

Economics financial crisis essay examples

[Business](#), [Marketing](#)



John A. Allison Lecture

at Troy University

Economics: Financial Crisis

John A. Allison Lecture

John A. Allison is the former Chairman and CEO of BB&T Corporation. He is a Federalist and admires Ann Rand the author of "Atlas Shrugged." His favorite book is "Atlas Shrugged." He listed many reasons for the financial crisis.

He said that the financial crisis is the fault of the government. He blamed the government for creating a bubble that burst. In his opinion the independent financial institutions that were bailed out should have been allowed to fail. He is very disappointed in the government's actions because he said, "Everything the government did will reduce our standard of living in the long run." Although over and above any other entity, he believes the government is at fault for the financial crisis he also blames the financial institutions and the banks use of policy and lack of responsibility.

Mr. Allison said the housing market crash was brought on because, "too many houses were built too big and in the wrong places." He thinks that instead of the government investing in housing they should have invested in technology.

He said that the 1913 national monetary system that was created means, "Government owns and controls markets like the government own the

highway systems.” That reduced volatility and made more problems. The market is “ an experiment” so when one business succeeds, such as Google, and a thousand others fail, that is good for the market in his opinion.

In general he is very upset with the Federal Reserve Board. He mentioned how Alan Greenspan and Ben Bernanke have the power to manage interest rates. Because Bernanke raised interest rates 425%, the inverted interest rate has created negative margins. He said the fundamental problem with the Federal Reserve Board is that the people working there have “ fatal conceit.”

Mr. Allison doesn't see a need for the Federal Deposit Insurance Corporation (FDIC) because it “ destroys market discipline.” He says the government caused the financial crisis by subsidizing home ownership under the flawed assumption that home ownership is a good thing. So like the FDIC had no corporate discipline, it was demonstrated that the people who bought homes and lost them have a character flaw related to having “ no discipline.”

He blames the liberal politicians for an “ almost religious belief” in affordable housing. He calls Barney Frank “ the evil one.” He calls him that because Barney Frank, unlike the rest in Congress is smart and understands what Allison is talking about.

The cause of the financial crisis is the Federal Reserve Board's action of printing too much money. Mr. Allison explained that the purpose of a bank is to allow an economic system to make longer term investments by pooling

the risk and Bear Sterns should not have been bailed out in order to send a message to the market. He blamed Spitzer but didn't go into any details.

He then explained about Real Estate Values, that they are driven by the cost of reproduction, affordability and cost to rent. At the peak of the housing bubble Real Estate Values needed to fall 30% in order to be affordable. When real estate values fell \$500 billion was destroyed. Regulators decided to try to stabilize the market in order to avoid a run on banks. In order to do these customers that had insured accounts as well as those who had uninsured accounts were all reimbursed dollar for dollar. In his view this was a big mistake.

Mr. Allison also explained that accounting was at fault for the problems. He talked about a " new market rule: market to market is not consistent to demand and supply." He said that the employees of the U. S. Securities and Exchange Commission (SEC) are mostly lawyers, that the accounting system is useless.

He talked a little bit about the history of government involvement in the housing industry. The main problem is that the government owns the financial business for the housing market which caused the previous savings and loan failures (in other words government policy caused the savings and loan failures).

Also former President Lyndon B. Johnson was at fault because he wanted both a Great Society as well as the continuation of the Vietnam War. To support these ends the Federal Reserve Board printed more money. Then the government took over prime and subprime lending (Fannie Mae and

Freddie Mac) so private industry couldn't compete.

He said that Wall Street shouldn't be blamed for being greedy because they are always greedy even in good times; that the real problem is that they are dumb. Also Hank " Paulson is stupid and believes that however Goldman Sachs goes so goes the world." Mr. Allsion claimed that the regulatory environment is worse now than ever in his career. He says it is the fault of " mis-regulation" rather than " no regulation." He feels that unfortunately regulations will only make matters worse; when regulators have to make a choice between the good of the regulator versus the public good they always put the good of the regulator above the public good.

In terms of the world in financial crisis he explained that the problem in Africa is that they don't have good business like we do here in the USA.

He took some questions and ended by giving advice to a law student concerning the problem with regulations,

" As an ethical individual lawyer I want to make you a challenge. Never violate the law, the laws, the law, but uh yet uh at the same time you want to be disciplined by ethics A clear set of ethical principles. Attorneys that within the law can do what is ethical and come up with better business solutions often are very valuable to businesses. Now I would have attorneys who figured out how not to do stuff and we would have attorneys that would figure out how to do it and always within our ethics but within you know, technically legal, but the law's a very grey area so helping businesses figuring ways around regulations that are ethical and technically legal I think is a very valuable and practical contribution. In fact the truth is our economy couldn't work . . . if BT&T were to adhere to every single regulation- we'd

have to close down because they're in conflict with each other.”

This quote sets out his main point that the government is the enemy of healthy markets which makes it impossible for corporations to succeed with so many government regulations.

Reference

Allison, John A. The U. S. Financial Crisis: Causes and Consequences, Lecture.

Mr. Allison is Former Chairman and CEO, BB&T Corporation