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Arend D. Lubbers
Grand Valley State University

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A Political Speech: Comments from a Citizen
By Arend D. Lubbers
Rotary Club of Grand Rapids Luncheon
May 7, 2009

Gathered together in Washington, D.C., in the 1990's to solve the S & L crisis, Bill Seidman, Chairman of the FDIC, Alan Greenspan, Chair of the Fed, and other economic leaders, designed a strategy to sell the 600 billion dollars in assets held by the FDIC, and thus was created asset securitization as we know it today. This began the long road strewn with convoluted financial instruments that led to our new kind of economic recession. Asset securitization, the packaging and selling of mortgages in secondary markets, is not an evil in itself. Mix it with a process of easy commissions and no fiscal responsibility for the quality of the mortgages, keep regulators at bay, and throw in no down payment sub-prime mortgages, and the recipe for disaster is complete.

Bill Seidman said the government's plan was to divide all the assets into tranches, based on the quality of the assets. Each tranche was advertised accordingly and sold. The U.S. government was ready to keep a portion of the last and riskiest one. Between then and now it appears all the riskiest real estate on the market was taken on by banks, insurance companies, and their investors in a turbulence of financial activity. The government had to reinsert itself to save the financial system of the country from accumulated bad assets; many more than the

government promised to underwrite during the S & L crisis. Bill Seidman smiles and says we in our creativity provided the market with the instrument that led us to where we are now. He further explains saying he wanted transparency in the market and new rules and regulations for the asset securitization process. The others believed the market should be unencumbered.

Two ideas prevailed as we found our way to economic meltdown. One is usually associated with liberals and the other with conservatives. Beginning with President Carter, there was a push for more home ownership. The American Dream of “every person in his or her own castle,” took on an aura of entitlement. And it was picked up by President Clinton. This concept was ready made for a new securitized mortgage market, kept free and relatively unregulated, a capitalist banker, a hedge fund operator’s dream; two dreams - a liberal one and a conservative one that turned into a nightmare.

With terms like credit default swaps, tranches, derivatives, and tarp, how can we who are not employed in professional finance be expected to understand the whirl of finance. We cannot, even though we are profoundly affected by it. The manipulation of markets ups and downs are beyond us, yet we are taken down by the game and greed of those who manipulate. The times call for judicious regulation. As the Dean of the Harvard School of Business suggested, it may call for more than that. He thought that perhaps the Business School should place more

emphasis on ethics in business. He has seen as we all have the best and the brightest with polished MBA's take down companies (Enron) and markets (Wall Street) with their brilliant minds and narcissistic egos.

For years I have been disquieted even as I did not fully understand. I was made uncomfortable by over consumption to the point of negative savings, by having China finance much of our consumption, by mysterious hedge funds, by sub-prime mortgages, by credit cards extended to teenagers, by outrageously high compensation to executives of publicly held companies, toss in athletes and celebrities, too, and by a growing deficit during a Republican administration that tried to convince me that the solution was tax cuts. None of it makes sense, not Republican or Democratic sense. It does not make common sense.

I am not surprised the Republicans lost the Presidency and the Congress. When they had it, except in the first years, they were not the stewards of careful spending as they claim to be. The final years on the road to recession were their years. They were years of huge spending, a war they could not finish, and no controls of the rapacious habits of those playing the money game. Now it's the Democrats turn. I was not encouraged by Nancy Pelosi and her minions as they turned on the spigots of the Treasury, in part, for their own partisan purposes. We can call what they appropriated "stimulus plus". I do not object to a stimulus appropriation. The economy in free fall requires action. We know some of the

weaknesses in response to the economic times of 1929 and the 1930's. The government is trying to avoid them. In time we will see if the efforts are successful. In the meantime we are suffering because social contracts have been violated. The general public, unsophisticated in high finance, counts on the Brahmins of Wall Street to manage investments and risk in a prudent manner. All our lives are affected by what they do. They were greedy, into money games, or both. They were not prudent. They violated the nation's trust.

Government's major function is to protect the life and livelihood of the citizens it governs. One aspect of that protection is the regulation of financial markets and corporations in the public interest. This, the government failed to do as the Ayn Rand school of public servants held sway for too long a time. The Congress and the administration violated our trust by failing to put rules in place and they often did not enforce those that were. I believe recent SEC Chairman Cox came close to malfeasance in office.

All along the way the signs pointing to trouble were obvious, too much debt, too much risk. Too much compensation for a few who often failed as the middle class fell behind, too much consumption, too much war for the sacrifices we were asked to make. The pundits told us we could never have a great depression again. We had learned our lessons? Now they are telling us we have discovered a new way to get into economic recession. As Mark Twain said, "History doesn't repeat

itself, but it rhymes.” That is why charting the course out of it has some aspects of a guessing game. I am no economist, and cannot offer a financial plan toward a brighter time. I am a citizen with a viewpoint, and can tell you some characteristics I think our new age should possess. I have a hunch, too, that both the liberal and conservative political paradigms need refreshing. I am looking for new insights from both the Republican and Democratic sides. We have not had much greatness in thought or action from the Congress. I have hope for President Obama. I do not believe he is the closet socialist some of my friends claim. I think above all, he is pragmatic, and will seek to do what works best. Let’s hope most of his choices are right. Here are the characteristics I hope to see in our future.

- 1) As the economy improves we will have in place regulations enforced by government that checks unsupportable risk in our financial institutions.
- 2) In our public corporations a culture will develop supported by law or regulations that keeps executive and Board compensation reasonable according to agreed upon formulas. The symbolism here cannot be dismissed.

- 3) Our laws will encourage energy independence for our nation. =
Nothing is more important for an economic surge or National security.
- 4) The Congress and President will have in place plans leading to health care insurance for all and long term viability for social security.
- 5) As a people, we will show the common sense to insist on federal budgets that will fix health care, and social security in a way that will not cause out of control inflation and taxes we cannot afford. To think this can be accomplished and continue to cut taxes is beyond my understanding. If tax reductions are going to be our number one priority, let's be honest and give up health care reform and funding social security adequately.
- 6) Our voting will be determined less by single social issues such as homosexuals' rights and the issue of right to life; important as these are to many Americans. Instead we will concentrate on economic and foreign policy matters as we decide which candidates to support. The future health and happiness of all American families depends much more on the latter issues than the

former. I think this matter is of most importance to the Republican Party if it doesn't want a long term as the loyal opposition.

- 7) Our economic difficulties will lead to less political polarization because we all suffer together. Unions, both industrial and public, need fresh thoughts to help whom they represent and the enterprises of which they are a part. Management and public boards must devote themselves to sound fiscal practices and long term objectives rather than emphasizing short term profits and personal political gain.
- 8) When we are again whole, our personal consumption level will be tempered. We have spent too much time "getting and spending." Our new life will be comprised of fewer "things." Not so much of our energies will be used for consuming, but for improving our intellectual culture and enhancing our environment.

What I hope to see in our democracy is a larger segment of the population better educated about economic matters. The more we know the more we will insist that the light shine on the transactions of our financial wizards, and the more intelligent votes we can cast for candidates and initiatives in our economic interest.

If we can hold our ideologies a little more tentatively we may open ourselves to some fresh solutions. We may find new ways to be a conservative or a liberal in a capitalistic society. I miss Newt Gingrich in the middle of things. He has the intelligence and communication skills to speak for the Republicans. I think President Obama is the best Democrats have had in a while; including the very smart Clintons.

A new day will emerge. It always does. A newer global economy is on its way, yet world order is uncertain. We will all be better served in the days ahead if they are accompanied by intelligent and statesman-like leadership. A dose of greatness would help. We need Washington's temperament, Lincoln's eloquence and patience, and Franklin Roosevelt's political skills, and where in Congress are our Henry Clay's, Daniel Webster's, Arthur Vandenberg, and Sam Rayburn's now that we need them. I would feel more comfortable with Tip O'Neal and Gerald Ford working on economic problems than I do with Nancy Pelosi and John Boehner. We need to ratchet up intelligence and compromise in Congress and cool the heated ideologies. Congressmen should heed the words of Franklin Roosevelt, "The future lies with those wise political leaders who realize that the great public is interested more in government than in politics." Government is called upon now to play a crucial yet tempered role in making whole our financial system.

There are two social matters attached to our financial reconstruction, matters that will profoundly affect the kind of economy we have. They are immigration and education, and are part of the national equation for national success. Both affect the quantity and quality of the work force.

Perhaps the highest achievement of the George W. Bush administration was passage of the “No Child Left Behind” bill. I have heard criticism of it, even condemnation. Give Bush credit, however, for raising standards of achievement and holding teachers, administrators, and school boards accountable for meeting the standards. Failure is penalized in dollars, success rewarded. After being in place for several years some inequities and oversimplifications have been identified, yet responsibility and assessment are finally a part of a national standard. With students in our high schools on average scoring significantly lower than students from most industrialized countries, except perhaps in basketball, we must improve our education at the high school level, particularly. Here are some of the changes I hope for:

- 1) Schools will provide the amount and kind of education according to the individual student’s capacity to learn. The better minds must be allowed to soar unimpeded by lesser motivated and below average students. The slower learners can become better achievers in classes designed for them.

- 2) More time in the life of children and youth should be devoted to B the learning process or to productive work.
- 3) Structure and discipline should match the needs of individual groups of students. Some learn better with less structure. Putting others in uniform is a good step towards maintaining discipline.
- 4) More under-achieving schools should be removed from local control and placed under state control. Improvement may be difficult, but at least there is a chance. Too many school boards act like a dysfunctional family.
- 5) Good teachers should be financially rewarded. Lock-step systems for compensation are idealistic, but outmoded. Some school systems have changed, but lock-step tends to be the rule.

The difference in the cultural and economic circumstances of parents usually determines the success of students' achievement in schools. Those who have never seen a book until they matriculate will require a different kind of attention from those who do. And in schools where children without the privilege of a family learning culture gather, are we doing enough to identify the ones who have a special gift of mentality that can lift them to high achievement.

As a whole, we must achieve at a higher level. Many children must read better, and know more math. We need scientists, but the language of science, mathematics, is hard to learn. Our challenges will be met at the local level by the insistence of local citizens or it will not be met. The Federal and State governments can help. With money and standards they can assist and pressure. Unless America improves its public education, the nation will never be ready for the best of all possible economies. President Obama talked positively about charter schools. He appears ready for experiments and change. I was surprised that a Democratic President, supported by most teachers' unions would speak that way. Is the ship turning?

The second source of person power and brain power for our economy is immigration. Kurt Anderson, the host of the public radio program, 360, in a recent Time article, stated, "No other nation assimilates immigrants as successfully as the U.S. The sooner we agree on a coherent national policy to encourage as many as possible of the world's smartest and most ambitious people to become Americans, the better our chances of forestalling decline. The waves of exotic foreigners who arrived in the 19th and early 20th Centuries were unsettling, but previous generations got over it, luckily, since those newcomers were instrumental in forging the American century." I

agree with Anderson. I think the right immigration policy will invigorate the nation. The whole matter is complicated today by the flow of illegal aliens from Mexico across our borders. It is important for us to settle this matter, and compromises are necessary to do it.

I am not opposed to placing a wall along miles of the border, but as we do so let's remember that walls are not a permanent solution, i.e. the Berlin Wall and the Great Wall of China. They can only be of partial and temporary assistance in dealing with a problem. Let's remember also that movements of mass populations are nearly impossible to check if they persist over long periods of time. It is impractical to think the U.S. can remove 13 million illegal immigrants sending them back to Latin American countries. There is some hope that law enforcement can stem the tide of illegal immigrants in the future. If we find a way to deal with the 13 million who are already integrated into our economy, it can be the cornerstone of a reformulated immigration policy that will bring more of the smart, ambitious, and hardworking from other countries to help us sustain the kind of economy we want. The issue festers. We need a Congress with the courage to solve the problem, or the nation will falter.

It is too soon to assess the Obama presidency. Yet, I react favorably toward the agenda he has set and to his style as he works to implement his

policies. He inherited an economy in free fall, and he has not hesitated in trying to break the fall. The situation calls for action and he has taken it. We wait to see the consequences of his spending, and to see if he can fulfill his objective to cut deficit spending significantly by the end of his term. We wait to see how much of his agenda finds its way successfully through Congress and at what cost. I am reminded of a Thomas Carlyle quote, "Of all paths a man could strike into, there is, at any given moment, a best path, which here and now, it were of all things wisest for him to do. To find this path and walk in it is the one thing needful for him." I am not like Rush Limbaugh. I don't want the President to fail. I want him to find the right path at the right time.

As for his predecessor, George W. Bush, he may feel as Dwight Eisenhower expressed, "Oh, that lovely title - ex-President."