Ferdinand Marcos: Apotheosis of the Philippine Historical Tradition

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Abstract

This paper seeks to enter into the academic debate on the nature and context of the dictatorship of Philippine President Ferdinand Marcos (1972-1986). In contrast to the entrenched view of Marcos as an exception to the Philippine political tradition, I argue, in a vein similar to John T. Sidel’s recent work on “bossism,” that rather than being an anomaly within the system, Marcos was in fact its apotheosis. By focusing on the relationship between Marcos and the judiciary, I reveal how the President used the court to legitimize his rule and manipulate the Cold War context to his advantage. Under the cloak of legality, Marcos thus extended the political tradition to include him, bringing it to its logical conclusion.

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I. INTRODUCTION

Historians frequently portray Ferdinand Marcos as an exception to the entrenched Philippine political tradition. Marcos’s political astuteness does distinguish him from the majority of politicians that preceded him; yet upon closer inspection, Ferdinand Marcos was not so dissimilar from his kin, rather, he was the perfection of the tradition. Previous Philippine politicians had flouted the same laws as Marcos, but never to an equal degree. To his contemporary political class, Marcos departed from the mutual respect that accompanied the patronage system, whereby power merely passed back and forth in tacit agreement between the two political parties. Viewed historically, however, he merely dared further than the rest to achieve the full limit of power that the tradition and system would allow. I argue that it is above all Ferdinand Marcos’s delicate and skillful manipulation of the Philippine Supreme Court, which prior Presidents and Congresses never fully achieved, that both allowed him to extend his powers and establishes him as the apex of the system, rather than the aberration.

I begin this paper with an overview of the existing literature on Marcos’s rule, which I then contrast with interview data from a wide variety of individuals associated with Marcos during his rule. Following this I outline the historical background that preceded Marcos’s ascent to power and upon which he built his so-called ‘constitutional authoritarianism.’ Marcos took advantage of the historical political tradition and the unique context of the Cold War to consolidate and maintain his power. In so doing, Marcos proved himself to be an astute politician who was aware of both the possibilities and constraints of the existing tradition. By extending these possibilities to their logical limit, Marcos’s rule embodies all the ills long present in the historical Philippine political tradition.

II. LITERATURE REVIEW

With regard to the Philippine political framework, I disagree with the older scholarship, such as that of Carl Landé, which presents the history through a patron-client lens. Landé posits:

In reflection of behavioral patterns rooted in the Philippine kinship system, the Philippine polity ... is structured less by organized interest groups or by
individuals who in politics think of themselves as members of categories ... than by a network of mutual aid relationships between pairs of individuals. To a large extent the dyadic ties with significance for Philippine politics are vertical ones, i.e. bonds between prosperous patrons and their poor and dependent clients.²

With regard to the political system, I instead side with the more recent characterizations of John Sidel's 1999 work on "Bossism" and Juan J. Linz's 1998 version of Max Weber's "Sultanism." Sidel and Linz's theories dethrone the patron-client framework, which places undue importance on landholders and pairings of individuals, and instead emphasize the role of American colonialism. Their visions are of personalistic rule and of Marcos as the single, national "sultan" operating in a country of small, local "bosses." Yet, though I agree with this overall vision, I nevertheless reject Sidel's conception of Ferdinand Marcos as the aberration of the political tradition.

Mark R. Thompson, a proponent of Juan J. Linz’s sultanism and a recent scholar on the Marcos years, also shares Sidel’s view and argues similarly: “Marcos broke the informal rules of Philippine democracy and later changed the game altogether by launching a dictatorship ... [the game] had survived until confronted with [Marcos].”³ Though Marcos did heighten the “game,” I believe it is important to view his rule as very much within the tradition, rather than as a departure from the tradition. My interpretation shifts the blame away from one individual operating within a flawed yet largely healthy system and instead draws attention to the failures of the system itself.

Arguments that Marcos should be viewed as the master of the tradition do appear in the existing scholarship. In “Cacique Democracy in the Philippines,” Benedict Anderson introduces Marcos as a historical inevitability. He writes:

[I]t was only a matter of time before someone would break the rules and try and set himself up as Supreme Cacique for Life ... From one point of view, Don Ferdinand can be seen as the Master Cacique or Master Warlord, in that

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he pushed the destructive logic of the old order to its natural conclusion.\(^4\)

Anderson, however, also endorses a countervailing argument: “But from another viewpoint, he was an original; partly because he was highly intelligent, partly because, like his grotesque wife, he came from the lower fringes of the oligarchy.”\(^5\) From there, Anderson reduces Marcos’s unique excesses to a result of his non-elite standing and his understanding that “wealth serves power, and the key card is the state.”\(^6\)

I side with Anderson’s assertion that Marcos is the perfection of the tradition, but seek to further and amend it. Firstly, I argue that the Supreme Court’s legitimation confirms that Marcos did not break the Philippine political system, but that rather, the tradition bent to include him. Secondly, unlike Anderson’s presentation of Marcos as a historical inevitability, I argue that it was external forces that uncannily provided him with the tools ultimately necessary to establishing his dictatorship. Even long after colonialism ended, U.S. interests have remained a factor in Philippine politics. Were it not for the “special relationship” with the United States and the powerful Cold War context, the Philippine people and their judiciary may not have tolerated Marcos’s abuses or bent the political tradition to include him. In this way, Marcos played upon this happy confluence, manipulating the Supreme Court, the Cold War environment and the contemporary Southeast Asian trend to authoritarianism to legitimate his regime.

A. Bossism

John Sidel’s 1999 “Bossism” theory contextualizes Third World local strongman rule and rests on Joel Migdal’s 1988 study of the local strongman. Migdal theorizes that these local bosses employ effective social control by placing themselves and their family members in critical state posts to ensure resources are allocated according to their own rules.\(^7\) Yet, Sidel’s theory rejects the idea that the nature of Philippine society breeds


\(^5\) Ibid., p. 20.

\(^6\) Ibid.

local strongman rule. Sidel challenges such cultural analyses by evaluating the integral roles that state structures and violent coercion play in perpetuating this kind of governance. Sidel believes that the most “distinctive and decisive” force in the entrenchment of bossism in the Philippines was the colonial experience under the U.S. He describes, particularly, “the subordination of an extremely underdeveloped state apparatus to elected municipal, provincial, and national officials in the American colonial era.”

Sidel notes that the established national oligarchy long fostered continual factional competition for the presidency and funded opposition candidates. This prevented a “single predatory boss” from capturing the economy. Sidel then reviews Ferdinand Marcos as precisely such a “single predatory boss” and presents Marcos as the anomaly of the political tradition. Sidel notes that Marcos was more successful in this regard than temporary lower bosses and previous politicians due to his heightened access to and dependence upon foreign loans, his exploitation of government “development” opportunities, and his exploitation of the elite’s increased reliance on government loans and favors. Sidel explains what Marcos as a single, national-level boss looked like from the declaration of martial law in 1972 to the People’s Power EDSA Revolution in 1986:

Freed from legislative interference, Marcos ruled by decree, centralizing national police forces under the Armed Forces of the Philippines, establishing quasi-government monopolies for major commodity exports, and parceling out regulatory and/or proprietary control over the other strategic sectors of the national economy…among a close circle of family members, cronies, and frontmen.

Yet, none of these actions were new to Philippine politics.

B. Sultanism

Max Weber first espoused the theory of sultanism and Juan J. Linz later developed it for application to the Marcos regime and others such as those in Cuba, Nicaragua, Iran, Haiti, and the Dominican Republic. Weber

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9 Ibid., p. 144
10 Ibid.
theorized sultanism to be an extreme form of patrimonial authority, explaining the relationship and distinction to be:

Where domination is primarily traditional, even though it is exercised by virtue of the ruler’s personal autonomy, it will be called patrimonial authority; where indeed it operates primarily on the basis of discretion, it will be called sultanism ... [and] consists only in an extreme development of the ruler's discretion ... which distinguishes it from every form of rational authority.\(^{11}\)

Essentially, sultanism is the developed case of personal rule, differentiated by the ruler’s fusion of private and public roles, its lack of a guiding ideology, and the lack of a rule of law. Indeed, even sultanistic regimes break their own norms due to the inherently arbitrary nature of personal rule. The lack of a uniting programmatic purpose, moreover, often leads sultanist rulers, such as Ferdinand Marcos, to fabricate an ideology as propaganda and implement it by ‘revolution’ to remove the opposition and legitimize the regime.\(^{12}\) Martial law was declared to deal with the communist Huk, but that threat was effectively eliminated by 1976. Thereafter, Marcos justified martial law as the only means to create the revolutionary, socially just, and economically equitable “New Society” he claimed to seek.\(^{13}\)

There was no comprehensive, predetermined master plan for the Marcos regime. While in hindsight there may appear to be a logical progression to its development, the regime’s approach was improvised to follow the path of least resistance. Marcos followed the letter of the law, but continually stretched its limits. For all his improvisation, Marcos’ actions were never without precedent – thus placing him firmly within the political tradition.

III. MARCOS IN RETROSPECT

In a personal interview, I asked Atty. Ricardo J. Romulo, one of the framers of the 1987 Philippine Constitution and a leading Philippine lawyer, whether he considered Ferdinand Marcos to be the extreme of the


\(^{12}\) Ibid., p. 24-25.

entrenched system, i.e. as the embodiment of all the ills already present, or an aberration, breaking all the norms and departing from the tradition. Romulo concludes that Marcos truly was both, “he was riding the course of history quite well and manipulated it to his advantage.” Analyzing the thinking that he believes led Marcos to declare martial law in 1972, Atty. Romulo recounts:

He was a brilliant man and a very, very clever politician, and I think what he did was both to look at the trends and manipulate some of it to his advantage. 1) He could not run again because he had, had two terms 2) the Communist threat really was increasing and that was the time for radicalism … So I think he could see that he could manipulate [the] protest and radicalism to show enough danger to invoke martial law. That’s how I would look at Marcos, not so much that he was an aberration, but … [as] the leader … at the right place at the right time in so far as autocratic rule.

Romulo expands upon the particular Philippine historical context:

The course of history really was, after [World War II] … trending to [autocracy] because of the communist threat [and the] inability of the presidents to solve economic problems. President Roxas died so soon. President Quirino had an excellent economic plan, but he was not a good leader; the opposition could run circles around him … Then there was [the] overall issue of collaboration with the Japanese [during their wartime occupancy, which] emphasized nationalism … And Marcos, in the sidelines, having popularized himself as a guerilla leader, a hero, this and that [during Japanese occupation], was able to take advantage … and present himself not only as a war hero but also as a nationalist.

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15 Ibid.
16 Atty. Romulo listed President Jose P. Laurel and Sen. Claro M. Recto as two examples of those accused of collaboration.
Atty. Romulo focuses primarily on the historical circumstances that gave Marcos the opportunity to go further than his predecessors, rather than pointing to larger systemic failures within the political tradition. Though the Cold War fortuitously abetted Marcos, the inveterate Philippine corruption and power grabbing provided him the comfort, training, and platform to establish his personalistic dictatorship.

When posed with the same question, Stephen CuUnjieng, a professional within the national elite, replied more decisively. The CuUnjiengs were intimate friends of the Marcos family – Stephen’s father played golf several times a week with Ferdinand and his mother was one of Imelda Marcos’s famous “Blue Ladies,” a group of society women that served a political function during campaigns. Yet, Stephen protested heavily against the Marcos regime until 1984 when the Marcoses personally requested that he leave the country. Reflecting on Marcos’s position within the political context, Mr. CuUnjieng argues:

He is the extreme of the system, because he came out of the system, he broke it after extending it, but he was a product of the system … and moved up legitimately … He wouldn’t have been tolerated and accepted if he hadn’t embodied qualities of the tradition.

Indeed, Marcos was beloved at first. He did not immediately establish a dictatorship upon coming to power. He served his first term and built a strategy to secure a second – a historical first in a system that tacitly passed power back and forth between parties and political families – after which he resorted to more drastic measures to remain in power.

Answering the same question, the former President Fidel V. Ramos, who was the Chief of the Armed Forces, implemented martial law, and was later the Secretary of National Defense before ultimately becoming President of the Philippines in 1992, intimates a different inside opinion of Marcos. He emphasizes the influence of the First Lady, explaining:

I think it is accurate [that Marcos is the apotheosis] in hindsight, because at the time [that] he was in wealth and power he appeared to be the most brilliant of all Filipinos in the 20th century … As a young student, top-notcher of the Bar, he was brilliant and patriotic and as far as I can remember he was a good example for Filipinos, but then

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18 For full disclosure, Stephen CuUnjieng is the author’s father.
things changed after he assumed power. Now you may recall that in his first term ... he really did a good job as President of the Philippines, then in his second term it was mixed in terms of the interest of the country as a whole, because he was already starting to plot how to prolong himself in power, the result of which was martial law. It was mixed because more and more he came under the influence of the First Lady ... being in the corridors of power for four years ... put all kinds of ideas into his head and I think that was part of it. Some people wrote books ... about the conjugal dictatorship.20

Many believe that Imelda Marcos’s desire to remain in power helped to lead Marcos down his eventual path. Mrs. Marcos’s unabashed immoderation focused the spotlight on her. In contrast, Ferdinand Marcos was a near ascetic, who did not indulge himself in the same fineries as his wife. However, one should also note that Marcos was very skillful at handling all those around him. In the same way that he married Imelda for political reasons, it has also been suggested by observers, including President Ramos, that Marcos chose to paint her as the corrupt one to deflect attention away from himself.21

Amb. Stephen Bosworth, the US Ambassador to the Philippines from 1984-1987, differentiates Ferdinand Marcos from the other Filipino politicians of his time and tradition. Putting aside all theories, Bosworth simply places primary importance upon Marcos’s desire to stay in power. Bosworth states plainly, “Marcos was much smarter than his contemporaries and more ruthless than his contemporaries and by the mid 1970s he was at a point when he could not envision any future for himself beyond being President of the Philippines.”22 Power, indeed, drove Marcos, and though Presidents before him had been equally power hungry, Marcos was the first to even win reelection.

Striking a very different note, Atty. Estelito Mendoza, Marcos’s former Solicitor General and Minister of Justice, contextualizes Ferdinand Marcos, asserting:

I think he practiced the same [patronage politics], but in a more sophisticated way. For example, it’s because he was a

20 President Fidel V. Ramos, Personal Interview, 2 Sept. 2008.
21 President Fidel V. Ramos, Personal Interview, 2 Sept. 2008.
leader, a dynamic leader, and his leadership was real. He was not a leader simply because he was president, but because people believed in him. So he did not have to play the usual politics of patronage that you have now.\textsuperscript{23}

The leadership that Mendoza admires in Ferdinand Marcos is incontestable; however, his subsequent argument does not follow as clearly. Here, Mendoza is drawing a comparison to the now-former President Gloria Macapagal-Arroyo, whose 500-peso patronage handouts he deems a waste of money. In our interview, Mendoza highlighted Marcos’s construction projects, which garnered him much support, as an alternative to this “usual politics of patronage.”\textsuperscript{24} Though the Philippines is certainly indebted to Marcos for the vast infrastructure he built and improved, Mendoza’s argument ignores the heavy patronage that was central to Marcos’s politics.

The former Presidential Legal Counsel to Ferdinand Marcos, Hon. Manuel Lazaro, who like Atty. Mendoza remains vigilantly pro-Marcos, also notes the superlative leadership that Ferdinand Marcos embodied. Lazaro champions Marcos as a true aberration, declaring:

\begin{quote}
He was able to change the political and domestic landscape in so many ways … First of all, there were no elections for a long time … I have a strong feeling [that was because] he wanted people to have more discipline, so he could emphasize the value of good leadership. He was able to dismantle goons, armies … With his entry, there were no more warlords. Elections were only for local elections and this time anybody with talents, without money, could run.\textsuperscript{25}
\end{quote}

Lazaro’s benevolent depiction of Marcos rests on the belief that he was creating a “New Society,” which Marcos himself presented in revolutionary terms. In this light, Marcos’s true intent was not to prolong his stay in power, but to change and discipline Philippine society.

Senator Juan Ponce Enrile, the architect of martial law and Marcos’s Secretary of Defense, shares Hon. Lazaro’s understanding of Marcos’s intent. Although Enrile eventually broke with Marcos immediately prior to the EDSA revolution, Enrile states that he did so “as a matter of

\textsuperscript{24} Ibid.
\textsuperscript{25} Hon. Manuel Lazaro, Personal Interview, 11 Aug. 2008.
self-protection, self-preservation.” Enrile explains that he feared an attempt on his life should a military junta successfully overthrow Marcos, who was gravely ill at the time and unable to defend his position. Despite his ultimate defection, it is evident that Marcos remains a hero to Senator Enrile. Yet, when posed the same question as to Marcos’s place within the Philippine political tradition, Enrile evidences a far more realistic understanding of martial law than others in the Marcos camp. As Enrile explains:

[ Marcos] was skillful in playing the game and he inserted himself into the elite group because he was not really a member of the elite. He was accepted and in a sense – for a while – he allowed himself to become a tool of the elite ... At the same time, he was also planning for himself and when the time came, that’s why I suspect, I do not know this for a fact, but I would imagine that he wanted to try to control the elite in the country so then when he declared martial law it leveled off the political and social playing field. But, there are many imponderables in the life of men; he got sick and he wasn’t able to accomplish his purpose. In the meantime, absolute power corrupts absolutely. [His] relatives started to enjoy power and they thought that it would be infinite and endless and so corruption set in and that eroded the popularity of Marcos, eroded the popularity of his regime, and we all ended up with the EDSA Revolution of 1986 … [Due to his sickness, he was not able to complete his] control of the people around him. I think if Marcos had not suffered that sickness that early, he would have succeeded in pushing through his vision of the country … to make this country great.28

Senator Enrile’s loyalty resembles that of most members of the Marcos camp. Though he does not deny Marcos’s essential corruption and self-interest, he nevertheless remains vigilantly pro-Marcos even years later. Similarly, Atty. Mendoza remains clear-eyed about the nature of Marcos’s regime, but it does not destroy his intrinsic belief that Marcos is a hero who sought to make the Philippines great.

27 Ibid.
28 Ibid.
Asked what he judges Marcos’s intention in declaring martial law to be, Mendoza replies, “I think … martial law, [though] initially … only [enacted] to quell a rebellion … became an instrument of reform, because of his instant power to enact laws.”  

Then, pressed as to whether martial law lasted so long because it became an instrument of reform, Mendoza admits, “Well, let’s just say, maybe, [it was also] what he thought … was necessary to keep [himself] in power.”

Nevertheless, this realization does not prevent Mendoza from championing the Marcos years as “the most productive [period] in good legislation.” Mendoza even asserts that “it’s … ironic that [Marcos is] called a dictator.” In this way, to those like Lazaro and Mendoza, Marcos does not need to be forgiven for his wrongs and those wrongs do not negate his greatness. The Marcos camp’s logic is that Marcos cannot be held to unreasonable moral standards contradictory to the historical political tradition, in which power-grabbing is an accepted facet of politics.

Speaking from the staunchly anti-Marcos side, Congressman Teodoro “Teddy Boy” Locsin, Jr. – descendant of a long active political family, a former journalist, a personal student of President Marcos, and a speechwriter for several presidents beginning with President Corazon Aquino – believes that “Marcos is not the apotheosis of any system, he was just a guy who took advantage of the sense of limitations of every other member of the senatorial class.”

Congressman Locsin elucidates the nature of the political culture:

- Our political tradition really was that of a senatorial class. There were families that were in politics and you knew them. I think they took advantage of their position more to protect what they had. There were some families who were clever and were able to take advantage of national policies like the reparations … Yet, everyone waited for his turn in power, but there were things that you did not do to

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30 Ibid.
31 Ibid.
32 Ibid.
33 Cong. Locsin’s family supported Ferdinand Marcos during his 1969 election and due to Cong. Locsin’s avid interest in political theory at the age of 21, Ferdinand Marcos would invite him to Malacañang Palace and Ferdinand Marcos directed an informal course of study on political philosophy and theory for Cong. Locsin.
each other: you never shot each other, you respected each other’s privacy.\textsuperscript{35}

The grave toll that the Marcos years took on his family explains Congressman Locsin’s position. His is a historically political family, therefore rather than denounce the entire political tradition that his family helped to build, he is instead inclined to emphasize its limits. Certain rules did govern the political tradition: power passed back and forth between elite factions and historical political killings occurred on a local, not national level. Marcos thus differed from the rest only in superficial terms, but in kind, he very much resembles the others of the senatorial class.

Congressman Locsin also points to several lingering vestiges of this old republicanism in Ferdinand Marcos’ actions. In addition to his regime’s need for an appearance of legality, Congressman Locsin attests that Marcos continually went through the charade of fake elections because he thought that doing away with them would be improper. Rather than sincere democracy, the so-called elections were merely a superficial observation of tradition. Congressman Locsin further recounts:

We later found out that he never actually touched the national treasury, although we overthrew him on that condition – that he was stealing from the government. He would take kickbacks from Japanese contractors etc., but we found out that he didn’t touch the national treasury. That’s another throwback of his – that you use your power to enrich yourself but you never put your hand in the public till, which is the way it was in the old Republic.\textsuperscript{36}

Though this may be a specious distinction, Congressman Locsin’s point only further entrenches Ferdinand Marcos within the system. Marcos avoided overstepping certain traditional boundaries, even while pushing the limits of what had been done before.

\textbf{IV. HISTORICAL REVIEW}

In 1905, the American Governor-General James F. Smith, under the authority of the Philippine Organic Act of 1902, suspended the writ of

\textsuperscript{35} Cong. Teodoro Locsin Jr., Personal Interview, 14 Aug. 2008.

\textsuperscript{36} Ibid.
habeas corpus for the first time in Philippine history.\textsuperscript{37} The bill – essentially the first of three constitutions imposed under American authority – ascribed suspension powers to the governor-general in Section 5, and the provision bears nearly the precise language that would later be used in the 1935 Philippine Constitution’s Article VII, Section 10, Paragraph 2:

The President shall be commander-in-chief of all armed forces of the Philippines and, whenever it becomes necessary, he may call out such armed forces to prevent or suppress lawless violence, invasion, insurrection, or rebellion, or imminent danger thereof; when the public safety requires it, he may suspend the privilege of the writ of habeas corpus, or place the Philippines or any part thereof under martial law.\textsuperscript{38}

Unlike the United States, the Philippines explicitly vested this power in the executive.\textsuperscript{39} As a consequence, the judiciary does not enjoy the same prerogatives as the executive in cases of martial law.

In \textit{Barcelon v. Baker} in 1905, the Philippine Supreme Court affirmed the validity of the governor-general’s basis for suspending the writ of habeas corpus and, more importantly, established the suspension of that writ as a political question over which the Supreme Court does not have judicial review. The Supreme Court ruled, “The findings of the executive upon which he bases his order suspending the privileges of the writ of habeas corpus are conclusive and final upon the Courts.”\textsuperscript{40} On this, Philippine legal history scholar Anna Castañeda writes,

As it would in the subsequent investigations of the colonial period, Commonwealth period, and beyond, the Supreme Court “terminated” its investigation, bowing to the executive as “the sole and exclusive judge” as to whether a state of “invasion, insurrection, or rebellion, or imminent danger thereof” existed.\textsuperscript{41}

\textsuperscript{38} \textit{Constitution of the Philippines} (Manila: Bureau of Printing, 1969), 22.
\textsuperscript{39} John H. Romani, \textit{The Philippine Presidency} (Manila: University of the Philippines, 1956), 77.
\textsuperscript{40} John H. Romani, \textit{The Philippine Presidency} (Manila: University of the Philippines, 1956), 79.
Article VIII, Sec. 2, Paragraph 1 of the 1935 Philippine Constitution granted the judiciary jurisdiction over “all cases in which the Constitutionality or validity of any treaty, law, ordinance, or executive order or regulation is in question.” Subsequently, it was Justice Jose Laurel’s 1936 decision in the Angara v. Electoral Commission that would become the landmark definition of judicial review. In his decision, Laurel addressed the separation of powers, writing: “In cases of conflict, the judicial department is the only Constitutional organ which can be called upon to determine the proper allocation of powers between the several departments and among the integral and constituent units thereof.” Castañeda observes, however, “The bold and confident assumption by the Commonwealth Supreme Court of its role as the ‘final arbiter’ was in stark contrast to its origins.”

Castañeda explains,

The Supreme Court of the Philippine Islands was neither so quick nor so eager to seize upon the opportunity to exercise its judicial prerogatives, be it to strike down legislation that violated individual rights or to play gatekeeper to the Executive and Legislative departments of the Insular Government. Indeed, early enunciations of the doctrine of judicial review display restraint and deference.

Therefore, the later Supreme Court’s passive deference to the executive and legislature had its roots in the American colonial period.

During the 1934 Constitutional Convention, Delegate Araneta warned that the martial law provision as it stood allowed only the President to determine the existence of “lawless violence, invasion, insurrection, or imminent danger thereof.” In addition to the general Philippine distrust of executive power, Delegate Araneta feared that due to the existing judicial precedents in 1934, the Supreme Court would be unlikely to review the basis for the President’s decision to suspend the writ of habeas corpus. It seems that Araneta was right to fear the executive’s abuse of this power.

43 In Angara v. Electoral Commission, Jose A. Angara petitioned for a writ of prohibition to restrain the Electoral Commission from acting upon the protest filed by Pedro Ynusa to bar Angara from taking office in the National Assembly.
45 Ibid., p. 122
46 Ibid., p. 123
President Quirino was elected in 1950 and though his term was wild with graft, corruption, and electoral fraud, he is most remembered for his decision to suspend the writ of *habeas corpus* to fight the communist Huk rebellion. President Quirino’s suspension, issued in Proclamation 220 on October 22nd, 1950, met widespread criticism and outrage despite the fact that the 1935 Philippine Constitution explicitly provided for the suspension. In August of 1952, the Supreme Court ruled in *Montenegro v. Castañeda* that the suspension was constitutional, with a decision that echoed the language of *Barcelon v. Baker* in 1905.

After each historical suspension of the writ of *habeas corpus*, beginning in 1905 with Governor-General Smith, then later in 1953 with President Quirino, and finally in 1971 with President Marcos, the Supreme Court would sustain the executive’s decision. In this way, Marcos’s relationship with the Supreme Court joins an unbroken historical precedent in Philippine history. He is not an aberration of the system, but merely a progression of the political tradition. Marcos was the last in a line of strong, post-colonial presidents, each of whom strengthened the executive branch alongside a weaker, complicit judicial branch.

V. **Marcos Tests the Courts**

On August 21st, 1971, during President Marcos’s second democratically elected term and in the middle of the ongoing Constitutional Convention, Plaza Miranda was bombed. President Marcos’s reaction was strong and swift. He denounced the crime and immediately suspended the writ of *habeas corpus*. He ordered high profile arrests, including those of nationalist group leaders, and 100 subsequent arrests of people allegedly involved in the Communist terrorist bomb plot. While at first many believed that President Marcos had in fact been behind the plot, no concrete claims were ever substantiated against him.

Marcos’s actions did warrant suspicion, however. He very quickly seized the bombing as an opportunity to turn the situation on Senator Ninoy Aquino. Ferdinand Marcos accused Aquino of aiding the communist threat by supplying weapons and ammunition. President Marcos also claimed that Aquino himself was a communist. Marcos vowed that he would do all he could to block Aquino from ascending to the presidency, even if it meant offering Mrs. Marcos as a candidate. Much like Marcos

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took the advantage in painting the Communists as being on the side of disorder, and his “democratic revolution” on the side of radical reform in addition to order, he fomented the explosive climate to his own ends.

*Lansang v. Garcia* tried the validity of President Marcos’s suspension of the writ of *habeas corpus*, and the Supreme Court’s decision both verified the Communist threat and sustained President Marcos’s invocation of Article VII, Section 10, Paragraph 2. Article VII provides for the suspension of the writ of *habeas corpus* and, in the same breath, a corollary provision for the declaration of martial law. The Supreme Court unanimously stated: “We entertain … no doubt about the existence of a group of men who have publicly risen in arms to overthrow the government and have been and are still engaged in rebellion against the government of the Philippines.” The *Lansang v. Garcia* thus case abandoned the Court’s doctrine of abstaining from judging the factual basis for the President’s suspension of the writ of *habeas corpus*, a doctrine that the Court had used in previous cases and was justified on the basis of separation of powers. This would seem to set a precedent for increased judicial activism, yet, in practice, deciding political questions merely placed the judiciary in the role of legitimizing Marcos’s regime, for it consistently failed to stand up to the executive branch.

The decision had profound implications as it removed any obstacle to the President’s declaration of martial law. Where it had previously merely deferred judgment, the Supreme Court now acted as a rubber stamp. Marcos would later repeatedly invoke the *Lansang v. Garcia* case to assert the constitutionality of his declaration of martial law. Atty. Romulo supports this analysis, noting:

> [E]veryone feels that [*Lansang v. Garcia*] opened the door to Martial Law ultimately, because the Supreme Court believed … that the NPA [was] really a clear and present danger to the republic, so it allowed the suspension of the writ of *habeas corpus*. That’s only one step away from martial law. When you say that there’s an imminent danger, our constitution … [dictated that] you could then declare martial law … Marcos … very smartly, knew that he

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50 Ibid.
couldn’t declare martial law off-hand, so he laid the basis [first].51

Marcos only took this final step after September 22\textsuperscript{nd}, 1972, when the Secretary of Defense, Senator Juan Ponce Enrile, was ambushed. Despite Marcos’s feigned shock and worry, Senator Juan Ponce Enrile admitted at a press conference with Fidel Ramos in February 1986 that the ambush was staged.52 The Philippine Inquirer further reports that “[Enrile] and Ramos were part of the ‘Rolex 12,’ the group of military advisers who had helped Marcos plan martial law.”53

Martial law would far outlast its original purpose – only lifted in 1981, long after the Communists had been beaten back. In a New York Times interview on June 17\textsuperscript{th}, 1974, President Marcos admitted that he had “largely ‘neutralized’ the ‘public disorder and rebellion’ that led him to impose martial law” in 1972.54 However, he went on to explain that “he had not been able to complete the social and economic reforms that he said were necessary to prevent recurrence of the so-called rebellion.”55 Until he was removed from power by the People’s Power Revolution of 1986, Marcos would seek to, as Rolando V. del Carmen describes, “portray to observers at home and abroad … [that] despite the realities of martial law, constitutional procedures [had] not been abrogated and that the judiciary [was] alive and well.”56

A. Public Reactions

In a country that was a strong American ally and located very close to Vietnam, the Philippine people were very scared of what in 1972 was quite a serious Philippine Communist threat. Marcos played on that fear

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53 Ibid.
55 Ibid.
very well. The Philippines and Ferdinand Marcos, however, were not alone in this situation and the trend within Southeast Asia was a move toward more authoritarian and controlled states. Echoing this sentiment, Secretary of Finance Cesar Virata, who was attending the World Bank Meeting in Washington, DC when martial law was declared, recounts that a senior reporter from the Department of State called him at about four in the afternoon and asked him if he was aware of the recent events.\(^{57}\) When the reporter asked him how he felt Virata replied, “We just joined the Asian people.”\(^ {58}\) Mr. Virata explained this to me: “Everything here [at the time] was martial law: Korea, China, Taiwan, Malaysia, Thailand, Singapore... Malaysia had its internal security act. So I said, ‘Well, we are now part of Asia as well.’”\(^{59}\) Therefore, despite Congressman Locsin’s belief that it was not in the Philippine historical tradition to take so extreme an action, there was not only a history of strong executive action in the Philippines, but also concurrent examples in the region.

President Ramos recounts, “In the beginning, those of us in the armed forces really supported the idea, but it lasted too long and became subject to abuse of power.”\(^ {60}\) President Ramos frames his support for martial law in terms that extend beyond merely communism, which explains his early accession into Marcos’s “Rolex 12” group:

> [To] those of us in the armed forces and law enforcement, it was something that we could support because we felt that it would … return … the rule of law. We would be able to go after the private armies of the warlords in the provinces. [Over the first three years] we collected so many loose firearms and jailed a lot of abusive politicians who were breaking the law.\(^ {61}\)

So it seems that from the beginning, Marcos – and to a degree, the “Rolex 12” – had intended for martial law to address a variety of issues, though he argued for it legally and to the public solely in terms of the Communist threat.

Nevertheless, this was not immediately a dictatorship and the contours of Ferdinand Marcos’s authoritarianism developed only gradually, and with the protection of full – albeit perverted – legal backing. Yet, when

\(^{57}\) Cesar Virata, Personal Interview, 20 Aug. 2008.
\(^{58}\) Ibid.
\(^{59}\) Ibid.
\(^{60}\) President Fidel V. Ramos, Personal Interview, 2 Sept. 2008.
\(^{61}\) Ibid.
asked how early into 1971 (when Plaza Miranda was bombed) or 1972 (when Marcos promulgated Proclamation No. 1081 declaring martial law) Marcos had first begun toying with the idea, Senator Juan Ponce Enrile replied, “We started studying martial law in December of 1969” – just one month after Marcos’s second term began and a year and a half prior to his suspension of the writ of *habeas corpus*.\(^{62}\) Senator Benigno Aquino, Jr., Marcos’s archrival, expected marching in the streets when martial law was declared, but instead everyone stayed home. He said, “I was correct about Marcos, I was wrong about the Filipino people.”\(^{63}\)

### B. Constitutional Authoritarianism

Marcos described his regime as “constitutional authoritarianism.” He never openly attacked the impartiality or independence of the Supreme Court and instead relied on his constitutionally vested powers to appoint judges of his choice. Having banned all political parties and Congress, Marcos openly declared his actions to be subject to the judicial review of the Supreme Court. He assured that “the judiciary shall continue to function in accordance with its present organization and personnel.”\(^{64}\) Solicitor General Estelito Mendoza is quick to point out that the martial law regime readily received the suits that were brought against the government. He believes that though accepting these legal challenges seems “somewhat paradoxical” given the state of crisis, this fact evidences that Marcos left the judiciary healthy, unimpaired, and fully functioning.\(^{65}\)

Solicitor General Mendoza is right to point out that Marcos submitted his government to the Supreme Court’s jurisdiction, but he ignores the reasons why Marcos did so. It was not to preserve the constitutional process, which Marcos repeatedly violated, or to defend civil rights, which he ignored when it benefited him. Marcos saw the utility in leaving the courts intact; an independent judiciary was Marcos’s most useful defense against charges of foul play from the opposition. Due to his legal background, he also instinctively and sincerely hesitated to attack the courts. At no point did Marcos wish to declare to the world that he was

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establishing a dictatorship. He took pains to cloak his actions with a semblance of legality, seeking to present to the international community and Filipino people that he had not broken the political tradition.

Hon. Lazaro provides a clear example of this, recounting: [Marcos is] one fellow who would not commit anything illegal. If you tell him that it’s … illegal he will not do it, but he will find some way to make it legal. For instance, there is a law … which says that all government properties must be insured by the GSIS … Roberto Benedicto, he wanted to [to be the one to] insure … some [government] properties … When [Marcos] was informed that, Benedicto, [despite the fact] that he was a political supporter [of Marcos], [could] not do it, because it was against the law. He had to pass the law to allow it, [which stated]: all government properties [will] be insured by the GSIS, except in cases as approved by the President … [So] if he approves it, it’s legal … [and] no [longer] illegal. That’s how legalistic [Marcos] was.\(^{66}\)

In his analysis, Lazaro doesn’t focus on Marcos stretching the law to fit his needs. Rather, he applauds Marcos for his insistence upon obtaining legal support for his actions. Unfortunately, this entirely ignores the fact that Marcos had to first break the law and rewrite it to gain such legal backing.

C. Judicial Submission to the Marcos Constitution

When Marcos declared martial law, the Constitutional Convention had been in session, drafting a constitution to replace the 1935 Constitution that had been written under the heavy-handed auspices of the United States. In this new constitution, Marcos mandated the creation and inclusion of the Transitory Provisions, which, while calling for a National Assembly, would allow him to remain President and rule without a legislature in the interim.

Upon completion of the 1973 Constitution, Marcos called a plebiscite to ratify it. At first, the Supreme Court accepted petitions challenging Marcos’s calling of a plebiscite. On January 21st, 1973, The New York Times cited that many were charging Marcos with “inflating the

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dangers stemming from the relatively small number of Communist-led insurgents as a means of making himself into a dictator,” and that the tide was turning against Marcos and his new constitution.67 The New York Times also reported on January 12th, 1973, that though martial law had at first won grudging acceptance, because “many … welcomed an apparent sharp drop in crime and promise of real reform, including the proclamation of a new land reform measure,” this initial attitude was beginning to thin.68

[T]he most telling evidence of dissatisfaction with the present regime in Manila can be found in President Marcos’ own recent decisions to defer a scheduled Jan. 15 plebiscite on his new Constitution and to suppress public debate on the proposed charter, which would permit an indefinite extension of martial rule.69

President Marcos decision to postpone the plebiscite rested on his claims that the “Filipinos had slipped back into their old habits and that the enemies of the state were taking advantage of the debate to foment anxiety, confusion, discord, and subversion.”70 After banning free debate of the charter and ordering that the spreading of rumors be punishable by death, Marcos issued Proclamation Decree No. 86 on December 31st, 1972. This organized national Citizens Assemblies for an informal referendum and open vote on the new constitution.71 With Citizens Assemblies ratifying the new constitution, the Supreme Court had no choice but to disregard the previous petitions.

In flagrant violation of electoral laws and previous promises, the constitution was ratified by “a show of hands.” On January 17th, 1973, Proclamation No. 1102 “Announcing the Ratification by the Filipino People of the Constitution Proposed by the 1971 Constitutional Convention,” declared the constitution ratified with a 95 percent vote.72 Marcos’s subsequent proclamations, Proclamation No. 1103 and No. 1104,

69 Ibid.
71 Ibid.
abolished the Transitory Provisions’ call for an interim National Assembly and imposed the continuation of martial law for an indefinite period of time.\textsuperscript{73}

On January 22\textsuperscript{nd}, 1973, the Supreme Court dismissed all ten petitions challenging Marcos’ ability to substitute a plebiscite to pass the 1973 Constitution. Nine out of ten members of the Supreme Court declared the question “moot and academic,” with only Justice Calixto Zaldivar dissenting.\textsuperscript{74} It is worth noting that Zaldivar, Chief Justice Roberto Concepcion, and Justice Querube Makalintal were the only non-Marcos Supreme Court appointees at the time.\textsuperscript{75} Marcos proclaimed that this decision had opened the way for the Constitution’s full enforcement. In a public statement, he said:

\begin{quote}
Henceforth, there should be no hesitation on the part of anyone in the implementation of the new Constitution … The ratification is an accomplished fact. The new Constitution is in full force and effect by the sanction of the people.\textsuperscript{76}
\end{quote}

D. \textit{Javellana v. The Executive Secretary}

The January 22\textsuperscript{nd}, 1973 Supreme Court decision declaring the legality of the 1973 Constitution’s ratification process a “moot and academic” question, “did not deal squarely with the legality of the new Constitution.”\textsuperscript{77} Senators Diokno, Roxas, and Aquino, the National Press Club President Eduardo Monteclaro and two private citizens therefore filed four more suits, requesting that the Supreme Court void the new charter and bar its enforcement.\textsuperscript{78} The petitioners asked the judiciary to “save the Republic from the stark reality of a dictatorship.”\textsuperscript{79} They implored the Court to order a new plebiscite, in accordance with the 1935 Constitution, which they declared to be still in force. In response, Solicitor General

\begin{thebibliography}{99}
\bibitem{74} Benjamin N. Muego, \textit{Spectator Society} (Athens: Ohio University, 1988).
\bibitem{75} Ibid., p. 96.
\bibitem{77} Benjamin N. Muego, \textit{Spectator Society} (Athens: Ohio University, 1988).
\bibitem{78} Ibid., p. 96.
\bibitem{79} Ibid., p. 97.
\end{thebibliography}
Estelito Mendoza warned the Supreme Court not to interfere in an “essentially political question,” and maintained that the Citizens Assemblies’ ratification was in “substantial compliance” of the 1935 Constitution. Mendoza recounts the various threads to his defending argument. He first asserts that it was a political question, citing that under the 1935 Constitution, various cases pertaining to revolutionary governments are exempt from judicial review. Then, he equates a plebiscite, referendum, and ballot vote equally, by virtue of their shared functional purpose. Mendoza explains,

What is the point of voting through the ballot? It is really to determine the expression of the will of the voter … To the question … [as to] whether the plebiscite … is in accordance with the constitution, I would order that if the purpose of the plebiscite is to determine the will of the people … it’s better decided by the people themselves.

In the March 31st, 1973 Javellana v. the Executive Secretary decision, six justices agreed that “the validity of Proclamation 1102 (announcing the ratification of the proposed Constitution) is a justiciable question,” with four justices dissenting. According to Article XV, Section 1 of the 1935 Constitution, the only means of ratifying a new constitution is through “an election or plebiscite held in accordance with law and participated in only by qualified and duly registered voters.” For this reason the Supreme Court decided that the ratification was not in “substantial compliance of the law.” Yet, the decision states:

[F]our Justices hold that the proposed Constitution has been acquiesced in by the people; two Justices hold that the people have not expressed themselves; one Justice thinks the doctrine of ‘Constitution by acquiescence’ inapplicable; while the three other justices agree that they lack the knowledge or competence to make a determination.

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80 Ibid.
82 Ibid.
84 Ibid.
85 Ibid.
Historian Benjamin Muego explains, “If the court’s decision appeared contradictory, it was intended to be so,”\textsuperscript{86} because, as Rolando V. del Carmen observes, the decision was:

\begin{quote}
Strongly reminiscent of Justice [John] Marshall’s judicial technique employed in \textit{Marbury v. Madison} where that great Chief Justice adroitly obtained pragmatic legal results without unduly forsaking idealistic allies.\textsuperscript{87}
\end{quote}

Because the Court could not obtain the six votes required to decide whether the public had acquiesced in the constitution or to declare the new constitution not in force, the Constitution, which was in \textit{de facto} operation, continued to be in force. Rolando V. del Carmen writes in the \textit{Asian Survey}, “It is here that President Marcos’ unilateral ratification proclamation of January 17, 1973, assumed the proportion of a far-sighted anticipatory legal strategy.”\textsuperscript{88} Marcos never truly implemented the new constitution, never elected a new prime minister, and in the end the Transitory Provisions ruled the country with him positioned as \textit{de facto} dictator.

It is notable that the Supreme Court did not issue an outright endorsement for the constitution, but when given an opportunity to assert the rule of law and denounce Marcos’s actions, it crumbled. The ratification of the 1973 Constitution and the \textit{Javellana v. Executive Secretary} case were the most pivotal Marcos victories. The Transitory Provisions granted Marcos full powers and the case legitimized his actions before the law, undercutting the opposition’s arguments against him.

The Supreme Court had long operated alongside blatant political violations of the rule of law. While a passive body with powers to decide only those cases brought before it, the Court could always turn a blind eye. Then, when confronted with the question of what was officially acceptable, the Supreme Court did not rise to assert the constitutional constraints upon the executive. As it had three times before, the Supreme Court once again bowed to the executive branch. Marcos may have been more extreme than his predecessors, but the Supreme Court’s acquiescence places him firmly within the political tradition.

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\bibitem{86} Benjamin N. Muego, \textit{Spectator Society} (Athens: Ohio University, 1988).
\bibitem{88} Ibid.
\end{thebibliography}
VI. CONCLUSION

In an interview, the former First Lady Imelda Marcos characterized her husband to me as “malakas” (strong). Yet, she also made it known: “After Marcos became president, I asked him why he didn’t institute the death penalty and he said, ‘The art and use of power is that it should never be used, only felt.’” Such a wise statement of restraint seems ironic given Marcos’s use of violence and coercion; however, it does ring true with regard to his treatment of the judiciary. Javellana v. The Executive Secretary was Marcos’s final triumph—it sanctified his ‘constitutional authoritarianism’ and limited the scope of the Supreme Court’s decision-making, rendering the judiciary powerless against the crisis regime. Political scientist Neal C. Tate writes,

By the end of 1974 the Philippine judiciary was no longer in a position to provide any serious check on the martial law regime. Until the end of the crisis regime, the Supreme Court rendered not a single decision that posed even a mild threat to Marcos’ rule. To achieve this result, the President never had to use or threaten coercion on the judges nor did he have to replace oppositionist judges.

Naturally, Marcos’s military support, as the Commander in Chief of the Armed Forces ruling under martial law, also convinced the judiciary that dissent would be pointless. As Atty. Romulo laments, “[President Marcos] was a first rate lawyer, a brilliant mind. Before people knew it, he established the trap and then it was too late for the Supreme Court to challenge him.”

During martial law, the judiciary was not a shield against the authoritarian regime, but rather, an extension of Marcos’s power and legitimacy. Marcos clearly saw this potential, but, at least initially, also genuinely respected the Court’s judicial powers. The Philippine public, believing Marcos to possess a legendary legal mind, allowed him great flexibility with regard to constitutional matters and trusted his expertise. This expertise allowed Marcos to gainfully manipulate the international

91 Ibid.
Cold War context – taking an anti-communist stance under the auspices of the United States – to establish his dictatorship constitutionally, carefully, and always cloaked in a semblance of legality that would justify his actions abroad and at home.

Though the Marcos regime was not an inevitability of the Philippine political tradition, blame nevertheless falls on the system. Historical corruption and the privileging of power over policy combined to create Marcos, equipping him with the malleable political conscience and power-grabbing training that would allow him to utilize the Cold War environment for his own ends. By pushing the “moral” limits of political practice and gaining the Supreme Court’s acquiescence, Marcos revealed to the Philippines the worst flaws and tendencies of its historical political tradition.
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The public outcry for reforming Wall Street in the wake of the global financial crisis has been overwhelming: the discourse ranges from those saying the recent crisis is nothing more than a natural course of the business cycle, to those saying the economic downfall of the United States is imminent. But to analyze reform efforts requires looking underneath these effects and consequences at the roots of the regulatory regime. Simon Johnson posits that the U.S. has been captured by a financial oligarchy, and that comprehensive regulatory reform is impossible until the intimate relationship between Washington and Wall Street is broken. Commentary on the economic condition after the crisis seldom provides more than narrative, with even more infrequent looks at quantitative data. This study provides some empirical backing to Johnson’s claims and analyzes the relationship between congressional policy making and financial influence from the financial sector. This study’s analyses demonstrate that the strength of the financial sector’s grip on the U.S. economy has indeed been aided by Washington policy and that Congress is heavily susceptible to political manipulation by Wall Street.
I. INTRODUCTION

The first decade of the new millennium ended with the United States being in no better economic shape than when the decade began. The U.S. started off in 2000 at its apex: the Dow Jones Industrial Average, NASDAQ Composite, and S&P 500 had been consistently on the rise and were trading at all time highs.\(^2\) The end of the 1990s brought a 20 percent increase in the number of jobs, a 38.6 percent increase in gross domestic product, and an impressive 58 percent increase in household net worth (after adjusting for inflation).\(^3\) Unemployment rates were the lowest that the country had seen in years and prosperity seemed to be flowing to all levels of the population. Fast forwarding to the beginning of 2010, however, the economic picture is starkly different and the optimism with which the previous decade began has been replaced with incredulity. Data from the Bureau of Labor Statistics and Bureau of Economic Analysis shows that the first decade of the 2000s ended with negative growth: gross domestic product grew by a meager 17.8 percent and household net worth shrunk by four percent. The decade ended with zero net job creation and unemployment persistently lingered around 10 percent in the early months of 2010. From peak-to-trough, the decade saw a massive rise in net wealth, only to lose a baffling $17.4 trillion of it a few years later.\(^4\) These years are the first in modern history in which the U.S. has digressed from the norm of prosperous growth: every decade since the 1940s posted a growth of at least 30 percent in gross domestic product and 20 percent in household net worth by its end.\(^5\) For a country that has experienced perpetual and tremendous economic growth in modern times, the story told by the numbers of the most recent decade are troubling and demands a fundamental evaluation of what went wrong. How and why was the decade bookended with prosperity on one end and hardship on the other?

The calamitous events of the financial crisis began on September 7, 2008 as the federal government seized the government-sponsored enterprises Fannie Mae and Freddie Mac. On September 15\(^{th}\), Lehman Brothers filed for bankruptcy and later in the day, Merrill Lynch was sold to Bank of America. On September 16\(^{th}\), the Federal Reserve intervened in

\(^3\) Neil Irwin, “Aughts were a Lost Decade for U.S. Economy, Workers,” Washington Post, January 2, 2010
\(^4\) Ezra Klein, Americans’ Net Worth Rises for Third Straight Quarter, March 12, 2010.
\(^5\) Irwin, Aughts were a Lost Decade for U.S. Economy, Workers, January 2, 2010.
the failure of another bank, American International Group, and provided a bailout to the tune of $123 billion. On September 25\textsuperscript{th}, Washington Mutual became the biggest bank failure in history.\textsuperscript{6} In less than one month, six major financial institutions failed and by mid-November, the Dow Jones Industrial Average plummeted to 7,552.29 – a near 47 percent drop from its high.\textsuperscript{7} The whirlwind of implosions within the U.S. economy brought the global financial community to the brink of collapse and it was saved only by trillions of dollars in government support. A simple re-telling of the events alone is overwhelming and reads like a grim tale, but the details of what happened beyond these headlines is even more troubling and has farther reaching implications and lessons for the future of America’s economic security than any other event in recent history.

The financial crisis of 2008 was triggered by a bubble in the housing market and was preceded by three decades of concentrated efforts to deregulate the financial sector.\textsuperscript{8} Congress spearheaded this effort from the legislative side, but the cause was simultaneously pushed by key policymakers such as Alan Greenspan and actors within the financial sector. While there were many forces contributing to the crisis in politics, policy, the financial sector, and ideology, this study focuses specifically on the susceptibility of congressional policymaking to influence from the financial sector. I argue that this relationship, for the obvious implications held by the power of legislative fiat in setting the regulatory regime for the financial sector, is the most important relationship to analyze in moving forward with reform and any future legislation.

II. REVIEW OF LITERATURE

The existing academic and political discourse is wide, but there is general agreement on the crisis’s proximate causes: an era of deregulatory action taken by politicians and policymakers, the proliferation of complex financial instruments, the rise of free market ideology, and a financial sector whose endless pursuit of higher profits encouraged reckless practices. Studies differ in how and with whom they assign primary blame, which in

\textsuperscript{8} Helena Yeaman, “The Bipartisan Roots of the Financial Services Crisis,” \textit{Political Science Quarterly} 124(4).
turn leads to stark differences in reform recommendations. Richard Posner argues that free-market capitalism was at the heart of the financial crisis while Alan Greenspan places fault on specific economic forces. Ross Levine takes a different view, opting instead to focus on the policy triggers of the crisis. Meanwhile, John Cassidy asserts that the power of ideas was the main culprit in spawning the crisis. However, as it will be illustrated, for the purposes of maximizing reform efforts, the most pressing case is made by Simon Johnson and his notion of the financial oligarchy.

Judge Posner is an eminent legal scholar and is well-known for his advocacy of free markets. Yet in *A Failure of Capitalism*, Posner repudiates his faith in the free market and argues that the “financial crisis is… a crisis of capitalism rather than a failure of government.”\(^9\) Posner does not use such an argument to absolve the government’s passivity, however, and indeed dedicates an entire chapter to “apportioning blame” in which he finds fault with economists, the market, the government, and financiers. Posner criticizes the way that the Bush administration pushed the ownership society and ran up deficits, analyzes the dangers of policymakers that are sympathetic to Wall Street, and warns of the dangers associated with the growing use of complex financial instruments. Despite his tirade against the involved parties, Posner concludes by saying that now is not the time for comprehensive reforms. Rather, he asserts that comprehensive reforms should be held off for “calmer days” and that in the meanwhile, the focus should be placed on piecemeal reforms.

While Alan Greenspan may have been the champion of free market ideology during his reign at the Federal Reserve, he sat before Congress in the aftermath of the financial sector’s meltdown as a man whose entire worldview had been challenged. Greenspan’s ideology was one of absolute faith in the ability of a free market to self-regulate and it was this ideology that he turned into policy as chairman of the Fed. Now, in the post-crisis world, Greenspan sat humbled before Congress by the events that prompted his testimony.\(^10\) In *The Crisis*, Greenspan fleshes out his epiphany and endeavors to outline the economic forces that arose in recent decades to create the conditions for the financial crisis – namely, the decline in long-term interest rates. The increased availability of cheap debt on a global scale, Greenspan argues, led to the bubble in the housing market and also

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to misguided monetary policy decisions. Greenspan recognizes that the advent of complex financial instruments exacerbated the bubble, but he still maintains that the financial crisis could not have been prevented because it was caused by certain economic conditions that are outside of the control of policy.

In *An Autopsy of the U.S. Financial System*, Ross Levine attacks Greenspan’s view that the crisis was largely unrelated to government action. While he does not discount arguments for other causes behind the financial crisis, Levine focuses on the influence of policy. Levine cites the conflict of interest present in the business model of the rating agencies, lack of regulatory interest in overseeing credit default swaps, and failures to effectively regulate in general. Levine concludes in his analysis that “either by becoming willfully blind to excessive risk taking or by maintaining policies that encouraged destabilizing behaviors, policymakers and regulatory agencies contributed to the financial system’s collapse.”¹¹ For Levine, the fault of policymakers in the run-up to the financial crisis was in their complacency and unwillingness to deal with issues as they arose.

Discussing the technical nature behind policies, financial instruments, and political failures makes it easy to forget about the power of ideas. In *How Markets Fail: The Logic of Economic Calamities*, John Cassidy traces the history of economic theory and the role that free market ideology played in both fostering and prolonging the crisis. For Cassidy, the primary problem of the financial crisis has been that free market ideology has always relied upon an implicit assumption of stability. But more problematic is that its tenets became dogmatic in the absence of worthy competitive ideologies. Furthermore, free market ideology has its limits: its behavioral theories may apply to individuals to a certain extent, but the framework itself fails at the macroeconomic level because it does not take into account that what is rational for the individual may lead to an irrational social outcome, a concept he terms rational irrationality. The financial crisis was exacerbated, he argues, because of the dogmatic application of free market ideology and because leading policymakers such as Greenspan had such a strict adherence to it. Cassidy concludes that “the idealized free market is a fiction, an invention: it has never existed, and it never will exist” and that

policymakers should instead adopt a theory of reality-based economics.\textsuperscript{12} Such a conception draws on both theory and experience to integrate problems of market failures and rational irrationality in a pragmatic framework. This, he argues, will be essential in reform efforts.

The authors mentioned thus far all represent a wide and deep examination of what reforms need to take place, but few in the field of the current literature analyze how these reforms are to come to fruition. As a former chief economist at the International Monetary Fund, MIT economics professor Simon Johnson brings a unique voice to this debate and it is his perspective that forms the crux of this study. Johnson argues that the “finance industry has effectively captured our government” and that “recovery will fail unless we break the financial oligarchy that is blocking essential reform.”\textsuperscript{13} In Johnson’s view, the intertwining of the financial sector and the government in the U.S. has become both politically and economically detrimental – a tension in many ways reminiscent of that found in emerging markets. When emerging markets are put in a situation where they require assistance from the IMF, the organization’s economists must analyze the country’s policies, budget, and money supply. The economics, Johnson argues, are never difficult to work out; the difficulty instead is “almost invariably the politics of the countries in crisis.”\textsuperscript{14} The economies of such countries are heavily reliant upon powerful elites in the private sector, creating a disparity in power between political and economic entities. Moreover, governments of emerging markets lack the political will and integrity to break the powerful elites’ grasp on the economy. These premises are the basis for Johnson’s comparison between emerging markets and the United States’ economy and underlie his argument for the rule of the financial oligarchy. The mutually beneficial relationship between Washington and Wall Street that is underpinned by economic gain becomes the foundation for the oligarchy in which the elites of the private sector take greater risks and the political powers are relegated to appeasing the moneymakers.

While it might be tempting to call Wall Street’s cozy relationship with Washington a product of simple corruption, Johnson attributes the unrivaled economic rise of Wall Street as the foundation from which this intimate relationship was developed through three completely legal means. First, he argues that Wall Street used its traditional capital (money) to

\textsuperscript{13} Simon Johnson, “The Quiet Coup,” The Atlantic, 49.
\textsuperscript{14} Johnson, “The Quiet Coup,” 48.
directly influence the political process by lobbying and making campaign contributions. Second, Wall Street veterans capitalized on their experience under the regulatory regime by heading to Washington to have a direct hand in the creation of policy. And lastly, Johnson articulates the notion of cultural capital: “the spread and ultimate victory of the idea that a large, sophisticated financial sector is good for America.” This study focuses on the first two of these pillars as the bases for further analyzing the relationship between Washington and Wall Street.

While the primary subject of this study is financial policy, the secondary focus on the financial sector’s involvement in Congressional policymaking necessitates a concurrent analysis of how interest groups and lobbyists achieve influence in Congress. John Wright’s *Interest Groups & Congress: Lobbying, Contributions, and Influence* provides a framework with which to approach the empirical nature of the campaign contributions and lobbying funds analyzed in this study. Wright summarizes that “scholars have generally failed to turn up consistent and substantial evidence that representatives’ campaign contributions directly affect their roll call decisions.” However, Wright is careful to point out that just because no direct connection between voting outcomes and interest group money exists does not mean the issue can be laid to rest. The lack of definitive empirical evidence ignores the fact that money from interest groups could have other effects such as “withholding an amendment during a committee markup, providing information about procedural plans for considering amendments to a bill, or even [providing] access” to the legislator. Because much of these phenomena are unobservable and unquantifiable, Wright employs theoretical models to generate conclusions about interest group influence and congressional policymaking. While this study differs from Wright’s framework by employing empirical data, it shares a common and crucial deduction reached by Wright: interest group contributions ultimately provide access to legislators.

In accordance with this, Wright also points out some of the key moments in which congressional policymaking is susceptible to interest group influence. For the scope of this study, two such stages are relevant. First, interest groups are able to mobilize their resources during the

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17 Wright, *Interest Groups & Congress*, 143.
formulation of bills. By having a voice in this process, interest groups are able to narrow or expand the “perceived range of legislative possibilities,” giving them a chance to plant the seeds that will lead to favorable outcomes.\footnote{Wright, \textit{Interest Groups \& Congress}, 39.} The second stage at which influence can be exerted is during committee hearings and markups. While hearings allow interest groups to inform members of Congress on their field of expertise, markup sessions are where the “real legislative work begins” as “committee members amend and vote on particular provisions within bills.” The open nature of this stage in the legislative process makes it especially attractive to lobbyists as they work closely with legislators to “recommend the deletion or insertion of specific provisions [and] offer suggestions for new language.”\footnote{Wright, \textit{Interest Groups \& Congress}, 43.}

\section*{III. Research Problem and Question}

The financial crisis of 2008 was not a failure that can be principally attributed to politics, policy, economics, or the financial sector; it was, rather, a systematic failure of all participants. To focus on politicians and policymakers ignores the recklessness of the financial sector; to blame the system is to remove the burden of responsibility from the actors; and to blame the financial sector is to ignore the faults of a government that ignored its duties as a regulator.

Greenspan and Bernanke speak specifically of the role that monetary policy played in the crisis. Greenspan’s rude awakening from free market ideology is readily apparent in his testimony given to Congress following the crisis, but his analysis still holds vestiges of his complicity in fostering the crisis. For example, Greenspan argues at one point that there is an inherent lag between policy implementation and impacts on the economy. For this reason, he says, it may not have been possible to diffuse the housing bubble. Yet, \textit{The Economist} was able to spot the housing bubble by September of 2002 – a full four years before there were even any indications of an impending crisis.\footnote{Posner, \textit{A Failure of Capitalism}, 77.} The flaw of Greenspan’s argument suggests that though his ideology may have been challenged and adjusted, he is still unable to have a completely honest discussion of the events that led up the crisis. Levine, Posner, and Cassidy all provide significant arguments regarding the policies and the systems that fostered the financial crisis, but their claims are largely theoretical and polemic. This is not to
discount the validity of their points. Indeed, Cassidy’s exploration of ideas and paradigms may not be quantifiable, but the power of ideas and paradigms to foster and institute a mode of behavior is unchallenged. The aforementioned authors each contribute a significant argument, but the current literature rarely focuses on the importance of the relationship between regulatory policymaking and financial sector influence in moving forward with reform. Johnson’s argument regarding the capital-based relationship between Washington and Wall Street, on the other hand, does provide a blueprint for additional study in this subject area. Moreover, focusing on the relationship between congressional policymaking and financial sector influence allows for an analysis of the legislative processes that comprise a critical junction of the regulatory framework.

This study further explores the points made by Johnson using the framework of interest group study put forth by Wright. Johnson’s point about Wall Street exerting its cultural capital is well covered in the current literature, but additional study of Wall Street’s influence will be critical in coming reform efforts and future legislation. This study seeks to contribute an empirical element to Johnson’s arguments by analyzing the political economy of the financial crisis through calculations based on publicly available data from the United States Department of Commerce’s Bureau of Economic Analysis and the Center for Responsive Politics. To elucidate the effects of Washington’s policies on the financial sector, this study will analyze key developments in the financial sector and pieces of legislation that are classified as either regulatory or deregulatory. The study’s conclusions will demonstrate that first, the deregulatory actions by Washington have contributed to the financial sector’s economic growth, creating a mutually beneficial and dependent relationship and, second, that the financial sector uses campaign contributions, lobbying spending, and lobbyists in politically coordinated and sophisticated ways to achieve its ends. The study will attempt to shed light on the extent of the political and economic ties between Washington and Wall Street, but I by no means seek to make a causal argument. As Wright is clear to point out, studies in the field of interest group influence have thus far proved inconclusive and any claims of vote-buying would not only be baseless, but unfairly shallow in attempting to define a relationship that is much more nuanced and complex. Rather, I argue that campaign contributions and lobbying expenditures from the financial sector, though considerable, have been more instrumental in establishing access and influence than manipulating votes.
IV. RESEARCH DESIGN

To evaluate the extent of the relationship between Washington and Wall Street, and by extension, the political reach of the financial oligarchy, this study will take a two-pronged approach. First, to analyze Johnson’s position that the underlying cause of Wall Street’s political power is its increasing economic power, this study looks at the growth of the financial sector in relation to regulatory legislation passed by Congress. The pressing question here is whether or not there is a discernible relationship between changes in the regulatory regime mandated by Congress and the successes of the financial sector. For the economic component of this study, data was gathered from the U.S. Department of Commerce’s Bureau of Economic Analysis. Economic data on the financial sector is not new, and has been displayed several times in the current discourse. Its use here is distinguished first, by tracking historical data showing the contribution of the financial sector to the economy as a whole and, second, by the overlaying of regulatory and deregulatory information across the timeline to provide tangible clues as to how the legislative actions of Washington have affected the inarguable growth of the sector. While it would have been insightful to see the impacts of Depression and New Deal-era regulations on the financial sector across this continuum, the Bureau of Economic Analysis’ data only dates back to 1947, making a comparison impossible. Therefore, only those policies that were enacted after this year will be considered.

While the aforementioned analysis will display an overarching view of the relationship between the financial sector and the U.S. economy as a whole, the second component of this study will focus on how Wall Street uses its traditional capital to gain political capital and fortify its status as the financial oligarchy. This will be done in two ways: by tracking campaign contributions to congressional members as well as tracking the funds used by the financial sector for lobbying purposes. The Center for Responsive Politics maintains a wealth of data on both campaign contributions and moneys directed towards lobbying Congress. For campaign contributions, CRP provides an alphabetical list of Congress members and how much those members received from the financial sector. Data on Congress members were compiled for both the 106th sessions and 111th sessions of Congress (the significance of these two sessions will be explained later). Once compiled, the members of the House and Senate were divided into their respective chambers, coded as being either Democrat, Republican, or Independent, and were further categorized according to how they voted on
regulatory legislation, or their assignments to standing committees. This data is then analyzed through the lens of four pieces of legislation: the Financial Services Modernization Act of 1999 (also known as the Gramm-Leach-Bliley Act), the Commodity Futures Modernization Act, the Wall Street Reform and Consumer Protection Act of 2009, and the Restoring American Financial Stability Act of 2010.

The first two pieces of deregulatory legislation were passed into law by the 106th session of Congress while the latter two pieces of regulatory legislation are being considered by the 111th session of Congress. Using a number of sources, the legislative process undergone by the four laws and proposed laws were gathered. These records include information on which committees legislation is referred to, amendments proposed, roll call data, and interest group involvement. All of this information is used in conjunction with the campaign contribution data from the CRP to see if a trend exists between the amount of contributions received from the financial sector and whether that translates into a favorable legislative outcome.

Two addressable problems arise in this research design. The first challenge is the attempt to establish an associational link between congressional policymaking and interest group influence while controlling for variables. The study employs some statistical strategies, but is hampered by a limited number of cases. This “small N problem” lends the nature of this study to be more in line with the Comparable-Cases Strategy as outlined by Arend Lijphart. This “method of testing hypothesized empirical relationships among variables…in which the cases are selected in such a way as to maximize the variance of the independent variables and to minimize the variance of the control variables” creates a favorable framework with which to analyze the four pieces of legislation outlined above.21 The hypothesis of this study is formulated around a posited relationship between financial sector interests, policymakers, and legislative outcomes. The similarity among the cases, and thus what I treat as the control variable, is a favorable legislative outcome for the financial sector.

To strengthen the argument for an associational link, the section on Validity and General Applicability will compare the control variable against different input variables that could similarly be argued to have led to favorable legislative outcomes.

Second, there are some inconsistencies regarding campaign contributions and lobbying funds as reported by the CRP. While studying additional pieces of legislation would have allowed for a more comprehensive finding, CRP’s data on campaign contributions goes back to 1990, while its database on lobbying only goes back to 1998, making a thorough analysis of deregulatory legislation prior to 1998 impossible and effectively limiting the number of cases that can be observed. In addition, a great shortcoming of the CRP lobbying data is that unlike the campaign contributions, it is not delineated by members of Congress. This means that while it is possible to track campaign contribution data at an individual and committee level, it is not possible to do so for lobbying funds. Lobbying funds can still be analyzed on a macro-level, however, to gauge the depths to which the financial sector is willing to dig into its capital war chest. Another issue with the CRP’s data is that campaign contributions for some members of Congress are coded as negative. This is because congressional candidates, for various reasons, leave political office and end up returning the funds they receive from individuals and Political Action Committees representing different interests. While returning monetary contributions would conceptually absolve a congressman of the burdens associated with interest group money, it ignores the practical fact that these funds were accepted in the first place and that the influence was already permitted. Therefore, members of congress coded with negative amounts from the financial sector were reviewed on an individual basis. Unless the return of campaign contributions was caused by some ethically induced epiphany, the negative amounts were considered as positive values in all calculations for the sheer fact that the interest group influence was already exerted and accepted.

V. EVIDENCE AND ANALYSIS

The first component of this study focuses on the macroeconomic impacts of regulatory and deregulatory legislation on the financial sector. The foundation for the modern era of financial activity was largely laid down in the aftermath of the Great Depression as the New Deal created rules for a new regulatory framework for its banks. This was done through the Glass-Steagall Act and the Securities Exchange Act, which were relatively simple pieces of legislation, but nonetheless revolutionary for the sweeping changes they introduced. The Glass-Steagall Act separated “investment banks from commercial banks, thus securing depositors’ savings against the risks of being used for highly speculative purposes” while also liberating “banks and depositors from the fearful psychology of
bank ‘runs,’ or panics” by establishing the FDIC. Meanwhile, the Securities Exchange Act of 1934 established the Securities Exchange Commission and put forth disclosure mandates, which effectively ended the information monopolies that granted advantages to the privileged few, while making relevant and necessary information readily available throughout the market. The cost of these policies was minimal, yet the effects were near-immediate. The American banking system which saw hundreds of failures per year, experienced “unprecedented stability” with the passage of the act, seeing “fewer than ten per year in the decades after 1933.”

The comprehensive financial reforms implemented during the New Deal created a regulatory framework that allowed for almost a half a century of stability in the financial sector. However, after the implementation of regulatory acts to combat the practices that helped spawn the Great Depression, legislation imposing greater regulation has been practically non-existent. For the past several decades, and especially during the 1980s and 1990s, legislation affecting the financial sector has always been of a favorable nature for the financial sector. Table 1 displays a list of all the laws affecting the financial sector that have been passed and signed into law since 1948.

Table 1: Key regulatory and deregulatory acts since 1948. Denoted as positive (+) or negative (-) depending on the policy's effect on the financial sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulation/Deregulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>(-) Banking Holding Company Act</td>
</tr>
<tr>
<td>1967</td>
<td>(+) Savings and Loan Holding Company Act of 1967</td>
</tr>
<tr>
<td>1970</td>
<td>(+) Bank Holding Company Act Amendments of 1970</td>
</tr>
<tr>
<td>1980</td>
<td>(+) Depository Institutions Deregulation and Monetary Control Act</td>
</tr>
<tr>
<td>1982</td>
<td>(+) Garn-St. Germain Depository Institutions Act; Alternative Mortgage Transaction Parity Act</td>
</tr>
<tr>
<td>1984</td>
<td>(+) Secondary Mortgage Market Act of 1984</td>
</tr>
<tr>
<td>1986</td>
<td>(+) Tax Reform Act</td>
</tr>
</tbody>
</table>

23 Kennedy, *Freedom from Fear*, 366.
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994 (+)</td>
<td>Riegle-Neal Interstate Banking &amp; Branching Efficiency Act (repeals parts of Banking Holding Company Act)</td>
</tr>
<tr>
<td>1999 (+)</td>
<td>Gramm-Leach-Bliley Act (repealed Glass-Steagall and parts of Banking Holding Company)</td>
</tr>
<tr>
<td>2000 (+)</td>
<td>Commodity Futures Modernization Act deregulates derivatives</td>
</tr>
<tr>
<td>2002 (-)</td>
<td>Sarbanes-Oxley Act</td>
</tr>
<tr>
<td>2008 (-)</td>
<td>Economic Stimulus Act</td>
</tr>
<tr>
<td>2008 (-)</td>
<td>Housing and Economic Recovery Act</td>
</tr>
<tr>
<td>2008 (-)</td>
<td>Emergency Economic Stabilization Act (TARP)</td>
</tr>
</tbody>
</table>

Source: CQ Researcher

The Bank Holding Company Act of 1956 extended Congress’s efforts to limit the power of the financial sector by preventing companies that owned banks from owning banks across states lines. However, this resolve began to wane with the passing of the Savings and Loan Holding Company Act of 1967, which allowed companies to control thrifts, giving them access to additional capital. The Depository Institutions Deregulation and Monetary Control Act allowed banks to merge and more importantly, allowed financial institutions to charge interest rates of their choosing. The deregulation of the financial sector continued in 1982 with the Alternative Mortgage Transaction Parity Act, which allowed for exotic mortgages that were not bound to fixed interest rates, and the Garn-St. Germain Depository Institutions Act, which deregulated the savings and loan industry. While prior to its passage, regulations hampered attempts by financial institutions to engage in securitization, the Secondary Mortgage Market Act removed these obstacles and cleared the way for banks to securitize mortgages. The passing of the Riegle-Neal Interstate Banking and Branching Efficiency Act essentially removed the interstate banking restrictions set by the Bank Holding Company Act. The ultimate dissolution of the New Deal-era regulatory framework and reign of deregulation came, however, with the passage of the Gramm-Leach-Bliley Act (also called the Financial Services Modernization Act) and the Commodity Futures Modernization Act. These acts removed the wall between investment and commercial banks, allowing the two activities to be conducted by the same institution, and also completely deregulated the derivatives market, opening the door for the advent of credit default swaps. These laws cover only a fraction of the major deregulatory events that occurred on the legislative side from 1967 to 2000. The implications of
these laws for greater capital in financial activities are fairly clear, but its effect on the growth of the financial sector is not readily apparent.

Growth in any economic sector can be analyzed by both changes in number of personnel and total output – in other words, employment levels and profits. Figure 1 shows the data for employment in the financial sector from 1948 to 2009 overlaid with markers representing the passage of regulatory and deregulatory laws. The data shows that employment has grown at a linear pace with no discernible correlation between the passage of laws affecting the financial sector and employment growth. The data does show reduced and negative growth during the late 1980s, late 1990s, and in 2008, however. These dates coincide with the savings and loan crisis (late 80s), Long Term Capital Management and high-tech bubble collapses (late 90s), and the most recent financial crisis (2008). The correlation between these time periods and the data indicates that employment levels are relatively unaffected by laws that change the regulatory framework for the financial sector, but are instead mostly affected by major banking crises that affect output.

**Figure 1:** Number employed in the financial sector from 1948 to 2009. Overlaid with markers indicating regulatory or deregulatory

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Sources: U.S. Department of Commerce, Bureau of Economic Analysis; CQ Researcher
Figure 2 shows the Value Contribution by the financial sector to the United States’ gross domestic product, i.e. profits. This graph has also been overlaid with markers indicating the policy enactments outlined in Table 1. In Figure 2, the first deregulatory policy marks the beginning of a notable increase in the financial sector’s profits on a year-by-year basis. The distinct increase in profits is only furthered by the deregulatory era beginning in the 1980s. Though in no way does it establish causality, the visual cues offered by this graph suggest that there is at least some relationship between the financial sector’s growth and the policies carried out by Washington. The trend shown by the data on profits is a bit more interesting. It is not quite linear like the numbers in employment, but the growth does not seem to be completely exponential either. Rather, there seem to be two separate and distinct linear trends presented by the data. To test the validity of this observation, two different trend lines were applied using 1980, typically thought of as the beginning of the deregulatory era, as the delineating point. The data prior to and post 1980 were considered separately to calculate lines of best-fit and then applied to the graph to analyze the degree to which the actual data and calculated line are in convergence.

Figure 2: Financial sector value contribution to U.S. GDP. Overlaid with deregulatory and regulatory laws outlined in Table 1.
The calculations displayed in Figure 3 show a correlation that is considerably more significant than the employment data. The results of the calculations are displayed as a standard regression equation, \( y = a + bx + e \), where \( b \) is the slope. In application to this data, the slope gives the rate at which profits increase for every year that passes. Calculation for the data from 1948 to 1980 shows that on average, profits in the financial sector increased by approximately $9.2 billion every year. In contrast, calculating the slope for the data from 1980 to 2008 shows an average increase in profits of over $85 billion a year. The substantial difference in the rate of profit increase between 1948-1980 and 1980-2008 indicates that there is some variable to account for that difference. In this case, that variable is assumed to be the deregulatory laws passed by Congress throughout the 1980s and 90s that, by extension would have greatly affected how the financial sector operates. The visual trends offered by Figures 2 and 3 suggest that there is at least some relationship between the financial sector’s growth and the legislative fiats implemented by Washington. However, it could be argued that this relationship is coincidental and that the financial sector’s growth is merely a reflection of the growth of the economy as a whole. Indeed, the total output of the U.S. economy has grown from $269 billion in 1948, to $14.4 trillion in 2008.\(^{24}\)

Figure 3: Financial sector value contribution to U.S. GDP. Two trend lines added to distinct periods.

Financial Sector Profits and Regulation

Source: Calculations based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

There are 15 sectors that collectively make up the U.S. economy, according to the Bureau of Economic Analysis. They are finance, manufacturing, agriculture, mining, utilities, construction, wholesale trade, retail trade, transportation, information, professional and business services, educational and health services, arts, government, and miscellaneous/other. Figure 4 shows how much all of these sectors in the economy contribute to the U.S. gross domestic product, by percent. Essentially, it is a measure of the proportion each sector takes up of the GDP every year. Most sectors represented along the bottom half of the graph have been fairly stagnant in their percent contribution to the U.S. economy, but the snapshot in 1948 is still drastically different from that of 2008. While manufacturing contributed the most to the economy in 1948, the time series shows a significant decline in manufacturing’s percent contribution. Of the sectors counted, four show substantial negative changes: manufacturing, agriculture, retail trade, and transportation. In contrast, another four sectors showed positive changes: finance, information services, professional and business services, and education and health services. Of these changes, however, the financial sector shows the greatest increase in the proportion it takes up of total U.S. GDP, which now makes up approximately 20 percent.
To illustrate the significance of the financial sector’s disproportionate share of the economy, Figure 5 shows the value contribution of each sector to the 2008 gross domestic product in dollars. Of the 15 different sectors, the financial sector clearly contributes the most to U.S. GDP. The financial sector’s foothold in the economy is so much larger in fact, that the amount that the financial sector makes in one year of profits exceeds the combined value of the seven smallest sectors. Specifically, what Figures 4 and 5 shows is that Washington’s deregulatory policies and the growth of the financial sector is not completely coincidental. The United States’ GDP may be growing, but this growth does not wholly account for, nor is it proportional to, the financial sector’s growth. The financial sector is taking up a greater proportion of the United States’ economy and its share is gradually increasing. This confirms two things: that the financial sector’s growth is outpacing other sectors of the economy and that the financial sector is disproportionately embedding itself in the U.S.’s economy. Because the financial sector makes up such a large part of the United States’ economy, this further enforces the notion that the government has an explicit vested interest in a successful and thriving financial sector. In summary, the analysis of Figures 1 to 4 shows that
some relationship does exist between Washington and Wall Street and that this relationship is significantly bound by economic interest.

Figure 5: Value added by sector to U.S. GDP in 2008. (In billions)

![Value Added to 2008 GDP by Sector Diagram]

Sources: U.S. Department of Commerce, Bureau of Economic Analysis

The second component of this study looks at how the financial sector directly impacts Washington politics through lobbying and campaign contributions. Looking first at lobbying expenditures, Figure 5 shows the total spending by interests representing different sectors of activity. These amounts are totaled from 1998 to 2009. Most relevant to the purposes of this study, it can be seen that interests representing the financial sector have contributed the most to Washington politics during this time period with funds totaling $4.05 billion, though Health interests are not far behind. Figure 7 looks in detail at the financial sector and breaks down the aggregate $4.05 billion figure presented in the previous graph by year. There has been a consistent increase in the amount that the financial sector dedicates to lobbying every year. It is unfortunate that there is no data available that breaks down how much in lobbying expenditures are directed towards each member of Congress, as the data on campaign contributions does. However, the data from Figures 6 and 7 makes two relevant points: the monetary influence of the financial sector is stronger than any other interests represented and the strength of that influence increases every year.
Figure 6: Total lobbying expenditures from 1998-2010, by sector

Lobbying Expenditures by Sector (in billions)

Source: Center for Responsive Politics

Figure 7: Lobbying expenditures, financial sector by year

Lobbying by the financial sector by year

Source: Center for Responsive Politics

Keeping these inferences in mind, the analysis of campaign contributions by the financial sector offers an additional wealth of information, thanks to the specificity with which it is broken down. Figure
8 shows how much the financial sector gave in campaign contributions to members of Congress by election cycle. The Center for Responsive Politics provides a full list of members of Congress with how much they receive in campaign contributions from the financial sector. Using this data, members of Congress were grouped together by voting records and committee assignments to further analyze the impact of campaign contributions on legislative outcomes. Delving into the details, Figure 5 shows that the monetary influence of the financial sector via campaign contributions in Washington has been steadily rising, with the trend line showing that the rise is expected to continue. The time period denoted as “1999-2000” in Figure 5 represents the election cycle that ran from January 1, 1999 to December 31, 2000. As can be seen in Figure 5, this election cycle is notable for having campaign contribution totals that significantly surpass the expected average set by the trend line. This increase could be attributed to two crucial pieces of deregulatory legislation that passed Congress at the time: the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 and the Commodity Futures Modernization Act of 2000. These two pieces of legislation are monumental in terms of the policy feats they were able to accomplish. The Financial Services Modernization Act completely did away with any remnants of the separation between investment banks and commercial banks established by the Glass-Steagall Act of 1932. More broadly, the act allowed for the consolidation of commercial banks, investment banks, securities firms, and insurance companies, giving these financial institutions a greater amount of capital to work with. Meanwhile, the Commodity Futures Modernization Act prohibited the regulation of over-the-counter derivatives, an action that is seen as a major factor in setting off the recent financial crisis.

In the Senate, the votes for the passage of the Financial Services Modernization Act were almost completely split along party lines – 53 Republicans and 1 Democrat voted for the bill, while 43 Democrats opposed it. In the House, however, the vote was a bit more varied. As can be seen in Figure 6, 205 Republicans and 138 Democrats voted for the bill while 16 Republicans, 69 Democrats, and 1 Independent voted against the bill. This resulted in a split of 343 – 86. The question thus arises as to what caused the partisan-line voting differences between the Senate and the House. It is clear that the differentiating factor in the House’s passage of the Financial Services Modernization Act was the significant number of “For” votes by the Democrats.

Figure 8 shows that funds from interests representing the financial sector played a significant role in the Congressional session during which the Financial Services Modernization Act was passed; this leads to the
question as to whether or not campaign contributions and lobbying efforts may have played a contributing role in the voting outcome. Using the roll call data from the House of Representatives that listed the “For” and “Against” votes by name and data from the Center for Responsive Politics cataloging the amount of funds directed towards each member of the House by the financial sector, a list was created showing how much money members voting for and against the bill received from the financial sector. Using this list, the average amount received by members voting for the bill versus the average amount received by members voting against the bill was found. Figure 10 shows the results, which are surprisingly significant. First, Republicans voting against the bill received more money on average than the Democrats that voted for the bill. The more pressing finding, however, is that Democrats that went against party lines and voted for the bill received close to twice as much in campaign contributions than Democrats that voted against the bill. This finding shows that the political dynamics at work behind the passage of the Financial Services Modernization Act were at least somewhat manipulated by spending efforts from the financial sector in a very intentional way.

Figure 8: Campaign contributions to Congress by entities representing the financial sector, broken up by election cycle

Financial Sector Campaign Contributions per election cycle (in millions)

\[
y = 37.831x + 14.652
\]
The same cannot be said of the passage of the Commodity Futures Modernization Act. While the provisions of this bill arguably held greater implications for the financial sector and would have thus been the target of even greater amounts of capital manipulation from the financial sector, the
bill was not considered of its own merit — instead, Senator Gramm, the sponsor of this bill and of the Financial Services Modernization Act, “inserted this 262 page bill into a $384 billion omnibus spending bill” that was over 11,000 pages long.25 The tactical and political advantages of folding the bill into an omnibus spending bill clearly worked: the appropriations act of which the Commodity Futures Modernization Act was a part of passed the House in a vote of 292-60 and passed the Senate unanimously. Michael Greenberger is a former senior official for the Commodity Futures Trading Commission. He remains convinced that “there was no one except the drafters of the bill that understood what it did” and could guarantee “that the drafters of the bill were not members of Congress, they were the lawyers for the investment banks on Wall Street that convinced Senator Gramm to introduce this.”26 For this election cycle, Senator Gramm received $710,994 from the financial sector in campaign contributions. Reiterating a point made by Wright, campaign contributions go a long way in establishing interest group access to a legislator.

As previously mentioned, the assignment of bills to committees is a critical step in the legislative process. When bills are first introduced into Congress, they are referred to committees where they are debated and a decision is made on whether or not the bill ought to be considered by the entire chamber. Committees in this sense, hold a great amount of power over the fate of a bill. Because of their ability to kill a piece of legislation or to encourage its progress in the legislative pathway, committees are prime targets of interest group money. The availability of campaign contribution receipts on an individual level from the CRP makes it possible to group senators and representatives according to their respective committee assignments. Doing so allowed for further analysis of the distribution of financial sector money in the legislative process. Because the data is specific to the financial sector, it is possible to calculate the total that a committee received in campaign contributions as well as the mean and median received by its members from the financial sector. The names of the committees denote the issues over which the committee has jurisdiction. Table 2 lists the committees of the Senate and House.

At an initial glance, the delineations between some of the committees seem unclear. For example, the Senate has committees dedicated to Banking, Commerce and Finance. While under their

respective information pages, each committee lists its specific areas of jurisdiction, committees will often have overlap in terms of the issues they cover, making these specific lists matter little in the way of how bills are assigned. For example, a bill covering regulatory issues for the financial sector could be assigned to the Judiciary Committee, which is exactly what happened for the Financial Services Modernization Act. It can be said that the referral of bills to committees may at times seem arbitrary; what is relevant in this study, however, is not the jurisdiction of the committees themselves, but rather how the financial sector directs its influence towards committees that receive regulatory legislation. Put simply, the money follows the legislation, not the nominal committee and shows how coordinated and sophisticated the financial sector’s efforts are for every step of the legislative pathway.

Table 2: List of standing committees in the House and Senate

<table>
<thead>
<tr>
<th>House</th>
<th>Senate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Agriculture, Nutrition, and Forestry</td>
</tr>
<tr>
<td>Appropriations</td>
<td>Appropriations</td>
</tr>
<tr>
<td>Armed Services</td>
<td>Armed Services</td>
</tr>
<tr>
<td>Budget</td>
<td>Banking, Housing, and Urban Affairs</td>
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<tr>
<td>Education and the Workforce</td>
<td>Budget</td>
</tr>
<tr>
<td>Energy and Commerce</td>
<td>Commerce, Science and Transportation</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Energy and Natural Resources</td>
</tr>
<tr>
<td>Government Reform</td>
<td>Environment and Public Works</td>
</tr>
<tr>
<td>House Administration</td>
<td>Finance</td>
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<tr>
<td>International Relations</td>
<td>Foreign Relations</td>
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<tr>
<td>Judiciary</td>
<td>Governmental Affairs</td>
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<td>Resources</td>
<td>Health, Education, and Labor</td>
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<tr>
<td>Rules</td>
<td>Judiciary</td>
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<td>Science</td>
<td>Rules and Administration</td>
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<td>Small Business</td>
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<td>Transportation and Infrastructure</td>
<td>Veterans' Affairs</td>
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<td>Veterans' Affairs</td>
<td></td>
</tr>
<tr>
<td>Ways and Means</td>
<td></td>
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</tbody>
</table>

Source: U.S. House of Representatives and Senate
Note: Committee names are for the 111th Congress; 106th committee names remain the same, but “Financial Services” in the House used to be called “Banking and Financial Services in the 106th
Figures 11 and 12 show the results of the aforementioned calculations for the House of Representatives. In the 106th session of Congress, the Financial Services Modernization Act was initially referred to the Judiciary Committee, Commerce Committee, and Banking and Financial Services Committee. Before being consolidated into the omnibus spending bill, the Commodity Futures Modernization Act was referred to the Agriculture Committee, Commerce Committee, and Banking and Financial Services Committee. The committees in common between the two pieces of legislation are the Commerce Committee and Banking and Financial Services Committee, which according to Figures 11 and 12 have the highest group totals and highest individual averages in campaign contributions from the financial sector. These calculations lend credence to the claim that campaign contributions from the financial sector are anything but arbitrary. Rather, the data shows that the financial sector is very much intentional and coordinated in its efforts to establish access and influence the outcomes of regulatory legislation.
Figure 11: Amount contributed by the financial sector to members of Congress, grouped by committee

Total Contributions by Financial Sector (106th House)

Source: Calculations based on data from Center for Responsive Politics
Figure 12: Mean and Median amounts received by members of standing committees from the financial sector

Amount Received by Committee Member (106th House)

Source: Calculations based on data from Center for Responsive Politics

Campaign contribution data from the financial sector for the 106th Congress compared against the political dynamics involved in the passage of the two aforementioned bills show that funds from the financial sector were considerable and likely played a significant part in the legislative outcomes. This is a critical lesson when considering the 111th Congress and its efforts at reforming the failures that caused the financial sector’s near collapse in 2008. There are two pieces of legislation that are analyzed in this study. The first is the Wall Street Reform and Consumer Protection Act, which passed in December of 2009, and the second is the Restoring American Financial Stability Act of 2010, which was recently passed by the Senate on May 20, 2010. Though it is outside the frame of this study, the process of reconciling the Senate version of the bill with its House counterpart should be noted as another step on the legislative pathway where financial sector money could be used to exert influence.

The financial regulatory framework is about to see the greatest re-shuffling since the New Deal. As such, the legislative initiatives of the 111th session of Congress make its members a prime target of financial sector influence. Figure 13 shows a quarterly breakdown in lobbying spending by
the financial sector. During the quarters when the crisis was at its peak, lobbying spending was at its lowest. There is a significant increase, however, and lobbying efforts by the financial sector are at their highest in the fourth quarter of 2009 and first quarter of 2010. The Wall Street Reform and Consumer Protection Act was passed in December 2009 while debate on the Restoring American Financial Stability Act of 2010 took place in the first quarter of 2010 and was finally voted on and passed in the second quarter. It is no coincidence that financial sector lobbying efforts skyrocketed during the same time periods that Congress was considering major regulatory legislation. The significant increase in spending by the financial sector during Congress’ reform efforts shows the readiness with which Wall Street interests are able to mobilize its lobbyists.

Figure 13: Quarterly lobbying expenditures by the financial sector

Financial Sector Lobbying Spending per Quarter
(in millions)

Source: Calculations based on data from Center for Responsive Politics

The data displayed in Figures 14-17 reinforce the conclusions drawn from the in-depth analysis of the 106th session of Congress. In the House, the Wall Street Reform and Consumer Protection Act was referred to eight different committees: Financial Services, Agriculture, Energy and Commerce, Judiciary, Rules, Budget, Government Reform, and Ways and Means. Figures 14 and 15 show that the Financial Services Committee and
Ways and Means Committee are by far the most courted by campaign contributions from the financial sector; the other committees to which the legislation was referred to still received more campaign contributions in most cases than those committees that had not received the bill. Put simply, financial sector money was concentrated around points of financial sector interest.

**Figure 14: Amount contributed by the financial sector to members of the House, grouped by committee**

**Total Campaign Contributions by Financial Sector (111th House)**

*Source: Calculations based on data from Center for Responsive Politics*
The Restoring American Financial Stability Act was referred solely to the Senate Banking, Housing, and Urban Development Committee. Though Figures 16 and 17 show that this committee has received the most funding from the financial sector, the disparity in funding levels does not seem to be as distinguishable. A quick look at the data reveals the cause to be a single senator: Chuck Schumer of New York. For the 111th session of Congress, Senator Schumer has received over $3.1 million in campaign contributions from those representing the financial sector. He sits on the Banking, Housing, and Urban Development Committee, Finance Committee, Judiciary Committee, and the Rules and Administration Committee. A look at Figure 16 shows that these very committees are the ones with the highest amount of total funding from the financial sector. Because of the abnormally high amounts he received from the financial sector, the disparity in funding levels does not seem to be as distinguishable.
sector, Senator Schumer severely skews the data. The impacts of this statistical extreme are ameliorated by the use of the median, however. Because the median is able to take into account extreme outliers in the dataset, the median calculations shown in Figure 17 are a more reliable gauge of financial sector influence on committees. Even the median calculations show that the Banking Committee receives the most in campaign contributions.

**Figure 16: Amount contributed by the financial sector to members of the Senate, grouped by committee**

**Total Campaign Contributions by Financial Sector (111th Senate)**

![Bar chart showing total campaign contributions by financial sector to members of the Senate, grouped by committee.](chart)

*Source: Calculations based on data from Center for Responsive Politics*
While the roll call and campaign contribution data for the Financial Services Modernization Act made a strong case for higher spending leading to more favorable legislative outcomes, this rule does not seem to apply to the bills considered by the 111th Congress. The roll call data for these bills shows that voting is almost completely along party lines; a comparison of campaign contributions in those voting for or against the bill and by party shows that there is negligible difference in the amount of funds received from the financial sector, but this does not mean that the financial sector’s efforts to favorably manipulate the new regulatory regime have diminished. Though it would be tempting to say that these results go against a perceived higher spending-favorable outcome pattern, it is important to keep in mind that no such definite link exists. In addition, today’s constituent demand for changing the regulatory framework is almost certainly different from
what it was during the 106th Congress. Whereas the bills passed by the 106th Congress were entirely led by deregulatory initiatives and efforts, the bills of the 111th Congress are being considered out of reaction to a crisis that negatively affected the entire country. Keeping this in mind, it almost certainly would not be in a politician’s best interest to be seen as more susceptible to money from the financial sector than his or her colleagues.

This does not mean, however, that financial interests are not utilizing different means of influencing the legislative process. The Commodity Futures Modernization Act, as claimed by Greenberger, exhibited an instance of direct participation in the drafting of legislation by lobbyists representing Wall Street. What better way for the financial sector to ensure a favorable legislative outcome than by having a direct hand in the bill’s formulation itself? To reiterate a point made by Wright, interest group action during the stages of bill formulation and markups is not only possible, but commonplace. In Johnson’s 13 Bankers, Greenberger further claims that the Wall Street Reform and Consumer Protection Act “had to be written by someone inside the banks, because buried every few pages is a tricky and devilish ‘exception’” and that he would be greatly surprised “if these poison pills originated from anyone on Capitol Hill or the Treasury.”

The pressure for reform, post-crisis, is extremely high, and any blatant attempt to derail the reform process would be strategically perilous for the financial sector in the public’s eyes, especially in the wake of a financial crisis that has wiped out trillions of dollars in wealth and absorbed billions in tax payer money. Lobbyists for the financial sector chose instead to achieve their influence by a stealthier method: by having a hand in the drafting of the legislation itself, or by working with members of Congress to submit amendments. The Restoring American Financial Stability Act had 434 amendments proposed to it by last count. By comparison, the Wall Street Reform and Consumer Protection Act had 24 amendments proposed and the Financial Services Modernization Act had 26 amendments proposed. The financial sector interests’ consistent levels of funding and dynamic forms of involvement in the legislative process lend weight to the argument that financial sector contributions seek not the purchasing of votes, but a hand in the creation of favorable legislative outcomes.

Indeed, while the passage of the recent reforms could be seen as a major regulatory achievement and blow to the financial sector, there is more that needs to be taken into consideration. Major reform following the

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27 Johnson, 13 Bankers, 192.
financial crisis was arguably inevitable; in such circumstances, it is reasonable to infer that financial sector interests would have to work in less obvious ways to yield a favorable legislative outcome. While the 2,300 page bill resulting from Conference Committee action on the aforementioned bills considered by the 111th Congress affects almost every part of the financial sector, the details on many important provisions were left up to regulatory agencies, and this certainly works to the advantage of financial sector interests as it gives them another opportunity to have a hand in shaping their regulatory regime. In all, the details on at least 243 financial rules were left up to regulators, and it is certain that these agencies will “face a lobbying blitz from companies intent on softening the blow.”

VI. VALIDITY AND GENERAL APPLICABILITY OF FINDINGS

The evidence and analysis specifically addresses how financial sector contributions affect favorable legislative outcomes for the financial sector – the control variable. As previously mentioned, however, it is necessary to test the associational claims of this study against other possible triggers that could have contributed to the same outcome. One such variable is party control. Both chambers of the 106th Congress had a Republican chamber, while both chambers of the 111th Congress were under control of the Democrats. While a case could be made that the two deregulatory pieces of legislation in this study could be attributed to Republicans being in power and the two regulatory pieces of legislation attributed to the Democrats, this argument neglects the fact that Democrats played a major role in the passage of one of the deregulatory bills. Delving to the individual level, some critics could argue for the constituencies of Congress members as a potential variable. However, as previously stated, most of the bills discussed here passed by a vote along party lines; the Commodity Futures Modernization Act passed as a part of an omnibus appropriations package and therefore cannot be considered. Another variable that must be considered is public opinion: could public opinion have led to the legislative outcomes mentioned above? Public opinion can certainly be seen as a possible driving force behind some of the actions taken to implement reform, but this is clearly a far cry from a public that has been negatively affected by the financial crisis wanting to create favorable legislative outcomes for the banks. Even in the cases of the legislation considered by the 106th Congress, the deregulatory bills were of an “issue

about which most people outside Washington and New York have little knowledge” at the time. In the context of this study, then, it can be concluded that party dynamics, constituent demand, and public opinion cannot be considered as significant contributors to creating legislative outcomes that are favorable for the financial sector. Rather, it can reasonably be concluded that contributions from the financial sector do create the opportunities for access and influence necessary to generate favorable legislative outcomes for the financial sector.

Despite these conclusions, this study is limited by its relative simplicity and narrowed scope of analysis. This study focuses specifically on how traditional and human capital from the financial sector has been utilized to create a mutual relationship between Washington and Wall Street. Within these parameters, the study has some shortcomings. The analysis of the financial sector’s impact on the overall GDP would require far more macroeconomic study. This study merely sought to gauge the effects of regulatory/deregulatory legislation on the general growth trends of the financial sector and determine if there was any visible correlation between the two elements. Furthermore, the lack of detailed data that shows lobbying expenditures towards each member of Congress (like the campaign contribution data) was a great shortcoming. Though campaign contribution data is useful for gauging the general level of influence that a sector has over a particular candidate, lobbying spending is much more focused on influencing specific legislative outcomes. In this respect, the detailed lobbying data would have been invaluable in the overall analysis.

Overall, however, the study did provide a significant empirical basis to analyze the notion of a financial oligarchy through the lens of interest group influence as articulated by Wright. The completion of this study comes on the eve of the greatest re-shuffling of financial regulation since the New Deal. In this respect, the study is also limited by the pace of events in the here and now and lacks the luxury of hindsight to provide a more thorough analysis. What remains clear, however, is that the new pieces of legislation proposed in Congress and the members themselves are fighting against a wall of well-established money and influence.

VII. CONCLUSION

The core findings of this study are two-fold: first, the deregulatory policies of Washington have helped to propel the financial sector’s economic growth and have consequently created a mutual economic interest between the United States and its financial sector. Washington has a vested interest in encouraging the growth of the financial sector while the financial sector only stands to gain from its profits. Second, the financial sector uses campaign contributions, lobbying spending, and lobbyists in politically coordinated and sophisticated ways to exert their influence on regulatory and deregulatory acts. The campaign contributions and lobbying efforts by those representing the financial sector’s interests are extensive and outpaces all other represented sectors in Washington. An in-depth analysis of roll call votes, committee referrals, and drafting of legislation shows that capital from the financial sector is intentional, focused, and politically lethal. These two elements combined make a considerable case regarding the potency of the financial oligarchy.

The power of the financial sector, both politically and economically, is far-reaching. The United States began the new millennium on what seemed like an unending ascent to prosperity, but then ended the decade in no better shape than how it began. The aftershock of the financial sector’s meltdown was not isolated to Wall Street, but spread to the economy at large, causing what Posner unapologetically calls a depression. Indeed, Carmen Reinhart and Kenneth Rogoff call financial crises “protracted affairs” that induce three ailments to the society at large: a collapse in asset markets, declines in output and employment, and an explosion in national debt due not to the associated costs of bailing out the financial system, but to the collapse in tax revenues caused by the drop in output and employment.30 From peak-to-trough, the U.S. housing market has already seen a 35 percentage point decline in home prices.31 The stock market saw a 54 percent loss in value from its high in October of 2007 to its low in March 2009.32 The financial crisis caused U.S. GDP to decline for the first time since the Great Depression, sent unemployment rates soaring near ten percent where it persistently lingers, and continues to force the national debt upwards. It is clear that what is at stake in the

31 David Guarino and David Blitzer, *Home Prices Continue to Send Mixed Messages as 2009 Comes to a Close* (New York: Standard & Poor’s), 2.
inappropriate association between Wall Street and Washington is nothing short of America’s economic security. There is general consensus on the proximate causes and solutions of the financial crisis of 2008, but what can ultimately be seen from the conclusions drawn here is that so long as Washington continues to be dependent on the economic gains of the financial sector and the financial interests are equally able to spend their way into influencing the political process, the financial oligarchy will remain strong and comprehensive reform will remain elusive. Thus, the first step in solving the problems that are at the root of the crisis of 2008 is not a comprehensive reform of the regulatory framework, but an ideological embrace of the precept that the relationship between Washington and Wall Street cannot come at the expense of America’s economic security.
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Psychology, Risk, and the Decision to Launch the Persian Gulf War

Ty Otto

ABSTRACT
Prospect theory is an influential psychological theory that describes how individuals make decisions involving risk. One of its key findings is that decision-makers are risk averse when in a “domain of gain” (when they have experienced success), and risk acceptant when in a “domain of loss” (when they have experienced setbacks). In this paper, I use prospect theory to examine George H. W. Bush’s political and military choices as they led to American involvement in the 1991 Persian Gulf War. Specifically, I explore whether there is a correlation between Bush’s domain and his willingness to accept risk. Although I find that Bush’s willingness to go to war is consistent with the predictions of prospect theory, the task of establishing Bush’s domain makes it difficult to exclude competing explanations such as rational-choice theory.

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I. INTRODUCTION

One of the most dramatic foreign policy successes of George H. W. Bush’s administration was the dominant American victory over Iraq in the 1991 Gulf War. The fact that U.S. forces suffered few casualties in their decisive campaign belies the significant risk that the operation entailed. Saddam commanded one of the largest militaries in the world and had a demonstrated willingness to use weapons of mass destruction; though many publicly argued otherwise, swift American victory was not a foregone conclusion. What dynamics underlay Bush’s level of risk acceptance immediately prior to the conflict, and was this risk acceptance justified by the predicted benefits of military intervention?

In this paper, I answer this puzzle by using prospect theory to examine Bush’s decision-making in the Gulf War. After giving a brief historical and theoretical background, I determine whether Bush was in a domain of gain or a domain of loss during the lead up to the war. Then, I test whether Bush’s domain affected his tolerance for risk and compare his decisions with the normative predictions of rational choice theory. I find that although Bush’s willingness to go to war is consistent with the predictions of prospect theory, the difficulty in establishing Bush’s domain makes it hard to exclude competing explanations such as rational-choice theory.

II. HISTORICAL BACKGROUND

Iraq emerged from the Iran-Iraq war in 1988 with the world’s fourth largest military. Motivated by historical territorial claims and disputes over financial issues and oil drilling, Saddam Hussein invaded Kuwait on 2 August 1990. The United States perceived Saddam’s aggression as a threat to American geopolitical and economic interests in Saudi Arabia and in response sent a force to defend the kingdom as part of Operation Desert Shield. Iraq initially pledged to withdraw from Kuwait, but after it reneged on its promise and annexed that territory instead, world leaders began considering military intervention to expel the Iraqi forces. In November 1990, the United Nations issued an ultimatum demanding that Iraq withdraw by January 1991 or face a military response.²

On 16 January 1991, a U.S.-led coalition launched a massive aerial bombing campaign against Iraqi forces, followed a month later by a ground invasion. Within 100 hours, coalition forces had liberated Kuwait and destroyed much of the Iraqi army. Bush declared a cease-fire, halting the coalition advance towards Baghdad and allowing Saddam to remain the ruler of Iraq.³

III. THEORETICAL BACKGROUND

Prospect theory is a positive theory of choice that describes how actors make decisions under risk. Its foundations lie in the experimental finding that humans deviate from rational-choice prescriptions in predictable ways because of ingrained cognitive biases. Developed in 1979 by Kahneman and Tversky, it provides a model of how human actors assess and compare the values of different decisions, or “prospects.”⁴

Three findings are particularly important for analyzing decisions in international relations. First, decision-makers evaluate prospects in terms of gains and losses relative to a reference point—often the status quo or a previous or desired position. Second, prospect theory predicts that decision-makers are risk averse when in a domain of gain and risk acceptant in in a domain of loss. Finally, people are particularly averse to losses: the pain of a particular loss is greater than the pleasure of an equivalent gain.⁵

Prospect theory describes a two-part decision-making process. The first step is framing, where the actor makes a preliminary assessment of the options available to them and establishes the reference frame that they will use to evaluate the options in terms of gains or losses. According to Kahneman and Tversky, framing depends on “the manner in which the choice problem is presented as well as the norms, habits and expectations of the decision-maker.”⁶ According to prospect theory, the framing of a choice can have demonstrable effects on which prospect is chosen—people are much more likely to choose an option when it is framed as a gain instead of a loss. The second step is evaluation, or the selection of the

⁶ ibid.
prospect. Domain, risk tolerance, and other cognitive biases all affect which prospect is ultimately chosen.

IV. Methodology

I test whether prospect theory can help explain Bush’s decision to use military force in Kuwait. Although prospect theory has many predicted effects, I focus here on how domain affects risk acceptance. In this analysis, the independent variable is Bush’s domain (gains or losses), and the dependent variable is his propensity for risk. However, both of these variables are difficult to operationalize and measure accurately in the context of international relations.

Like McDermott, I define “domain” as how Bush felt about the environment he faced. To measure this, I rely on indicators such as public opinion polls, media portrayals, domestic policy success, and Bush’s choice of analogies. To ascertain his risk tolerance, I examine the different options that Bush faced and determine their relative riskiness by finding the variance in outcome of each choice.

Showing that domain is correlated to risk tolerance is necessary but not sufficient to determine if prospect theory provides the best explanation for decision-making. It is possible that prospect theory could yield the same preference as rational-choice theory. In this case, rational-choice theory is difficult to fully reject because it is more parsimonious. To demonstrate that prospect theory was operative, it is also necessary to show that decisions deviated from rational expectations. As an important part of the evaluation of prospect theory, we will assess whether Bush’s decisions followed subjectively expected utility considerations.

V. Evaluation

A. Political effects on domain

7 ibid.
In the period prior to Desert Storm, George H. W. Bush was operating in a domain of losses. On international, domestic, and personal levels, things were going badly for Bush.

The most important factor in influencing Bush's domain was the clearly the invasion of Kuwait in August 1990. This jeopardized the U.S. oil supply, threatened strategic allies, and raised the specter of future aggression. When Saddam ordered his tanks to race into Kuwait City, he shocked the Bush administration, which had expected a peaceful resolution to the tensions between Iraq and Kuwait. This action violated a long-standing tenet of U.S. foreign policy, the Carter Doctrine, which asserted that the U.S. would not tolerate interference with its interests in the Persian Gulf. With Kuwait under Iraqi control, Saddam controlled 20 percent of the world’s proven oil reserves and was mere hours away from the crucial Dhahran oil complex in Saudi Arabia. Bush’s advisors were concerned that Saddam would use his vast oil reserves and aggressive military posture to blackmail other Gulf states and manipulate the price of oil.

The invasion also posed threats to U.S. allies. In 1990, Saddam spoke of “raining fire on Israel” and tried to leverage his position in Kuwait to aid his allies in the Palestinian Liberation Organization. His tanks were menacingly situated along the Saudi Arabian border within striking distance of Riyadh. The relationship with the Saudi royal family was central to U.S. strategy in the Gulf; the kingdom was a crucial anti-communist ally in America’s Cold War geopolitical efforts and a pliable economic partner. The Saudi military was outmatched, and the country was vulnerable to attack. Adding to Bush’s geopolitical losses, Iraq went back on its promise to withdraw from Kuwait, going as far as annexing Kuwait as a new province of Iraq. With Iraqi military exercises underway in the Kuwaiti desert, the threat continued to grow even after the invasion. Because of the complications of moving U.S. troops to the Persian Gulf, the threat to Saudi Arabia was still present for weeks after Operation Desert Shield began.

The invasion of Kuwait was the second war of aggression that Saddam had instigated in a short span of years. The threat of Iraqi...

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12 Friedman. 1990.
aggression was complicated by Saddam’s development of weapons of mass destruction. With an existing stockpile of chemical and biological weapons, Saddam hoped to augment his arsenal with nuclear capabilities. His aggressive behavior raised the threat that he might use these weapons to coerce (or destroy) other Gulf states.\textsuperscript{14}

One of the predictions of prospect theory is that actors will quickly renormalize their reference point after experiencing gains, but slowly and reluctantly adjust their reference point after sustaining losses (because of loss aversion).\textsuperscript{15} On the international front, Bush had sustained massive losses, but never had time to adjust his reference point to the new status quo. Indeed, personal anecdotes suggest Bush remained visibly and emotionally disturbed by the fate of Kuwait up until the American invasion.\textsuperscript{16} This response to international events points towards a domain of losses.

These losses in the international arena were compounded by frustrations on the domestic front. In late 1990, the U.S. economy entered a recession, and U.S. approval of Bush’s economic policy tumbled to 30%. Consumer confidence fell to a new low. His overall approval ratings, though still hovering near the 50% mark, had endured significant losses.\textsuperscript{17} At the same time, Bush was suffering from a costly battle with Congress. The legislative failure of Bush’s national budget had caused a shutdown of government services, and to resolve this, Bush famously reneged on his “no new taxes” promise, threatening his credibility\textsuperscript{18} and taking public approval of Bush’s fiscal policy down to twenty percent.\textsuperscript{19}

In an interview, Secretary of Defense Dick Cheney speculated that the budgetary battles “cast a pall over the entire administration and raised key questions about its competence.”\textsuperscript{20} Personal issues also affected Bush’s domain. Throughout his presidency, Bush was dogged by media accusations

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\bibitem{15} McDermott. 1998.
\bibitem{17} Woodward. 1991.
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that he was a “wimp.” Earlier in his administration, Congressmen accused him of “making Jimmy Carter look like a man of resolve,” and during his presidential election, conservative commentator George F. Will characterized him as the “lap dog” of his charismatic predecessor, Ronald Reagan. This unflattering story of Bush’s “wimp factor” was echoed in Newsweek, 60 Minutes, and other media outlets. Bush was understandably frustrated with the persistence of these personal accusations (which directly related to his risk tolerance), and they contributed to his domain of loss.

B. Framing effects and domain

Bush’s framing of the Gulf crisis also significantly affected his domain. Bush’s use of analogies to frame his options propelled him deeper into a domain of loss. According to Yuen Foong Khong, historical analogies can guide decision-makers by “defining a new situation in terms of a previous situation” and “giving the policymaker a sense of the political stakes involved.” These diagnostic functions of analogies were crucial to Bush’s framing of the Gulf crisis. There is much evidence that Bush compared the events in the Gulf with Nazi expansionism after the Munich summit.

The World War II analogy was particularly vivid to Bush, who joined the Navy right out of Andover to serve in the war as a fighter pilot. Shot down during a combat mission, the war remained salient to him throughout his life. Says Marlin Fitzwater, “the war experience was alive in him and was a major factor in his mind that he talked about a lot. It made things vivid, thus altering how he saw the crisis and his approach.” Bush’s analogical reasoning was more than instrumental; there are reports of him reading World War II histories aboard Air Force One and commenting to his aides that he would “not let this happen again.” On the same trip he drew comparisons to the German invasion of Czechoslovakia while on a helicopter ride with Gen. Norman Schwarzkopf. These anecdotes

illustrate Bush’s beliefs shared in private with close aids, not rhetoric employed to rally public support.

Bush’s use of the Munich analogy led him to several comparisons. The most prominent was his equation of Saddam Hussein with Hitler, made numerous times in public speeches. This comparison established—and likely exaggerated—the stakes of the conflict. Saddam was portrayed as an evil aggressor whose insatiable appetite for expansion would undermine regional security. Bush claimed that the Iraqi invasion was, “a throwback to another era, a dark relic from a dark time . . . [that] threatens to turn the dream of a new international order into a grim nightmare of anarchy in which the law of the jungle supplants the law of nations.” This appraisal of the status quo no doubt heightened Bush’s perceptions of loss: he no longer merely faced a regional bully seeking to manipulate OPEC, but a ruthless and aggressive dictator bent on undermining the international system.

A second framing effect, the establishment of a reference point, further pulled Bush further into a domain of loss. With the disintegration of communism in Eastern Europe and Mikhail Gorbachev’s policy of “new thinking” towards the West, it was clear to Bush that the international system was dramatically changing. As a vision for the post-Cold War era, Bush conceptualized a “new world order,” based on great power cooperation, collective security, the rejection of aggressive force, and American hegemony. Bush’s frequent use of this concept makes it possible that he had adjusted to a reference point not based on the status quo ante bellum but instead on an international condition that he aspired to. This shifted reference point would only exaggerate his losses.

Bush did experience some important successes. His overall approval rating showed moderate satisfaction, and the American public was pleased with his handling of foreign policy. He passed landmark legislation such as the Americans with Disabilities Act and the Clean Air Act. However, primary indicators—including international events, economic performance,
and domestic public approval—place Bush in a domain of loss. The way that Bush framed the Gulf crisis, by emphasizing how a Hitler-like dictator had upset a new world order, only intensified his experience of this domain.

C. Risk Tolerance

In late 1990, before the U.N. sent Saddam an ultimatum threatening war, Bush had a number of options for responding to the Iraqi invasion. An October 17, 1990 memo from the Plans and Policy office of the Joint Chiefs of Staff (J-5) identified three distinct strategies for the president: (1) accept the status quo while maintaining a defensive force in the region (2) settle in for long term sanctions or (3) prepare for offensive action.\(^{33}\) To determine whether Bush’s domain had an effect on his risk acceptance, we must examine the risks and payoffs of each option individually.

The option with the least variance required Bush to accept the invasion as a fait accompli, adjust to the new reality, and leave American forces in Saudi Arabia as a deterrent threat against future Iraqi aggression. This option had no significant payoff to the United States, but would likely have led to increased, yet tolerable oil prices.\(^{34}\) With Desert Shield in effect, it was unlikely that Saddam would attack his neighbors in the near future, but it was equally unlikely that he would withdraw from Kuwait unilaterally. Since the variance in outcomes is low, this choice represents a low risk, low payoff option.

The second option—the “strangulation option”—was low risk with moderate payoff. This strategy centered on a U.N.-mandated blockade of Iraq, coupled with continued diplomatic pressure and a deterrent military force in the region. The J-5 assessment predicted that the sanctions would take several months to a year to be effective. Military leaders, such as Colin Powell (Chairman of the Joint Chiefs of Staff) and William Crowe (former Chairman) were confident it would work if given enough time.\(^{35}\) Although Saddam was willing to deprive his people to supply his army, he could not last forever. This option had a high payoff (ejecting Saddam from Kuwait) but is less preferable because of the uncertain timeframe. The possible outcomes are similar to the “do nothing” approach, except that there is a good possibility of achieving success.

Bush’s most aggressive option was offensive action. This had the highest payoffs—it could immediately expel Iraq from Kuwait, destroy

\(^{33}\) Woodward. 1991.

\(^{34}\) Friedman. 1990.

\(^{35}\) Yetiv. 2004.
Saddam’s army, and demonstrate American commitment to global leadership—but entailed significant risk. The fact that coalition forces decisively routed Saddam’s army and quickly achieved their goals disguises the fact that this option appeared very risky. According to DIA estimates, Iraq had a 1-million-man army that was the fourth largest in the world. With 5,000 tanks and an Air Force capable of flying 1,000 sorties a day, it also was formidable by regional standards. In the Iran-Iraq war Saddam proved the lethality of his forces (killing 65,000 Iranians in a single battle) and showed his willingness to use weapons of mass destruction against enemy soldiers. Pentagon casualty estimates for a land invasion initially ranged from 20,000 to 30,000 KIA. Lower estimates still foresaw several thousand deaths. The outcomes of this option had the greatest variance, ranging from a short and bloodless triumph to a protracted and costly quagmire.

VI. CORRELATION AND ALTERNATIVE EXPLANATIONS

The historical account of Bush’s decision-making process supports the predictions of prospect theory: Bush was in a domain of loss, and he showed risk acceptance by going to war. But how can we know that the cognitive effects predicted by prospect theory were actually operating in this decision? Could the more parsimonious rational-choice theory arrive at the same conclusion?

By many measures, the sanctions strategy was the most rational choice. It would have likely removed Saddam from Kuwait, while exposing the U.S. to little risk. However, the costs of maintaining a force in the Middle East and the need to absorb increased oil prices were likely great drawbacks in this wartime calculation. The option Bush chose had a high monetary cost and an appreciable possibility of incurring large casualties. However, his choice had a somewhat higher payoff than sanctions, because it provided an opportunity to degrade Saddam’s military capabilities. While it is difficult to ascertain what utility George Bush assigned to human life—

36 Ibid.
38 Woodward. 1991
even the most modest casualty estimates predicted a few thousand deaths—I conclude that the predicted costs of war outweighed its predicted benefits over sanctions. This deviation from rational-choice suggests that the psychological forces described by prospect theory were at work.

This rational-choice comparison is fraught with difficulties. Certain evidence could alter the rational-choice prescription. For instance, if Bush was truly so invested in the Munich analogy that he believed more Iraqi aggression was inevitable, then waiting for sanctions to have their effect (while Iraq was busy developing nuclear weapons), would be a profoundly risky option. Furthermore, administration officials debated the effectiveness of sanctions. Although key advisors like Chairman Powell, Defense Undersecretary Paul Wolfowitz, and Secretary of State James Baker saw the promise in sanctions, there was not complete consensus throughout the administration (Cheney was ambivalent and National Security Advisor Brent Scowcroft rejected sanctions). If Bush believed that sanctions were destined to fail, then it would make war a comparatively more attractive option. While not supported by the body of evidence that I encountered, this type of disconfirming evidence is plausible. By showing that Bush actually behaved rationally, such evidence would undermine a prospect theory explanation.

VII. CONCLUSION

In balance, prospect theory provides a useful explanation for Bush’s risk acceptant decision to launch the Gulf War. After suffering from a series of setbacks including the Iraqi takeover of Kuwait, domestic economic and political problems, and negative media portrayals, Bush was in a domain of loss. His reliance on the Munich analogy and his vision of a new world order only heightened this sense of loss. Prospect theory shows that Bush’s domain would explain his risky choice for war, which seems to contradict the prescriptions of rational-choice. However, comparing the prospect theory explanation to rational-choice proves problematic because of the difficulty in determining an individual’s domain. More thorough historical research is needed to confidently exclude the rational-choice explanation.

41 Ibid.
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ISRAELI POLITICS IN THE AFTERMATH OF THE “FAILED EXPERIMENT”

Mark Salomon

ABSTRACT

In 1992, Israel enacted a law that separated the election of the Prime Minister from that of its parliament, the Knesset. The intention was to combat the growing power of smaller parties in Israel’s coalition-style governments by strengthening the position of Prime Minister. These parties represent marginal portions of the population but have been disproportionately represented in government. The system was abandoned in 2001 when it became apparent that the law was causing small parties to garner even more power. This paper analyzes the effects of the direct-election period on Israeli party politics and finds that small parties, through increases in coalition and blackmail potential, are able to exercise a relatively higher degree of power. In short, the lasting effect of the electoral law has been a shift from small parties receiving portfolio concessions, which aid parties in influencing the crafting of policy, to receiving policy concessions, the ultimate goal of political actors. This will be proven through qualitative and quantitative analyses of

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portfolio allocations to smaller parties. This paper will conclude with a forecast on the trajectory of the Israeli party system.

*Beware the tyranny of the minority*—Latin Proverb

I. INTRODUCTION

Throughout the history of modern democracy, one of the greatest challenges has been achieving a balance between the voice of the many and the voice of the few. There has never in the history of the world been a system where one voice represented everyone, as people naturally differ in their views, given their different experiences and the context out of which their views develop. Political factions exist as one way of representing such diversity of opinion; electoral systems can bring as much diversity of opinion into the fold of governance as possible. However, there is ultimately a tradeoff between diversity of opinion and the domination of the many by the few.

The Israeli electoral process is firmly tethered to its party system. Since the inception of the State of Israel in 1948, the electoral system has seen single-party hegemony, two-party competition, and finally the emergence of multiple-party competition. The sole legislative body of Israel is the 120-seat Knesset. Israel’s population elects the Members of Knesset (MKs) through a single-district, closed-list, proportional representation system. Currently, parties must attain at least 2% of the vote in order to win seats in Knesset. The MKs elect a President to a seven-year term, and the President is charged with appointing a Prime Minister—the party leader most able to form a government (generally the leader of the winning party).

Another key aspect of Israel’s party system is that no party has ever won a majority of seats in the Knesset. As a result, the winning party has always been tasked with forming a coalition government. This usually involves entering into agreements with the smaller parties of the Knesset, and typically concessions must be made if the winning party wants a chance to govern. From 1948 until 1977, Israel was dominated by the left-of-center Labor Movement (operating under different names over time); it won a plurality of votes in every election, and thus led the government for the first thirty years of Israel’s existence. In the 1977 legislative elections, the right-of-center Likud party won a plurality and successfully formed a government, ending the period of Labor hegemony. From 1977 to 1996,
the electoral process was controlled by both Likud and Labor; the two parties wrestled for power, often resulting in extremely close electoral outcomes. As a consequence, smaller parties began to gain power as coalition partners. Their ability to “make or break” a coalition made them necessary to the success of any government.

In 1992, the Knesset passed a new electoral law; the law created a separate ballot for Prime Minister, allowing constituents to vote for a party in the Knesset elections and a candidate for Prime Minister. This system was implemented from 1996 to 2003, at which point the direct election of the Prime Minister was abandoned, and Israel returned to its original electoral system. 1996 marks a fundamental and observable shift in the nature of Israeli government. The question thus becomes how the fragmentation of the Israeli party system since 1996 has affected coalition formation and governance in Israel.

This question is important in that there has been a major shift in the way the Israeli government operates. Once, a few large parties controlled the electoral system; now, Israel is increasingly dominated by multiple small parties that have much more power relative to their sizes. One cannot understand the nature of Israeli policy unless one understands the shift in the features of Israel’s electoral system after 1996, because coalition formation and (as a result) governance were altered in 1996, and the effects of this alteration have persisted for the last fourteen years.

This study finds that the fragmentation of the Israeli party system since 1996 has led to a rise in the power of small parties, specifically within the governing coalition. This has led to an equal decline in the power of larger parties, and the subsequent growth in the size of governing coalitions. Finally, the fragmentation of the system has led to a change in both the number and nature of cabinet appointments for smaller parties, and has ultimately shifted the benefits accruing to small parties from portfolio payoffs to policy payoffs (for the purposes of this examination, “portfolio payoffs” are cabinet positions awarded to groups or individuals and “policy payoffs” are governmental policies that benefit certain groups or individuals). This analysis will begin with a survey of available literature; it will then proceed to the main argument, after which the manner of how the analysis was conducted will be explained. The data will then be presented, followed by an analysis of the data. Finally, conclusions on the nature of the data will be drawn and implications for future research will be made.
II. **LITERATURE REVIEW**

An important work to consider in investigating the topic in question is an article by David Nachmias and Itai Sened, entitled “The Bias of Pluralism: The Redistributional Effects of the New Electoral Law in Israel’s 1996 Election.” This paper, written while the law mandating the direct election of Prime Minister was still in effect, predicts multiple shifts in the Israeli electoral system by analyzing data from the 1996 elections (elections were held for both Prime Minister and Knesset in 1996). Nachmias and Sened find that “the institutional reform of the electoral law significantly decreased the electoral strength of the big parties and inevitably augmented the bargaining power of the religious and other small parties.”

This conclusion serves as a starting point for the research presented here; the investigation of Nachmias and Sened looks at the effects of the changed electoral law for one election, while the analysis presented here examines the persistence of these effects after the return to the original electoral system.

The article notes that disappointment with how the government was being run led to the creation of a grassroots movement to change the electoral law. Essentially, this movement “attributed the stalemate in Israeli politics… to coalition politics: small parties…gained disproportionate influence in the coalition formation process, thus weakening the discretionary authority of the prime minister over the formation of national public policies….The institutional change was supposed to remedy this situation.”

Nachmias and Sened assess that the law is a failure regarding its intended effects, and take a three-pronged approach for their reasoning. The first argument they employ is that the law increases the opportunities for small parties to pressure larger parties for concessions “preceding the first round of the election, again before the second round of the election, and still again during the bargaining process for the formation of the coalition government (Beilin 1996).” It is logical to assume that the more chances a small party has to extract benefits from large parties, the more numerous and substantive the benefits will be. The two rounds of elections mentioned are a reference to the direct election for Prime Minister, which requires a candidate to achieve a majority rather than a plurality; thus, the

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3 Ibid.

law called for a run-off between the top two candidates in the event that no candidate received a majority on the first ballot.

The second argument insinuates that the system will cause voters to engage in vote splitting. Whereas before voters had to cast their ballots strategically for the largest party of the bloc they supported (in the hope that a smaller party that may be ideologically similar to a specific voter’s preference might join the coalition), the new law eliminated the logic of this strategy. Nachmias and Sened write, “under the new law, voters can cast a ballot for the head of the party that leads the parliamentary bloc they prefer, and then vote sincerely for the party of their choice.”5 This inevitably will lead, they say, to a decline in the power of the larger parties relative to smaller parties in a given coalition.

Finally, Nachmias and Sened point to another provision of the electoral law as a means for arguing that the law defeats its own purpose. The law changed rules regarding votes of confidence and no-confidence in two ways: first, the threshold for passage of such a vote was raised from simple majority to absolute majority (whereas a simple majority only calls for a majority of members present and voting, an absolute majority requires a majority of all members, both present and absent as well as voting and non-voting); second, and more importantly, a vote of no confidence by an absolute majority would no longer dissolve just the government, but the entire Knesset (a two-thirds majority would be required to dissolve only the government). Evidently, “this change constitutes a strong disincentive to legislators to support a vote of no confidence.”6 This in turn harmed the ability of a coalition to effectively govern and simultaneously weakened the power of the opposition.

Another work of scholarship dealing with the reforms of the electoral law is Tamar Hermann’s article, “The Rise of Instrumental Voting: The Campaign for Political Reform.” Written after the passage of the electoral reform law and before the first election operating under the new law, Hermann’s article makes an argument that runs counter to the arguments made in the Nachmias and Sened paper, as well as in this article. Hermann argues that “the formerly dominant ‘ideological voting,’ which is quite stable by its nature and less contingent on performance, has given way to ‘instrumental voting,’ which is highly dependent on the politicians’

5 Ibid, 277.
6 Ibid, 276.
achievements and hence basically alterable.” Hermann goes on to reason that “[the passage of the electoral reform law] was prompted and accelerated by vigorous pro-reform activity that fostered the notions of politicians’ accountability and of attentive citizenship.” While this is a credible analysis, it overlooks certain elements that have led to the reverse of the effect Hermann suggests.

Hermann believed that the reform would increase accountability of “politicians.” Under the electoral reform, this was true for the Prime Minister - direct election removed the multiple barriers between the electorate and the head of government, thus giving voters the power to punish the Prime Minister for actions not “mandated” by the electorate. However, the reform in no way increases accountability of the “politicians” in the Knesset. Under the reform, MKs were still elected through a closed-list system, and because Knesset elections no longer carried the weight that accompanies elections for heads of state, it can be argued that they became subject to less accountability. It seems that the push toward strategic voting fizzled out in the wake of the shift in electoral systems. Israeli voters gained even more incentives to vote with their hearts (i.e. more ideologically in-tune with their own beliefs) instead of their heads (i.e. strategic voting) both during the direct election period and—as this paper will show—after the return to the original system.

III. ARGUMENT

This paper argues that, since the failed experiment between 1996 and 2003 to directly elect the Prime Minister, voters have more thoroughly committed to small, particularistic parties (i.e. parties with relatively small bases of electoral support—the non-Labor/Likud types) rather than return to larger constituencies, because of the higher potential to reap coalition benefits (in terms of payoffs) in a smaller constituency. Thus, small parties have continued to assert a relatively high degree of what Alan Ware refers to as “coalition potential” and “blackmail potential” in his text, Political Parties and Party Systems. Ware defines coalition potential as a situation in which “the party must be needed, at least on some occasions, for a feasible coalition that can control government,” while blackmail potential refers to

8 Ibid.
situations in which “the party’s existence affects the tactics of party competition of those parties that do have ‘coalition potential.’” Subsequently these small partiers have reaped disproportionate benefits, even after the return to the original electoral system.

In order to understand the current circumstances of Israel’s electoral system, it would be useful at this point to explore the history that led to the “failed experiment.” As was noted earlier, Israeli electoral history during the first thirty years of the state’s existence was fairly static. The left-leaning Labor movement had existed in Israel long before it became a state in 1948, and was responsible for the creation of many governmental institutions during the British Mandate period (1918-1948). From the first elections in 1949 until the legislative elections in 1977, the Labor Party (going by such names as Mapai and Alignment) dominated the electoral scene. It won pluralities in the first eight Knesset elections and faced no substantive challenge from any other party. Nachmias and Sened contend that dominance by Labor occurred because of its relatively central position on the two most important ideological scales -- the religious-secular scale and the hawk-dove scale. They explain that “when the largest party occupies such a central position in the relevant policy space, and when this central position is coupled with a significant size advantage, the central, dominant party, has a considerable bargaining advantage in the coalition formation process.”

While the dominance of Labor was substantial, it was not impossible to overcome.

The 1977 legislative elections saw the rise of the Democratic Movement for Change (DMC), a party that lasted only one election cycle and is responsible for significantly altering the political scene in Israel. The DMC also occupied a central position on the same policy space, and as a result they picked up fifteen Knesset seats that would have probably gone to Labor otherwise. This allowed the right-of-center Likud Party to win a plurality of seats and subsequently to form the first right-of-center government in Israeli history. DMC’s one-time victory also engendered a system in which Likud and Labor ran extremely close and competitive elections. This augmented the power of small parties for the first time - with the proliferation of such close elections, the power to make or break a coalition fell to the small parties.

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10 Nachmias and Sened, 273.
After fifteen years of this, the Knesset passed the new electoral law in 1992, which went into effect in the next election cycle in 1996. The intent was to give greater power, as well as higher stability, transparency and accountability to governing coalitions. Uriel Reichman, a Tel Aviv University law professor and champion of the reform law, believed that “[the law] makes the Prime Minister the one with the upper hand in negotiations. It should reduce the strangling that now takes place by the religious parties and the others.” Reformers believed that if people directly elected the Prime Minister, the position would gain a greater legitimacy in the eyes of the people, thus creating a more powerful mandate to form a government. The hope was that the law would reduce fragmentation of the party system as well as the power of small parties to reap disproportionate benefits. Finally, reformers desired to maintain the pluralism of the old Israeli system while eliminating problems in governance resulting from the executive’s reliance on the support of small parties. The new system ultimately achieved the opposite of the intent of the reformers, and was abandoned in 2003. However, its effects have persisted despite the return to old electoral system.

This article looks at the substantial gains in power achieved by small parties since 1996 and, in particular, tries to explain why the power of small parties has persisted in spite of Israel’s return to the original system. There were three independent variables explored in this research: first, strength of the largest party in a coalition, measured by a proportion of seats within that coalition; second, the size of small parties’ representation in government with respect to the portion of the popular vote they garnered in Knesset elections; and finally, the raw number of parties in the Knesset. The dependent variable is the power of small parties in the Israeli electoral system, measured in terms of both payoffs accruing to smaller parties in the form of portfolios and payoffs accruing to smaller parties in the form of policy outcomes. Additionally, this paper will explore the role of the size of the governing coalition, measured by the number of seats in the coalition, in order to determine whether increased power of small parties has led to increased amount of small parties in government.

The goal of this paper is to show that, as the independent variables increase in terms of strength and party number, the dependent variable will increase as well. I will also argue that the independent variables and the

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dependent variable have a cyclical, reinforcing relationship - the constituents of smaller parties are induced to positively influence the size of smaller parties in the Knesset as the benefits that the smaller parties receive trickle down to them, and the higher the possibility of constituents receiving benefits from small parties, the higher the probability that constituents will choose to vote for small parties over larger ones.

Furthermore, this paper will look at the change in the nature of concessions accruing to small parties. I will argue that the competitive system that existed from 1977 to 1995 allowed small parties to extract concessions in the form of portfolios; since 1996, however, the smaller parties have become even more powerful, thus shifting benefits from portfolio concessions to policy concessions. Portfolio concessions are means to an end, while policy concessions are the actual end. By augmenting their power, small parties now have a greater ability to get what they want, rather than being placated with a ministerial position and no promise to influence policy.

IV. RESEARCH DESIGN AND METHOD

The research examines electoral data for every Knesset election (there have been eighteen Knesset elections between 1948 and 2009), as well as data on the makeup of every Israeli government (there have been thirty-two governments between 1948 and 2009). The first independent variable studied was the strength of the largest party with the coalition. I studied the makeup of each coalition and charted the proportion of seats held by the largest party in each coalition. Additionally, I charted the relative strengths of each of the other parties in the coalition in the same manner. I calculated averages of the strength of the largest party within a coalition for two time periods: 1948-1995 and 1996-2009. My goal is to determine whether or not a positive or negative correlation exists between the balance of power within a given coalition and the level of sway smaller parties have on the dominant coalition party. Additionally, I will make a comparison between the strength of smaller parties within the coalition governments and the strength of smaller parties in the elections (again, by strength this paper refers to concessions of both portfolio and policy). I will draw this comparison by evaluating the strength of all small parties in a coalition together, both in government and in elections.
The second independent variable I studied was the raw number of parties. This number was calculated by compiling data on the number of parties receiving seats in all eighteen Knesset elections. Because the Israeli party system is relatively unstable, the parties that are elected and seated at the beginning of a governmental cycle may not be the parties in the Knesset at the end of a governmental cycle. To control for this, only the raw number of parties in the Knesset at the beginning of a governmental cycle were examined. Again, the goal in examining the raw number of parties is to attempt to establish some sort of correlation between the raw number of parties and the power of the smaller parties.

The dependent variable in this research was the strength of small parties. This was measured through various benefits accumulating to these small parties. These benefits were measured in two ways: concessions of portfolios and concessions of policy. I studied portfolio concessions by examining the number of ministry portfolios in a given government. I then considered how many portfolios each small party received, as well as the nature or importance of that portfolio. This study will rely on data accumulated by Nachmias and Sened in their 1999 article. Their article contains budget-weighted portfolio data through the 1996 election. While this does not help in gaining a better sense of budget allocation by portfolio since the return to the original electoral system, it does help in establishing the nature of the trend.

The second way this article attempts to measure the strength of smaller parties is through policy concessions made by the larger party in the coalition. The problem inherent in such a study is that policy concessions are not easily quantifiable. One could look at the number of times the largest party stayed the course with its policy versus the number of times it defected, but this is nearly impossible to calculate given the all-encompassing nature of governmental policy as well as the number of opportunities for a government to generate a policy output. Thus, one must rely on qualitative evidence rather than quantitative evidence. In other words, this study will look at specific instances where the largest party in the government defected from its policy platform, both before and after 1996, and will try to determine whether this was due to the influence of a small party, based on the specific platforms of the small parties in question.

A final dependent variable in this research was size of the governing coalition. This was calculated by tracking the number of MKs in a given coalition. Averages were then calculated for two time periods: 1948-1995 and 1996-2009. The goal here was to establish a positive,
negative, or lack of, correlation between the size of a governing coalition and the strength of smaller parties.

V. Data

The first piece of data I scrutinized was information about the size of the largest party in a coalition, relative to the rest of that coalition. Overall, the period of 1948-1977 is fairly static, as would be expected. Seventeen governments convened during this time period, and on average, the coalition was made up of around 6.53 parties. The average strength of the largest party in the coalition, measured as a percentage of seats, was 62.40%. For the most part, the size of the largest party fluctuated between 55 and 65 seats. If we take the number of 6.53 and assume that 5.53 of those parties were small parties (as was the case for the first seventeen governments), then we can determine the average amount of power a small party held by dividing the share of seats accorded to small parties between 1948 and 1977 (since the large party controlled 62.40% of coalition seats on average, small parties controlled the other 37.60%). The number comes out to 6.80%, meaning that each smaller party in the coalition controlled 6.80% of party seats on average. One point of note is that the fourteenth and fifteenth governments that lasted from March of 1969 to December of 1969 and from December of 1969 to December of 1973, respectively, were both national “unity” governments since the opposition parties chose to join the government in the wake of the Six Days War (the thirteenth government became a unity government in the middle of its cycle). This is an issue that will come up multiple times as the research moves forward chronologically. Controlling for the preceding fact in this specific instance, the average number of parties in coalition during this time period was 6.47, with the largest party controlling 63.02% of the coalition, on average. Small parties thus accounted for 36.98% of the coalitions, with each party averaging 6.76% control of the coalition.

Electoral data between 1977 and 1996 yield interesting results on the front of coalition control. Nine governments (eighteenth government through the twenty-sixth government) were in power during this nineteen-year period. The average number of parties in the governmental coalition was 6.00. During this period, the largest party controlled 62.56% of the coalition; however, this is relatively deceptive because the twenty-first, twenty-second, and twenty-third governments were all unity governments—this time in a system where the opposition party was almost
as large as the most dominant party. Therefore, it would be useful to recalculate the averages for this period, ignoring the three unity governments that were each made up 80.83% of all Knesset seats. If one looks at the period of 1977-1996, but only governments eighteen through twenty and twenty-four through twenty-six, one finds that the average number of parties in coalition was 5.34, and that the average strength of the largest party in the coalition was 72.37%. We can thus determine that small parties accounted for an average of 27.63% of the seats, or 6.37% each.

Finally, the research looked at the period between 1996 and 2009. There have been six governments during this thirteen-year period (as well as six elections). The twenty-ninth government is not included in this analysis because it was a unity government comprising every MK (this occurred in the wake of the Al Aqsa Intifada). Therefore, the average number of parties included in each of the five coalition governments during this time period is 5.60 and the average strength of the largest party in the coalition 42.95%. The smaller parties have controlled an average of 57.05% of the seats in the coalition, giving each party around 12.40% control of the coalition.

The second benchmark used in this analysis was a comparison of small parties’ electoral strength with their coalition strength. In the first period (1948-1977), small parties in coalitions were responsible for an average of 22.94% of the Israeli vote. As stated earlier, they controlled an average of 37.60% of a given governing coalition. This means their
representation in the coalition was amplified, on average, by a factor of 1.64. During the second period (1977-1996, and not including the unity government periods), small parties averaged a popular vote percentage of 20.48%, while controlling an average of 27.63% of the seats in governing coalitions. Small parties’ representation in government was thus amplified by a factor of 1.35 for this period. If one combines the two periods (1948-1996), the amplification factor is 1.50. Finally, small parties in government garnered an average of 32.66% of the vote between 1996 and 2009 (not including the twenty-ninth government), while they represented an average of 57.05% of the seats in a coalition; small parties’ representation in government during this period has thus been amplified by a factor of 1.75.

**Graph 1.2: Small Parties Size as a % of Coalition vs. % of Vote allocated by Small Parties**

Finally, the raw number of parties in the Knesset was calculated. For the period of the first eight Knessets (1948-1977), the average number of raw parties was 12.25; during the second period (1977-1996), the average was 12.60 parties; and during the latest period (1996-2009), the average number of parties in the Knesset has been 12.60.

With regard to the dependent variable, the first set of data concerned the number of portfolio procurements by smaller parties in government. For the period 1948-1977, small parties received an average of 6.18 portfolios; for the period from 1977-1996, small parties received an average of 6.34 portfolios; finally, small parties in government have received an average of 11.00 portfolios during the 1996-2009 period. The budget data through the 1996 election (as presented by Nachmias and Sened) is reprinted below.
Table 1.1: Reproduced Table from Nachmias and Sened: Budget-Weighted Portfolio Allocations by Period

Measure: % of the Budget-Weighted Portfolios divided by Number of Seats Held (Standard Errors in Parentheses)

<table>
<thead>
<tr>
<th>Periods</th>
<th>Big Parties(^a)</th>
<th>Small Parties</th>
<th>Non-Religious Parties</th>
<th>Religious Parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-1976; 1992-1995 (n=19)</td>
<td>0.962 (.118)</td>
<td>0.551 (.174)</td>
<td>0.822 (.069)</td>
<td>0.703 (.324)</td>
</tr>
<tr>
<td>1977-1992 (n=14)</td>
<td>0.657 (0.280)</td>
<td>1.494 (0.813)</td>
<td>0.568 (0.182)</td>
<td>2.895 (1.540)</td>
</tr>
<tr>
<td>1950-1995 (n=33)</td>
<td>0.833 (0.252)</td>
<td>0.951 (0.714)</td>
<td>0.714 (0.180)</td>
<td>1.633 (1.49)</td>
</tr>
<tr>
<td>1996</td>
<td>0.647 2.298</td>
<td>0.779 2.841</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1.2: Coalition Size and Change in Strength of Largest Coalition Member

Another dependent variable statistic explored was coalition size. For the period from 1948-1977 (not including the fourteenth and fifteenth governments), the average coalition size was 72.47 MKs. From 1977-1996 (again, not including unity governments), the coalition size was around 63.17 MKs. Averaged together, the size of the governing coalition was 67.82 MKs for the period from 1948-1996. From 1996-2009 (excluding the unity government), the average size of the governing coalitions has been 71.8 MKs.
Since there are no quantitative data available regarding policy concessions (as noted in the “Research Design and Method” section), this dependent variable will be reviewed anecdotally in the “Analysis” section.

VI. ANALYSIS

The picture painted by the data is very clear - the 1996 electoral law had the opposite effect from its intent, which was to reduce the occurrence of party fragmentation. Additionally, the data shows that these effects have persisted even after the return to the original law.

The most important data set looks at the growth in the size of smaller parties in government in two ways: relative to the size of the coalitions of which they are a part, and relative to the percentage of the popular vote they received. As was to be expected, the size of the largest party in governing coalitions for the first thirty years was above 60%. Interestingly, that number rises to over 70% during the beginning of the so-called “competitive” phase of the electoral history. The important statistic, however, covers the period from 1996 until the most recent elections: 42.95%. This is a drop of over 20% compared with the first forty-eight years of Israel’s existence. Essentially, this means that small parties, as a group, have increased their presence in the government by 20% in the last fourteen years; this presence has inevitably led to an increase in governmental sway. This data set is telling because it speaks not only to how much power small parties have, but how much power they have relative to the formerly dominant hegemons of the party system.

One piece of data that did not turn out as expected was the number of parties in the coalition. Whereas one might have expected this to rise in 1977 and again in 1996 given the increased necessity for small parties, the number falls both times. However, close examination of electoral data indicates that while the number of parties may have fallen, the size of small parties has risen—not for all, but for a substantial amount. This indicates that the small parties may not be so “small” any more. Further, one can sense the coming of yet another seismic shift in the Israeli electoral system: if these small parties are growing in popularity, and thus in power, Israel might be moving toward a system with even more competition than it currently has.
Similarly, a common problem in government is overrepresentation of small factions; whereas small parties saw their representation relative to their popularity amplified by a factor of 1.50 between 1948 and 1996, the amplification factor rose by 0.25 to 1.75 since the passage of the law. Considering that small parties were already overrepresented in government before the passage of this law, these numbers speak for themselves.

The other major independent variable studied was the raw number of parties in the Knesset. This statistic did not particularly help prove the argument of this article, as the average does not rise from the 1977-1996 data to the 1996-2009 data. The intent in studying this data was to determine whether the electoral law had led to an increase in popularity for small parties that were previously marginalized to the point where they were able to crack the threshold and gain seats in the Knesset; however, this was not the case. This may have to do with the increase in the popular vote for the existing smaller parties, as described above. Again, one might hypothesize that the lack of increase in the amount of parties in the Knesset indicates that Israel is moving away from a system with many small parties, and instead toward a system with multiple medium-sized parties.

The first dependent variable explored was portfolio allocation. I will examine portfolios allocation by amount, and include analysis of portfolio allocation by nature (i.e. the type of portfolio) below in my discussion on policy allocation. A slight increase after 1977 in the number of portfolios assigned to small-party leaders is followed by an almost doubling in this number during the 1996-2009 period. This demonstrates that the increase in size that small parties experience within the realm of the coalition has definitely translated to more power. Furthermore, small parties’ increase in power has essentially led to an expansion in the realm of government - more posts have been created to accommodate more representation of smaller parties. This means that policy areas have been “split;” whereas the first government had thirteen ministers of government, the current government has forty ministers. The specialization of each policy area gives the minister of that portfolio far more power than before. The implications of this swing will be explored momentarily. Additionally, as can be seen from the data provided by Nachmias and Sened, portfolio allocation weighted as a percentage of Israel’s budget has increased dramatically for small parties since the implementation of the electoral reform law.
The next metric used to gauge whether the fragmentation of the party system had affected coalition formation was by measuring coalition size. The results were not exactly as was to be expected - calculating averages of coalition size in the three different time periods yields mixed results. However, comparing the two time periods instead (1948-1996 and 1996-2009) does indicate a rise in coalition size. The intent of exploring this statistic was to see if the growth in the power of small parties might have forced large parties to take on more parties (or, possibly, “larger” small parties) in their coalitions in order to ensure that the government is still functional in the wake of a defection by a party.

The true power of small parties in Israel now lies in the nature of the portfolios they hold and the policy outcomes they can affect as a result. Take, for example, Israel’s Ministry of Housing and Construction. Currently, Israel’s Housing Minister is Ariel Atias, a member of the small, right-of-center, religious party Shas. According to an Israeli civic education website, Shas “[was] prepared [in the past] to relinquish land in return for peace, but [they are] uncomfortable with this policy given increased terror.” As holders of Israel’s Housing Portfolio, Shas has a fairly sizeable say in whether or not Israel will continue a freeze on building settlements in the West Bank and East Jerusalem, territories currently being negotiated over for the purposes of a Palestinian state. Evidently, negotiations for a two-state solution are contingent on a freeze of settlement building. While

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Likud is “[o]pposed to [the] dismantling of settlements,”\textsuperscript{13} Prime Minister and Likud Party head Benjamin Netanyahu has publicly called on Shas to support (or at least not oppose) an extension of such a freeze. “Shas holds the balance of votes Netanyahu needs to approve the U.S. deal,” and has stated an intention to abstain from voting on the condition that “the final agreement specifically excludes East Jerusalem from the freeze.”\textsuperscript{14} Shas constituents are ultra-orthodox Sephardic Jews, and, as another Haaretz article headline reads, “government bodies have been promoting a preliminary plan over the past few weeks to build a neighborhood of 11,000 units for the ultra-Orthodox near the East Jerusalem airport.”\textsuperscript{15}

Evidently, Shas had its constituents in mind—rather than progress on a two state solution, which is supposed to be the policy of the government—when it pushed this policy outcome. Whereas beforehand the Israeli government could circumvent such an attempt at pushing alternative policy, Shas currently makes up eleven out of seventy-four seats in the coalition. They hold the fate of the Likud government in their hands, as their defection would likely cause the defection of other ultra-orthodox parties that right-wing Likud relies on to maintain power. The situation is further complicated because Shas holds the Housing Portfolio, which only adds more weight to Shas’ position. In past years, a party like Shas would have never come to hold such an important post; indeed, this is only the third time in the history of the Ministry of Housing and Construction that an ultra-orthodox party has held the portfolio. The other two instances occurred in 1999 and 2003, both after the passage of the electoral reform law.

The ultimate aim of a small party is to make its voice heard. The ultimate achievement of this goal is through affecting policy outcomes that benefit the constituents of the party. It seems that Israel’s small parties have moved from the periphery to the center of the political sphere. Their presence has been felt on many levels; most of all, and most importantly for the future of the State of Israel, parties representing small populations are shaping policy that affects Israel in big ways.

\textsuperscript{13} Ibid.
\textsuperscript{14} Rapoport, Meron. "Gov’t promoting plan for new ultra-Orthodox East Jerusalem neighborhood” \emph{Haaretz}, (2007-02-28),
\textsuperscript{15} Ibid.
VII. **CONCLUSION**

It has been demonstrated in this paper that Israel’s small parties have made large gains in the arena of governance since 1996, particularly noteworthy for the continuance of such a phenomenon after Israel’s “failed experiment” with direct election of the Prime Minister was abandoned. The data shows that, because small parties are much more represented in coalition governments today, they have the power to control important ministerial posts as well as affect policy outcomes. Small parties have made gains relative to large parties within coalitions, and have become more represented relative to the percent of the popular vote they receive. These are all indicators of increased strength for small parties, and they are confirmed by the quantitative and anecdotal data provided on portfolio allocation and policy concession.

One interesting future research topic is the salience of the “multiple medium parties” hypothesis suggested earlier. Pandora’s proverbial box has been opened, and the consensus is that Israeli constituents are happier voting with their true feelings rather than in a strategic fashion. If the electoral system continues to follow current trends, there seems to be no intention of returning to the pre-1996 pattern of voting. What does this mean for the future of the Israeli party system? Will smaller parties disappear, giving rise to a new breed of “medium-sized” parties? Are the days of two parties wrestling for power behind us now, with the chance of a new party seizing power in the next election? Research into Israeli public opinion on the popularity of these various “small” parties would be telling, but only time will give the answers.

In the end, the Israeli political system has endured multiple changes of an extremely dynamic nature since 1977. While the system has been designed to prevent a tyranny of the majority, Israel may be moving toward a tyranny of the minority, as it is increasingly held hostage by its various small, fringe parties. Striking the balance between popular opinion and the protection of minority rights is one of the greatest challenges facing free democracy today; the question is, how will Israel respond?


**BIBLIOGRAPHY**


In addition, all information and data on Israeli electoral history, Knesset elections, and coalition and cabinet makeup were retrieved from the official Knesset website: http://www.knesset.gov.il/main/eng/home.asp