Political Bubbles
Financial Crises and the Failure of American Democracy

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We’ve come a long way toward understanding financial bubbles. But satisfying explanations for why we keep letting them happen – why plans for reform routinely blossom and wither, why the villains generally escape into the sunset – seem to elude. Until now, anyway.

Political Bubbles: Financial Crises and the Failure of American Democracy by Nolan McCarty (Princeton), Keith Poole (University of Georgia) and Howard Rosenthal (NYU) focuses on the ways interest group pressure, ideology and institutions of governance combine to encourage risky financial behavior. Here, we excerpt the chapter on the formation of public opinion regarding who was to blame for the meltdown in 2008 – and, specifically, why Americans apparently lost interest in reform even as the shockwaves from the housing crash reverberated through the economy. Pay close attention to their analysis of why neither the Tea Party and nor Occupy Wall Street had much impact on financial regulatory reform.

— Peter Passell

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A striking puzzle of the 2008 financial crisis and the ensuing Great Recession is the very restrained and short-lived public outrage against the financial sector. The fact that the public did not press for reforms contributed, in our view, to the failure of American democracy in the financial crisis.

True, indignation was expressed over the bailouts in 2008. Outrage over his membership in “the friends of Angelo,” a group that benefited from very favorable mortgages from Countrywide Financial under then-CEO Angelo Mozilo, played a part in Sen. Chris Dodd announcing his retirement. (It was a bit of chutzpah for Dodd to co-author the “reform” bill.) The outrage was also manifest in the difficulty in passing the Troubled Asset Relief Program (TARP) legislation. And a small aftershock arose with the Senate vote on Ben Bernanke’s reappointment as Federal Reserve chair in January 2010.

Bernanke drew 30 votes not to confirm, a record negative vote for a Fed chair confirmation. Like the vote on TARP, this vote was not a liberal-conservative split. The left was enraged with Bernanke for his inaction before the collapse of Lehman Brothers, the right by his interventionist actions through Fed policies after Lehman fell. But the rage on Capitol Hill in January 2010 had little echo in the American public. By 2009, and certainly by 2010, the outrage had fizzled, to return, via the Occupy Wall Street demonstrations, only in the late summer of 2011.

Where was the outrage in the first years following the crisis? After all, the crisis was associated with dramatic losses in wealth and income. Millions lost their homes; private retirement accounts went south; retirement income from defined-benefit (annuity-like) pensions became endangered, as pension fund portfolios took a hit.

Meanwhile, the low interest rates set by the Fed to stimulate the economy and ease the cash squeeze caused a drop in income for owners of bank CDs. The value of longer-term fixed-income investments also fell in many cases, as corporations were able to call in their bonds and replace them with lower-yielding debt. The “ownership society” embraced by President George W. Bush was in shambles.

Who could have blamed the voters if they had demanded the dismantling and reorganization of the entire financial sector? Who would have been surprised if a Huey Long had emerged, demanding to share the wealth? But the paroxysms of populist rage against the financial sector scarcely materialized.

True, the crisis may well have influenced the 2008 elections, as Barack Obama pulled ahead of John McCain only in late September. On the other hand, Obama won just 53 percent of the popular vote when the crisis should have led to a landslide like those of Franklin D. Roosevelt, Lyndon Johnson and Richard Nixon. Moreover, organized protests, such as those engendered by the prospect of Obamacare, were largely absent.

This is America! How many of you people want to pay for your neighbor’s mortgage that has an extra bathroom and can’t pay their bills?

— Rick Santelli, on CNBC
Why? One exception may prove a general observation. In March 2009, it came to light that employees of the financial products division of American International Group (AIG) – the unit whose trading caused the firm’s collapse – were to receive $165 million in bonuses. The response to this disclosure was swift and fierce. Cable talk shows went crazy, congressional hearings were televised, and the House even voted to tax the bonuses at a rate of 90 percent. Yet the rage did not focus generally on Wall Street’s bonus culture, but specifically on the AIG bonuses and bonuses to other firms that had received bailouts. The policy response correspondingly focused on ways to undo the relevant AIG compensation contracts and to limit compensation at TARP-aided firms. But general reform to executive compensation was not on the agenda.

One reason that the response was focused in this way is that the issue quickly became one of “paying bonuses with taxpayers’ money.” And this framing redirected the rage from what Wall Street had done to what the government had done.

In addition to pummeling the ownership society, the crisis resulted in levels of unemployment not seen since the early 1980s. Long-term unemployment, particularly of younger workers, rose. In October 2011 the unemployment rate for Americans ages 20 to 24 was 14.0 percent, compared to 7.8 percent for those 25 and over. People 55 and over suffered an unemployment rate of 7 percent. The unemployment situation makes Occupy Wall Street understandable, but the movement came late. And the occupiers were largely people without a financial stake.

At its heart, the populist impulse, both in the reaction to bonuses and in Occupy Wall Street, arises from mistrust of elites and the institutions they govern. Populism comes in different flavors depending on where that mistrust is directed. As in many other countries, the United States is home to populism of a left-wing variety rooted in a deep distrust of big business, finance and concentrated economic power. But in contemporary America, that kind of populism runs a distant third to two more common forms: cultural and anti-statist populism.

Cultural populism, honed by George Wallace and Richard Nixon and perfected by Sarah Palin and Michele Bachmann, is based on distrust of cultural elites in media, entertainment and academia. Since this form of populism became disengaged from the left-wing flavor in the 1970s, its adherents have not been particularly hostile to businesses except to those with Hollywood ZIP codes. Cultural populism has much more in common with the right-wing, anti-statist variety that has had a profound impact on American politics over the past 30 years.

Americans don’t trust their government. On the eve of the financial crisis “trust in
government” was close to the lowest since survey researchers started asking about it in the late 1950s. In 2007, only about 20 percent of the American public trusted the government to do what is right “just about always” or “most of the time.” Conversely, before the Watergate scandal, strong majorities trusted government.

When the bubble popped in 2008, even voters willing to blame Wall Street for the damage were unable to transform their anger into calls for tighter regulation and scrutiny. They believed that government was inherently ineffectual – or worse, complicit in a co-conspiracy with financiers. So the mantle of “the People” was picked up initially not by the left but by the Tea Party, which called for a return to “constitutional first principles” to prevent big government from selling out to big finance. Only much later, after the Democrats were routed in the midterm elections, did the populist left occupy Wall Street.

But as we discuss below, the Occupy movement combined opposition to Wall Street and concentrated economic power with extreme mistrust in American political institutions and processes. This near-anarchic mix meant that the movement was slow to translate its concerns into concrete policy proposals or to mobilize in the arena of electoral politics.

The undercurrent of mistrust in government helps us understand the specifics of public opinion toward the crisis. Notably, why public opinion played such a limited role in shaping the policy response. It was not because the public was divided, even along partisan lines, over the causes of the crisis or the need to re-regulate the financial services industry. Instead, it appears that the public’s engagement with the issue was dampened both by skepticism that the government would succeed in restraining the industry and by uncertainty about the best course of action.

These conclusions are based on several observations about public opinion drawn from polls taken during the crisis and during the lead-up to the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. A range of opinion surveys reveals the following patterns.

- The public did blame the financial sector for the crisis. This was true across the political spectrum, with Republicans only slightly less likely than Democrats to believe that Wall Street was responsible.
- Citizens did believe that deregulation of the financial sector was an important cause. Again, at least during the early part of the crisis, this view was held by self-identified Republicans and conservatives as well as by Democrats and liberals.
- The public was not opposed to government intervention during the crisis. The public initially supported both assistance to financial firms and aid to homeowners facing foreclosure. This support, however, declined as concerns about the government rewarding bad behavior increased. Those concerns subsequently polarized the public on partisan and ideological grounds.
- The public generally supported financial reform. But this support was undercut by the belief that the industry itself would be the primary beneficiary.

THE BLAME GAME

A Los Angeles Times/Bloomberg poll asked voters in September 2008 whether they blamed President George W. Bush, Congress or Wall Street for the financial crisis. Thirty-two percent blamed Wall Street, while just 26 percent pointed to Bush and 11 percent to Congress. Only Democratic respondents were more likely to blame Bush than Wall Street. The difference between Republicans and Democrats here does not reflect favorable views of Wall
Street by Democrats, but a projection by Democrats of their intense dislike of Bush arising from other issues such as the Iraq War and his inept response to Hurricane Katrina.

The public continued to blame the financial sector well after the worst had passed. As late as February 2010, more voters blamed Wall Street for the bad economy than blamed the Obama Administration. In a separate poll that month, only about a quarter of voters indicated they were confident that bankers and executives at financial institutions would make the right decisions for the economy. Voters had more confidence in labor union leaders, the Obama Administration, Republicans in Congress and Democrats in Congress. Only automobile executives inspired less confidence than financiers.

Public opinion polls generally show that Americans blame lax regulations for the financial crisis. In a CNN poll taken at the height of the fallout after the collapse of Lehman Brothers, a slim majority said that financial institutions were not regulated enough. (By comparison, 41 percent said this about business in general.) In October 2008, 73 percent in a Los Angeles Times/Bloomberg poll agreed that the lack of regulation was partly responsible for the current financial and housing crisis. Even healthy pluralities of Republicans and “very conservative” voters agreed. By December 2008, 87 percent felt that deregulation of the banking and financial institutions had contributed at least somewhat to the crisis.

It is widely believed that the Treasury’s TARP proposal immediately unleashed populist rage. But a closer examination of the polling data suggests a much more ambivalent response. On the eve of the TARP proposal (September 19-21, 2008) a CNN poll asked whether citizens supported the “millions in aid” that had already been provided to financial firms. Almost 55 percent of citizens responded affirmatively. In the same poll, a stronger majority agreed that the government should step in to address the problems in financial markets.

Notably, the public was not exceptionally polarized along party lines. Fifty-eight percent of Democrats and 50 percent of Republicans supported aid for the financial sector.

Only 14 percent of voters said that they would vote against their members of Congress if they had voted for TARP. Meanwhile, 17 percent said they were more likely to vote for them if they had supported TARP, and 60 percent said their positions on TARP would have no effect.

This support was despite the fact that voters were not confident that TARP would work. Slightly more voters were “not too confident” or “not confident” than were very or somewhat confident that TARP would stabilize the market. Moreover, three-quarters of respondents reported feeling very or somewhat worried about the “possibility that the people who caused these problems in the first place will benefit if the federal government takes action to address these problems.”

So it appears that the initial resistance to TARP was driven not by majoritarian political considerations but by the opposition of vocal minorities on both the right and left (abetted by sectors of the media and the blogosphere). Once the TARP votes were cast, citizens took their cues from the opponents; soon after the height of the crisis, support for intervention began to drop. In a CNN poll taken in early October 2008, approval of TARP registered at 46 percent. By October 17, support was down to 40 percent.

This turn came about as voters began to view TARP as more a bailout for Wall Street than a rescue of the economy. Opposition to further assistance was running better than three-to-one.
ANATOMY OF THE DECLINE

Patterns of support and opposition were fairly consistent across the political spectrum. Republicans and Democrats nearly equally supported the program, a pattern that was largely repeated in several polls through the end of 2008. By December, voters preferred by a 13-point margin, letting financial firms fail rather than be rescued by the government. Support for financial bailouts did not bottom out until early in 2009, after President Obama successfully secured the second tranche of TARP funding. In polls taken in February 2009, support for aid to the financial sector had fallen to the mid-30s.

The drop corresponds to increased disillusionment with TARP’s effectiveness. In January 2009, 85 percent of respondents said TARP has “not done what it was supposed to do to help the economy.” It was only after President Obama’s inauguration that a partisan gap appeared, with Democrats 20 percentage points more likely than Republicans to support bailouts.

Mistrust of the government’s ability to manage the bailouts was a major contributor to the decline in support and the partisan gap. In February 2009, only a bare majority of respondents said they trusted the federal government more than the financial sector when it came to using TARP money. The partisan gap on this question was large, with Democrats 20 points more likely than Republicans to support bailouts.

During the financial crisis, policymakers were obsessed with the problem of “moral hazard” in the mortgage market. The public, less so. Majorities routinely favored financial assistance to homeowners facing foreclosure, and support grew as the crisis deepened. In December 2007, a slim majority of those polled by CNN had supported “special treatment that would prevent [homeowners] from defaulting on their mortgages.” By the end of April 2008, this number had grown to 59 percent.

Support for policies prohibiting foreclosures expanded even further when the full-blown crisis erupted. A Los Angeles Times and Bloomberg survey in October of that year found that a strong majority responded favorably to the “federal government providing assistance to individual homeowners who are facing foreclosure.” A CNN poll about the same time also found strong support in favor of assistance to homeowners facing foreclosures. Both of these polls revealed substantial partisan gaps. Poll respondents were far more sensitive to the issue of moral hazard among banks: An overwhelming majority opposed special treatment for financial institutions that would prevent them from losing money on mortgages.

SUPPORT FOR MORE REGULATION

In an April 2009 CBS/New York Times poll, more than 70 percent of respondents, including 60 percent of Republicans, said that they supported increased regulation of banks and financial institutions. But support slipped and polarized over time. By March 2010, a slight majority supported financial reform. However, the difference between Democrats and Republicans was more than 30 percent. Overall support rebounded slightly in May with the partisan gap holding firm, possibly in response to the SEC filing civil charges against Goldman Sachs over its Abacus collateralized debt obligations. (Goldman Sachs sold long positions to clients who were unaware that the company had permitted the hedge fund manager John Paulson to take a
short position.) The level of support for reform and the partisan gap persisted through the passage of Dodd-Frank.

Throughout this period, support for reform was tempered by concerns about whether government could regulate the financial sector in ways that promoted the public interest. In the same CBS/New York Times poll, only 47 percent felt that new regulations would help all Americans. Almost 40 percent said that new regulations would mainly “benefit the bankers.” Certainly this degree of mistrust was stoked by the unfolding AIG scandal. A whopping 86 percent of respondents had heard or read about the bonuses lavished on its executives.

The public also felt that “big financial institutions such as major banks and insurance companies” had too much influence over decisions made by the Obama Administration. Democrats were almost as likely as Republicans to agree.

These concerns about interest-group influence help explain the substantial decline in support for new regulation. By February 2010, it had fallen to 56 percent. Not surprisingly, the biggest drop was among Republicans. By July 2009, only a bare majority thought the government “should exert more control” over the financial system. The partisan gap on this question was almost 40 points. Income began to emerge as a predictor of support as well, with low-income voters preferring more control by 54 to 33 percent and high income voters opposing more control 52 percent to 46 percent. Support for financial regulation continued to fluctuate in the mid-50s with large partisan differences.

The polling evidence indicates support for treating the banks and their executives more aggressively than the Obama Administration did. About two-thirds of those who proffered an opinion in April 2009 said that financial firms that received government loans should be forced to restructure their management, as had the automakers that received loans. This view was shared in equal measures among Democrats and Republicans.

In the lead-up to the Dodd-Frank law, there was some support for more interventionist measures, although many voters professed ignorance of the specifics. For example, in February 2010 voters supported the Administration’s bank tax proposal, but most said they had not heard enough about it to make a decision.

Lack of information on the part of voters relates to the growing hostility to government intervention. Although by November 2010 more than half of the TARP bailout money had been repaid, more than a quarter of those interviewed responded “don’t know” on a repayment question asked by the Pew Research Center, and more than half the respondents incorrectly stated that less than 50 percent of the money had been repaid. Democrats and Republicans were equally likely to be inaccurate. Public beliefs were clearly more correlated with the messages of anti-government ideologues than with those of the Obama Administration.

As further evidence of the unease with a greater government role, public opinion was downright hostile to more extreme governmental responses. Only 14 percent of those polled (and only 22 percent of self-described liberals) supported government ownership and control of the banks. Not surprisingly, the government had called its takeover of Fannie Mae and Freddie Mac “conservatorship” rather than “nationalization.”

THE TEA PARTY

The origins of the Tea Party movement can be traced to several events, including those organized by the Ron Paul presidential campaign.
in 2008 and anti-stimulus package protests in early 2009. But the impetus for the movement is generally thought to be CNBC reporter Rick Santelli’s rant from the floor of the Chicago Mercantile Exchange on February 19, 2009.

The Obama Administration had proposed spending $75 billion to subsidize the refinancing of mortgages for homeowners who had negative equity but were current on their payments. Calling such underwater homeowners “losers,” Santelli argued that their homes and cars should go into foreclosure so that they could be bought and used by those “who could carry the water instead of drink the water.”

When nearby traders began shouting their applause, Santelli continued: “This is America! How many of you people want to pay for your neighbor’s mortgage that has an extra bathroom and can’t pay their bills?” And then he gave the proto-movement its meme: “We’re thinking of having a Chicago Tea Party in July. All you capitalists that want to show up to Lake Michigan, I’m gonna start organizing.”

The right-wing populist movement that roiled American politics through the 2010 elections and the August 2011 debate on raising the debt ceiling began in earnest as a diatribe against a government program to refinance underwater mortgages. The setting for the occasion was ironic: the floor of a derivatives exchange before an audience of commodity traders – who, Santelli suggested, represented “a pretty good statistical cross-section of America, the silent majority.” Santelli’s screech made no admission of the culpability of the financial sector other than to joke that he would be throwing derivative securities into Lake Michigan.

Santelli’s rant hit all of the right-wing populists’ hot buttons. First, the government was not to be trusted, and all politicians were compromised. Second, elite policy analysts and academics have crazy ideas. As Santelli posited at the time, “If the multiplier that all of these Washington economists are selling us is over one … we never have to worry about the economy again. The government should spend a trillion dollars an hour because we’ll get 1.5 trillion back.”

Third, and most important, Santelli stressed that the main motivation of government was to take from the “responsible,” the “deserving” and the “working,” and give it to the “irresponsible,” the “undeserving” and the “freeloaders.” As Theda Skocpol and Vanessa Williamson demonstrated in their study of the Massachusetts Tea Party, this notion became the unifying theme among the party rank-and-file.

Although born at the Merc, the emergent Tea Party was relatively unengaged on financial reform issues. The hundreds of “Tax Day” protests on April 15, 2009 centered primarily on opposition to taxes and to the stimulus package that Congress had passed in February. By the time Congress went on recess in August, the Tea Party had begun to focus primarily on opposition to health care reform. During that recess, Tea Party activists packed several town hall meetings held by members of Congress to discuss health care reform. In several instances, the protesters shouted down the legislator.

By the time consideration of Dodd-Frank rolled around, the Tea Party was fully engaged in electoral politics as it attempted to defeat several incumbents in Republican primaries. Very little effort was exerted either to
defeat Dodd-Frank or to push for tougher measures to prevent the risks of “too big to fail” financial institutions. In a further touch of irony, Scott Brown, who owed his senate election to the mobilization of the Tea Party and other conservative groups, cast the pivotal vote for cloture on Dodd-Frank.

To establish a crude indicator of Tea Party priorities and activities, we conducted Google searches on November 29, 2011 using the terms “Tea Party” paired with other search terms including “financial reform,” “stimulus” and “immigration.” The table on page 88 shows the number of hits for each search.

Note that the Tea Party was far less often associated with words related to the financial crisis and reform than with words related to other parts of their agenda such as immigration, welfare, public-sector unionization and health care reform.

Given that the Tea Party was born of the anger and anxiety of the financial crisis and recession, why did it play such a muted role in the politics of financial reform? One reason is that the political and ideological entrepreneurs who channeled the Tea Party movement were hostile to reform. Initially, after Santelli’s tirade went viral, the Tea Party was a legitimate grassroots movement; many of its activists had never been involved in politics before. But well-heeled conservative and libertarian organizations and donors provided plenty of AstroTurf to fill in the bare patches.

One of the most important of these elite benefactors was FreedomWorks, a libertarian group that was spun off from Citizens for a Sound Economy, founded by the libertarian billionaire brothers Charles and David Koch in 1984. FreedomWorks was led by former House majority leader Richard Armey, a conservative Republican. Armey passionately crusaded against corporate welfare and crony capitalism while in Congress, but worked as a pharmaceutical industry lobbyist until the conflict between being a Washington lobbyist and a populist crusader became untenable. Also undermining his bona fides as a populist, Armey was crucial for the passage of the Commodity Futures Modernization Act and its inclusion of the “Enron loophole.”

So Armey and FreedomWorks were never likely to try to move the Tea Party in the direction of reforming Wall Street. Indeed, in April 2010, three months before Dodd-Frank passed, Armey said that FreedomWorks had not “had a chance to study it.” The other groups that took up leadership and coordinating roles were also hostile to, or uninterested in, financial market reform.

Of course, these groups might have chosen to mobilize the Tea Party against Dodd-Frank with the same ferocity that they turned on
Obamacare. But other than the dubious notion that Dodd-Frank was a “bailout bill,” there were few populist memes that could rally the movement in the same way that “death panels,” “government takeover” and “individual mandates” generated passion on health care reform.

Surveys of Tea Party supporters and sympathizers underscore the lack of engagement and interest in financial reform on the part of the rank and file. In April 2010, CBS News and the New York Times conducted a poll with a large sample of Tea Party supporters. Reflecting the ambivalence of the movement to financial reform, there were no direct questions about Dodd-Frank or other proposals for reform. The only question related to finance was whether TARP and other bailouts of financial reform were necessary for the economy’s health. An overwhelming majority—74 percent of Tea Party supporters—said that the economy would have improved on its own without bailouts of financial firms, whereas only 51 percent of all respondents answered this way.

The survey did ask several questions whose answers provide clues to the relative inactivity of the movement on financial issues.

• 89 percent thought Obama had expanded government too much (37 percent of all respondents thought so).
• 19 percent of Tea Party supporters said government never does the right thing. Only 6 percent of the supporters said government would do the right thing always or most of the time. Among all respondents to the poll, only 8 percent said government never does the right thing, whereas 20 percent said that it always or mostly does the right thing.
• Tea Party supporters were no less confident in the Fed’s ability to promote financial stability than were other respondents.
• Tea Party supporters were no more likely to say that Obama supported the rich, but were twice as likely to say he favored the poor. This response suggests the movement was considerably less concerned about upward redistribution than it was about redistribution to the poor.

Although the survey results clearly reflect the overwhelming anti-government sentiment of the Tea Party, it appears that two of the conservative arguments about financial reform failed to resonate. The first is the culpability of the Federal Reserve’s monetary policies and its bailouts of banks. The second is that Dodd-Frank was the Democrats’ attempt to expand government for the benefit of rich Wall Street bankers. The echo here is that repeal of Obamacare was a far more strident theme in the 2012 Republican nomination contest than was repeal of Dodd-Frank. In summary, the Tea Party was mainly concerned about preventing an expansion of government that favored the poor.

But there is another, even more troubling, view. The Tea Party largely represented people who benefited little from government policy and who objected to those who did benefit. The people who would benefit were those who had bought speculatively and were underwater or those who were ill-advised (or were the victims of predatory lending) and did not have the income to make their monthly payments. Although they were not the poorest of the poor, these mortgagees were poorer than average Americans.

In addition to opposing foreclosure relief, the Tea Party objected to the stimulus package, much of which was aimed at maintaining government employment at the state and local levels. Public sector employees have had, on the whole, decent jobs and benefits and are not the poorest of the poor. But they are, unlike the traders who applauded Santelli, disproportionately African-American. Those
who would benefit from Obamacare were at the tail end of the income distribution; arguably more important in this context, they were disproportionately African-American and Hispanic, and disproportionately immigrants. In contrast, the Tea Party is disproportionately made up of white citizens. So the Tea Party not only attracted people with principled objections to big government, but also drew support from those motivated by racial and ethnic animus.

Given its primary focus on limiting redistributive social policy, the Tea Party was not an active player in the writing of the Dodd-Frank bill. It was, however, a large factor in the midterm elections, and its supporters were decisive in many Republican primary contests. The movement forced Arlen Specter to switch parties, defeated Sen. Robert Bennett in Utah, and denied a senate nomination to longtime House member Michael Castle in Delaware. Pushing the party far to the right undoubtedly cost the Republicans some seats, but these losses were hardly a ripple in the “shellacking” given to President Obama and the Democrats.

The Tea Party’s impact is apparent in that 17 of the 84 House Republican freshmen were affiliated with the movement. These 17 plus 43 returning Republican incumbents formed the Tea Party Caucus. The Tea Party affiliates are overrepresented in the conservative wing of the party and have discernibly moved the party to the right. The Tea Party freshmen are considerably more conservative than the other first-term Republicans, and the returning members who identify with the movement are much less likely to be in the moderate wing of the party. So in spite of the fact that the grassroots movement was not directly engaged on Dodd-Frank, the election of so many more Republican conservatives will undoubtedly shape implementation even if Republican attempts to repeal fail.

After the passage of Dodd-Frank and the midterm elections of 2010, there were some efforts to mobilize the movement in support of repeal. Tea Party Caucus chair Representative Michele Bachmann, Republican of Minnesota, and member Senator Jim DeMint, Republican of South Carolina, introduced repeal bills in Congress in 2011.

DeMint’s 2010 campaign drew heavy support from the Club for Growth, a fundamentalist free market conservative group whose former president was Senator Pat Toomey, Republican of Pennsylvania. DeMint had endorsed the Tea Party candidate Christine O’Donnell against Michael Castle in Delaware. A new group called Dodd-Frank Exposed was created by Robert Bork Jr. (the son of the failed Supreme Court nominee) and Gary Marx, a vice president at Ralph Reed’s lobbying firm. (Reed is best known as former executive director of the Christian Coalition.)

In February 2011, representatives of Dodd-Frank Exposed attended the Tea Party Patriots American Policy Summit and conducted a poll of the attendees about Dodd-Frank. According to the survey, 42 percent indicated that they had heard little about Dodd-Frank or were not at all familiar with it. Of those who were, 9 out of 10 supported repeal. Dodd-Frank Exposed did not disclose its survey instrument, but their press release leads one to believe that the survey was conducted after the group provided attendees with one-sided information against Dodd-Frank.

**Occupy Wall Street**

Following the collapse of Lehman, the populist left led a number of anti-Wall Street protests. This burst of activism was sporadic and short-lived; by Inauguration Day, it had almost petered out. Throughout the course of the development and passage of financial reform
legislation, left-wing populists and unions were relatively quiet. Most of the progressive criticism of the Administration’s approach to financial reform came from elites such as The New York Times and Vanity Fair.

It was over a year after the passage of Dodd-Frank before this quiescence would end. In the summer of 2011, Kalle Lasn, the publisher of the anti-consumerist and pro-environmentalist magazine Adbusters, devised a marketing campaign for an anti-Wall Street protest movement that would have made the ad executives on TV’s Mad Men happy. A one-page advertisement announced a protest in lower Manhattan with a simple premise: Occupy Wall Street and bring a tent.

Unlike the Tea Party, which mobilized in opposition to specific policy proposals (stimulus spending and Obamacare) and on symbolic dates (Tax Day, Fourth of July), the Occupy Wall Street protests were not targeted at any policy agenda, and the kickoff date of September 17 was selected to coincide with the birthday of Lasn’s mother.

OWS was unable to coalesce around an agenda. The movement, with its anarchist roots, was unwilling to adopt any form of hierarchical organization or leadership structure. No one, not even Lasn, was to speak on behalf of the movement. Instead, each Occupy encampment was governed by a general assembly composed of all participants. The assemblies made decisions by consensus after open-ended discussion. Any participant could block a decision subject to an override of nine-tenths of those present. As a result many participants, often the most unreasonable ones, filibustered like U.S. senators. Clearly, this requirement precluded the setting of an agenda and the formulation of a common political strategy.

Although many ideas floated in OWS circles – ideas ranging from a financial transactions tax to campaign finance reform to student debt relief – no set of formal demands emerged. Whereas Tea Party activists were somewhat amenable to receiving support and direction from existing partisan and ideological groups, the Occupy movement was much more resistant. Some financial and logistical support came from labor unions, but there was resistance on both sides to greater cooperation.

In November, Occupy Oakland called for a general strike following the shutdown of its encampment that resulted in critical injury to a protesting Iraq War veteran. But not a single Oakland union local joined in the strike. Relations with the Democratic Party were also
at arm’s length. Many party leaders endorsed the goals of OWS. But any collaboration was precluded by the strong disappointment of many of the activists in the record of the Obama Administration, as well as by the opposition of the anarchist fringe to any sort of engagement with electoral or party politics.

Of course, no movement is entirely leaderless, and a leadership cluster did form. But Occupy maintained few ties to the institutional left. By the end of November 2011, mayors concerned about public sanitation and safety had ordered the closure of the encampments. Because the encampments formed the primary organizational structure, the future operation of the movement is in question. The first anniversary of OWS in New York fizzled.

To assess the impact of OWS on American politics, it is important to understand the views and motivations of those involved. But there have been few efforts at systematic opinion surveys of the activists. In one study, pollster Douglas Schoen did conduct 198 face-to-face interviews in Zuccotti Park, the site of the OWS encampment in Manhattan, on October 10-11, 2011. The Tea Party was overwhelmingly middle-aged and older, whereas Schoen’s respondents were quite young, with a near-majority under age 30.

Schoen’s sample also reveals a very high degree of disengagement with party politics. Although 32 percent identified as Democrats, more (33 percent) identified with no political party, and the remaining third were scattered among anarchists, libertarians and members of New York’s leftist Working Families Party. Only 56 percent had voted in the 2008 presidential election, a rate lower than that of the general population. And 100 percent agreed that they were turned off by the current political system.

Schoen’s poll results do contain some suggestions that many activists would like to see the movement more engaged in partisan politics. The respondents were asked an open-ended question about what they would like to see the movement achieve. A strong plurality (35 percent) said that they would like it to have the same degree of influence on the Democratic Party that the Tea Party has on the Republicans. The second-highest total (11 percent) said that they would like the movement to break the “two-party duopoly,” presumably by building a third party.

Just as many Tea Party supporters took positions on issues that belied their reputation as an anti-government movement, the same may be true about OWS activists. Thirty percent of Schoen’s respondents said there should be the same or less regulation of the financial sector. Moreover, 35 percent disagreed with the idea that the government had a responsibility to provide health care.

The respondents split almost evenly on the financial sector bailouts. Twenty-two percent said the rich already paid their fair share of taxes, and most were against raising taxes for everyone. So it appears that ideological heterogeneity may also be an impediment to further mobilization. OWS is characterized by a lack of structured organization and a common ideology, factors that kept elite interests away.

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It would hardly be an overstatement to say that Occupy Wall Street increased the salience of inequality and the power of the financial sector as political issues. The movement was remarkably effective in highlighting the divergence between the 1 percent and the 99 percent, and brought attention to the “heads Wall Street wins, tails citizens lose” nature of our financial regulatory regime.

But OWS was better at marketing than at movement. Its slogans were effective, but political change requires mobilization within the
political system or overturning it. Americans do not want the latter. The main impediment to the former is that the movement is not only deeply suspicious of existing institutions but also hostile to any hierarchical form of organization necessary to make the movement a political force.

This is quite a contrast to the Tea Party, which shares much of OWS’s hostility toward political elites and institutions as well as some of the anger toward Wall Street. But the Tea Party does not share the animus toward hierarchical organizations. The Tea Party built organizations and a political infrastructure that were able to influence Republican primary elections and a few general elections.

The contrast between the two movements illustrates how popular outrage can be channeled and built upon by elites. It suggests a different scenario for the Obama Administration and the Democrats. After taking office, Obama failed to keep hammering on the regulatory failures of the George W. Bush-Alan Greenspan-Ben Bernanke team from 2001 to 2008. And he distanced himself from strong advocates of reform. These included, at least initially, both Paul Volcker and Elizabeth Warren, and – permanently, it appears – the reformist financier George Soros. The White House failed to build support for financial reform when it was hot, and instead chose to move on health care.

Congress had its own problems. The two chairs of the finance committees were compromised by questionable activities during the bubble. This was especially true for Chris Dodd in the Senate, who was tarnished by the disclosure that he had benefited from a “friends of Angelo” loan, matters related to his acquisition of a country home in Ireland and ties to AIG. Both Dodd and House chair Barney Frank were avid supporters of Fannie Mae during the subprime loan period; Frank’s partner worked at Fannie Mae.

So what went on at opposite ends of Pennsylvania Avenue was not a confidence builder for advocates of regulatory reform. Public support was never mobilized.