Sword & Scales

Interview with a CEO: How capitalism got blamed for the fiscal crisis

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THE MARKET CRASH of 2008 was the worst financial crisis in a generation. Millions of people lost their jobs, their homes, and their livelihood.

Many anti-capitalists like Bernie Sanders view the ’08 financial meltdown as the perfect display of capitalism’s failings: American greed, massive deregulation, and corruption finally bleeding out after infecting the marrow of the economy. But is that what actually happened?

To get a firsthand account of the fiscal crisis, I spoke to the man who saw it coming.

As the CEO of BB&T bank from 1989 to 2008, John Allison had a front-row seat to the financial crisis. Under Allison’s leadership, BB&T was healthy through every downturn and recession, and Allison was one of the few bank CEO’s who fought against the government bailout money so many other banks clamored for.

“A lot of young people believe the myth that capitalism caused the financial crisis,” Allison explained when I interviewed him. “Many people believe deregulation of the banking industry and greed on Wall Street caused a crash and the government had to step in and save us. But that’s absolutely not true. Banks weren’t deregulated. They were mis-regulated.”

In the decades leading up to the crash, the irresponsible and inconsistent way government bureaucrats regulated banks let bureaucratic whims shape our economy instead of predictable market actions.

For example, in the 1980s and ’90s, government regulators were strict with unhealthy banks and put many of them—even banks that might have recovered with reorganization or better leadership—out of business. But regulators largely left healthy banks alone, even if they were making risky loans and investments. Then when the crash began, regulators forced all banks to be overly selective with their loans, which made the crisis even worse.

“In the good times, it’s not good [for regulators] to call out banks that are doing dumb things because banks have political clout and it’ll get [regulators] in trouble,” Allison said. “But then in the bad times, regulators always grossly overreact, they let the horse out of the barn and close the barn door. And they do this over and over again.”

Another example of how government regulators morphed what would have been a fiscal downturn into a fiscal crisis was the completely random way that the government bailed out some banks but let others fail.

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The government bailed out Bear Stearns but let Lehman Brothers fail (even though Lehman was a larger and arguably more important institution to the economy). Then the government negotiated a merger between Citigroup and Wachovia but four days later broke that deal and negotiated a separate merger between Wachovia and Wells Fargo. Allison characterized regulators' actions during this time as "Russian roulette." The unpredictable government bailouts mixed with the inconsistent regulatory actions in the preceding decades led to confusion that stymied the market's ability to self-correct.

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"The housing crisis [and resulting financial crash] was caused by well-intended government policy [like affordable housing policies incentivizing subprime mortgages]," Allison explained. "This is where socialism fails. It allocates resources on what sounds good and what is politically correct, instead of market sanity. The irony is, of course, the big losers are low-income people who get creamed."

It's much easier to believe that greed, and not the government policies meant to help, caused the crash. But like so many failed big-government experiments, the 2008 crisis was caused by years of well-intended—but disastrous—policies.

Allison fights so fervently for capitalism because, "If you look at human history from the first Homo sapiens to the mid-1700s, there was no progress in life expectancy. And then something transformed the quality of life on this planet: the age of reason, science, technology, rule of law, individual rights, and free markets. All these things that we call capitalism."

One of the greatest ironies of modern history is how capitalism is wrongly blamed for the crash that almost derailed the world economy that capitalism helped build.

As CEO of a major bank for almost 20 years, John Allison witnessed rivals—abetted by regulators—give in to greed and make bad decisions. He also worked with elected officials and government bureaucrats whose actions created uncertainty and instability.

More than anything, though, Allison saw the opportunities capitalism can create for millions of people willing to work for something better—and the disaster that happens when we move away from it.