth of Government." *Journal of Law and Economics* 23 (2): 209–87.

———. 1984. "Constituent Interest and Congressional Voting." *Journal of Law & Economics* 27: 181.

Pennington, Mark. 2000. Planning and the Political Market: Public Choice and the Politics of Government Failure. A&C Black.

Persson, Torsten, and Guido Enrico Tabellini. 1990. *Macroeconomic Policy, Credibility and Politics*. Milton

Park: Taylor & Francis.

———. 2000. *Political Economics: Explaining Economic Policy*. London: MIT Press.

———. 2005. *The Economic Effects of Constitutions*. Boston: MIT press.

Persson, Torsten, and Lars EO Svensson. 1989. "Why a Stubborn Conservative Would Run a Deficit: Policy with Time-Inconsistent Preferences." *The Quarterly Journal of Economics*, 325–345.

Pfleiderer, Paul. 2014. "Chameleons: The Misuse of Theoretical Models in Finance and Economics." *Available at SSRN 2414731*. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2414731.

Pitlik, Hans, and Steffen Wirth. 2003. "Do Crises Promote the Extent of Economic Liberalization? An Empirical Test." *European Journal of Political Economy* 19 (3): 565–581.

Podemska-Mikluch, Marta, and Richard E. Wagner. 2013. "Dyads, Triads, and the Theory of Exchange: Between Liberty and Coercion." *The Review of Austrian Economics* 26 (2): 171–182.

Policy Agenda Project. 2013. "Policy Agendas." *University of Texas at Austin*. www.policyagendas.org.

Pollingreport. 2014. "Pollingreport: Disasters." *Polling Report*. www.pollingreport.com/disasters.htm.

Pontusson, Jonas, and Damian Raess. 2012. "How (and Why) Is This Time Different? The Politics of Economic Crisis in Western Europe and the United States." *Annual Review of Political Science* 15: 13–33.

Poole, Keith T., and Howard Rosenthal. 2000. *Congress: A Political-Economic History of Roll Call Voting*. Oxford: Oxford University Press.

———. 2001. "D-Nominate after 10 Years: A Comparative Update to Congress: A Political-Economic History of Roll-Call Voting." *Legislative Studies Quarterly* 26 (1): 5–29.

Posner, Richard A. 2011. *Economic Analysis of Law*. 11th ed. New York: Wolters Kluwer Law & Business.

Pratto, Felicia, and Oliver P. John. 1991. "Automatic Vigilance: The Attention-Grabbing Power of Negative Social Information." *Journal of Personality and Social Psychology* 61 (3): 380.

Public Citizen. 2010. "Eleven to One: Pro-Reform Derivatives Lobbyists Vastly Outnumbered by Opposition." Washington, D.C.: Public Citizen. www.citizen.org/documents/DerivativesLobbyistsReport.pdf.

Putnam, Robert D. 2001. Bowling Alone: The Collapse and Revival of American Community. 1st edition. Touchstone Books by Simon & Schuster.

Quiring, Oliver, and Mathias Weber. 2012. "Between Usefulness and Legitimacy Media Coverage of Governmental Intervention during the Financial Crisis and Selected Effects." The International Journal of Press/Politics 17 (3): 294–315.

Rao, Neomi. 2015. "Administrative Collusion: How Delegation Diminishes the Collective Congress." NYUL Rev. 90: 1463.

Rasler, Karen A., and William R. Thompson. 1985. "War Making and State Making: Governmental Expenditures, Tax Revenues, and Global Wars." The American Political Science Review 79 (2): 491–507.

Rawls, John. 2005. Political Liberalism. New York: Columbia University Press.

"Read The Bill." 2013. ReadTheBill.org. http://readthebill.org/.

Reagan, Ronald. 1981. "White House Report on the Program for Economic Recovery." Washington, D.C.: White House. www.reagan.utexas.edu/archives/speeches/1981/21881c.htm.

———. 1987. "1987 State of the Union Address." Presidents' Section. http://presidents.website/1987-state-of-the-union-address.html.

Recovery.gov. 2014. "American Recovery and Reinvestment Act - About." *American Recovery and Reinvestment Act*. www.recovery.gov/arra/About/Pages/The_Act.aspx.

Regulatory Studies Center. 2015. "Economically Significant Regulations Issued Each Year." *Reg Stats*

| *Regulatory Studies Center | The George Washington University*. http://regulatorystudies.columbian.gwu.edu/reg-stats#Economically%20Significant%20Rules%20Published%20Across%20Administrations,%20Equivalent%20Periods.

Reinhart, Carmen M., and Kenneth Rogoff. 2011a. *This Time Is Different: Eight Centuries of Financial Folly*. Reprint. Princeton: Princeton University Press.

———. 2011b. "From Financial Crash to Debt Crisis." *American Economic Review* 101 (5): 1676–1706.

Reischauer, Robert D., and CBO. 1991. "Testimony on the Financial Condition of the Resolution Trust Corporation." *Congressional Budget Office*. www.cbo.gov/publication/18206.

Richards, Noelle. 1991. "Federal Deposit Insurance Corporation Improvement Act of 1991 - A Detailed Essay on an Important Event in the History of the Federal Reserve." History of the Federal Reserve. www.federalreservehistory.org/Events/DetailView/49.

Risen, James, and Eric Lichtblau. 2005. "Bush Lets U.S. Spy on Callers Without Courts." *The New York Times*, December 16, sec. Washington. http://www.nytimes.com/2005/12/16/politics/16program.html.

Robbins, Donijo. 2005. Handbook of Public Sector Economics - Public Administration and Public Policy). 1 edition. Boca Raton: CRC Press.

Roberts, Alasdair. 2010a. "The Rise and Fall of Discipline: Economic Globalization, Administrative Reform, and the Financial Crisis." *Public Administration Review* 70 (December): s56–63.

———. 2010b. "Building Resilience: Macrodynamic Constraints on Governmental Response to Crises." In *Designing Resilience for Extreme Events*, edited by Arjen Boin, Louise Comfort, and Chris Demchak. Pittsburgh: University of Pittsburgh Press.

Rodrik, Dani. 1996. "Understanding Economic Policy Reform." *Journal of Economic Literature* 34 (1): 9–41.

Rogoff, Kenneth S. 1988. "Comment on Macroeconomics and Politics." In *NBER Macroeconomics Annual*, edited by Stanley Fischer, 3:13–62. MIT Press. www.nber.org/chapters/c10951.pdf.

Romano, Roberta. 1997. "The Political Dynamics of Derivative Securities Regulation." Yale Journal on Regulation 14: 279.

———. "The Sarbanes-Oxley Act and the Making of Quack Corporate Governance." SSRN Scholarly Paper ID 596101. Rochester, NY: Social Science Research Network. http://papers.ssrn.com/abstract=596101.

———. 2014a. "Regulating in the Dark and a Postscript Assessment of the Iron Law of Financial Regulation." Hofstra Law Review 43: 25.

———. 2014b. "Further Assessment of the Iron Law of Financial Regulation: A Postscript to Regulating in the Dark." SSRN Scholarly Paper ID 2517853. Rochester, NY: Social Science Research Network. http://papers.ssrn.com/abstract=2517853.

Romer, Christina, and Jared Bernstein. 2009. "The Job Impact of the American Recovery and Reinvestment Plan." Economic Estimate. Washington, D.C. www.ampo.org/assets/library/184_obama.pdf.

Romer, Thomas, and Barry R. Weingast. 1991. "Political Foundations of the Thrift Debacle." In Politics and Economics in the Eighties, 175–214. Chicago: University of Chicago Press.

Rose, Paul, and Christopher J. Walker. 2013. "Dodd-Frank Regulators, Cost-Benefit Analysis, and Agency Capture." *Stanford Law Review Online* 66 (April): 9.

Rosenthal, Uriel, Paul 't Hart, and Michael Charles T., eds. 1989. *Coping with Crises: The Management of Disasters, Riots, and Terrorism*. Springfield: C.C. Thomas.

Rothbard, Murray N. 1977. *Toward a Reconstruction of Utility and Welfare Economics*. 3. Center for Libertarian Studies. New York.

———. 1987. "Breaking out of the Walrasian Box." *The Review of Austrian Economics* 1 (1): 97–108.

Rowley, Charles K, and Friedrich G Schneider. 2008. *Readings in Public Choice and Constitutional Political Economy*. Boston: Springer Science+Business Media, LLC.

———. 2004. *The Encyclopedia of Public Choice*. Dordrecht; Boston: Kluwer Academic Publishers.

Runst, Petrik, and Richard E. Wagner. 2011. "Choice, Emergence, and Constitutional Process: A Framework for Positive Analysis." *Journal of Institutional Economics* 7 (1): 131–45.

S&P/Case- Shiller. 2014. "S&P/Case-Shiller U.S. National Home Price Index." *S&P Dow Jones Indices*. www.spindices.com/indices/real-estate/sp-case-shiller-us-national-home-price-index.

S. 386, Patrick. 2009. "Fraud Enforcement and Recovery Act of 2009." Legislation. May 20. www.congress.gov/bill/111th-congress/senate-bill/386?q=%7B%22search%22%3A%5B%22%5C%22s386%5C%22%22%5D%7D&resultIndex=2.

S. 419. 1991. "Resolution Trust Corporation Funding Act of 1991." Legislation. March 23. www.congress.gov/bill/102nd-congress/senate-bill/419?q=%7B%22search%22%3A%5B%22Resolution+Trust+Corporation%22%5D%7D&resultIndex=5.

S. 543, Donald. 1991. "Federal Deposit Insurance Corporation Improvement Act of 1991." Legislation. December 19. www.congress.gov/bill/102nd-congress/senate-bill/543?q=%7B%22search%22%3A%5B%22Federal+Deposit+Insurance+Corporation+Improvement+Act%22%5D%7D&resultIndex=1.

S. 622. 1975. "Energy Policy and Conservation Act." Legislation. December 22. www.congress.gov/bill/94th-congress/senate-bill/622?q=%7B%22search%22%3A%5B%22%5C%22s622%5C%22%22%5D%7D&resultIndex=1.

S. 896. 2016. "House Debate on the Help Families Save Their Home Act." Legislation. Accessed

September 21. https://www.congress.gov/congressional-record/2009/5/19/house-section/article/H5740-1.

S. 3201. 1976. "Public Works Employment Act." Legislation. www.congress.gov/bill/94th-congress/senate-bill/3201?q=%7B%22search%22%3A%5B%22S.+3201%22%5D%7D&resultIndex=2.

Saad, Lydia. 2008. "U.S. Leaders Not Getting High Marks on Credit Crisis." *Gallup-Poll*. www.gallup.com/poll/110782/US-Leaders-Getting-High-Marks-Crisis.aspx.

Samuelson, William, and Richard Zeckhauser. 1988. "Status Quo Bias in Decision Making." *Journal of Risk and Uncertainty* 1 (1): 7–59.

Savage, Charlie. 2012. "Shift on Executive Powers Let Obama Bypass Congress." *The New York Times*, April 22, sec. U.S. / Politics. www.nytimes.com/2012/04/23/us/politics/shift-on-executive-powers-let-obama-bypass-congress.html.

Scharpf, Fritz W. Games real actors play: Actor-centered institutionalism in policy research. Westview Press, 1997.

Schattschneider, Elmer E. 1975. "The Semi-Sovereign People: A Realist's View of Democracy in America." Boston: Cengage Learning.

Schlager, Edella. 2007. "A Comparison of Frameworks, Theories, and Models of Policy Processes." In *Theories of the Policy Process*, edited by Paul A. Sabatier. Boulder: Westview Press.

Scholte, Jan Aart. 2013. "Civil Society and Financial Markets: What Is Not Happening and Why." Journal of Civil Society 9 (2): 129–47.

Schubert, Elizabeth. 2008. "Rochester Protest Against Bailout One of Many Across Country." October 3. http://web.archive.org/web/20081003062436/http://www.13wham.com/news/local/story.aspx?content_id=bc9e1711-37fe-451a-a0e5-dbbf53a60fce&rss=102.

Senate. 2014. "Committee and Subcommittee Assignments." U.S. Government Printing Office. www.senate.gov/reference/resources/pdf/113_committee_subcommittee_assignments.pdf.

———. 2015. "Senate Glossary." *US Senate*. www.senate.gov/reference/glossary.htm.

Shah, Archit. 2009. "Emergency Economic Stabilization Act of 2008." *Harvard Journal on Legislation* 46: 569.
Shah, Archit. 2009. "Emergency Economic Stabilization Act of 2008." *Harvard Journal on Legislation* 46: 569.
Shelpsle, Kenneth A. "Rational Choice Institutionalism." In *Oxford Handbook of Political Institutions*, edited by R.A.W. Rhodes, Sarah A. Binder, and Bert A. Rockman. New York: Oxford University Press.

Shi, Min, and J. Svensson. 2006. "Political Budget Cycles: Do They Differ across Countries and Why?" *Journal of Public Economics* 90 (8): 1367–1389.

———. 2003. "Political Budget Cycles: A Review of Recent Developments." *Nordic Journal of Political Economy* 29 (1): 67–76.

Shobe, Jarrod. 2016. "Agencies as Legislators: An Empirical Study of the Role of Agencies in the Legislative Process." SSRN Scholarly Paper ID 2652520. Rochester, NY: Social Science Research Network. http://papers.ssrn.com/abstract=2652520.

Shughart, William F. 2006. "Katrinanomics: The Politics and Economics of Disaster Relief." *Public Choice* 127 (1–2): 31–53.

———. 2011. "Disaster Relief as Bad Public Policy." *Independent Review* 15 (4): 519–539.

Shughart, William F., and Laura Razzolini. 2003. *The Elgar Companion to Public Choice*. Cheltenham: Edward Elgar Publishing.

Shughart, William F., and Robert D. Tollison. 2006. Policy Challenges and Political Responses: Public Choice Perspectives on the Post-9/11 World. New York: Springer Science & Business

Media.

Simon, Herbert A. 1956. "Rational Choice and the Structure of the Environment." *Psychological Review* 63 (2): 129.

Simon, Julian Lincoln. 1998. *The Ultimate Resource 2*. Princeton: Princeton University Press.

Slovic, Paul. 1987. "Perception of Risk." *Science*, New Series, 236 (4799): 280–85.

Smith, Adam, Richard E. Wagner, and Bruce Yandle. 2011. "A Theory of Entangled Political Economy, with Application to TARP and NRA." *Public Choice* 148 (1): 45–66.

Smith, Adam. 1982. An Inquiry Into the Nature and Causes of the Wealth of Nations, Volume 1. Vol. 1 Edition. Indianapolis: Liberty Fund.

Smith, Vernon L. 2014. "The Lingering, Hidden Costs of the Bank Bailout," July 24, sec. Opinion. http://online.wsj.com/articles/vernon-l-smith-the-lingering-hidden-costs-of-the-bank-bailout-1406160075.

Sobel, Russell S., and Peter T. Leeson. 2006. "Government's Response to Hurricane Katrina: A Public Choice Analysis." *Public Choice* 127 (1–2): 55–73.

Somin, Ilya. 2013. Democracy and Political Ignorance: Why Smaller Government Is Smarter.

Sorkin, Andrew Ross. 2010. Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System--and Themselves. Updated edition. New York: Penguin Books.

Soroka, Stuart N. 2006. "Good News and Bad News: Asymmetric Responses to Economic Information." *The Journal of Politics* 68 (2): 372–85.

SRC. 2015. "Systemic Risk." *Systemic Risk Centre*. www.systemicrisk.ac.uk/src-magazine.

Staw, Barry M., Lance E. Sandelands, and Jane E. Dutton. 1981. "Threat Rigidity Effects in Organizational Behavior: A Multilevel Analysis." *Administrative Science Quarterly* 26 (4): 501–24.

Stevenson, Betsey, and Justin Wolfers. 2011. "Trust in Public Institutions over the Business Cycle." National Bureau of Economic Research. www.nber.org/papers/w16891.

Stigler, George J. 1971. "The Theory of Economic Regulation." *The Bell Journal of Economics and Management Science* 2 (1): 3–21.

Storr, Storr, Virgil H., Stefanie Haeffele-Balch, and Laura E. Grube. 2015. *Community Revival in the Wake of Disaster*. Perspectives from Social Economics. London: Palgrave Macmillan.

Stratmann, Thomas. 1995. "Logrolling in the US Congress." *Economic Inquiry* 33 (3): 441–456.

———. "Can Special Interests Buy Congressional Votes? Evidence from Financial Services Legislation." The Journal of Law & Economics 45 (2): 345–73.

Sunlight Foundation, and govtrack.us. 2014. "Public Domain Data Collectors for the Work of Congress, Including Legislation, Amendments, and Votes." *GitHub*. https://github.com/unitedstates/congress.

Sunstein, Cass R. 2003. "Terrorism and Probability Neglect." *Journal of Risk and Uncertainty* 26 (2–3): 121–36.

Sunstein, Cass, and Richard Thaler. 2008. *Nudge*. New Haven: Yale University Press.

Surowiecki, James. 2004. The Wisdom of Crowds: Why the Many Are Smarter than the Few and How Collective Wisdom Shapes Business. New York: Random House.

Tanzi, Vito, and Ludger Schuknecht. 2000. *Public Spending in the 20th Century: A Global Perspective*. Cambridge: Cambridge University Press.

Tax Foundation, 2014. 2013. "U.S. Federal Individual Income Tax Rates History, 1862-2014 (Nominal and Inflation-Adjusted Brackets)." *Tax Foundation*. July 15.

Tax Policy Center. 2015. "Historical Federal Receipt and Outlay Summary." www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=200.

Taylor, John B. 2011. "An Empirical Analysis of the Revival of Fiscal Activism in the 2000s." *Journal*

of Economic Literature 49 (3): 686–702.

Teles, Steven. 2012. "Kludgeocracy: The American Way of Policy." *New America Foundation* 10: 1.

Tempalski, Jeremy. 2006. "Revenue Effects of Major Tax Bills." OTA Working Paper 81. Washington, D.C.: Office of Tax Analysis at the US Treasury. www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/ota81.pdf.

Tetlock, Philip. 2005. *Expert Political Judgment: How Good Is It? How Can We Know?* Princeton: Princeton University Press.

Theriault, Sean M. 2008. *Party Polarization in Congress*. Cambridge: Cambridge University Press.

Thomas.gov. 2014. "Congress.gov | Library of Congress." Legislation. https://beta.congress.gov/.

Time. 1956. "The Christmas Tree Bill." *Time*, March 26. http://content.time.com/time/magazine/article/0,9171,824103,00.html#ixzz2FLkJrP87.

TNS Opinion & Social. 2013. "Public Opinion in the European Union - First Results." 80. Standard Eurobarometer. Brussels: European Commission. http://ec.europa.eu/public_opinion/archives/eb/eb80/eb80_first_en.pdf.

Todd, Peter M, and Gerd Gigerenzer. 2003. "Bounding Rationality to the World." *Journal of Economic Psychology* 24 (2): 143–65.

Tollison, Robert D. 1988. "Public Choice and Legislation." Virginia Law Review 74: 339.

True, James L., Bryan D. Jones, and Frank R. Baumgartner. 2007. "Punctuated Equilibrium Theory: Explaining Stability and Change in American Policymaking."." In *Theories of the Policy Process*, edited by Paul A. Sabatier. Boulder: Westview Press.

Tullock, Gordon. 2004. *Virginia Political Economy*. Indianapolis: Liberty Fund.

———. 2005a. *Rent-Seeking Society*. Indianapolis: Liberty Fund Inc.

———. 2005b. *Economics of Politics*. Edited by Charles K. Rowley. Vol. 4. The Selected Works of Gordon Tullock. Indianapolis: Liberty Fund Inc.

———. 2005c. *Bureaucracy*. Edited by Charles K. Rowley. Vol. 6. The Selected Works of Gordon Tullock. Liberty Fund Inc.

———. 2007. *Bureaucracy*. Indianapolis: Liberty Fund.

Tversky, Amos, and Daniel Kahneman. 1974. "Judgment under Uncertainty: Heuristics and Biases." *Science* 185 (4157): 1124–1131.

Ulbrich, Holley H. 2011. *Public Finance in Theory and Practice*. Abingdon, Oxon; New York: Routledge.

USA Today. 2008. "USA TODAY/Gallup Poll: Wall Street Bailout Plan." *USA Today*. http://usatoday30.usatoday.com/money/economy/2008-09-25-wallst-poll_N.htm?loc=interstitialskip.

Vermeule, Adrian, and Eric A. Posner. 2007. Terror in the Balance: Security, Liberty, and the Courts: Security, Liberty, and the Courts. Oxford: Oxford University Press.

Verstyuk, Sergiy. 2004. "Partisan Differences in Economic Outcomes and Corresponding Voting Behavior: Evidence from the U.S." *Public Choice* 120 (1–2): 169–89.

von Laer, Wolf, and Adam Martin. 2016. "Regime Uncertainty and the Great Recession: A Market Process Approach." *Independent Review* 20 (4).

von Laer, Wolf. 2010. Probleme Des Etablierten Notenbankensystems - Free Banking Als Alternative? 3rd Edition. Berlin: liberal Verlag.

———. 2014. "Book Review: Wagner Richard E., Deficits, Debt, and Democracy: Wrestling with Tragedy on the Fiscal Commons." *Journal of the History of Economic Thought* 36 (4): 516–518.

———. 2016. "PhD Data." www.wolfvonlaer.com/data.

Wagner, Richard E. 2012a. "Entangled Political Economy: A Keynote Address." presented at the Conference on Entangled Political Economy, Wirth Institute. http://mason.gmu.edu/~rwagner/Wirth%20Keynote.pdf.

———. 2012b. Deficits, Debt, and Democracy: Wrestling with Tragedy on the Fiscal Commons.

Edward Elgar Publishing Ltd.

———. 2016. *Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy*. New Thinking in Political Economy Series. Northhampton: Edward Elgar. http://www.e-elgar.com/shop/politics-as-a-peculiar-business.

Walgrave, Stefaan, and Peter Van Aelst. 2006. "The Contingency of the Mass Media's Political Agenda Setting Power: Toward a Preliminary Theory." *Journal of Communication* 56 (1): 88–109.

Walker, Christopher J. 2016. "Legislating in the Shadows." In. Ohio. http://administrativestate.gmu.edu/wp-content/uploads/2016/06/C-Walker-Legislating-in-the-Shadows.pdf.

Walker, Jack L. 1991. Mobilizing Interest Groups in America: Patrons, Professions, and Social Movements. Ann Arbor: University of Michigan Press.

Wall Street Journal. 1976. "Congress Clears $6.2 Billion Bill To Provide Jobs: Ford Veto Is Promised, But 321-to-80 Vote by House Signals Possible Override." *Wall Street Journal (1923 - Current File)*, January 30, sec. 1.

Washington Representatives. 2013. www.washingtonrepresentatives.com.

Watt, David. 1968. "Labour's Hard Road to Recovery"." *Financial Times*, March 8.

Watt, Nicholas, Ashley Seager, and Larry Elliott. 2008. "Brown's VAT Cut Just Crass Keynesianism, Say Germans." *The Guardian*, December 11, sec. World news. http://www.theguardian.com/world/2008/dec/11/germany-gordon-brown.

Weaver, R. Kent. 1986. "The Politics of Blame Avoidance." *Journal of Public Policy* 6 (4): 371–398.

Weber, Mathias, and Oliver Quiring. 2012. "Die Berichterstattung zu staatlichen Eingriffen im Kontext der Wirtschaftskrise." In *Lehman Brothers Und Die Folgen: Berichterstattung Zu Wirtschaftlichen Interventionen Des Staates*, edited by Hans Mathias Kepplinger, Mathias Weber,

Stefan Geis, and Oliver Quiring. Institut für Publizistik. Berlin: Springer.

Weingast, Barry R. 1984. "The Congressional-Bureaucratic System: A Principal Agent Perspective (with Applications to the SEC)." *Public Choice* 44 (1): 147–191.

Weingast, Barry R., and Mark J. Moran. 1983. "Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission." *The Journal of Political Economy*, 765–800.

West, Robert C. 1982. "The Depository Institutions Deregulation Act of 1980: A Historical Perspective." *Economic Review*, no. Feb: 3–13.

Whittaker, Julie M., and Katelin P. Isaacs. 2012. "Extending Unemployment Compensation Benefits During Recessions." Washington, D.C.: Congressional Research Service. http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/2012/documents/RL34340%20v2_gb_0.pdf.

Wise, Timothy A. 2004. The Paradox of Agricultural Subsidies: Measurement Issues, Agricultural Dumping, and Policy Reform. Citeseer. Global Development and Environment Institute. Working Paper. No 04-02. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.199.6822&rep=rep1&type=pdf.

Wittman, D. A. 1997. The Myth of Democratic Failure: Why Political Institutions Are Efficient. Chicago: University of Chicago Press.

WiWo. 2014. "Wenn Politiker Über Doktortitel Stolpern." www.wiwo.de/politik/deutschland/plagiate-wenn-politiker-ueber-doktortitel-stolpern/7255544.html.

Wohlgemuth, Michael. 2002. "Democracy and Opinion Falsification: Towards a New Austrian Political Economy." *Constitutional Political Economy* 13 (3): 223–46.

———. 2005. "Politik Und Emotionen: Emotionale Politikgrundlagen Und Politiken Indirekter

Emotionssteuerung." Freiburg Discussion Papers on Constitutional Economics 05/9. Walter Eucken Institut. http://econpapers.repec.org/paper/zbwaluord/059.htm.

Wolfson, Martin H. 1986. Financial Crises: Understanding the Postwar US Experience. New York: ME Sharpe.
Wolfson, Martin H. 1986. Financial Crises: Understanding the Postwar US Experience. New York: ME Sharpe.
Woolley, John, and Gerhard Peters. 2014a. "Executive Orders Listed by President and Year." *The* American Presidency Project. www.presidency.ucsb.edu/executive_orders.php?year=2008&Submit=DISPLAY.

———. 2014b. "Executive Orders: Washington - Obama." The American Presidency Project. www.presidency.ucsb.edu/data/orders.php.

Yackee, Jason Webb, and Susan Webb Yackee. 2006. "A Bias Towards Business? Assessing Interest Group Influence on the U.S. Bureaucracy." *Journal of Politics* 68 (1): 128–39.

Young, Andrew T., and Jamie Bologna. 2016. "Crises and Government: Some Empirical Evidence." *Contemporary Economic Policy* 34 (2): 234–49.

Young, Andrew T., and Russell S. Sobel. 2013. "Recovery and Reinvestment Act Spending at the State Level: Keynesian Stimulus or Distributive Politics?" *Public Choice* 155 (3–4): 449–468.

Young, Jason R. 2003. "The Role of Fear in Agenda Setting by Television News." *American Behavioral Scientist* 46 (12): 1673–95.

Zuckerman, Miron, Joseph Porac, Drew Lathin, and Edward L. Deci. 1978. "On the Importance of Self-Determination for Intrinsically-Motivated Behavior." *Personality and Social Psychology Bulletin* 4 (3): 443–46.

Appendix 1: Comparison Laws

Some of these laws—mostly, laws before the 98th Congress—have no official title within the Library of Congress records. For these laws, I derived the name from the description section of the law.

Table 8: Comparison Laws				
Congress	**Name**	**Law**	**Words**	**Days**
93	An Act to extend certain laws relating to the payment of interest on time and savings deposits	H.R. 6370	4,336	141
93	An Act to authorize the regulation of interest rates payable on obligations	S. 3838	3,318	92
94	Equal Credit Opportunity Act	H.R. 6516	2,978	329
94	An Act to extend the authority for the flexible regulation of interest rates	S. 1281	2,653	286
95	Financial Institutions Regulatory and Interest Rate Control Act of 1978	H.R. 14279	60,512	32
95	International Banking Act of 1978	H.R. 10899	11,279	221
95	An Act to extend the authority for the flexible regulation of interest rates	H.R. 3365	2,513	70
95	An Act to extend the authority for the flexible regulation of interest rates	H.R. 9710	2,414	28
95	Debt Collection Practices Act	H.R. 5294	5,408	183
95	Securities Investor Protection Act Amendments	H.R. 8331	16,801	312
95	Foreign Corrupt Practices Act	S. 305	3,949	336
96	An act to authorize automatic transfer accounts at commercial banks	H.R. 4998	4,295	155
96	Amends the Securities Investor Protection Act	H.R. 7939	2,159	54
97	Changes to Title 31 regarding Money and Finance	H.R. 6128	96,081	146
97	Codifies without substantive change recent laws relating to money and finance.	H.R. 7378	6,799	37

97	International Banking Facility Deposit Insurance Act	H.R. 4879	1,515	55
97	A bill to clarify the jurisdiction of the Securities and Exchange Commission	H.R. 6156	7,68	175
98	A bill to codify without substantive change recent laws related to money and finance	H.R. 2727	2,553	296
98	Secondary Mortgage Market Enhancement Act of 1983	S. 2040	4,567	337
98	Insider Trading Sanctions Act of 1984	H.R. 559	1,311	583
100	Agricultural Credit Act of 1987	H.R. 3030	71,792	163
100	Thrift Industry Recovery Act of 1987	S. 1177	982	15
100	Competitive Equality Banking Act of 1987	H.R. 27	53,911	217
100	Securities and Exchange Commission Authorization Act of 1987	S. 1452	8,287	158
100	Insider Trading and Securities Fraud Enforcement Act of 1988	H.R. 5133	3,453	110
100	Management Interlocks Revision Act of 1988	H.R. 4879	901	143
101	Financial Institutions Reform, Recovery, and Enforcement Act of 1989	H.R. 1278	17,0800	157
101	Securities Enforcement Remedies and Penny Stock Reform Act of 1990	S. 647	13,247	578
101	Securities Act Amendments of 1990	H.R. 1396	9,228	612
102	Farm Credit Banks and Associations Safety and Soundness Act of 1992	H.R. 6125	16,449	26
102	Depository Institutions Disaster Relief Act of 1992	H.R. 6050	1,978	25
103	Depository Institutions Disaster Relief Act of 1993	S. 1273	1,395	23
103	Government Securities Act Amendments of 1993	S. 422	10,315	297
103	Unlisted Trading Privileges Act of 1994	H.R. 4535	1,415	150
103	Riegle Community Development and Regulatory Improvement Act of 1994	H.R. 3474	58,073	319
103	Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994	H.R. 3841	18,737	232

104	Private Securities Litigation Reform Act of 1995	H.R. 1058	12,002	299
104	National Securities Markets Improvement Act of 1996	H.R. 3005	15,706	221
105	Securities Litigation Uniform Standards Act of 1998	S. 1260	4,317	393
105	Examination Parity and Year 2000 Readiness for Financial Institutions Act	H.R. 3116	1,841	52
106	Gramm-Leach Bliley Financial Services Modernization Act of 1999	S. 900	60,829	199
108	Preserving Independence of Financial Institution Examinations Act of 2003	S. 1947	775	26
108	Fair and Accurate Credit Transactions Act of 2003	H.R. 2622	25,459	162
108	The Check Clearing for the 21st Century Act	H.R. 1474	7,624	216
109	Financial Netting Improvements Act of 2006	H.R. 5585	3,167	184
109	Financial Services Regulatory Relief Act of 2006	S. 2856	18,387	149
109	Federal Deposit Insurance Reform Conforming Amendments Act of 2005	H.R. 4636	7,112	60
109	Credit Rating Agency Reform Act of 2006	S. 3850	5,130	24
110	Credit and Debit Card Receipt Clarification Act of 2007	H.R. 4008	692	218
111	Credit Card Act of 2009	H.R. 627	13,993	121
113	A bill to modify the requirements under the STOCK Act	S. 716	773	5
Average			16,764.29	184.75

Appendix 2: 9/11 Crisis Laws

Table 9: Overview of 9/11 Crisis Laws (107th Congress)					
Law Title	**Summary**	**Law**	**Time in Congress**	**Word count**	**Costs for the Federal Government in USD[b]**
Authorization for Use of Military Force 2001	War in Afghanistan	S.J.Res. 23	4	378	Direct spending: $718.62 billion from 2001 till 2014 (Crawford 2014, 5). Estimate from Congressional Research Service (CRS 2014): $686 billion.
Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks	Appropriating funds for anti-terrorism prevention on the federal and state level.	H.R. 2888	5	705	$40 billion
Air Transportation Safety and System Stabilization Act	Financial help for aircraft carries and the creation of a victim's compensation fund.	H.R. 2926	2	4,933	$13.6 billion
Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (Patriot Act)	Patriot Act: Enhanced methods of surveillance, National Security Letters, improved intelligence, etc.	H.R. 3162	23	56,346	$154 million until 2006. (19.5 million annually after 2006)
Aviation and Transportation Security Act	Established the Transportation and Security Administration (TSA).	S. 1447	60	21,559	$9.4 billion estimated in 2001 until 2006 (TSA budget $7.5 billion for 2012)

Enhanced Border Security and Visa Entry Reform Act of 2002	Reinforce border security. Establishing of a common database with information about immigrants	H.R. 3525	147	9,486	No significant effects.
Public Health Security and Bioterrorism Preparedness and Response Act of 2002	Regulations of certain toxins and other chemical substances.	H.R. 3448	184	44,669	$10 million
Authorization for Use of Military Force Against Iraq Resolution of 2002	War in Iraq	H.J.Res. 114	20	1,953	Direct spending: $823.75 billion from 2001 until 2014. (Crawford 2014, 5). CBO estimate from 2002: $949 billion.
Homeland Security Act of 2002	Created the Department of Homeland Security	H.R. 5005	155	77,111	$4.5 billion until 2007.
Average:			73.5	35,221	**Net Costs: Low estimate** $1,5787.2755 trillion High estimate: $1,766.145
c) These calculations start with the (sometimes adjusted) date of introduction until the bill was signed into law. For further details, see the respective law section in this chapter.					
d) These costs are all estimates and not exact. Furthermore, of these estimates cannot anticipate the costs of the full bill since parts of the bills were occasionally classified. The CBO frequently revises their estimates. In this chapter, only the latest estimates by the CBO are used.[66]					

[66] The costs of the laws implemented in the aftermath of 9/11 seem to be not as costly as the Great Recession laws. These CBO numbers are estimates and only applicable for a limited number of years. They often do not look beyond 2006. Different from most laws within the financial crisis, the 9/11 cases often established new authorities, agencies, and programs that are permanent. Therefore, the costs are not repeated ones but tend to increase over time. The TSA exemplifies this. The budget costs were estimated to be $9 billion from 2001 until 2006. Today, the annual costs of the TSA for 2012 are already over $7 billion (H.R. 2055 2011). The impact of these laws have a longer time horizon and permanently change the spending of the federal government whereby the stimulus packages and bailouts during the Great Recession were one-time programs (besides the changes to the Fed and the creation of the CFPB). Another complication of the cost assessment are the sums allocated to intelligence agencies like the NSA. Those funds are classified. Another huge discrepancy in the official accounts of costs for a law is the Homeland Security Act. The CBO

Data sources: (Thomas.gov 2014; Sunlight Foundation and govtrack.us 2014); cost estimates from the Congressional Budget Office if not differently indicated.

Comparing the 9/11 crisis laws to the comparison of all crisis periods (table 2.5) one can see that the same pattern exists as in the Great Recession but that it is weaker. The average word count for the laws enacted during the 107th Congress is 5,913. The laws were in average 223 days within Congress. The 9/11 crisis laws are compared to the "normal' laws seven times longer in terms of words than the average law and get enacted 148 days quicker than the average law of the 107th Congress. Compared to all laws between 1973 and 2014 the 9/11 laws are 150 days quicker and six times longer in terms of words.

(Sunshine 2002) reports costs of $4.5 billion while at the same time Congress discusses amounts higher than $40 billion just for the establishment of the new department (Congress 2002). An amount mentioned by academic research on the Homeland Security Act (Jones 2003, 790).