

## BOOK REVIEW: John Allison dives into the real causes of the Great Recession

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Since the 2008 financial crisis, many analysts and policy wonks have been trying to come up with their best guesses as to what led to what we now call the “Great Recession.” Most lay blame on Wall Street, the beneficiary of taxpayer-funded bailouts, and never think of discussing the affects of policies pursued by the government in the years leading up to the recession.

Wall Street is, of course, an easy target, especially at a time when populism and class warfare are so common. But in his new book, *The Financial Crisis and the Free Market Cure: How Destructive Banking Reform is Killing the Economy* (McGraw-Hill, 320 pages), John Allison, retired Chairman and CEO of BB&T, explains that government policies, cronyism, and politics led to the worst economic troubles in decades and presents a compelling case for the free market.

Allison, who at the beginning of this month became CEO and President of the [Cato Institute](#), has long been an advocate of free market economic policies. Allison explains that his principles helped guide BB&T to weather the economic storm before the financial crisis.

In his book, Allison outlines what he sees as the six factors that led the recession and this very tumultuous economic “recovery” in which we currently find ourselves:

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 financial trouble in the next 20 to 25 years”

Allison gets right to business as he opens the second chapter. He explains very pointedly that the “primary cause of the Great Recession was a massive misinvestment in residential real estate,” the sources of which are the Federal Reserve, the FDIC, Fannie Mae and Freddie Mac, and the SEC. Allison notes that housing was being misrepresented as an “investment” rather than “consumption.” That term, “investment,” was a one I frequently heard when I was buying my first home, which, by the way, has lost approximately half its value since 2007.

Allison explains that, thanks to the government-created housing bubble, basic economic rules didn't apply. With an abundance of housing, why were property values rising so quickly? The law of “supply and demand” simply to not apply thanks to policies put in place by the government. Allison does note that speculators took advantage of these policies, helping to drive up housing values and the subsequent collapse thanks to these policies.

Throughout *The Financial Crisis and the Free Market Cure*, Allison doesn't have many good things to say about Alan Greenspan and Ben Bernanke, the previous and current chairman of the Federal Reserve. He explains that neither of these men saw the financial crisis coming — in fact, they, especially Bernanke, openly dismissed the thought.

Allison also chronicles the Troubled Asset Relief Program (TARP) and the circumstances under which financial institutions, such as BB&T, were essentially forced to participate. Allison explains that he was opposed to TARP from the beginning because he believed that it wouldn't work, among other reasons. He lobbied Congress to no avail. But once TARP was in place, according to Allison, regulators were prepared to reevaluate BB&T's stellar financial strength under a different set of rules from which they were ordinarily tested.

Allison goes into some detail to explain one reason that the economy hasn't able to bounce back from such a deep correction. He notes that the banking industry, which is already heavily

regulated, is perhaps more socialist in nature than many nations in Europe. That's a hard concept to grasp, but with the litany of regulations imposed since the financial crisis, it's not too terribly hard to understand.

So what's the fix? According to Allison, the federal government needs to get out of the financial industry and let the free market take control. The explosion of government through policies of regulation, deficit spending, and a substantial increase in the money supply are going to pose a huge headache for Americans down the road. Allison realizes that bureaucrats and the media aren't on the side of markets, but he explains that capitalism is "consistent with human nature" because it promotes individual rights and a higher standard of living for all and, as he explains, it may be the only real hope that the United States has left.