In regulating securitization, the prescription depends on the diagnosis, and such diagnosis requires on an assessment of the GFC. Unfortunately, identifying the exact mechanisms that led to both the pre-GFC bubble and the GFC itself is far from easy. In the first instance, with only one sample point, it is impossible to control for the myriad factors accused of causing or exacerbating the crisis. Economic theory is of little help in most financial issues, as orthodox economics has little place for finance other than in the efficient form, and it is not easy to incorporate micro inefficiencies into a larger model of crisis. There are of course strong ideological biases present in almost all commentators, and many have pre-conceived normative ideals and/or vested interests in the outcome of the debate. As such, rhetoric and discourse generally make up for a lack of provable facts. Free market advocates interpret the crisis to be caused primarily by government and/or regulatory failure, and therefore market participants such as the GSEs had little choice but to follow perverse incentives. Others such as Joe Stiglitz agree that regulatory failure was important, but that this was caused by both a lack of will on the part of policy makers to make policy that might prevent the free market from functioning and on under-resourced and unmotivated regulators not enforcing the rules that did exist.

Marco Pagano suggests that the answer to the question as to ‘why policy makers should choose policies that work such perverse incentives on the financial markets’ carries ‘implications for the political economy of financial regulation’. Did the bank lobby, creative compliance and the power of free market ideas that together weakened regulatory oversight cause the GFC? Or was government failure, primarily as a result of affordable housing goals, the cause?

But to focus only on regulatory failure ignores the role of private incentives and private actions in the GFC. In a paper subtitled ‘searching for lessons, not scapegoats’, Gerard Caprio, Aslı Demirgüç-Kunt and Edward Kane focus on ‘incentive conflicts’, arguing that it is ‘superficial to blame the crisis’ on any of the most popular ‘scapegoats’. On the other hand, Joe Stiglitz argues that apportioning blame is required: ‘It is not just a matter of vindictiveness; it is
important to know who or what caused the crisis if one is to figure out how to prevent another.\textsuperscript{3}

Unfortunately, separating politics from economics is never easy, and almost impossible in the case of the GFC, as we shall see. Though fewer commentators these days explain away financial market and regulatory failings by calling the GFC one big accident,\textsuperscript{4} many now blame only one or two parts of the global financial system for the crisis. This is especially true of the traditionally Republican /conservative side of the argument, which has focused on state sponsorship of affordable housing and lending which encouraged unsustainable predatory lending. In my opinion, subprime as the cause of the crisis is actually a very small part of the story.

A detailed description of the GFC is beyond the scope of this work. However, in Section 3.2 I provide a basic timeline with some key events that are related to this discussion about securitization rules. As a preliminary step, we first need to disentangle the rhetoric of the GFC in the literature.

### 3.1 The discourse of the GFC

The best explanation for the controversy that exists in the recent literature analyzing the causes of the GFC suggests that ‘policymakers and pundits often latch onto simplistic theories’ and that these explanations are nothing but ‘self-interested jockeying by groups...anxious either to shift blame away from themselves or to see that national safety nets remain and important source of subsidies to large and complex institutions’.\textsuperscript{5}

#### 3.1.1 The view from the right

Unsurprisingly, the Republican view of the crisis eschews the market failure concepts and promotes a problem of state-driven incentives to create and leverage toxic loans justified by a policy focus on affordable housing. As Robert Litan reports,

> Republicans [argue] that market-based governance of finance did not fail, but was hugely distorted by government, in at least two major respects. Policy makers in both parties took home ownership too far, in this view, especially by requiring Fannie Mae and Freddie Mac to purchase ever larger amounts of mortgages extended to increasingly unqualified borrowers. In addition,...the Federal Reserve...fueled the demand for housing and created a bubble that eventually popped. The low interest policy also encouraged investors to search for yield, which they found in a new form of mortgage-backed securities (CDOs) backed by subprime loans that were given safe ratings (unwisely) by the ratings agencies. On the Republican view, the fixes for the future lie in withdrawing or significantly cutting back housing mandates and subsidies, coupled with monetary policies that avoid the creation of future bubbles.\textsuperscript{6}