

## **The financial crisis and a free market**

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“There are six fundamental themes that reflect the basic causes, consequences, and cures of the financial crisis [of 2008]:

1. Government policy is the primary cause of the financial crisis.
2. Government policy created a bubble in residential real estate.
3. Individual financial institutions (Wall Street participants) made very serious mistakes that contributed to the crisis.
4. Almost every governmental action taken since the crisis started, even those that may help in the short term, will reduce our standard of living in the long term.
5. The deeper causes of our financial challenges are philosophical, not economic.
6. If we do not change direction soon, the United States will be in very serious trouble in 20 to 25 years.”

This is how the first chapter of John Allison’s new book, “The Financial Crisis and the Free Market Cure” opens. Mr. Allison is the new president of the libertarian Cato Institute and former CEO of BB&T. As CEO of BB&T, he guided the company through the 2008 financial crisis, and his new book provides a first-hand account of the 2008 financial crisis, America’s worst since the Great Depression.

It’s surprising (and refreshing) to see Mr. Allison, a former banker, talking about the destructive moral code guiding policymakers and businessmen today. A combination of altruism and pragmatism are at the core of the financial crisis. Altruism, which means to have a concern or devotion for others, leads to redistribution programs; pragmatism, which means to focus on the practical, leads to short-term solutions and an abandonment of principle. Together the two ideas lead to a “free lunch mentality.”

According to Mr. Allison, “...destructive government policies are based on philosophical ideas taught in our elite universities to future elitist leaders. These ideas are inconsistent with the founding principles that made America great...At a deeper level, these ideas are inconsistent with humans’ fundamental nature as thinking beings...”

While the book does delve into discussions of philosophical change, it is also filled with insider details about the crisis and plenty of economic statistics. For example, Mr. Allison explains to readers how decades of government policy created the financial crisis of 2008. Once America's leading intellectuals, policymakers, and businessmen were in crisis mode, they panicked, became opportunistic (think of Rahm Emanuel's famous, "You never want a serious crisis to go to waste), and, in so doing, dealt America's free enterprise system a tremendous blow through \$700 billion bailout programs like the Troubled Asset Relief Program (TARP) and financial regulation legislation, such as Dodd-Frank.

As CEO of one of America's largest banks, Mr. Allison spoke out against TARP and the Federal Reserve's emergency actions. His protests, however, were ignored by people like Ben Bernanke and Hank Paulson; they were more interested in unhealthy institutions like Citigroup and General Electric. By focusing on the banks set to lose, policymakers created an unfair playing field for healthy banks like BB&T. Moreover, regulators forced the healthy banks to do things, such as take TARP funds, they didn't want to do.

Readers of Allison's book will, no doubt, do some Monday morning quarterbacking as they trace through the causes and consequences of our recent financial meltdown: What if we had just let some of the nation's unhealthy banks fail? What if government had not responded with bailout funds and easy money?

The book is more than a look back at recent financial history, though; it's also a warning to Americans about our future. According to Mr. Allison, our "intergenerational financial commitments" (i.e., Social Security, Medicare) guarantee the US will go broke in 20-25 years. As he puts it, "This is a mathematical certainty." We still have time to avoid going broke, of course, but a return to America's fundamental principles – individual rights, limited government, and free markets – is needed soon.

A return to fundamental principles requires a group of people willing to defend freedom. Freedom's defenders must be well-informed and have a clear knowledge of events like the 2008 financial crisis. Allison's "The Financial Crisis and the Free Market Cure" is a must-read because it is a strong defense of freedom and, at the same time, a fact-filled book for people wanting to argue against bailouts, government regulation, and the government's immoral response to the 2008 crisis.

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