

Welcome to Civil Discourse. This podcast will use government documents to illuminate the workings of the American Government and offer contexts around the effects of government agencies in your everyday life. Now your hosts, Nia Rodgers, Public Affairs Librarian and Dr. John Aughenbaugh, Political Science Professor.

**Nia Rodgers:** Hey Aughie.

**John Aughenbaugh:** Morning, Nia. How are you?

**Nia Rodgers:** I'm good. How are you?

**John Aughenbaugh:** I'm good. Thank you. I'm really looking forward to continuing our discussion of banking commissions.

**Nia Rodgers:** Yes. Where last we left Mr. Pecora standing over the crushed bodies of his enemies. I'm sure that's not how that was, but I like to think of it that way. Before we get into that, we want to thank one of our listeners, Susanne Caro, found for us in HathiTrust the copy of the Shafer report. Yeah, so now people can see it and read it thanks to the University of California which digitized it and so it's out there in the world and we've put that link on the research guide. If you're looking for the Shafer report and you don't want to get it from one of the drug organizations, you can get it from HathiTrust. HathiTrust is, for anybody who doesn't know, it's an academic repository and some of it's free and some of it's pay for. In this particular instance, it's free. Thank you, Susanne at North Dakota State University. She's a fantastic librarian, so yeah.

**John Aughenbaugh:** Yeah. She's been a faithful listener since we commenced this podcast. Again, rather excellent timing in regards to that particular podcast episode, because it's not a national day but this week.

**Nia Rodgers:** Of celebration.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** It came out of the day of 4/20, which is there are a 1,000 legends about how that started. Stoners got out of school at 4/20 and started smoking. All these things. Nobody really knows. They can say they know but nobody knows for sure but we do know that came out on that day.

**John Aughenbaugh:** All I know is my social media feeds were just chalk full of various and sundry memes about 4/20, and for listeners we're actually recording this episode a couple days after that. But nevertheless I was just like, "My goodness, I did not know so many of my friends were so interested in that particular culture. I never saw so many references to Cheech and Chong, let's just put that way.

**Nia Rodgers:** My goodness. Who are these original, well, not original, but they are the probably best known stoners in media, at least from the '70s and '80s. Also Susanne sent us a wonderful piece of embroidery with arbitrary and capricious, which as we know is my personal motto and theme.

**John Aughenbaugh:** Yes. Again, actually we see this request from a couple of my students who are also faithful podcast listeners. Nia, they do want to know when are we going to come out with our merchandise line of arbitrary and capricious because we've joked about it in a number of episodes.

**Nia Rodgers:** We have. Sad to say that I don't think at this point either of our bosses would support us monetizing this podcast. But if we get up to, what is, a million listeners, that's what they always say. Yeah, then we would probably do something like that. I don't see us having that reach, but you never know. We invite you to make your own artwork, like write arbitrary and capricious in fabulous glitter paint on a shirt and wear it around and then when people ask you, they're inviting you to talk to them about administrative law.

**John Aughenbaugh:** Yes, the Administrative Procedures Act and its stern admonition that bureaucrats should not engage in arbitrary and capricious behavior.

**Nia Rodgers:** Neither should librarians, really, but I do so, I'll just be honest.

**John Aughenbaugh:** where we left off.

**Nia Rodgers:** Where we left off with Mr. Pecora, we're now moving into the Eisenhower realm in the 1950s and you're going to say to yourself, but wait, there was not a financial crisis in the 1950s, and we are going to say to you, right, isn't that nice? It's nice that there wasn't one. What I love about this commission report is that, one, it was written by approximately 474,000 people. There were a lot of people who were involved in this report, although the chairman was?

**John Aughenbaugh:** Donald David.

**Nia Rodgers:** Right, Donald David.

**John Aughenbaugh:** Yeah, and he was the chair of the Committee for Economic Development and an iteration of that organizations still exists today. But what is fascinating, by the way, the official name of this was the Commission on Money and Credit. Listeners, you probably picked up on a theme. The commission names about banking are not all that interesting or sexy. We have the Commission on Money and Credit, commence sleep immediately.

**Nia Rodgers:** Exactly. The original one was the National Monetary Commission.

**John Aughenbaugh:** Yeah. But for Nia and I, what's fascinating about this particular commission is that it was not in response to a banking crisis. This was an effort to go ahead and say, we're a couple decades beyond the Great Depression. We're a couple of decades beyond some fundamental changes to the American Federal Government and the way we deal with Wall Street banking, investment banking, etc. How are things going? Which for Nia and I, we wish that actually occurred on a more regular basis.

**Nia Rodgers:** Yes. This is where when a volcanologist put his little things all around the land to just keep an ear out for rumble because if you know it's coming, you might be able to mitigate it, or save lives, or get people out of the way or whatever. Like this thing in Iceland where people are cooking hotdogs on the side of the volcano because they know it's under control, they know what's happening. That seems like a really good idea, especially with our monetary system and yet.

**John Aughenbaugh:** An analogy that I like, Nia, is that, I don't know about you, but before I go on a long automobile road trip, I take my car in to get it tune up. I get the fluids checked. Do I have enough windshield wiper fluid? How's the oil look? How's the air pressure? Belt seem to be in good shape? There could be nothing wrong that I noticed in driving my automobile on a daily basis, but if I know I'm going to embark on something that might put some pressure on my automobile, I just go ahead and get it checked. Just to go ahead and see, hey, is everything working okay? Is this going to operate well? Am I going to have to?

**Nia Rodgers:** On the side of the road. Am I going to have to walk half a mile to the next exit to try to find somebody to come to my car somewhere and fix it.

**John Aughenbaugh:** Am I going to have to call my insurance company where I have roadside assistance and explain how I was not a good car owner.

**Nia Rodgers:** Exactly. It's insurance. It's just checking to make sure how things are going. What's fascinating to me in part is that this was established by President Eisenhower. You have Eisenhower who's just this very calm figure. He was constantly low level worried about all stuff. He's the one who brings up the military industrial complex as a thing to be worried about in the future. He was a futuristically worried. I guess he was just a afraid, afraid, he's a person who just afraid.

**John Aughenbaugh:** This is one of the examples of the value of having somebody with a former military background as president because the military plans for everything.

**Nia Rodgers:** There's an invasion from Mars, we got to plan for that. It's great because you have contingency plans and then you have contingency plans for your contingency plans. That's a good mindset to have.

**John Aughenbaugh:** Nia, you know this because you have your master's degree in Homeland Security. So many of the core concepts in homeland security and emergency preparedness are derived from historical military practices.

**Nia Rodgers:** Well, and preparation now means less panic tomorrow. It means that you'll be able to run your response more smoothly. There's lots of reasons to plan ahead. What I think is great about this particular report is that it has 77 recommendations.

**John Aughenbaugh:** Yeah, it covers everything.

**Nia Rodgers:** It's like, and if the chairman should breathe out of the left nostril then perhaps you should blah, blah, blah. It gets down into the weeds, but it's not anything huge. It's not anything like, and we think that you should get rid of the federal reserve system. It's not anything like that. It's just sees over and over these little recommendations. I think one of the reason it has so many recommendations is because there were 98 papers written to this commission by various academics and government officials and all those other kinds of folks , business officials. All people wrote things. I think they just were like, "What does that report recommend? Let's stick it in here somewhere."

**John Aughenbaugh:** It reminded me a lot.

**John Aughenbaugh:** At least in this way, of the Brownlow Commission. You had really smart people writing papers about what they knew. Again, the Brownlow Commission was quite small. It only had three members, but this particular commission had many more members. But the basic idea was in it's the last step of policymaking. It's evaluation, and we don't do that enough. It takes so much effort to get policy made in the United States that it's almost like we're exhausted after it gets adopted. The bureaucracy tries to implement it and we're like, okay, what's the next big problem we've got to deal with? But this group went ahead and said, okay, we had some significant changes to the American banking system, investments, Wall Street, etc, the stock market. How's it working? In your notes, you pointed out they recommended some tweaks to the Federal Reserve Board membership, they made, and this is big for farmers, a federal insurance system for farms and that's huge. Without going into too many details about my life as a young boy, but a couple of my family members were farmers. One thing they always made sure they paid was their premiums for the federal insurance system because it gave them coverage if we had a bad harvest or an important piece of machinery crapped out and we had to get a new loan for it. The Federal Insurance Program bailed us out. That was important. The fact that it took us until the early 1960s for that to happen, for a country that was built on farming.

**Nia Rodgers:** It's fascinating to me that, about that particular recommendation and some of the other recommendations is that, that is post industrial revolution. That's the recognition that, oh, farmers are becoming fewer and fewer, and so they're more and more important. There's reasons why the Farm Bill is a big thing every year, and when it comes up for renewal and all that stuff.

**John Aughenbaugh:** Yeah, the capital investment now in regards to farming, and it's one of the reasons why you see fewer family farms or fewer individual farms. The capital investment in farming today is so extensive, so significant that, again, you need to be able to plan 3, 5, 7 years out now in regards to farming. You just can't go in and say, oh, we had a bad year. Maybe next year will be better. No, if we have a bad year now in regards to, for instance, the growing of soybeans, it's not just the United States that suffers. It's other nations, they rely upon us growing a particular crop. That's a lot like financial planning. That is financial planning.

**Nia Rodgers:** We're going to get to something that's too big to fail in a minute. One could argue that some of the farms in the United States are too big to fail. They're too big to be allowed to fail because of the impact that they have on the national food supply and on international food supply. Yeah.

**John Aughenbaugh:** Yeah. By the way, that's a really good segue, Nia, for our last commission that we're going to discuss regards to banking. We have a couple of other ones that we're going to touch upon in future episodes, but the last Banking Commission we're going to look at in its actual official name is the Financial Crisis Inquiry Commission, otherwise known as the, Nia?

**Nia Rodgers:** Angelides Commission.

**John Aughenbaugh:** Yes. I like how you say it. You say it with a particular amount of enthusiasm and there's like a lilt to it.

**Nia Rodgers:** I like it's name.

**John Aughenbaugh:** Angelides Commission. Yes.

**Nia Rodgers:** But again, careful not to fall asleep if you're listening to this episode driving because that title, Financial Crisis Inquiry Commission, sounds like all the others, which is this is about banking and baking is boring. I'm going to just tell you word, from 2007-2009, banking was anything but boring.

**John Aughenbaugh:** It had significant policy impacts, not only domestically but abroad. Because we are talking about the global recession. What economists refer to as the Great Recession of 2007-2009. There are some nation-states that still have not recovered from this recession. The United States by and large did, but nevertheless there are some nation-states around the world that are still dealing with the repercussions of the Great Recession.

**Nia Rodgers:** Yeah. Greece, we're really sorry about that.

**John Aughenbaugh:** I'm sorry for laughing, but the way you've said that. Yeah, Greece's economic system and for that matter of government will never be the same.

**Nia Rodgers:** Well, and they've had problems since Prince Philip bailed with his family in the '30s or whatever it was.

**John Aughenbaugh:** Let's talk about the recession. Before we get to the commission, let's talk about the recession.

**Nia Rodgers:** Well, first of all we would like to note that for 40 years, we did have the savings and loan banking issue, but there was no commission. You get this gap where people fretted and they talked about money, but they didn't really do anything, and we didn't have another check-in like we had with the previous one where they dip a toe in the water, to see what's going on.

**John Aughenbaugh:** I'm glad you mentioned that, Nia, because that complacency leads to what happened in the 1990s when the Republican controlled Congress, but also a Democratic president, President Bill Clinton, agreed to deregulate the banking industry. Again, listeners, if you listen to part 1 of our discussion of Banking Commissions. When we talk about the Pecora Investigation that resulted

after the Great Depression, Congress passed two laws. One of which, what was it? Glass-Steagall that put a wall between commercial banks and investment firms. We talked about this in the previous podcast episode. One of the big issues that led to the Great Depression was the intermingling of commercial banks with investment banks. Investment banks by and large are taking huge amounts of money in trying to decide what firms they want to invest in.

**Nia Rodgers:** Its risky, it's venturous. I think it's often called venture capital. I don't know, maybe this Apple thing will really take off. Let's put some money into it. By the way, the movie Forrest Gump. He accidentally invests in Apple at the very beginning and gets enormous amounts of money. But for every Apple, there's 9,000 investments that don't go anywhere and you lose your money.

**John Aughenbaugh:** That's extremely problematic in regards to commercial banks because, again, commercial banks are the backbone of the American banking system.

**Nia Rodgers:** Because savings are everything.

**John Aughenbaugh:** Yeah. Commercial banks are taking people's savings and then using that money to recirculate into the economy to generate the buying of homes, cars, household appliances.

**Nia Rodgers:** Small business pay because they borrow money sometimes to make their payroll and stuff like that.

**John Aughenbaugh:** Or small businesses that want to expand or home repairs. These are the kinds of things that commercial banks extend loans for.

**Nia Rodgers:** Boring things that make the economy go.

**John Aughenbaugh:** That's right.

**John Aughenbaugh:** The federal government deregulated the banking industry. Guys put this in context, we're not beating up on one political party or the other.

**Nia Rodgers:** They all did.

**John Aughenbaugh:** Yes, deregulation was the mantra of a number of consecutive presidents. From Jimmy Carter, who deregulated the airline industry. Many of the complaints you might have of the airline industry pre-pandemic, well, it's due to the deregulation of the industry. The government doesn't regulate it as much. Right?

**Nia Rodgers:** Right.

**John Aughenbaugh:** Ronald Reagan ran for president saying, "We're going to deregulate, we're going to make governments smaller." Bush 41, didn't do all that much in regards to deregulation, but the Clinton administration signed off on deregulating the banking industry. Guys, let's also be very clear here, the

banking industry, the investment industry, Wall Street, they have historically donated huge amounts of money to politicians of both political parties.

**Nia Rodgers:** Right.

**John Aughenbaugh:** There was plenty of blame to go around as we moved into the new millennium because in the new millennium, what industry in particular Nia just overheated? Do you remember?

**Nia Rodgers:** Well, in the '90s it was the .com tech stuff.

**John Aughenbaugh:** But then when we moved into the new millennium it was?

**Nia Rodgers:** But then in the 2000s, it probably would have been what? Stock and -

**John Aughenbaugh:** Housing.

**Nia Rodgers:** Oh, right. Sorry. We get into the whole mortgage. Give a mortgage to a person who's breathing because they'll be happy to own a home, NINJA loans, no income, no job.

**John Aughenbaugh:** Yeah.

**Nia Rodgers:** No income, no job. Dude, but anybody could get a loan.

**John Aughenbaugh:** Anybody could get a loan.

**Nia Rodgers:** Side note here, because you had had big bubbles where people made a lot of money and so there was a lot of money floating in the system. That's why people were feeling that excitement about investments in housing and just all this money flowing in the system.

**John Aughenbaugh:** There are multiple reasons why we ended up with the great recession. I mean, we're just using the housing industry and what went on there as an example.

**Nia Rodgers:** Because it was worse there than everywhere else.

**John Aughenbaugh:** The housing industry it was a boom period. You had banks lending money to people who buy almost all accounts or bad credit risk.

**Nia Rodgers:** Do you think that that's because we have this dream of the American homeownership?

**John Aughenbaugh:** Oh yes, part of the American Dream.

**Nia Rodgers:** As the way that you will build wealth or have something to pass to your children or whatever?

**John Aughenbaugh:** Yeah. There were numerous presidents who strongly encouraged the federal government's housing agencies, Fannie Mae, Freddie Mac, to go ahead and loan monies to first-time home buyers. We want to encourage them to buy homes. Again, for our younger listeners, Congress for decades has tried to incentivize Americans to buy homes. It's part of the American Dream, but it's also part of you that if you buy a home, you'll be more stable.

**Nia Rodgers:** Right.

**John Aughenbaugh:** Because you have this loan that you've agreed to pay off for the next 20, 25, 30 years. You're going to want a solid consistent job, you're not going to engage in risky personal behavior because you can't pay off your mortgage if you're sitting in jail.

**Nia Rodgers:** You invest in your neighborhood, in your schools, in your city because you live there now, you own a piece of that.

**John Aughenbaugh:** That's right.

**Nia Rodgers:** Which encourages your engagement and you feel like it'll still radically going to improve civic engagement and for some people it does. It used to be that it wasn't the easiest thing in the world to get a mortgage. You had to jump through a fair number of hoops which is why you still had a lot of renters up until you get to the 2000s where people are like, "Yeah, I just can't get a loan." Because they weren't making enough, because their employment wasn't stable enough. Whatever reason, they were not seen as a good risk by the banks.

**John Aughenbaugh:** Then the banks began to engage in risky behavior.

**Nia Rodgers:** Right.

**John Aughenbaugh:** Because what they would do is, they would bundle these IFI problematic housing loans, these mortgages, they would bundle them together and then they would sell them to other banks.

**Nia Rodgers:** Right. Those are called subprime.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** Prime are borrowers that you know are going to be able to pay back because they have enough money. Subprime are people below prime, who may or may not be able to pay back. But at that point the bank doesn't care because it sold your mortgage to somebody else.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** It needs money.

**John Aughenbaugh:** The purchaser of the subprime mortgages, were told that many of these mortgages were backed by the federal government.

**Nia Rodgers:** Right.

**John Aughenbaugh:** Even if the borrower defaulted, the government would step in and pay off the owner of the mortgage. It became, as Michael Lewis, a well-known reporter, who wrote a couple books about this, it became a huge Ponzi scheme.

**Nia Rodgers:** Right.

**John Aughenbaugh:** What else was going on? Well, without that legal metaphorical wall between investment banks and commercial banks, you then had the creation of companies that were too big to fail. You had insurance companies that were taking their clients premiums, and then investing them into firms or subprime commercial loans and when those investments didn't pay off, all of a sudden you now had insurance companies who didn't have the capital to pay off on their customers who are like, "Well, grand dad just died and he had a life insurance policy with your company. Where's our money?"

**Nia Rodgers:** Right.

**John Aughenbaugh:** Okay.

**Nia Rodgers:** You start to see crumbling in parts of the monetary system that were never involved in it before.

**John Aughenbaugh:** That's right.

**Nia Rodgers:** That's part of what kept Hank Paulson up at night? Hank Paulson was Secretary of the Treasury at this point.

**John Aughenbaugh:** Yeah, for Bush 43. Yeah.

**Nia Rodgers:** He easily in bed going, "Oh my gosh, how deep does this go?"

**John Aughenbaugh:** Yes.

**Nia Rodgers:** Because all of a sudden, you get these firms who say, "Well, yeah, we have some money in mortgages and we have some money in this and we have some money in that." Now, if there's the collapse of one of these huge firms, it's like a black hole, it'll suck everybody in around it. The rest of the world was yelling, "Fix it." Because the world now is so interglobally related. That a firm that fails here, trashes the economy in Germany or Thailand or wherever.

**John Aughenbaugh:** Yeah, because you had banks, for instance, in the United States, in Germany, that were loaning money to banks in Iceland, in Ireland, and Portugal, Spain. When those countries

accumulated a whole bunch of bad loans, the German and American banks are like, "Where's our money." Those countries banks were like, "Yeah. Sorry, dude."

**Nia Rodgers:** We can give you pennies on the dollar.

**John Aughenbaugh:** We can give you mansions built in Ireland that are so far underwater. They're not worth a dime, but you can go ahead and have them because that's for what we loan them money.

**Nia Rodgers:** By the way, almost all of that was loaned in dollars because the lingua franca in the banking system in the world, currently at least, is the American dollar. That may not always be the case, euro has attempted to change that, so as the yen. Currently, it's still the dollar.

**John Aughenbaugh:** Dollar. Then it led governments.

**Nia Rodgers:** Until we make like the Roman Empire and completely fail, and then at that point, our dollars will be worthless.

**John Aughenbaugh:** Well, on that happy note, Nia, thank you. But it posed difficult decisions for governments around the world. But in the United States in particular, you had two consecutive presidential administrations. First, Bush 43, and then the Obama administration who were basically left with, if we don't do something, if we don't bail out these industries, a whole bunch of American workers are going to lose their jobs.

**Nia Rodgers:** Right. The carry on effective than that is a Great Depression.

**John Aughenbaugh:** That's a Great Depression.

**Nia Rodgers:** Because once people don't have money, they can't pay their rent or mortgage, they can't feed themselves or their families, it's a tumbling effect that puts people into homelessness and all sorts of things.

**John Aughenbaugh:** Yes. When people are unemployed, they don't have as much money to spend which means they're not circulating money to generate economic activity in other industries.

**Nia Rodgers:** Which means those people lose their jobs.

**John Aughenbaugh:** The jobs.

**Nia Rodgers:** It's contagious.

**John Aughenbaugh:** It's contagious. On the other hand, if those presidential administrations bailed out these too big to fail companies, then they get criticized for creating morally hazardous conditions. In economics, a moral hazard is, you don't have to pay for the bad consequences of your actions. One of

the criticisms of both the Bush and Obama administrations is that they never prosecuted any of the CEOs of any of these companies that engaged in all this risky behavior that led to a global recession.

**Nia Rodgers:** Yeah, that's my biggest complaint. I have many complaints of a variety of things, not just this.

**John Aughenbaugh:** No.

**Nia Rodgers:** No. But that's my biggest complaint about this is that no one went to jail. Well, that's not true. A few low-level folks went to jail but no one who should have gone to jail went to jail. None of the really big players, the Jamie Dimons and those guys, none of them. They should have, some of them should have. I could have this wrong so please do correct me, Aughie, if I do have it wrong. But they let Bear Stearns fail.

**John Aughenbaugh:** Yeah, they let a couple of firms fail. They basically did a very quick and dirty cost-benefit analysis. Which firms can we let fail? Which firms, if we give a whole bunch of government money and then they basically loaned it on really good terms.

**Nia Rodgers:** Yeah, you don't have to pay this back for a long time, your interest rate is 0.001 percent or something. In fairness to the federal government, they did get the money back and they got the interest. So the American people are not out the money.

**John Aughenbaugh:** Well, I've read various studies. I mean, the federal government made money on the bailouts because they made it very clear to the firms that took bailout cash, "You got to do X, Y, and Z. You couldn't lay off a whole bunch of your employees. You had to change your behavior, you actually had to follow Federal Reserve Board Regulations in regards to cash in capital management." A lot of the firms were just like, "These conditions are unacceptable," and the Federal government's basic response was, "Well, either you accept the terms or we let you fail. By the way, we have the bigger soapbox. We will go ahead and call you guys out on a daily basis for your role in trashing the American and global economy.

**Nia Rodgers:** Well, and when you fail and you get broken up and eaten by the other companies, you will not get what you're worth. They're going to see it as a fire sale, and they're going to come in and say, "Sure, we'll give you 20 bucks for all of your mortgage holdings or whatever."

**John Aughenbaugh:** Impulsion was pretty clear.

**Nia Rodgers:** You put some hard ball with that.

**John Aughenbaugh:** Yeah. The federal government would be the auctioneer.

**Nia Rodgers:** Right. It's not going to go well for you. That's basically what he said.

**John Aughenbaugh:** Yeah. When your firm has to go ahead and be broken up and sold off to other firms, the Federal government is going to go ahead and hold the auction. They are going to be saying, "Hey, do I have a five? Do I have a 10? Do I have a 15?" We're the ones who are going to do it, and we're going to publicize it every day. Many of these too big to fail firms were just like, "Okay, fine, we'll go ahead and do this." You're correct, many of them repaid the loans before they were due. I mean, General Motors for instance, paid it off, I think like 10 years in advance because they were like, "We want to get out from under the mantle that the Federal government has dropped on our shoulders."

**John Aughenbaugh:** It moves across near a number of industry. It wasn't just insurance and banking, and investment banking. Though, those guys engaged in some of the most horrific, morally hazardous behavior. They were counting on the government, bailing them out, and they didn't think they would ever get into trouble.

**Nia Rodgers:** They were making money hand over fist. They were just rolling in money. Which is another reason that sometimes people make bad decisions is because it feels like it's never going to stop. It's never going to go bad. That's what we saw in the '20s with the Great Depression. People with the whole stock market thought it would only go up. It would only keep getting better, and that's what people were told about their mortgages. Your home is only going to go up in value, but the problem with markets is that they overheat.

**John Aughenbaugh:** Then they cool down.

**Nia Rodgers:** Right. They have to re-align, and when they do this thing that you paid \$500,000 for, it's worth \$300,000. Now you owe that \$200,000 that's just gone value-wise.

**John Aughenbaugh:** Yeah. In what Nia is describing is when you have a home mortgage, as far as the bank is concerned, it's a value of your home and your property does not increase. Well, too darn bad. You still owe the bank what you agreed to pay on the mortgage.

**Nia Rodgers:** Right.

**John Aughenbaugh:** If the bank loans you \$500,000 and eight years later, your home is valued at \$300,000, that stinks to be you.

**Nia Rodgers:** Right. That's market readjustment, sorry.

**John Aughenbaugh:** Yeah. That's martyred readjustments.

**Nia Rodgers:** We're seeing some of that in Manhattan now because the prices there were unbelievably high and now people who bought at really high prices are losing money because they bought two million dollar apartments that are now valued at a million and a half. But I know for me at least I'm like, "Well, I have trouble feeling sorry for you if you still have a property worth one-and-a-half million, but you just lost half a million dollars off the value of your property."

**John Aughenbaugh:** Nia, you and I have talked about this off recording. When my ex-wife and I went to buy our first home, I shared this anecdote with you. We're getting pre-approved for home mortgages, that's the thing either you do. You're thinking about buying a house.

**Nia Rodgers:** You got into bank and say, "How much house can I buy?"

**John Aughenbaugh:** Yeah.

**Nia Rodgers:** "What will you loan me?"

**John Aughenbaugh:** Again at that point in our lives, we were both solid middle-class professionals and we were being told that we were pre-approved for \$425,000. We were like, "Who in their right mind is going to loan us that much money to buy that much house?" But if you don't have very much experience with that, then you're like, "Well, I too can afford a McMansion."

**Nia Rodgers:** Well, you think to yourself, and I think this is probably true of most people who got in trouble with these mortgages. The bank wouldn't loan me money if they didn't think I could pay it.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** Somehow this is going to work out. Part of that is not being knowledgeable about the market and the mortgages, and how banking works, and that's me I'm not knowledgeable about those things. If the bank told me I could afford \$420,000, I wouldn't do that because what am I going to do with a McMansion? But I could see myself doing that if they told me I could because why would they set me up for failure?

**John Aughenbaugh:** Yes. When there should be a part in your brain that goes ahead and says, "Well, what if the value of my house and property does not increase?"

**Nia Rodgers:** Right.

**John Aughenbaugh:** "What if one or both of us loses or jobs, can we still pay the mortgage?" Those are the kinds of what ifs when you're dreaming you don't consider.

**Nia Rodgers:** Exactly. You think big instead of thinking, "Okay, what can we afford on one of our salaries?"

**John Aughenbaugh:** Yes.

**Nia Rodgers:** Because then we know we'll be comfortable if we still both have jobs and if we don't, we know we can eek by. We get this crisis, which basically the entire world tilted on its axis financially. Then because they're Congress, congress said, "We want to look into what happened."

**John Aughenbaugh:** Yes. We ought to have a fire alarm investigation of what went down.

**Nia Rodgers:** But, but because we have recent Congress they said, "But it should be as partisan as possible. We should pick sides." We should have Nancy Pelosi and Harry Reid, who were the leaders of the House and Senate, each made three appointments. Then House Minority Leader John Boehner and Senate Minority Leader Mitch McConnell both made two appointments.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** You have Democrats getting six, and you have Republicans getting four. Because you have a divided Congress, what you get, which I think is personally ridiculous, is you get a report and then you get two dissents.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** You can't have dissents, it's not a court case except they did because they had all four Republicans were like, "Yeah, we don't agree with the majority." Three of them wrote one dissent, and one of them wrote the other dissent 127 pages and 193 pages I think or 98; anyway, something like that. But that it started with that division.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** Then it goes forward with its recommendations.

**John Aughenbaugh:** Yeah. The majority report talking about this again, Nia you said it's a well. I'm talking about this like I'm briefing a Supreme Court case.

**Nia Rodgers:** Exactly.

**John Aughenbaugh:** The majority opinion, basically went ahead and said that the financial crisis was avoidable. Widespread failures and regulation in mind you that again, the majority report was basically written by those individuals appointed by the Democrats.

**Nia Rodgers:** Right.

**John Aughenbaugh:** You have this really juicy quotes from the majority report, "Excessive borrowing, risky investments, and lack of transparency put the financial system on course with crisis."

**Nia Rodgers:** Right. Which by the way, all of those words, bright, risky investment, lack of transparency, all of that is sexy language, that means absolutely nothing.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** If you got that in a paper.

**John Aughenbaugh:** Yeah. From one of my students, I would be like define, define, define.

**Nia Rodgers:** Exactly, define risky, define transparent.

**John Aughenbaugh:** What is excessive borrowing?

**Nia Rodgers:** How much is excessive?

**John Aughenbaugh:** Yes. Again, as we mentioned just a few moments ago, capitalism is predicated on people borrowing money to do good things.

**Nia Rodgers:** Exactly, that's the definition of capitalism. Some borrowing has to happen for there to be capitalism.

**John Aughenbaugh:** That's right. Because, Nia if you did borrow money to buy a car, then there are some people who work at an automobile manufacturing plant, don't have a job.

**Nia Rodgers:** Right.

**John Aughenbaugh:** If they don't have a job. They can't pay their rent or mortgage or put food on the table. They're not going to ball games and they're not going to movies, and they're not going on vacation with their kids.

**Nia Rodgers:** One could argue that excessive in this instance may mean the difference between a Honda and a Ferrari.

**John Aughenbaugh:** Yes. But what you got to define this self.

**Nia Rodgers:** But you need to define that. You can't just say excess, I don't know.

**John Aughenbaugh:** Then the two dissenting opinions.

**John Aughenbaugh:** Three of the Republican appointees wrote a 27-page dissent that basically went ahead and talked about, "Bad Events". Again, in the margin, I would be like, "Okay, what's the meaning of bad events?" but then they went ahead and said the main reason for the recession in the United States was globalism. I'm like, that horse has already left the barn.

**Nia Rodgers:** Well, we've had a global economy now for 100 years and we didn't run it into the ground like we did.

**John Aughenbaugh:** That ship has left the port. Whatever other metaphor you want to use, the train has left the station. To go ahead and say that it was globalization, so what? We're going to close our borders, and we're going to engage in protectionism and nationalism in regards to the economy?

**Nia Rodgers:** Yeah, we're just going to be an isolationists economy.

**John Aughenbaugh:** The world's largest economy that basically generates so much economic activity around the world. We're just going to go ahead and take a break for the next 10-15 years.

**Nia Rodgers:** Yeah.

**John Aughenbaugh:** Okay.

**Nia Rodgers:** We're going to shut our doors for a little while, we'll be back.

**John Aughenbaugh:** Then the other dissent basically just went after federal government housing policies. I mean, just lambasted Freddie Mac and Fannie Mae. Again that had such classist racist overtones. Because without Fannie Mae and Freddie Mac, poor people, people of color, people in rural areas would never get to buy homes.

**Nia Rodgers:** Right.

**John Aughenbaugh:** Would never get to buy homes. Because without the federal government stepping in and saying, "We will subsidize the loan", a whole bunch of Americans basically will be renters the rest of their lives. Which by the way, there are plenty of our economists who would say that makes better sense financially. But there are a whole bunch of other economists who are like, "No. If Americans want to buy homes, how does the government help them do that?" The problem is if the loans in the first instance should have never been made then the government shouldn't be backing them up. That's the government's running bad money after bad money. You know what the result of that is, Nia? Bad.

**Nia Rodgers:** Bad. Oh, it's like algebra. Bad times bad equals 2X bad.

**John Aughenbaugh:** Yeah, right? You're not going to get good in that situation.

**Nia Rodgers:** What irritates me about this particular commission report is most of our commissions have tried to solve a problem or answer a question, but they've generally done it bi-partisanly.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** You get some partisanship and commissions, but not a huge amount. Then you get to this one, and this report, is clearly the majority is blaming Bush and the Republicans.

**John Aughenbaugh:** Yes.

**Nia Rodgers:** Right, and all their whatever, whatever, whatever. The Republican dissents are blaming the free love Democrat, liberal, and hippy.

**John Aughenbaugh:** Government regulation is by default always good, and the Republican position is, government regulation by default is always bad. Hey guys, is there perhaps a middle ground?

**Nia Rodgers:** Nuance. Right and no one here had any nuance.

**John Aughenbaugh:** No.

**Nia Rodgers:** This report is starkly and clearly talking points for Republicans and talking points for Democrats. Aughie and I have no respect for that. That is not a solution, that doesn't guide us into any kind of reasonable civil discourse going forward. If you stake out a position at the beginning and you won't be moved from it, then you don't belong on one of these commissions. That's not cool.

**John Aughenbaugh:** Nia I told you this when we were preparing. When I read the three reports coming from Angelita's commission, I thought that I was reading the party's national convention platforms for the next election. I was just like, "Wait for a minute here, guys. Can we not go ahead and at least go ahead and agree that there were a number of reasons?" That there could be a consensus that a whole bunch of stuff went wrong and how do we go ahead and perhaps mitigate potential harm going forward.

**Nia Rodgers:** The whole black and white idea of regulation is either good or bad.

**John Aughenbaugh:** Bad. Yeah.

**Nia Rodgers:** Maybe we need some regulation to keep companies like I&G from getting so big that they can't fail, but we also need to be aware that when there's too much regulation, it stifles the market. Can we talk balance here? Oh, no. No. No. No. It is my way or the highway. You are either with me or you are dead to me and I'm like, "Wow, that's not really any way to build a consensus of how to go forward or how to make sure that it doesn't happen again." The whole ever-loving freaking point of this commission is to say, "How can we prevent this from happening again?"

**John Aughenbaugh:** We have functioning cerebellums, can we perhaps use them to avoid something that more than likely will happen again unless we take steps to make a change?

**Nia Rodgers:** Exactly.

**John Aughenbaugh:** To act. Mitigate.

**Nia Rodgers:** Disaster avoidance.

**John Aughenbaugh:** Yeah. One part of one of the reports was just like, "We should never make loans to individuals with bad credit histories." I'm like, "Oh, so we're just going to go ahead and relegate an entire section of the American population? You will never buy a home. That part of the American dream will never work for you." Well, how can we make it work for them? There was another part of the report in the majority report about the failure of credit rating agencies. Does the federal government want to

take on the responsibility of rating everybody's credit? No. On the other hand, how can we make sure that those histories, those ratings are done in a transparent manner so that corrections can be made when there are mistakes, and that they're not overutilized? Not every loan should be based on a numerical score that is put together by some sort of algorithm. I can't grade papers that way. Students ask me all the time, "How's this going to be graded?", and I'm like, "Well guys, some of this is going to be subjective. Because you're going to want me to pay attention to what you are writing. So I may take that point into consideration. Hey, at least you attempted, X, even if you didn't pull it off." If you want me to go ahead and use a rigorous grading metric, you failed at what you attempted, so sorry, you get an F, then you guys will never take a risk. You'll never pick that challenging topic. Capitalism can't work that way. We want people to take risks. We want Steven Jobs to go ahead and say, "Yeah. Screw this college education, I got an idea." I want Bill Gates to go ahead and take a risk. Even though I go ahead and frequently yell at my computer because I'm using Microsoft products, he took a risk. But how do we mitigate the risk?

**Nia Rodgers:** How do we encourage honesty in the system? One is that we hold people responsible and nobody was held responsible which is a personal frustration of mine. So my summation of this particular report is four. That's how I feel about this report. I don't know how you spell that.

**John Aughenbaugh:** Yeah, of all the commissions we've looked at, this was probably the most disappointing to me on a number of levels. Because we've looked at commission reports where the Presidents who created the commissions didn't like the results, so they basically didn't act on them, but the commission did solid work. I can't say these folks did solid work. The only kudos I could give to them is if you're a partisan, well, there's something here for you. But if you're actually interested in making sure we don't have another great recession like the one, we had in 2007- 2009, this commission, and the three reports ain't it.

**Nia Rodgers:** Right.

**John Aughenbaugh:** Because it isn't going to tell us what we need to do. I'm sorry.

**Nia Rodgers:** Yeah. You'd be better off watching one of the Netflix movies on this.

**John Aughenbaugh:** Yeah. I would highly recommend "The Big Short."

**Nia Rodgers:** Right. Ugh. Okay. Thank you Aughie, and we will, I guess catch up. I think we have one more in our series.

**John Aughenbaugh:** Yeah. We're going to take a look at the Moynihan Commission on Government Secrecy.

**Nia Rodgers:** Woo-hoo so I'll look forward to that. Thanks.

**John Aughenbaugh:** Thanks, Nia.

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