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Duke panel shares views of financial woes

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DURHAM -- A panel of Duke University professors agreed Wednesday that bad bets in subprime mortgages, over-leveraged banks and a serious lack of regulation led the country to its current economic crisis.

During "The Financial Crisis: What happened and what's next?" forum at the Bryan Center, the professors of business, political science and law backgrounds discussed from their own expertise what they believed to be the cause of the crisis and what the government should do to get the country back on track.

Not that the talk could've cleared up the complicated mess for everyone.

Barbara Rohde, who listened attentively during the more than hour-long discussion, said she took notes and plans to go over them again at home.

"It was very informative," she said. "I think we're all kind of in the same boat. Some of us understand just this much of it and some understand more, but there's probably nobody out there who understands all of it."

Rohde's husband, David Rohde, is a political science professor at Duke who was a member of the panel.

During his talk, he pointed out that all retiring Democrats and more than 80 percent of retiring Republican lawmakers in the House of Representatives voted for the defeated bailout bill on Monday.

Among those facing serious challenges in November, just between 30-40 percent of Democrats and Republicans voted for it.

As one long-time legislator pointed out to him, Rohde said, this was the first time in his memory where the president and leadership of both parties were on the same side on a bill and it still failed.

Still, Cam Harvey, a professor of international business, said he is glad the bailout bill as it was failed.

"I would lose no sleep if the bill fails tonight," he added, hours before the Senate was to vote on the measure. "It's a mess."

Harvey said early in the discussion that the legislation basically agrees to buy troubled assets at a "hold-to-maturity" basis, meaning at the value they are expected to reach instead of the current, fair-market value.

"It's not a surprise to me that the American people are quite upset about this," Harvey said. "Why should we bail out these people... and pay them prices far above the fair-market value? It distorts prices in the market and it doesn't solve the problem."

Instead, Harvey proposed that the government guarantee all deposits for three years and provide a modest equity injection to instill confidence in the banking system and end the possibility of bank runs.

Katherine Schipper, a professor of accounting, said another part of the problem in moving forward is that the sellers of the assets -- those financial institutions in trouble -- know a lot more about them than the single-buyer -- that is, the government.

Schipper proposed that the government immediately take the risk out of the capital markets by making a decision, and fast.

"Right now, half the gyrations [in the market] ... is because people don't know if they're going to get the subsidy or not get the subsidy," she said.