

A New York Times bestseller from the Cato Institute's new president

# Why Pure Capitalism Is the World Economy's Only Hope

In August 2009, after completing a 20-year tenure as CEO of BB&T Corporation, John Allison let the *New York Times* in on how his company was able to weather the global financial storm. “The philosophy has clearly been a competitive advantage,” he said, noting that BB&T had managed to remain profitable in turbulent times and, in doing so, outperform its peers.

This September, shortly before joining the Cato Institute as president and CEO, Allison released *The Financial Crisis and the Free Market Cure*, in which he provides “an integrated insider’s perspective” on how the meltdown was caused primarily by government actions. Within its first few weeks, the book quickly became a *New York Times* bestseller. And nearly five years after the downturn began, BB&T has still not experienced a single quarterly loss.

“The financial crisis is the most important economic event in 80 years,” Allison says—and, as such, a deep understanding of the circumstances that led to its onset is crucial. The book is organized around six fundamental themes, each of which helps to illuminate the causes, consequences, and cures of the financial crisis and the ensuing Great Recession.

The first theme tackles the primary cause of the crisis. “Not only did government policy create the financial environment for a significant economic correction,” Allison writes, “but government policymakers unnecessarily turned a challenging economic environment into a crisis.” This is not surprising, given that financial services is arguably the most highly regulated industry in the world. In fact, the claim that the financial industry was deregulated, Allison contends, is a complete myth.

The second theme is that government policy also created a bubble in residential real estate. Allison traces the roots of these policy incentives back to Lyndon Johnson’s Great Society of the late 1960s. “These errors multiplied and went exponential over about a period of 10 years ending in 2007,” he writes—and eventually the real estate bubble burst, as all bubbles inevitably do.

Nevertheless, Allison acknowledges that Wall Street participants made some very seri-

ous mistakes that also contributed to the crisis. However, any errors by these institutions were far less important than the policy mistakes, and almost all were the direct result of government incentives. “If the United States had separation of ‘business and state’ as it does separation of ‘church and state,’ crony capitalism could not exist,” he adds.

Fourth, Allison says that almost every governmental action taken since the crisis began will reduce our standard of living in the long run, even though a few may help in the short-term. This stems from the fact that the fundamental cause of the problem has been misdiagnosed. “If your doctor treats you for cancer when you have heart disease,” he writes, “the outcome will not be good.”

The fifth theme is that the deeper causes of the financial crisis are not economic at all, but philosophical. The current path is “driven by a combination of altruism, pragmatism, and the related ‘free lunch’ mentality,”



*The Financial Crisis and the Free Market Cure*, Allison's *New York Times* bestseller, also hit #1 on the *Wall Street Journal's* hardcover business bestseller list. The book reached #1 in several different categories of Amazon's bestseller rankings as well.

Allison argues—and it's a recipe for economic disaster.

Finally, Allison makes a compelling case that the United States will be in very serious financial trouble in the next 20 to 25 years if we do not change direction soon. Analyzing everything from skyrocketing federal entitlement deficits to the failed K–12 education system, Allison warns that “the economic forces that have now been set in motion are laying the foundation for a long-term disaster.”

There are, however, practical cures for the economic challenges that face the United States. Allison details those prescriptions in full, explaining that ideas ultimately determine outcomes. “The open question at this stage is not whether we have the ability to solve our problems,” he concludes, “but whether we have the will to do so.” ■

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