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DU panel discusses financial crisis

'Fictitious' home ownership a factor, made worse by subprime debacle, professor said

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As experts and politicians in Washington were joining forces to solve the nation's latest economic crisis, a group of concerned citizens converged on Denison University's Herrick Auditorium on Saturday to discuss the implications of and possible solutions to the financial meltdown.

"When I lose my wallet with $100 in it and someone finds it, they now have $100," posed panel member Sohrab Behdad, an economics professor at Denison. "When we lose $700 billion, who found it?"

The quandary -- to illustrate the point that all money must go somewhere -- brought a chorus of laughs and inspired several audience-generated insights.

The last-minute forum was arranged by a group of professors during the university's Big Red Weekend, and many visiting parents and alumni took a break from strolling across campus to hear what members of the six-man panel had to say.

Aside from Behdad, the panel included Brad Bateman, Denison provost; Quentin Duroy, assistant professor of economics; Fadhel Kaboub, assistant professor of economics; Ross LaRoe, associate professor and chairman of the economics department; and Jim Pletcher, associate professor and chairman of the political science department.

Each member gave a brief introduction and addressed the financial meltdown as it related to his area of expertise -- topics ranging from government regulation to the housing crisis.

At the root of many of the ensuing discussions were the questions of where the current problem came from, how, if at all, it could have been prevented and how it can be solved -- none of which was solved during the forum, but all of which evoked a fair amount of discussion from the panel members and audience.

One principle that generally was agreed upon by panel members was that the problem did not happen overnight and is not new.

"You're actually living in a moment that happens every 50 or 60 years," Bateman told the audience, noting that in that time period, ideas about how the economy should work tend to shift.

"You're living in a moment when those ideas are changing again."

Kaboub said the nation's current problems can be traced back to the 1970s and the spread of what he called a "fictitious increase" in home ownership, evidenced most recently in the period between 2002 and 2006 leading up to today's housing crisis.

Between 1980 and 2004, he said, worker productivity increased by about 70 percent, but the average hourly wage barely increased. As a result, the rate of home ownership might have risen, but this was only a "fictitious increase," he said.

Now, because of the growing foreclosure rate, the nation's home ownership rate is backsliding.

"We're going back in terms of home ownership -- back to the levels of the 1990s," he said.

The problem was only compounded by the subprime mortgage crisis, resulting in federal takeover of Freddie Mac and Fannie Mae, Kaboub said.

"The subprime issue just accelerated everything. It just made everything worse," he said.

Several panel members also pointed out a plan for government regulation needs to be decided upon and cannot be one extreme or another.

"Markets have always needed regulation," LaRoe said. "It isn't a question of whether to regulate financial markets or not. It's a question of how to regulate financial markets."

Behdad also illustrated the problem:

"You can't just have traffic on the roadway with no stop signs. You will have a whole lot of accidents," he said.

But the source of the problem with -- and solution for -- America's ailing economy does not lie solely with a single institution, Bateman pointed out, noting consumers' confidence in the market goes a long way in influencing its trends.

"Without confidence, the system will keep collapsing and freeze up," Bateman said.