



Our Government-Created Financial Crisis

Suppose you saw a building on fire. Would you seek counsel from the arsonist who set it ablaze for advice on how to put it out? You say, "Williams, you'd have to be a lunatic to do that!" But that's precisely what we've done: turned to the people who created our fiscal crisis to fix it. I have never read a better account of our doing just that than in John A. Allison's new book, *The Financial Crisis and the Free Market Cure*.



Allison is the former CEO of Branch Banking and Trust, the nation's 10th largest bank. He assembles evidence that shows that our financial crisis, followed by the Great Recession, was caused by Congress, the Federal Reserve, Freddie Mac and Fannie Mae and was helped along by the Bill Clinton, George W. Bush and Barack Obama White Houses.

The Federal Reserve, under the chairmanship of Alan Greenspan, created the massive housing bubble by over-expanding the money supply. President Bush and members of Congress, through the Community Reinvestment Act, intimidated banks and other financial institutions into making home loans to people ineligible for loans under traditional lending criteria. They became subprime lenders. Lending institutions made these loans, now often demeaned as predator loans, because they knew they'd be sold to government-sponsored enterprises (GSEs) Freddie and Fannie.

The GSEs had no problem taking this risky path, because they knew that Congress would force taxpayers to bail them out. Current Fed Chairman Ben Bernanke is following in the footsteps of his predecessor by massively expanding the money supply by purchasing Treasury debt. He is creating prime conditions for a calamity by the end of this decade.

Then there were the crony capitalists, among whom are Goldman Sachs, Citigroup, Countrywide, Bear Stearns, JPMorgan Chase, General Motors and Chrysler. These and many other companies, through the thousands of Washington lobbyists they hire, are able to get Congress to shortcut market forces. Free market capitalism is unforgiving. In order to earn a profit and stay in business, producers must please customers and wisely use resources to do so. If they fail to do this, they face losses or go bankrupt.

It's this market discipline of profits and losses that many businesses seek to avoid. That's why they descend upon Washington calling for government bailouts, subsidies and special privileges. Many businessmen wish not to be held strictly accountable to consumers and stockholders, who hold little sympathy for economic blunders and will give them the ax on a moment's notice. With a campaign contribution here and a gift there, they get Congress and the White House to act against the best interests of consumers and investors. Allison suggests that if our country had a separation of "business and state" as it does a separation of "church and state," crony capitalism or crony socialism could not



exist.

Allison says that crony capitalism should not be our only concern. The foundation for economic collapse 20 to 25 years from now has already been set. Social Security and Medicare deficits, unfunded state and local pension liabilities, government operating deficits, baby boomer retirement and a failed K-12 education system have eaten out our substance.

What I take away from Allison's highly readable book is that our biggest problem lies in the Federal Reserve's ability to manipulate our monetary system to accommodate big government and use inflation to rob Americans. That's why politicians and government leaders everywhere hate a monetary system based on gold. They can manipulate the quantity of paper money, but they can't manipulate the quantity of gold.

Here's a tidbit of information about John Allison, now president of the Washington-based Cato Institute, that speaks to this man's morality as BB&T's CEO, which can't be praised highly enough. His company refused to lend money to developers who acquired land by having the government take it from private owners, euphemistically called eminent domain. That's putting his money where his mouth is, not sacrificing principle for the sake of earnings.

Walter E. Williams is a professor of economics at George Mason University. To find out more about Walter E. Williams and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate Web page at www.creators.com.

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