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An economic problem facing the world today is overregulation and interference by the world's governments in the financial sector. Governments impose large barriers to entry, over management of asset allocation and lending practices that lead to excessive risk and decreased profitability. The most easily visible example of a problem that manifests from overregulation is the 1999-2006 housing boom and subsequent bust. Government interference in banking activities led to sub-prime mortgages which then became the toxic debt that plagued the financial system as well as the reduction of business profitability and the possibility of unintended consequences. Well intentioned US government policies, the creation of Fannie Mae and Freddie Mac, and government legislation, including the Fair Housing and Equal Credit Opportunity acts did not lead to their goal of economic stability, but instead caused a meltdown.

One effect of overregulation is the creation of asset bubbles, such as the real estate boom and bust of 1999-2006. The problem goes back to 1938, when Fannie Mae, a large mortgage company, was created by Franklin Delano Roosevelt to buy mortgages from banks, stabilize the housing market, and prevent foreclosure. Fannie Mae did its job, allowing banks to securitize loans during the depression, so that they could proceed with business and not worry about bad debt. Fannie Mae then would shoulder the risk of these loans. This led to an increase in the construction of low income housing and lending to low income families to buy those houses. Fannie Mae helped to invigorate the depression economy and was privatized in 1968. Although now a publicly traded company on the New York Stock Exchange, Fannie Mae retained its government charter, and commitment to backing riskier loans. To provide competition to Fannie Mae, the government backed another loan securitizer, Freddie Mac. As these two companies purchased and guaranteed loans, the market seemed less risky than it was. This caused many banks, savings and loans, and credit unions to lend to riskier clients. These financial intuitions would then sell such loans to Fannie Mae or Freddie Mac, where they would become securitized into a bond to be sold on the open market. These bonds were then circulated around the world as mortgage backed securities, and housing derivatives. The hyper expansion of Fannie and Freddie was seen by congressional lenders as a means to achieve affordable housing for all, and their guarantees of those loans would ultimately lead to economic collapse. And, as the stream of prospective buyers began to dry out, people who kept refinancing their houses for more cash were stuck with mortgages worth more than the loan's housing collateral. And as these people stopped using the equity in their homes for consumption purchases, the economy slowed and people began to lose jobs because of decreased demand. Then banks were saddled with houses that were lower in value than the money they had loaned for its purchase. Finally, the mortgage backed securities issued by Fannie Mae and Freddie Mac began to lose their value, and previously sound brokerage houses began to fail. The fall of Lehman Bothers and Bear Stearns, and the ultimate collapse of the global financial system were directly caused by the bundling of mortgages together and redistributing them as securities by Fannie Mae and Freddie Mac. These firms were simply living up to their government charter, and demonstrating that governmental interference in free market activities is detrimental to economic security. Another source of government interference involved in the recent financial collapse was the fair lending program. The fair lending program, initiated by the Fair Housing and Equal Credit Opportunity acts fines banking institutions and landlords who discriminate on the basis that an applicant receives income from a public assistance program or exercises rights protected under the Consumer Credit Protection Act. Hence, should a party be on government unemployment assistance, welfare, or be in bankruptcy, and is denied credit on that basis, they may file a lawsuit against the financial institution who denied them credit. Why would the government dictate to banks that they must give loans to people who will not be able to pay them back in the near future? This provision caused banks to loan funds to such people, so as not to be fined or be involved in a costly lawsuit. In addition, the Federal Housing Administration encouraged, if not mandated these loans. The Federal Housing Administration lowered the required non-borrowed down payment on mortgages below 20 percent. This opened the market to lower income people, and allowed the middle class to acquire more lucrative housing than they ever could have in the past. These sub-prime mortgages were then given to people of less than satisfactory means to pay them back. This caused a swell in demand for houses, as people previously unable to get a mortgage were able to receive credit. Thus, housing prices increased due to a shortage in supply to meet such a large demand. Therefore, when housing prices fell, and people failed to make their mortgage payments, banks were left with foreclosed houses which had a value lower than the money that they had given their debtors. Left with substantial losses on their loans, these banks fell into bankruptcy and disarray, leading to the ultimate meltdown of the financial system. Asset bubbles triggered by government regulation tend to burst, and take the economy with them. The government should exercise extreme caution before tampering with the free market.

Another effect of overregulation is the uncertainty it provides to businesses. If a business is worried about future regulations, they will be less likely to expand production, or hire new workers. This puts a dampening effect on recovery and future economic growth. If a business is unsure of a potential new regulation that might make an investment obsolete, then they will be leery of making that investment. This also applies to new businesses. With so much bureaucracy and red tape in the way of starting a business, as well as the threat of future restrictions and inefficiencies, government regulation becomes a barrier to entry that prevents the start up of innovative small businesses.

Other unintended consequences from government interference could also occur. To use the environment as an analogy, say EPA introduces a species of carp into a lake to combat a weed problem. Once the weeds are gone, the carp would begin to eat the food supplies of other fish species; this would lead to unforeseen consequences in the form of the removal of indigenous species from the lake. The same applies to the economy; should the government use incentives to advocate business in one sector of the economy, another sector may suffer from a lack of business.

One solution that can be offered to solve overregulation of government is to eliminate red tape and trade regulations that hinder investment. The government should make it easier for businesses to be started by reducing paperwork and fees associated with starting a business and hiring workers. In addition, the government should not implement new plans to regulate insurance companies, financial firms, and energy companies. If anything, these industries should be deregulated to promote innovation and efficiency, that doesn't have to wait for the approval of squabbling bureaucrats in an inefficient government system. This would restore free choice to firms and give them knowledge in their investment's legal standing, and the prospects of future profitability. This will increase hiring and levels of production, which will decrease unemployment and help the economy.

To mitigate the effects of the problem firms should be allowed greater say in the rules and regulations of their specific industries in order to reduce costs to the consumer and increase efficiency. Should a new cap-and-trade system for carbon pollution be implemented, energy companies should be able to participate in discussion and legislation, similarly, financial firms should be asked their opinion on new capital requirements and security trading. Industries should be able to know what regulations are coming, and give their input so that the stability of an industry won't be damaged by people far detached from the industry.

Government overregulation of the economy is a problem that afflicts America and many countries around the world. Instead of hampering the leaders of innovation and economic growth, governments should allow businesses to do what is most efficient, in order to keep down costs, and increase production. Government overregulation plagues the national and global economy today, but it is an entirely solvable problem that I hope is fixed in the future.