Private Intellectuals and Public Perplexity: The Economics Profession and the Economic Crisis

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1. Agnotology and the Modern Public Face of Economics

It is beginning to dawn that the Great Recession of 2007–? has not only been a crisis of economic contraction and financial failure but has also precipitated a profound crisis of epistemic and scientific dimensions.[1] As Maureen Tkacik (2010) puts it, the general public responded to events by wanting to feel less stupid but were then shocked by how stupid those in positions of authority appeared to be. As all manner of glib expositors flooded the airwaves and the blogosphere, many people reasonably began to wonder if any experts were trustworthy under any circumstances. In particular, economists' rationalist insistence on their deep mathematical technologies of taming uncertainty ran up smack against their plaintive pleas that no one could have predicted the crisis. It was worse when economists with stellar credentials tended to wander aimlessly from one "culprit" to another—from improvident borrowers to "animal spirits" to "toxic assets" to ratings agencies to clueless regulators to sovereign investment funds to an obscure shadow banking sector and beyond—revealing not

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1. For some clear statements of this realization, see Davies and McGoey 2012, Tkacik 2010, and Ferguson 2012.

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only that they had been blindsided but that they came equipped with no fixed conception of the right places to look for possible sources of breakdown: maybe they never entertained the real possibility of breakdown in the first place. The spectacle of the flailing economists prompted some to wonder aloud whether the profession was rendering the public more stupid rather than more informed. Certainly the orthodox professionals never publicly entertained the possibility of the culpability of the economics profession in the run-up to the crisis.

Our primary thesis is that the crisis has revealed a severe epistemological contradiction at the heart of the modern economics profession, as well as highlighted a new set of practices and institutions that have developed since 1980 to paper over the contradiction. Both the current authors have argued elsewhere that the orthodox profession has become more "neoliberal" over time in a very precise sense: following the work of Friedrich Hayek and the Mont Pèlerin Society, orthodox economics has shifted from earlier portrayals of markets as allocation mechanisms for scarce means to given ends and toward versions of markets as ideal information processors.[2] We take that proposition as given here, because we aim to explore one of its most important implications: namely, that it sets up a treacherous dynamic interplay between the economics profession and the public, brought to the surface by the crisis. In a phrase, neoliberal theory in the context of economic crisis creates problems for economists' self-image as public intellectuals.

In the neoliberal playbook, intellectuals are inherently shady characters precisely because they sell their pens for hire to private interests: that is their inescapable lot in life as participants in the marketplace of ideas. It is "The Market" as superior information processor that ultimately sorts out what the masses should deem as Truth, at least in the fullness of time. This informs Robert Barro's position that, as long as they keep paying us, we must be right. This stance creates a problem for the economics profession, because it drives a wedge between trusting economists to clarify issues of great public import and trusting The Market to arrive at time-tested knowledge. This epistemic tension becomes a full-blown contradiction when the issue becomes the possibility of the breakdown of The Market itself. If one adopts the hard neoliberal horn of the dilemma, then the intricate operation of The Market is truly inscrutable, unknowable by any

2. This narrative was first broached in Mirowski 2002 and made much more precise in Mirowski 2009 and Mirowski and Plehwe 2009, and much elaborated in Nik-Khah 2011.

individual person, and thus economists are charlatans who keep pretending to know what they can never know. From this perspective, The Market has never actually failed, even in the current crisis; all that has happened is that economists have befogged our understanding of the necessary accommodations that must occur in order for the Spontaneous Order to come to terms with current events. Economists have been engaging in their usual obfuscation and are now being pared away by Occam's razor. Clearly, in this neoliberal frame, economists (with few exceptions) end up looking like part of the problem, not generally part of the solution. Yet, if one instead occupies the more "moderate" horn of the dilemma, then orthodox economics theory was never fundamentally falsified, because it was the markets themselves that bore inherent flaws, which only the economists can be trusted to rectify. However, this bumps up hard against the empirical phenomenon apparent for all the public to see: the orthodox profession was blindsided by the depth and pervasiveness of the crisis, and has been perplexed and befuddled as to any consensus diagnosis of the crisis, much less appropriate measures to rectify it. And worse, there is no limit to how "deep" the market failures go. There is no reason not to think that "market failure" itself betokens failure of the orthodox economics profession as well (Ferguson 2012).

Neither horn of this dilemma is very tolerable, so in the aftermath of economic collapse the economics profession has sought to have it both ways: the lesson they would want to draw from the crisis is that the public should trust *both* The Market and the economics profession to rescue them from economic disaster (Davies and McGoey 2012, 77). This happened on both the notional left and the notional right. Pace Robert Barro, this contradiction has proved to be a source of growing dissatisfaction with economists on the part of the public. Our contribution to this distressing situation is to document how some elements within the economics profession have sought to sustain this impossible straddle, in order to modulate between the two opposed horns of the dilemma.

The hypothesis we propose to pursue is that there have surfaced in the crisis some relatively systematic attempts to pump doubt and confusion into public discourse; in other words, some "explanations" of manifestations of the crisis and its aftermath have been launched as trial balloons *not* expressly for purposes of further test and elaboration by sanctioned professional economists but as calculated interventions in public discourse. The orthodox economist cannot help but try to get his audience to simultaneously trust markets and trust economists, denying the implicit divergence. Older notions of the role of the "public intellectual" referred to someone who serves to both personify and clarify positions of great import in public debate (Posner 2003); but one of the signal contemporary postmodern developments has been the genesis and nurture of intellectuals poised and primed to muddy up the public mind and consequently foil and postpone most political action, and hence to preserve the status quo ante.

The literature that discusses this feature of public discourse travels under the rubric of *agnotology*: the focused study of the intentional manufacture of doubt and uncertainty in the general populace for specific political motives.[3] This literature refers to phenomena very different from an older "sociology of propaganda," which was an artifact of Cold War theories of totalitarian societies. Agnotology instead studies a pronounced market-based set of procedures, as opposed to propaganda, which tends to emanate from a single source. It situates the practice of the manufacture of doubt as rooted in the professions of advertising and public relations, with close connections to the organization of think tanks and lobbying firms. Its essence is a series of techniques and technologies to both *use* and *influence* independently existing academic disciplines for fostering impressions of implacable controversy where actual disputes are marginal, wreaking havoc with outsider perceptions of the configuration of orthodox doctrines, and creating a parallel set of spokespersons and outlets for ideas that are convenient for the behind-the-scenes funding interests, combined with the inflation of disputes in the name of "balance" in order to infuse the impression in outsiders that nothing has been settled within the core research community. The ultimate purpose of erection of this Potemkin controversy is to stymie action. The earliest examples of agnotology were focused on instances deployed in the natural sciences, most specifically, on the political controversies over the cancer consequences of tobacco smoke, Star Wars antimissile systems, the theory of evolution, the efficacy of pharmaceuticals, and the causes and consequences of global warming (Oreskes and Conway 2010; Michaels 2008; Proctor 2012; Sismondo 2011).[4]

3. The term was coined in 1992 by the linguist Iain Boal, and first used to designate a new approach to science studies in Proctor and Scheibinger 2008. For a primer that provides the motivation for agnotology, see the introductory chapter of that volume. For the present purposes, we note only that it should be sharply distinguished from *agnoiology*, "the doctrine of things of which we are necessarily ignorant" (27).

4. In other words, think tanks have been able to recruit esteemed members of the scientific community in good standing to volunteer in various agnotological projects, to better cultivate

The stance adopted in this essay is that if agnotological procedures can be found regularly deployed in physics and biology and climate science, then we should not think it beyond the pale that they can be readily found in economics as well.[5] Agnotology studies enumerate a number of hallmark techniques, from the accusation of opponents of dealing in "junk science" to the manipulation of the media through various public relations techniques, to the magnification of "uncertainties," the circumvention of various prior academic outlets and peer review structures, attacks on the legitimacy of existing experts, and appeals for "balance" to accord credibility to otherwise fringe explanations. Agnotology is both *social* and *constructivist*; it is not concerned with isolated lone mavericks, and it approaches truth as a flexible construct. Agnotological fomentation of ignorance happens on many different scales: incidents at the individual level are much easier to document and understand than those that happen at the scale of (let us say) the large subset of the profession devoted to macroeconomic theory. For instance, take the individual case of Joseph Stiglitz having to undergo a bit of targeted agnogenesis. Big money cascaded into financial economics in order to defend the sector from threats of regulation of derivatives in 2010–11. Many think tanks and public relations firms produced "position papers" arguing that any attempt to rein in derivatives would be disastrous. One such contract research house issuing papers was Keybridge Associates. Their report drew attention because of some very high-profile names attached to the document as "advisers": Professor Stiglitz for one, David Laibson of Harvard for another. The only problem was that, when the report was brought to the attention of those worthies, they felt impelled to go on record as repudiating the report (Sorkin 2011). What Keybridge had done was pay them a prior retainer for some other purposes, and then attached their names to documents that they would not normally endorse, without notifying them of its activities. Now, was Keybridge attempting to influence the positions of Joseph Stiglitz? No; rather, it was pursuing the standard agnotological procedure of

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the ignorance that lies at the foundations of the neoliberal conception of social order. At the risk of venturing into thorny questions beyond the scope of the current essay, we reproduce the following quotation from Hayek's *Constitution of Liberty* (1960, 378; our italics): "There is not much reason to believe that, if at any one time the best knowledge which some possess were made available to all, the result would be a much better society. *Knowledge and ignorance are relative concepts*."

5. See, in particular, Ferguson 2012, chap. 8. The first author has sought to make this case in greater detail in Mirowski 2011.

the manufacture of ignorance and confusion over what Stiglitz stood for in the minds of the public. The fact that this was just one element of a full-service agnotological offensive is demonstrated by another concurrent parallel activity, the manufacture of an astroturfed letter campaign to the Commodity Futures Trading Commission opposing rule changes to bank control of derivatives markets (Brush and Benson 2010). These are all standard practices from the agnotological playbook, orchestrated by firms located somewhere "outside" the academic sphere but "inside" the beltway. And, when it came to the regulation of derivatives, money talked.

There have been a plethora of similar agnotological initiatives over the past few years: the artificial brouhaha over whether spending austerity can actually produce economic growth, the meme that the Troubled Asset Relief Program procedure was totally successful and cost the taxpayer not a penny, and so on. Rather than survey a ragbag sequence of micro-level agnotological interventions in the crisis, having little common denominator from one instance to the next, the aim of this essay is to document two discrete cases of the manufacture of ignorance. In what follows, we document the fabrication and promulgation of two singular alternative narratives concerning the crisis, honed and simplified so they can fit on a placard or a stump speech teleprompter. In the first case, economists promote a universal nostrum for everything that ails the body politic; in the second, the narrative has the fingerprints of think tanks all over it. In both cases, we observe how economists negotiate the straddle between trusting economists and trusting The Market. As Thomas Pynchon wrote in that great twentieth-century classic, *Gravity's Rainbow*, "If you have them asking the wrong questions, you don't have to worry about the right answers."

2. Incident One: Market Designers Flip over the TARP

In this section, we examine the circumstances surrounding the promotion (and subsequent demise) of the idea that the government could deliver us from financial calamity by devising an auction to remove "toxic assets" from the balance sheets of large banks. Most relevant from the present perspective was that the role of volunteer hazmat team was to be played by a small band of "market designers"—game theorists and experimental economists who were experts in the construction and deployment of specialized auctions. Curiously, these theorists were called in to assist with the justification and passage of the Troubled Asset Relief Program (TARP) in the confusion of late 2008.

The plan to run an auction for toxic assets originated in the immediate aftermath of the March 2008 Bear Stearns collapse, and from the conviction among market participants and some Treasury and Federal Reserve staff that it would be wise to have a plan to "pull off the shelf" in the case of another Bear Stearns–type emergency (Swagel 2009; Sorkin 2009). After several rounds of discussion between staff at the Treasury and the New York and DC Federal Reserve Banks, Neel Kashkari and Phillip Swagel drafted a memo titled "'Break the Glass': Bank Recapitalization Plan."[6] In this memo, Kashkari and Swagel identified alternative emergency measures, argued in favor of using asset auctions to remove mortgage-related assets from bank balance sheets, and set forth a timeline for completing the asset purchases. Secretary of the Treasury Henry Paulson would eventually second their judgment to purchase on ideological grounds,[7] but at that juncture essentially ordered that the plan be set aside.

So when the emergency did eventually arrive, following the September collapse of Lehman Brothers, breaking the glass was something Paulson and Federal Reserve Chairman Ben Bernanke attempted to do. They began to make rounds to convince members of Congress of the need for an emergency asset purchase plan, solicited an auction plan from the New York Fed, and approached academic market designers to fill in the details.[8] But they almost immediately began to encounter difficulties. Bernanke gave a performance at Congress for which he was "much ridiculed": during a hearing on the impending asset purchase plan, Bernanke laid out a plan to purchase troubled assets from banks at "close to the hold-to-maturity price," a slippery magnitude that was highly disputable, but certainly meant paying prices much higher than currently prevailed in asset markets (Ferguson and Johnson 2009, 28–29).[9] Serious criticisms immediately surfaced: Doesn't this purchase plan just boil down to giving Wall Street a subsidy? Then why bother with the circumlocutions? Given the

6. A draft of the plan, dated April 15, 2008, is available at www.scribd.com/doc/21266810/Too-Big-To-Fail-Confidential-Break-the-Glass-Plan-from-Treasury.

7. "Secretary Paulson's intent to use TARP to purchase assets reflected a philosophical concern with having the government buy equity stakes in banks: he saw it as fundamentally a bad idea to have the government involved in bank ownership" (Swagel 2009, 50).

8. Oliver Armantier and James Vickery of the New York Fed delivered the baseline auction proposal on September 20; during the following week, the Treasury and the New York and Washington Feds reached out to the academic market designers Lawrence Ausubel, Peter Cramton, Jacob Goeree, Charles Holt, Paul Milgrom, Jeremy Bulow, and Jonathan Levin. See Armantier, Holt, and Plott 2011 and Klemperer 2010.

9. See "Bernanke's Comments" 2008. The concern was with "mark to market" accounting rules, under which low prices might make banks appear insolvent.

nature of the emergency, was it realistic to believe that a relatively small asset purchase plan would do the job? While these objections were gaining intensity in the public sphere, the Treasury worked behind closed doors to craft the original "Break the Glass" memo into a legislative proposal. The initial effort, which totaled only about two and a half pages, was viewed by many as so insubstantial as to be insulting; the House voted down the initial bill based on the proposal. Clearly the plan was in jeopardy.

It was in this context—with skepticism about the asset auctions abounding, and financial disaster looming—that market designers assumed a public role in the debate over TARP. Market designers soon found themselves in the public spotlight when Bernanke and Swagel referred to market designers' expertise when fielding concerns about the prices to be paid in their plan,[10] and in short order two of the academic market designers approached by the Treasury, Lawrence Ausubel and Peter Cramton, emerged publicly to defend the legitimacy of the asset purchase plan. They claimed they could design an auction that would improve on the Treasury's approach in the sense of establishing lower "competitive market prices," a prospect that did not sound very salubrious from the standpoint of Bernanke, Paulson, and the bevy of Wall Street lobbyists who had already gone on record with their concerns about the consequences of driving prices too low.[11] If these microeconomists were to be politically useful, they had better manage to get on the same page as Treasury officials and the Fed. Ausubel and Cramton (2008a) responded by creatively interpreting "competitive market prices" to mean prices that were "reasonably close to value," by which they meant basically the same thing as Bernanke's "hold-to-maturity" prices.[12] The plan purported to allow for the Treasury to manipulate its demand for securities, thereby manipulat-

10. For example: "Treasury is talking with the experts you would expect—prominent academics who have designed auctions. . . . Treasury is committed to get the market price as best it can" (Swagel, quoted in Greg Mankiw, "A Defense of the Paulson Plan," *Greg Mankiw's Blog*, September 25, 2008, gregmankiw.blogspot.com/2008/09/defense-of-paulson-plan.html). Whereas the quote is unattributed in this blog entry, Swagel (2009, 47) has subsequently made clear that he was its author.

11. For an example of the latter, see Tim Ryan's "Lesson from Saving and Loan Rescue" (2008). Ryan was the president and CEO of the Securities Industry and Financial Markets Association, a lobbying group.

12. In an NPR interview with David Kestenbaum, Cramton made it clear that he shared Bernanke's concern: "If the price [for a toxic asset] was too low then the banks would collapse and we would still have a mess." See the transcript of the interview ("Complicated Reverse Auction May Aid in Bailout"), October 10, 2008, www.npr.org/templates/story/story.php?storyId=95591129.

ing the price paid, while preserving the ability to claim that the prices paid were still "market" prices, at least in some sense, an intention that has been subsequently acknowledged:

> A concern of many at the Treasury was that the reverse auctions would indicate prices for MBSs so low as to appear to make other companies appear to be insolvent if their balance sheets were revalued to the auction results. This could easily be handled within the reverse auction framework, however. . . . we could experiment with the share of each security to bid on; the more we purchased, the higher, presumably, would be the price that resulted. (Swagel 2009, 56)

The claim that, armed with the right technique, the Treasury could in effect "go the market one better," while not baldly implausible, did look like they were claiming that the circle could, in fact, be squared: the government could pay greater than market prices, yet the act of doing so could be rendered "transparent" by the notional market setup.[13] But to the extent that it was possible to ignore this little detail, that would pave the way toward accepting the Treasury's position: issues ranging from executive compensation to reform of the structural composition of the financial sector to direct banishment of certain formats of derivatives immediately fell by the wayside. At a time when the most publicly visible economists were arguing against the TARP, the endorsement of these market designers was surely powerful.[14]

According to the market designers, if you understood the crisis from the correct microeconomic perspective you would come to realize how necessary their intervention was. Market designers claimed the problem stemmed from an absence of liquidity, not—crucially—pervasive insolvency. In their frame, banks possessed a variety of assets, some worthless but most others pretty valuable, and it was the inability to distinguish between the two that caused the crisis. By purchasing these assets, the government would reestablish liquidity, not merely by removing toxic assets from the banks' balance sheets but by releasing information that

13. Promoting confusion about what markets are supposed to be has become standard operating procedure among market designers. To wit: "In addition to markets, there is also the market, an abstraction as in 'the market economy' or 'the free market' or 'the market system.' The abstract market arises from the interaction of many actual markets" (McMillan 2002, 6).

14. The fact they were *academic* economists was significant. Swagel noted that Wall Street economists were also in favor of the TARP, but acknowledged that people would be suspicious of their judgments (Swagel, quoted in Mankiw, "Defense of the Paulson Plan").

would establish the assets' true values. One immediate consequence of this view was that the imposing magnitude of the toxic asset problem was not necessarily worrisome, nor was the possibility that the TARP program would be unable to remove the vast majority of the toxic assets from banks' balance sheets:

> The "losers" are not left high and dry. By determining the market clearing price, the auction increases liquidity. . . . The auction has effectively aggregated information about the security's value. This price information is the essential ingredient needed to restore the secondary market for mortgage backed securities. (Ausubel and Cramton 2008a, 2)

What mattered, they insisted, was "information": information would summon forth funds from private actors, thereby thawing frozen secondary markets. The basis for this claim was that the assets to be purchased had a true, objective value that was the same for all bidders, or in the argot of game theory, "common" valued. According to conventional theory, one should expect in such cases that purchasers of such assets should misjudge this objective value, resulting in a kind of undesirable behavior called the "winner's curse." Market designers believed they could mitigate such problems by designing markets that efficiently aggregate information and thereby assist market participants to discover the true value of items being sold. Although one way to read the market designers' argument was that one should generally trust existing markets to do the best job of aggregating information about assets, there were specific flaws (resulting from the nature of the commodity exchanged) that necessitated a suitably trained economist to provide a helping visible hand. In circumstances like these, with the largest financial firms in the nation perched on the precipice of default, the stakes were dangerously high, making their participation all the more crucial.

However, in practice, the auction design process would encounter serious difficulties. The Treasury had initially selected as a baseline auction a design that "although undoubtedly sub-optimal in the formal mechanism design sense, it was deemed simple, transparent, and robust enough to be implemented rapidly and effectively" (Armantier, Holt, and Plott 2011, 6). In a crisis, especially important was the speed of deployment, since from the perspective of the "Break the Glass" memo the Treasury had already lost a week because of the House's rejection of the first version of TARP. Unfortunately, the market designers responded to the Treasury's call for assistance by submitting wildly incompatible designs for the auctions, necessitating the Treasury to decide between the rival analyses (Ausubel and Cramton 2008c; Klemperer 2010; Armantier, Holt, and Plott 2011). By itself, the presence of rival proposals was not an insuperable obstacle, but complicating matters was that from the perspective of the Treasury one could not tell on paper what the best auction form was (Swagel 2009; Armantier, Holt, and Plott 2011). For example, one dispute broke out over whether to run an "open" or "sealed bid" auction. This had historically been one of the most basic issues that market designers grapple with. Which one was to be preferred was supposed to turn on which mechanism did the best job of aggregating information, but theory provided neither guidance about which form was better nor guidance about whether either form would bring new bits of useful information into the market. There were an enormous number of distinct heterogeneous securities (over twenty-three thousand types), but apparently there was no reliable price information from either markets (which had ground to a halt) or standard simulation methods (which had proved unreliable). Therefore, there was no reason for any market participant to generalize from information released by getting the price "right" for one security to the thousands of others available. The market designers placed in charge of implementing the auction acknowledged, "The relevant issues could not be addressed directly with economic theory" (Armantier, Holt, and Plott 2011, 4).[15] The dispute over auction forms raised a second and more serious problem: there was no good reason to believe that the auctions would do what the market designers said they would: namely, summoning a chain of events that would eventually bring the economy out of crisis by, in the first place, aggregating dispersed information. After all, no work had been done by market designers on how to fix a collapsing economy.

Since market designers could identify no single optimal auction, the Treasury decided to set up two teams and asked them to more fully develop their proposals. Whereas the "Break the Glass" memo called for announcing auction terms within two weeks of TARP's passage, followed by the commencement of auctions in another two weeks, it took until the end of October to even manage to narrow down the candidates to two alternatives (Swagel 2009, 55). Projections at that point had the first auctions beginning no earlier than December. Some Treasury staff became

15. More specifically, Armantier, Holt, and Plott (2011, 13) acknowledged that "there is no Bayesian Nash equilibrium bidding strategy for a similar auction that we can use as a benchmark. The reference price auction is beyond current theory."

increasingly nervous about performance, regarding the auction design process as a "science experiment" run amok: market designers had always insisted that the performance of the auctions was sensitive to even seemingly minor changes in rules, yet they could not even agree about how rule changes would affect performance. They wanted to implement both of the alternative auction forms and use the first set of auctions as trial runs, a prospect that surely failed to inspire confidence. And this in the midst of a collapsing world economy.

Meanwhile, markets themselves had turned against the TARP plan. Things initially had started out well for the Treasury. The first announcement of the toxic asset purchase plan led immediately (on September 18) to a gain on the Dow of 410 points, followed by another 369 points the very next day. Paulson (2010, 258, 264) observed that the Treasury's plan had "acted like a tonic to the markets." Unfortunately, matters went from bad to worse to catastrophic over the next two weeks, at least if one trusted the judgment of markets. The Dow plummeted, and credit markets remained frozen. While it was tempting to attribute the declines to the initial failure to pass TARP, its passage on Friday, October 3, made this a difficult position to maintain, since the declines continued unabated. When the declines resumed the following Monday and spread across the world, Paulson interpreted financial markets as having judged that "TARP would not provide a quick enough fix" (Paulson 2010, 334; see also Swagel 2009, 50). But by then, the handwriting was on the wall: Bernanke and various Treasury staff had been for at least a week expressing doubts that the asset purchase program would work; Paulson himself intimated to President George W. Bush that the Treasury would probably need to purchase equity in the banks on October 1, *two days before TARP's passage*. On October 13, Paulson informed the CEOs of Citigroup, Wells Fargo, JP Morgan, Bank of America, Merrill Lynch, Goldman Sachs, Morgan Stanley, Bank of New York Mellon, and State Street Bank that the Treasury now intended to emphasize capital injections—and he instructed these nine banks to accept them (Paulson 2010, 363–68; Swagel 2009, 50–52). By the end of October, Paulson canceled the auctions and instructed his staff to concentrate on capital injections instead (Paulson 2010, 389; Swagel 2009, 58). When markets judged the prospective market-based program to be faulty, the Treasury heeded the markets, not the economists.

To the Treasury, it ultimately didn't much matter whether it resorted to boutique auctions or capital injections: to be sure, Paulson and his staff might lose face through their reversal, but Paulson had been considering such action well before TARP passed. What mattered was political efficacy, not austere academic notions of "efficiency." The main policy objective was to stop the market freefall without succumbing to bank "nationalization," and the capital injection program basically accomplished that. But to the market designers, it made all the difference in the world. The market designers still under contract responded to the Treasury's volte-face in emphasis by insisting that there was no good reason the Treasury could not use auctions to purchase bank shares in addition to toxic assets (Ausubel and Cramton 2008b), a position they maintained until the Treasury made it clear it had no intention to seek release of any additional TARP funds, therefore foreclosing any prospect for using auctions for the remainder of the Bush administration.

Once that happened, things turned ugly: the market designers for hire themselves became some of the most fierce critics of TARP. In an interview for NPR Ausubel complained, "Instead of conducting transparent auctions, the Treasury is going to instead distribute suitcases of cash"; for Cramton, "It really is moving down the path to crony capitalism, in my mind, where the government is picking winners and losers in a nontransparent way."[16] This turnabout, however turncoat, was easy to pull off because both the market designers and the anti-TARP petitioners now claimed to have shared very similar assumptions about the economic role of government.[17] At times these shared views became apparent: during the period of the most heated disagreement, the Hoover and Cato economist Charles Calomiris stated to NPR that "if Larry (Ausubel) can convince me that he's got the right mechanism, that's great"; Calomiris went on to point out that he and Ausubel actually agreed on many things.[18]

In hopes of getting auctions back on the agenda for the incoming Obama administration, market designers publicly promoted what appeared to be a scientific demonstration that the Paulson Treasury had taken the wrong approach. Cramton claimed that his study had demonstrated "the auction was a success. The banks traded their toxic assets for solid capital, and the taxpayers got a fair deal." The fact that these "banks," "taxpayers," and

16. See the transcript of the NPR story, "Study Suggests Buying Toxic Assets Could Work," November 18, 2008, www.npr.org/templates/story/story.php?storyId=97161786. Ausubel and Cramton (2009, 1) repeat the "suitcase approach" charge.

17. Primarily economists associated with the University of Chicago and various neoliberal think tanks. The speedy production of this petition is discussed in some detail in Mirowski 2013.

18. Transcript of NPR interview, "Complicated Reverse Auction May Aid in Bailout."

"assets" were only sketchy constructs in a laboratory did not necessarily detract from the lesson and might even have served to highlight the difference between the naked politics of Paulson's Treasury and the calm, impartial science of the market designers. One could institute real markets in laboratories, removed from the noise of the real world, and these real markets deemed the market designers to have been correct. But what did getting a "fair deal" have to do with the market designers' theory of the crisis? At most it seemed only to address the issue of whether one could consider the price generated to be a legitimate "market" price—a matter that really could not be settled by an experiment, anyhow. This was a far different claim than the one they had originally made to the Treasury: in their initial submission, Ausubel and Cramton argued not for the information aggregation ability of markets in general but instead for a very specific kind of "clock auction." While their early public statements did take care to portray their auctions as marketlike, they tended to emphasize to the Treasury how their clock auction improved on other designs:

> A security's value is closely related to its "hold to maturity value," which is roughly the same for each bidder. Each bidder has an estimate of this value, but the true value is unknown. The dynamic auction, by revealing market supply as the price declines, lets the bidders condition their bids on the aggregate market information. As a result, common-value uncertainty is reduced and bidders will be comfortable bidding more aggressively without falling prey to the winner's curse—the tendency in a procurement setting of naïve sellers to sell at prices below true value. . . . A principal benefit of the clock auction is the inherent price-discovery feedback mechanism that is absent in any sealed-bid auction format. Specifically, as the auction progresses, participants learn how the aggregate demand changes with price, which allows bidders to update their own strategies and avoid the winner's curse. . . . Efficiency in the clock auction always exceeded 97%. (Ausubel and Cramton 2008c, 10)

In holding that the value of the toxic assets was "roughly the same for each bidder," this passage corresponds to the point made above, that market designers viewed the toxic assets as "common" valued, and that such cases posed for the market designer the task of figuring out how to aggregate information. It also makes explicit the mandate of Bernanke's warning to avoid purchasing assets at too-low prices (although market designers offered a different rationale for doing so—avoiding the winner's curse). But what is most notable about this passage is that it advocates a specific type of auction—a clock auction—and does so on the basis of its ability to avoid the winner's curse, as evident by its demonstrably superior "efficiency." The reason this claim is so notable is because it is incoherent on its own terms: it makes sense to attribute "97% efficiency" only in the case of private valued auctions, where bidders value assets idiosyncratically.[19] If toxic assets are common valued, meaning that all bidders value the assets identically, then all distributions are efficient *by definition*, and therefore the efficiency criterion is useless, or at best irrelevant. While the criterion does make sense in the case of private valued auctions, one can never suffer from the winner's curse in such cases, again *by definition*, and therefore the argument to prefer the clock auction on the grounds of information aggregation is nonsense. Since the market designers' claim that one could avert the crisis by increasing information about the value of assets implied that the assets must be common valued (or else the link between auction performance and crisis aversion is severed), the "efficiency" evidence is especially misleading.

Now, anyone who has taken a course in game theory during the past decade should immediately recognize that the claim advanced by Ausubel and Cramton to the Treasury in support of their "clock auction" was misleading. But perhaps the point of the exercise was never to get the particulars of the economics justification correct, and instead to get the Treasury to purchase their "clock auction." Sifting through all the coverage of the TARP plan, one comes across an acute observation made by a *Newsweek* reporter:

> [Ausubel and Cramton] hope to convince officials that not only does a reverse auction work, but, in the event the Treasury conducts one, to run it off their patented software platform. . . . Ausubel and Cramton own two auction-services companies, Power Auctions and Market Design, each of which handle the back end of auctions for companies and foreign governments. They've already helped the French government sell electricity off its grid and Dutch energy companies auction off natural gas. (Philips 2008)

19. And, indeed, the studies that Ausubel and Cramton draw on to get their 97 percent figure (Kagel and Levin 2001, 2009) provided experimental treatments of private valued auctions.

In fact, Power Auctions and Market Design held the patents for the stipulated clock auction. But the presentation delivered by Ausubel and Cramton for the Treasury listed several additional “Typical Auction Related Activities” (product design; definition of detailed auction rules; auction software specification, development, and testing; bidder training; establishment of an auction “war room”; operation of auction; postauction reports on success of auction and possible improvements for future auctions) for which Power Auctions and Market Design could provide assistance.[20] Of course we do not know the exact provisions that would have been contracted between the parties, since the Treasury scrapped the plan, but given the previous record of market designers, it is entirely reasonable to believe that they shaped their claims with an eye on landing lucrative contracts (Nik-Khah 2008). For years, market designers had made all sorts of fantastic claims for newfangled markets—They can reverse global warming! Improve access to health care! Redress racial and gender discrimination, without committing “reverse discrimination!” Even achieve “free lunch redistribution!”—so long as you hire their firms to build them to your exacting specifications (after all, “details matter”). They have almost always directed the pitch at cash-strapped governments, urging them in particular to sell off public assets to private oligopolistic concerns; in the case of toxic asset auctions, one need only invert the logic.

Unfortunately, no one provided an independent evaluation of market designers’ claims. After all, there was a crisis a-brewing. Only a relatively small coterie of market designers ever got invited to participate in market design exercises, and most were partners in a handful of firms with interlocking directorates. In the case of the toxic asset auctions, the job of judging the proposals was assigned to Jeremy Bulow and Paul Milgrom, both partners with Ausubel and Cramton in Market Design. So much for Chinese walls and plausible deniability. It does not verge on the wildly conspiratorial to suggest that such arrangements create some perverse incentives when it comes to reining in some of the more fantastical claims (gaining popular acceptance for them improves the firm’s prospects), a fact that has seemed only to encourage ever more extravagant claims:

20. Lawrence Ausubel and Peter Cramton, “Auction Design for the Rescue Plan,” slide presentation, October 5, 2008, www.cramton.umd.edu/papers2005–2009/ausubel-cramton-auction-for-rescue-plan-slides.pdf.

> The crisis was caused by mispricing: investment bankers were able to sell poor securities for full value based on misleading ratings. This mispricing was supported by the absence of a transparent secondary market for these mortgage-related securities. If we had transparent prices, a lot of the bad things that happened would not have happened. In particular the housing bubble would have been much less, and the investment bankers would not have been able to make such clever use of the rating agencies and create tens-of-thousands of senseless securities obfuscating prices. Even a tiny bit of good market design would have averted the financial crisis by preventing its root cause: the sale of subprime mortgages as near-riskless securities. (Cramton 2008, p. 1)

> Calls for sensible regulation and market design were met with condescension before the credit crisis, a condescension that is being reevaluated now.[21]

> Good auction design in complex environments . . . requires exploiting the substantial advances that we have seen in market design over the last fifteen years. The recent financial crisis is another example where the principles of market design, if effectively harnessed by regulators, could have prevented or at least mitigated the crisis. (Cramton 2010, 2)

Of course, there is no record of any market designers having actually intervened to prevent the crisis or helped anyone else to ameliorate it, but historical accuracy was never the name of the game, and no one bothers to check for evidence, anyhow: the latter statement was submitted to the NSF as part of a challenge grant proposal. The NSF already awarded its author $400,000 to pursue a related study.[22] And at a recent meeting of the Southern Economic Association, Cramton repeated his claim that market design could have solved the economic crisis. The officer in charge of NSF funding for economics was a copanelist, and she singled out market design as a perfect example of the kind of work the NSF likes to fund: referring to

21. "The Credit Crisis and Market Design," *Market Design* (Alvin Roth's blog), January 3, 2009, marketdesigner.blogspot.com/2009/01/credit-crisis-and-market-design.html.

22. News item, "Economics Faculty Have Been Awarded a $400,000 Grant by the National Science Foundation," October 12, 2009, www.bsos.umd.edu/news-and-events/hot-topics/economics-faculty-have-been-awarded-a-$400000–grant-by-the-national-science-foundation.aspx.

work done with the FCC, she gushed, "Auction theory has put $80 billion in the economy!"[23]

To understand what elevates the public activities of market designers from the realm of mere puffery and self-promotion to the level of agnotology, it is necessary to review how their public statements changed over the course of the crisis. Initially, market designers provided public defense of the Treasury plan in both its particulars (the decision to use reverse auctions) and its generalities (they signed a petition to Congress in support of the proposition that government could act beneficially to correct for market failures). Especially important was the seeming independence of the academic support—as Swagel rightly noted, Wall Street economists were cheerleaders for the TARP as well, but no one would pay attention to them. Inevitably, market designers had to walk a tightrope in order to participate, at times stressing their ability to deliver competitive (low) market prices, at others, higher than fire-sale prices. But in the short term, the academics gave the Treasury the arguments it wanted for instrumental ends—to get the TARP passed. Market designers then persisted with their advocacy for auctions even after Treasury insiders had themselves dismissed the plan as unrealistic; once the Treasury changed its plans, the market designers now devolved into free agents, turned on a dime, and attacked the Treasury. Their complaints, rendered loudly and often in the public sphere, resembled nothing so much as those being made by the *opponents* of TARP. If the public was tracking the record of the economists (which it was not—there was a crisis on), they would be justified in wondering: did these market designers have any clear idea what might have *caused* the crisis in the first place? Did they even have any expertise regarding the financial sector? What made this about-face so confusing is that the phantom public could not trace it to any major shift in the Treasury's position: the market designers had registered no dissent about Treasury's plan to inject capital into the banks, at least so long as it was poised to use their auctions to do so. But once they were out of the running for any auction contracts, and kicked out into the cold, market designers merely flipped and adopted the rhetoric of the TARP opponents. So how much of their analytical stance can be traced to the icy slopes of logic, and how much to the fickle fiduciary considerations of their patrons?

23. Session titled "Research Funding for Economists." See www.etnpconferences.net/sea/seaarchive/sea2011/User/Program.php?TimeSlot=4#Session11. The second author was present at that session.

3. Incident Two: The Federal Crisis Inquiry Commission, and the Neoliberal Saga of Fannie Mae and Freddie Mac as Prime Causes of the 2008 Crisis

In the early stages of the crisis, think tank economists came up with what would become the single most popular story on the right in America, wrapping the entire crisis up in a neat, tidy package. In this meme, the crisis was first and foremost a housing bubble, which when it burst, had some other unpleasant side effects; loans were extended to a bunch of deadbeats who should never been given a shot at home ownership in the first place; the reason that happened was the ill-conceived Community Reinvestment Act passed by the Democrats in 1977; and then the mortgage loans to the deadbeats were enabled by the Government Sponsored Entities (GSEs) Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation). Hence, on both the demand and supply sides, the government had polluted the mortgage market, first causing the housing bubble, and then the subsequent collapse. It was all the fault of the government. Full stop.

It is indisputable that Fannie and Freddie had become untenable as vague "public-private" financial entities in the early phases of the crash, as the prices and collateral value of mortgage-backed securities tanked and, as such, were nationalized on September 6, 2008, by the Bush administration (Sorkin 2009, 227–29). Their previous status as purely governmental entities was therefore dubious, a minor glitch in the neoliberal demonization of the government. What is a bit more stunning is that the story that Fannie and Freddie had *caused the crisis* was first put forth a little more than a month later by think tank members Charles Calomiris (whom we encountered in the previous section) and Peter Wallison (American Enterprise Institute [AEI]) in the *Wall Street Journal* (Calomiris and Wallison 2008). As a trial balloon, it initially appeared rather unpromising, both to those with ringside seats at the subsequent collapse of Wall Street giants like ninepins and to various pundits on both sides of the political divide in 2008. For instance, in testimony at the October 23, 2008, session of the House Committee on Oversight and Government Reform, Alan Greenspan explicitly ruled out the hypothesis that Fannie and Freddie were the "primary cause" of the financial crisis, as did Christopher Cox, then chair of the Securities Exchange Commission (SEC). Paul Krugman, smelling a rat, came out fairly early against the whole idea:

> Fannie and Freddie had nothing to do with the explosion of high-risk lending a few years ago, an explosion that dwarfed the S&L fiasco. In fact, Fannie and Freddie, after growing rapidly in the 1990s, largely faded from the scene during the height of the housing bubble. Partly that's because regulators, responding to accounting scandals at the companies, placed temporary restraints on both Freddie and Fannie that curtailed their lending just as housing prices were really taking off. Also, they didn't do any subprime lending, because they can't. (Krugman 2008)

Here is where considerations of agnotology kicked in. The think tank collective does not abandon a hypothesis simply because it appears to stumble on a few facts and encounters strenuous opposition.[24] Instead, they are flush and primed to send up multiple trial balloons, observe which way the prevailing winds are blowing, and then invest in further inflation for those that appear to take flight and festoon their political allies. The Fannie/Freddie meme was not the only causal narrative explored by the think tanks, but it sure looked good in crisis-aftermath America, especially after the efforts of various Koch-funded front organizations to commandeer the Tea Party movement began to realize results. The Cato Institute seconded the analysis with alacrity (White 2008). The AEI then threw its weight behind the Fannie/Freddie story, with Wallison (2008, 2009, 2010a, 2010b) as point man, and the echo chamber was revved up. Professional economists were recruited to bolster the narrative. The public choice crowd was quick to contribute to the effort (Congleton 2009). Mark Calabria (2011) from Cato was brought in to fluff up the numbers. Dependable fellow travelers like David Brooks, George Will, and Tyler Cowen chimed in with columns and blogs. Douglas Holtz-Eakin signed on, in a way to soon become important in the Financial Crisis Inquiry Commission. Edward Pinto (2009) at AEI was brought on board to crunch some numbers. Raghuram Rajan (2010) promoted a

24. We employ the term *collective* (and, below, *thought collective*) in the sense of Mirowski and Plehwe 2009. In what follows, we can only sketch this collective at work, although it is imperative to acknowledge it operates as a collective, and not the loosely correlated activities of some individuals. For the present purposes, we note that those participating in these efforts were guided by neoliberal ideas about the functioning of markets. We direct those interested in the larger context within which think tanks operate and its relationship to neoliberal approaches to knowledge and markets to Mirowski 2011, chap. 7, and Mirowski 2013, chap. 6.

more politically ambiguous and humanized version of the story in his *Fault Lines*. But the real agnotological breakthrough came when a respected journalist seemingly positioned outside the usual neoliberal precincts (indeed, hailing from within that brimstoned Mordor for the right, the *New York Times*) was somehow induced to write a book also casting Fannie and Freddie as the evil twins behind everything that went wrong in the crisis: Gretchen Morgenson and Josh Rosner's *Reckless Endangerment* (2011). This sparsely sourced and footnote-free book clearly depended heavily on Pinto for the few vague numbers it cited; it was much more expansive when it pursued searing indictments of political figures like Barney Frank, Robert Zoellick, and Andrew Cuomo. A few obscure economists at the Fed came in for especially vituperative comment. At this juncture the thought collective hit a home run: Michael Bloomberg was caught repeating the meme in his outbursts provoked by the Occupy Wall Street movement (Paybarah 2011). Persistence and repetition and emoluments had paid off—the Fannie/Freddie "explanation" had become embedded in the blogosphere and the cultural landscape, spread far and wide by the Republican presidential candidates and beyond. When the SEC brought charges against six former Fannie and Freddie executives in December 2011, Wallison was accorded column inches in the *Wall Street Journal* to crow that he and his comrades had been vindicated.

It was this sequence of events that prompted Joe Nocera (2011), also of the *New York Times*, to bemoan the spread of the Big Lie:

> Thus has Peter Wallison, a resident scholar at the American Enterprise Institute, and a former member of the Financial Crisis Inquiry Commission, almost single-handedly created the myth that Fannie Mae and Freddie Mac caused the financial crisis. His partner in crime is another A.E.I. scholar, Edward Pinto, who a very long time ago was Fannie's chief credit officer. Pinto claims that as of June 2008, 27 million "risky" mortgages had been issued—"and a lion's share was on Fannie and Freddie's books," as Wallison wrote recently. Never mind that his definition of "risky" is so all-encompassing that it includes mortgages with extremely low default rates as well as those with default rates nearing 30 percent. These latter mortgages were the ones created by the unholy alliance between subprime lenders and Wall Street. Pinto's numbers are the Big Lie's primary data point.

The literature attempting to refute this meme was even more prodigious than the usual crisis lit standards; it nearly defies cogent summary.[25] The vulnerability of those skeptical of the GSE meme was the fact that attack on the neoliberal Fannie/Freddie story was often confused with defense of the behavior and structure of Fannie and Freddie, something no politically savvy person of almost any stripe would countenance. Even its supposedly spineless regulator accused Fannie of accounting fraud in 2005 (Morgenson and Rosner 2011, 121). At the end of the day, Fannie and Freddie had made money through heavily promoted ambiguity concerning whether as a privatized entity it had enjoyed a government guarantee of its debt; of course the government takeover settled that question, but only at the expense of debilitating the rest of the banking sector. The fact that it was a cesspit of party political slush funds, machine cronyism, and cooked books did not dispel the undeniable stench of corruption, something Morgenson and Rosner made much of. The other drawback in refuting the neoliberal meme was that almost no one wanted to get bogged down in the minutiae of the extended history of the GSEs, nor in endless picky fights over the numbers, and other subtleties that often eluded the journalists and bloggers. For instance, it was demonstrably the case that Fannie and Freddie were the initial loci of the invention of securitization of mortgages decades ago, but that hardly saddled them with responsibility for every baroque development of securitization thereafter, many of which they avoided. A crisis story that could fit on a three-by-five card, yet revealed multiple layers of slippery ramification just below the surface, was the holy grail for the neoliberal thought collective. Yet, in the end, their three-by-five slogan was a ruse.

There are two pincers of the attack on the Fannie/Freddie meme: the first, concerning the Community Reinvestment Act (CRA), and the second, the weaknesses in the proposition that Fannie and Freddie somehow caused or motivated the housing bubble and subsequent crisis. With regard to the CRA, the largest players in the subprime market were private-sector firms that were not subject to CRA-stipulated rules and regulations. Therefore, for the story to work, the bulk of the subprime action had to happen in the GSEs, but as we shall see, it did not. Furthermore, in institutions subject to the CRA, not all loans fell under the CRA guidelines, so

25. For the best examples, consult Engel and McCoy 2011, Muolo and Padilla 2008, Fligstein and Goldstein 2012, Avery and Brevoort 2011, and Madrick and Partnoy 2011. See also Kevin Drum, "The Housing Bubble and the Big Lie," blog post, *Mother Jones*, December 24, 2011, motherjones.com/kevin-drum/2011/12/housing-bubble-and-big-lie.

the proportion of loans affected were quite small. Then, the timing seems a little off, since the CRA came into effect in 1977, but the housing boom dates from much later. It has become commonplace to point out that housing bubbles happened in many countries in the first decade of the millennium, but none of those other countries had any legislation similar to the CRA. And finally, Democrats and Republicans alike basked in the warmth of CRA-style hosannas to the "ownership society," at least until the whole shebang went south. Thus it is not clear that the CRA was much more than background static in the great pell-mell rush to push mortgages off onto all manner of persons ill-equipped to maintain and service them. Some politicians were avid cheerleaders for what had happened, but they did not actually create the elaborate set of mechanisms that constituted the housing bubble.

The primary riposte to the Fannie/Freddie meme is that Fannie and Freddie lost market share in the subprime market to private-sector firms from 2002 until late 2006, and the reason that happened was that it was the private label "originate and securitize" machine that was the main driver behind subprime mortgages and the housing boom in the last decade. Here is where the real pitched battles were fought between the neoliberal think tanks and their opponents. The evidence on the face of it seems pretty straightforward: existing data shows the exit from mortgage finance of savings and loans after 1975, the rise of securitizations by government-sponsored entities from 1972 onward, the loss of market share by Fannie and Freddie beginning in 2002, and the twofold rise of private mortgage-backed securities and finance companies in the early 1990s and the acceleration in 2002.[26] Most analysts by 2006 had been noticing that Fannie and Freddie had been losing market share because they had been avoiding the dicier "subprime" side of the mortgage market, partly because of their own government guidelines. Indeed, Bernanke (2007) before the crisis was arguing that the CRA had been ineffectual precisely because less than 30 percent of Fannie's and Freddie's portfolios consisted of mortgages that could be generously asserted were based on "affordable" or low-income properties. As Moody's reported in 2006, just as the bubble was about to burst:

> Freddie Mac has long played a central role (shared with Fannie Mae) in the secondary mortgage finance market. In recent years, both housing

26. See the figure in Drum, "The Housing Bubble and the Big Lie."

> GSEs have been losing share within the overall market due to the shifting nature of consumer preferences towards adjustable-rate loans and other hybrid products. For the first half of 2006, Fannie Mae and Freddie Mac captured about 44% of total origination volume—up from a 41% share in 2005, but down from 59% in 2003. Moody's would be concerned if Freddie Mac's market share (*i.e.*, mortgage portfolio plus securities as a percentage of conforming and non-conforming origination), which ranged between 18% and 23% from 1999 through the first half of 2006, declined below 15%. To buttress its market share, Freddie Mac has increased its purchases of private label securities.[27]

The major contention of the think tank economists is that one had to drill down into the balance sheets of the GSEs and reclassify the external private-issued instruments they started buying around 2006 as effectively masked purchases of subprime at one remove (Thompson 2012). While that may or may not be true, it unduly stretches the definition of "responsibility" for the bubble in the first place and diverts attention from the original protagonists. The GSEs had been getting prodded by members of Congress to purchase more subprime; but mostly, the "advice" came too close to the pricking of the housing bubble (Engel and McCoy 2011, 40). This is the reason most outside analysts trace the housing bubble to the private sector and, in particular, specialized subprime originators like Countrywide and Ameriquest (Muolo and Padilla 2008) and the banking firms that repackaged them into baroque securities; it even corrupted profitable subsidiaries of "industrial firms" like GMAC and GE Capital; consequently, "the biggest factor contributing to the subprime boom was securitization" (Engel and McCoy 2011, 17). This trend dovetailed with another trend in the big banks, a transition from deriving much of their profit from loans to deriving it from fees for packaging mortgages (and other loans, such as credit card, auto loan, and student debt) into asset-backed securities (ABS), selling ABS and MBS, creating dummy structured investment vehicles (SIVs) to further reprocess MBS into CDOs,

27. Analysis of Freddie Mac by Moody's, December 2006, www.freddiemac.com/investors/pdffiles/fm2006_moodys.pdf. This evidence also calls into question the curious claims by Morgenson and Rosner (2011, 53) that in 1993 "the new Fannie and Freddie [Alternative Qualifying] program institutionalized the endorsement of untested underwriting criteria [for mortgages]." This and similar locutions attempt to bypass or evade the fact that Fannie and Freddie neither pioneered nor engineered the spread of subprime practices and that the timing of events is off for them to bear responsibility.

and so forth. One estimate suggests that income from fee-related activities at commercial banks as a percentage of total revenue increased from 24 percent in 1980 to 31 percent in 1990 to 48 percent in 2003 (Fligstein and Goldstein 2012). Combined with stunning increases in concentration in the mortgage origination market, such that the top twenty-five mortgage originators controlled 90 percent of the market in 2007, the consensus interpretation of events was that the mortgage boom was an adjunct to bigger changes in the private financial sector and not prompted by some outbreak of rabid mendacity among the population of home purchasers.

For the meme that "Fannie and Freddie Did It" to work, it would be necessary to refute and reject this emergent consensus narrative. One major arena in which this happened was the Congress-mandated Financial Crisis Inquiry Commission.

The function of the Financial Crisis Inquiry Commission was purportedly to do for our Great Crisis what Ferdinand Pecora's investigation did for the Great Depression (Perino 2010): provide trenchant research and a communal teaching experience concerning the causes of the crisis. On a public stage, our best and brightest would bring all the possibilities to the table, so that America might come to grips with its tragedy. Or at least that is the way it was sold to the public when it was included in the Fraud Enforcement and Recovery Act of 2009. But after a year and a half of hearings, many of which were made available online,[28] including questioning of over eight hundred witnesses and expenditure of $6 million on staff, the whole pretense of a definitive archive of explanations broke down even before the report was formally issued in January 2011. The four Republican members of the supposedly bipartisan ten-person panel issued a preemptive strike "report" in December 2010 that sought to torpedo the main event (even before the final version had come up for a vote). That sketchy counterstory was more or less included as one of two "dissenting reports" appended to the final published report (2011), the first under the names of Keith Hennessy, Douglas Holtz-Eakin, and Bill Thomas and the second under the name of Peter Wallison. Wallison's appendix made the case for the neoliberal "Fannie/Freddie did it" line summarized above.

What one would derive from reading the document was the concurrent posit of A and not-A as causes of the crisis. The six-person-endorsed

28. These disappeared suspiciously soon from the Web after the FCIC was wound up, but were then archived at fcic.law.stanford.edu/hearings.

body of the report pinned the crisis on "failure to effectively rein in excesses in the mortgage and financial markets" (US Federal Crisis Inquiry Commission 2011, xxxvi), which then got parsed as a laundry list of usual suspects: credit rating agencies, failures of regulators, OTC derivatives, crappy mortgages repackaged as sweets, Greenspan, executive compensation, Bernanke, shadow banking, and so on. However, the majority went out of their way to reject one cause: "We examined the role of the GSEs. . . . We conclude these two entities contributed to the crisis, but were not a primary cause. . . . The GSEs participated in the expansion of subprime and other risky mortgages, but they followed rather than led Wall Street" (xxvi). In other words, it went out of the way to insist everything contained in the Wallison appendix was false. The other minority appendix endorsed the Wallison line in passing, but seemed more concerned to absolve Wall Street of any culpability, proclaiming "derivatives did not in any meaningful way cause or contribute to the crisis" (414), and denying that "shadow banking" was even a coherent concept (427).[29] Consequently, it was exceedingly vague about what did cause the crisis, although it did flirt with the notion that it was all China's fault. The first Republican dissent did not even bother with much in the way of evidence.

It must be conceded that Wallison did preface his dissent with the right question: "Why [did] Congress bother to authorize [the FCIC] at all? Without waiting for the Commissioners' insights into the causes of the financial crisis, Congress passed and the President signed the Dodd-Frank Act" (443). Of course, the obvious answer was that the FCIC was set up to fail from the outset, but that might reflect badly on Wallison's willing participation. So instead he opted for an answer that shed some light on agnogenesis. He began by quoting Rahm Emmanuel saying "Never let a good crisis go to waste," and then suggested that the real purpose of the report was to gain some control over the "first draft of history." Wallison's behavior demonstrated that the neoliberal think tanks appreciated the importance of venturing beyond the mere short-term partisan bickering of the first dissent, or the sloppy endless laundry list of the majority report, to providing a simple pithy narrative to contrast with the general cacophony of noise concerning the crisis.

29. Wallison's dissent reprised this point: "Wall Street was not a significant participant in the subprime PMBS market between 2004 and 2007, or at any time before" (US Federal Crisis Inquiry Commission 2011, 504). This does border on Orwellian doublethink.

We do not propose to go into detail here as to why Wallison's own narrative indicting the GSEs is fatally flawed, although we believe it is.[30] The point here is rather to suggest that economists from both sides of the (narrowly conceived) political spectrum have conspired to divert attention from serious analysis of the crisis, each for their own respective agnotological purposes. The Bloomberg journalist Jonathan Weil best captured the brazen impudence of pretence behind the FCIC report:

> This, in journalistic parlance, is what we call a clip job. And that's the trouble with much of the commission's 545-page report. There's lots of breezy, magazine-style, narrative prose. But there's not much new information. You can tell the writers knew they were sprinkling MSG on a bunch of recycled material, too, by the way they described their sources. The text and accompanying notes often seem deliberately unclear about whether the commission had dug up its own facts, or was rehashing information already disclosed in court records, news articles or other congressional inquiries. . . .
>
> The FCIC's failure was predictable from the start. To examine the causes of the financial crisis, Congress created a bipartisan panel of 10 political appointees led by Democrat Phil Angelides, a former California state treasurer. What was needed was a nonpartisan investigation directed by seasoned prosecutors (like Pecora was) who know how to cross-examine witnesses and get answers. Whereas Pecora had no fixed deadline, Congress gave the crisis commission until December 2010 to complete its inquiry. Witnesses who didn't want to cooperate fully could simply milk the clock. The panel got a budget of less than $10 million to investigate all the causes of the financial crisis. Lehman's bankruptcy examiner got $42 million to produce a 2,200-page report on the failure of a single company. (Weil 2011)

Having watched some of the hearings online, the first author can attest that witnesses were not questioned rigorously, to say the least. Yves Smith of Nakedcapitalism.com reported the disgust of one of the FCIC staff, who complained, "I am still getting the stink out of my clothes." He understood that both the majority line that it was all the fault of wicked deregulation

30. See Min 2011. Min's work on various reasons to doubt Wallison is the basis for the complaints of Nocera (2011), Barry Ritholtz (www.ritholtz.com/blog/), and Paul Krugman. The short version is that Wallison and Pinto have played fast and loose with what counts as "subprime" in the GSE balance sheets.

and the Wallison line that "Fannie/Freddie did it" were equally unavailing. Both versions conspired to help perpetuate a myth that Wall Street financial firms were as much the victim of the crisis as everyone else and existed to keep the proceedings from tripping up the sausage machine that eventually became the Dodd-Frank act.[31] Supposedly neutral economists with impeccable credentials participated in promotion of this travesty. Anat Admanti of Stanford wrote, "Peter Wallison in his dissent attributes blame solely to the government housing policy of earlier administrations. While he is right to identify this as important, he misses other critical ingredients."[32] Jeffrey Miron of Harvard muddied the waters further by introducing the Rogoff-Reinhart neoliberal line: "In asking whether the recent financial crisis could have been avoided, the crucial fact is that crises of various flavors have occurred for centuries in countries around the world. Thus, any explanation based mainly on recent factors—subprime lending, derivatives trading, or financial deregulation—cannot be the whole story. A full account must identify factors that have been present widely, and for centuries."[33] How the Dutch tulip craze would help illuminate the structural deficiencies of a CDO-squared was left for someone else to figure out. We cannot find an example of an orthodox economist who came right out and said that the entire exercise was a cynical whitewash, although many bloggers came close.

The Democrat electoral debacle of November 2010 only exacerbated the tensions underlying the jousting agnotologies within the FCIC, as Representative Darryl Issa subsequently convened an investigation into the mismanagement of the inquiry to settle scores in spring 2011. His subpoenas then unintentionally delivered another lesson in agnogenesis: it seems Peter Wallison broke a number of confidentiality rules while serving on the FCIC, leaking secret Fed data to the AEI, while cochair Bill Thomas secretly prepped many of the representatives of the banks on the level of questions they might expect (US House Committee on Oversight 2011). The purpose of the FCIC had never been to find new things out, so

31. This comes from a posting by Yves Smith on Nakedcapitalism.com of January 26, 2011. At the time, Smith's posting could be found at www.americanprogress.org/issues/2011/07/wallison.html, but the page apparently has since disappeared.

32. "Address Excess Leverage," contribution to "Was the Financial Crisis Avoidable?," Room for Debate series, *New York Times*, www.nytimes.com/roomfordebate/2011/01/30/was-the-financial-crisis-avoidable/address-excessive-leverage (accessed November 6, 2012).

33. "More Than Just Greed," contribution to "Was the Financial Crisis Avoidable?," Room for Debate series, *New York Times*, www.nytimes.com/roomfordebate/2011/01/30/was-the-financial-crisis-avoidable/more-than-just-greed.

much as it was to make the preset think tank narrative look good in public. Journalists yawned—so what else is new on the Hill?—but few pulled back to reconsider what this meant about the ongoing miasma that surrounded discussions of the crisis. Here, years after the crisis hit, and millions of dollars thrown at the economics profession, people were still no closer to a richer and more plausible understanding of the crisis than in its immediate aftermath. Worse, this was the unapologetic bottom line of some of the economic orthodoxy as well! (See Lo 2012.) Where was the bracing lucidity born of years of training in the most difficult technicalities of theory, or the ballast of reams of numerical data at our fingertips? Where was the clarifying steel of econometric technique, or the glassy grand transparency of axiomatic method?

None of that seemed to have had any influence whatsoever. Is it any wonder that the most common impression among people who have not bothered to read up on the crisis is that it has been the fault of the government, and that Fannie and Freddie are somehow behind it all?

4. Conclusion

The two incidents analyzed in this essay provide perspective on the contemporary public role of the economics profession in the context of economic crisis. In both the Treasury-Fed and the FCIC cases economists had been called on to perform public roles; in neither case did their participation enlighten the public or develop hypotheses for scholarly vetting. Each effort produced garbled contradictory messages for the public: the government could/could not play an effective role in solving the crisis; Fannie and Freddie were/were not the cause of the crisis. And when the economists' contributions were considered in total, sorting matters out became nearly hopeless: market designers suggested at first that the crisis was primarily an *engineering* failure, which could be corrected by the government heeding the technical lessons of market design, whereas think tank economists insisted it was primarily a *government* failure, because of the inevitably reckless and feckless behavior of government regulators. These two options correspond to our earlier distinction between trusting the *economics profession* and trusting *The Market* to diagnose the crisis. But positions quickly got mixed up: the market designers who initially propounded the first story eventually adopted the language of think tank economists, while the think tank economists (such as Calomiris) who so successfully promoted the second story found occasion to favor the first.

The necessity for tergiversation derived from the inherent epistemic contradiction between trust of the experts and trust of the Great Information Processor known as The Market—you cannot do both consistently. The only way to paper the gap was to blow smoke toward the perplexed public.

Such appears to be the inevitable result for the orthodox economist participating in public discourse, at least during our neoliberal times. It is no longer possible for the heroic public intellectual to personally embody a shining beacon of rationality amid the rough and tumble of political discourse, at least in economics. Instead, orthodox economists tend to duck and weave between two incompatible positions, depending on which appears more convenient for the entity that provides their institutional identity.[34] The only way they can manage to accomplish this is by fostering greater ignorance amid the public, their purported primary audience. Indeed, the think tanks and corporations that employ economists explicitly seek to foster ignorance as part of their business plans: that is the postmodern phenomenon of *agnogenesis*. Economists, witting or no, have become the vanguard of the purveyors of ignorance in matters pecuniary, because they cannot face up to their own epistemic dilemma.

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34. One might argue that portraying the economics *orthodoxy* (rather than a tiny, disreputable minority) as participating in agnogenesis places this narrative at odds with other cases of agnotology. But this misunderstands agnotology. For example, Robert Proctor (2012) has shown how the tobacco industry not merely countervailed an established scientific consensus but corrupted whole academic disciplines through its interventions.

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