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Inside Job

By Charles Ferguson

01:
{START}

{TITLE:
{The global economic crisis of 2008
cost tens of millions of people their
savings, their jobs, and their homes.
This is how it happened.}

01:
{ICELAND

POPULATION:
GROSS DOMESTIC PRODUCT: $13 BILLION

BANK LOSSES:

01:

NARRATOR:
living; and until
recently, extremely low unemployment and government debt.

ANDRI MAGNASON:
society; clean
energy, food production, fisheries, with a quota system to manage them.

GYLFI ZOEGA:
uh, not much
crime; uh, it's good, a good place for families to live.

ANDRI MAGNASON:

01:

NARRATOR:
policy of deregulation
that would have disastrous consequences; first for the environment, and
then for the
economy. They started by allowing multinational corporations like Alcoa to
build giant
aluminum-smelting plants, and exploit Iceland's natural geothermal and
hydroelectric

energy sources.

ANDRI MAGNASON:
with the most
spectacular colors, are geothermal. So nothing comes without consequence.

01:
[BOOM!]

01:
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NARRATOR:
three largest banks.
The result was one of the purest experiments in financial deregulation ever conducted.

01:
{SEPTEMBER 2008}

DEMONSTRATOR:

GYLFI ZOEGA:
place.

NARRATOR:
never operated
outside of Iceland, borrowed 120 billion dollars, ten times the size of Iceland's economy.
The bankers showered money on themselves, each other, and their friends.

01:

GYLFI ZOEGA:
factor of nine;
uh, house prices more than doubled.

NARRATOR:
Jóhannesson. He
borrowed billions from the banks to buy up high-end retail businesses in London. He
also bought a pinstriped private jet, a 40-million-dollar yacht, and a Manhattan

penthouse.

01:

ANDRI MAGNASON:
bought this
company, uh, in the UK, or in Finland, or in, in France, or wherever; uh, instead of
saying, this millionaire took a billion-dollar loan to buy this company, and he took it from
your local bank.

01:

GYLFI ZOEGA:
advised deposit-
holders to withdraw money, and put them in the money market funds. The Ponzi
scheme needed everything it could, huh?

01:

NARRATOR:
Icelandic banks and
investment firms, and found nothing wrong; and American credit-rating agencies said
Iceland was wonderful.
SIGRÍ.UR BENEDIKTSDÓTTIR: In February 2007, the rating agencies decided to upgrade the banks to the highest possible rate – AAA.
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GYLFI ZOEGA:
the bankers, as a,
as, as a PR show.

01:

NARRATOR:
unemployment tripled
in six months.

ANDRI MAGNASON:

01:
CHARLES FERGUSON: So a lot of people here lost their savings.

GYLFI ZOEGA:

NARRATOR:
the citizens
of Iceland had done nothing.

GYLFI ZOEGA:
going to a bank
to talk about some issue. When they approach the bank, they would see 19, uh, SUVs
outside, heh, outside the bank. Right? So you got to the bank, and you have the 19
lawyers sitting, uh, in front of you, right? They are very well prepared; uh, uh, ready to
kill any argument you make. And then, if you do really well, they offer you a job, right?

01:

NARRATOR:
work for the banks.

GYLFI ZOEGA:
have the same
problem, right?

01:
{SONY PICTURES CLASSICS

PRESENTS :
A REPRESENTATIONAL PICTURES FILM
IN ASSOCIATION WITH
SCREEN PASS PICTURES
A CHARLES FERGUSON FILM}
{INSIDE JOB}
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01:
CHARLES FERGUSON: What do you think of Wall Street incomes these days?

PAUL VOLCKER:

{PAUL VOLCKER
FORMER FEDERAL RESERVE CHAIRMAN}

01:
CHARLES FERGUSON: I have been told it's extremely difficult for the IMF to criticize
the United States.
DOMINIQUE STRAUSS-KAHN: I won't say that.
{DOMINIQUE STRAUSS-KAHN
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND}

MARK BRANSON:
{NARRATED BY MATT DAMON}

01:

JONATHAN ALPERT:
Streeters can
use, and get up and go to work the next day.
{MUSIC BY ALEX HEFFES}

01:

GEORGE SOROS:
I'm a little bit old-
fashioned.
{GEORGE SOROS
BILLIONAIRE INVESTOR, PHILANTHROPIST}
{MUSIC SUPERVISOR: SUSAN JACOBS}
CHARLES FERGUSON: Has Larry Summers ever expressed remorse?
REP. BARNEY FRANK: Um, I, I don't hear confessions.
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{BARNEY FRANK
CHAIRMAN, FINANCIAL SERVICES COMMITTEE
U.S. HOUSE OF REPRESENTATIVES}
{DIRECTORS OF PHOTOGRAPHY
SVETLANA CVETKO &
KALYANEE MAM}

{RESEARCH:

01:

KENNETH ROGOFF:
That's Plan A, that's Plan
B, and that's Plan C.
CHARLES FERGUSON: Would you support legal controls on executive pay?

DAVID McCORMICK:
{DAVID McCORMICK
UNDER SECRETARY OF THE TREASURY
BUSH ADMINISTRATION}

01:
CHARLES FERGUSON: Are you comfortable with the level of compensation in the

financial services industry?

SCOTT TALBOTT:
CHARLES FERGUSON: Do you think they've earned it?

SCOTT TALBOTT:
{SCOTT TALBOTT

CHIEF LOBBYIST :
FINANCIAL SERVICES ROUNDTABLE}

01:
CHARLES FERGUSON: And so you've helped these people blow the world up.

SATYAJIT DAS:
{GRAPHICS BY BIGSTAR}

01:
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ANDREW SHENG:
{ANDREW SHENG

CHIEF ADVISOR :
CHINA BANKING REGULATORY COMMISSION}
{EDITORS
CHAD BECK & ADAM BOLT}

01:

LEE HSIEN LOONG:
something out of
nothing, it's very difficult to resist.
{LEE HSIEN LOONG
PRIME MINISTER, SINGAPORE}

01:
CHRISTINE LAGARDE: I'm concerned that a lot of people want to go back to the old
way; the way they were operating prior to the crisis.
{CHRISTINE LAGARDE
FINANCE MINISTER, FRANCE}
{ASSOCIATE PRODUCERS

KALYANEE MAM :
& ANNA MOOT-LEVIN}

01:
{GILLIAN TETT
U.S. MANAGING EDITOR
THE FINANCIAL TIMES}

GILLIAN TETT:
saying, you
can't quote me, but I'm really concerned.

01:
CHARLES FERGUSON: Why do you think there isn't a more systematic investigation
being undertaken?
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{EXECUTIVE DIRECTORS
JEFFREY LURIE &
CHRISTINA WEISS LURIE}

NOURIEL ROUBINI:
{NOURIEL ROUBINI
PROFESSOR, NYU BUSINESS SCHOOL}

01:
CHARLES FERGUSON: Do you think that Columbia Business School has any significant conflict-of-interest problem?

GLENN HUBBARD:
{GLENN HUBBARD
CHIEF ECONOMIC ADVISOR, BUSH ADMINISTRATION
DEAN, COLUMBIA BUSINESS SCHOOL}
{PRODUCED BY AUDREY MARRS}

01:
{ELLIOT SPITZER
FORMER GOVERNOR OF NEW YORK
FORMER NEW YORK ATTORNEY GENERAL}

ELIOT SPITZER:
had the power to
do every case that I made when I was state attorney general. They just
didn't want to.
{PRODUCED, WRITTEN AND DIRECTED BY
CHARLES FERGUSON}

01:
{SEPTEMBER 15, 2008}

NEWS REPORTER:
venerable
and biggest investment banks, was forced to declare itself bankrupt;
another, Merrill
Lynch, was forced to sell itself today. Crisis talks are underway –

WOMAN REPORTER:
following dramatic
developments for two Wall Street giants.
WOMAN SPEAKING FOREIGN LANGUAGE: [UI].
MAN SPEAKING FRENCH: [UI].

01:

NARRATOR:
bank Lehman
Brothers, and the collapse of the world's largest insurance company,
AIG, triggered a
global financial crisis.

NEWSCASTER:

slammed by –

NEWSMAN:
history.
NEWSMAN WITH BRITISH ACCENT: Share prices continued to tumble in the aftermath of the Lehman collapse.

01:

NARRATOR:
tens of trillions of
dollars; rendered 30 million people unemployed; and doubled the national debt of the
United States.

01:
{NOURIEL ROUBINI
SENIOR ECONOMIST
COUNCIL OF ECONOMIC ADVISORS (1998-2000)
PROFESSOR, NYU BUSINESS SCHOOL}

NOURIEL ROUBINI:
equity wealth, of
housing wealth; the destruction of income, of jobs; 50 million people globally could end
up below the poverty line again — this is just a, a hugely, hugely expensive crisis.

01:

NARRATOR:
out-of-control
industry. Since the 1980s, the rise of the U.S. financial sector has led to a series of
increasingly severe financial crises. Each crisis has caused more damage, while the
industry has made more and more money.

01:

NARRATOR:
of economic

growth, without a single financial crisis. The financial industry was
tightly regulated.
Most regular banks were local businesses, and they were prohibited from
speculating
with depositors' savings. Investment banks, which handled stock and
bond trading, were
small, private partnerships.

01:
{SAMUEL HAYES
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PROFESSOR EMERITUS OF INVESTMENT BANKING
Inside Job transcript – Sony Pictures – September 2010
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HARVARD BUSINESS SCHOOL}

SAMUEL HAYES:
model, the
partners put the money up. And obviously, the partners watched that money
very
carefully. They wanted to live well, but they didn't want to bet the
ranch on anything.

01:

NARRATOR:
chairman of the
Federal Reserve from 1979 to 1987. Before going into government, he was a
financial
economist at Chase Manhattan Bank.
{PAUL VOLCKER
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CHAIRMAN:
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FEDERAL RESERVE BOARD (1979-1987)}

PAUL VOLCKER:
think my income
was in the neighborhood of 45,000 dollars a year.
CHARLES FERGUSON: Forty-five thousand dollars a year.

01:

SAMUEL HAYES:
personnel; one
office; and capital of 12 million dollars.
Now, Morgan Stanley has 50,000 workers, and has capital of several billion; and has
offices all over the world.

01:

NARRATOR:
investment banks went
public, giving them huge amounts of stockholder money. People on Wall Street started
getting rich.

01:
{CHARLES MORRIS

AUTHOR :
THE TWO TRILLION DOLLAR MELTDOWN}

CHARLES MORRIS:
Lynch in the 1970s.
He had a job as a train conductor at night, 'cause he had three kids and couldn't support
them on what a bond trader made. By, heh, 1986, he was making millions of dollars,
and thought it was because he was smart.

01:

RONALD REAGAN:
restore our
economic prosperity.

NARRATOR:
secretary the CEO
of the investment bank Merrill Lynch, Donald Regan.

01:
{DONALD REGAN
TREASURY SECRETARY (1981-1985)}

DONALD REGAN:

I've talked to many leaders of Wall Street. They all say, we're behind the president one
hundred percent.

NARRATOR:
financial
lobbyists, started a 30-year period of financial deregulation.

01:
and loan
companies, allowing them to make risky investments with their depositors' money. By
the end of the decade, hundreds of savings and loan companies had failed. This crisis
cost taxpayers 124 billion dollars, and cost many people their life savings.

TOM BROKAW:

NARRATOR:
looting their
companies. One of the most extreme cases was Charles Keating.

01:

MAN:

NARRATOR:
Keating hired
an economist named Alan Greenspan. In this letter to regulators, Greenspan praised
Keating's sound business plans and expertise; and said he saw no risk in allowing
Keating to invest his customers' money. Keating reportedly paid Greenspan 40,000
dollars.

01:
for Alan Greenspan,
President Reagan appointed him chairman of America's central bank, the Federal

Reserve. Greenspan was reappointed by presidents Clinton and George W. Bush.

01:
continued under Greenspan
and Treasury secretaries Robert Rubin — the former CEO of the investment bank
Goldman Sachs — and Larry Summers, a Harvard economics professor.

01:

NOURIEL ROUBINI:
having lobbies,
having lots of money; step by step, uh, captured the political system; you know, both on
the Democratic and the Republican side.

01:

NARRATOR:
into a few gigantic
firms, each of them so large that their failure could threaten the whole system; and the
Clinton administration helped them grow even larger.
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In 1998, Citicorp and Travelers merged, to form Citigroup, the largest financial services
company in the world. The merger violated the Glass-Steagall Act, a law passed after
the Great Depression, which prevented banks with consumer deposits from engaging in
risky investment banking activities.

01:
{ROBERT GNAIZDA
FORMER DIRECTOR
GREENLINING INSTITUTE}

ROBERT GNAIZDA:
nothing. The
Federal Reserve gave 'em an exemption for a year; and then they got the law passed.

NARRATOR:
passed the
Gramm-Leach-Bliley Act, known to some as the Citigroup Relief Act. It overturned
Glass-Steagall, and cleared the way for future mergers.

01:
{ROBERT RUBIN WOULD LATER MAKE $126 MILLION
AS VICE CHAIRMAN OF CITIGROUP.
HE DECLINED TO BE INTERVIEWED FOR THIS FILM.}

01:
{WILLEM BUITER
CHIEF ECONOMIST, CITIGROUP}

WILLEM BUITER:
monopoly
power; because banks like lobbying power; because, um, banks know that when they're
too big, they will be bailed.

01:
{GEORGE SOROS

CHAIRMAN :
SOROS FUND MANAGEMENT}

GEORGE SOROS:
potentially unstable. An
appropriate metaphor is the oil tankers. They are very big; and therefore, you have to
put in compartments to prevent the sloshing around of oil from capsizing the boat. The
design of the boat has to take that into account. And after the, uh, uh, Depression, the

regulations actually introduced these very ti-, watertight compartments. And
deregulation has led to the end of co-, compartmentalization.

01:

NARRATOR:

investment banks fueled
a massive bubble in Internet stocks, which was followed by a crash in 2001 that caused
5 trillion dollars in investment losses. The Securities and Exchange Commission, the
federal agency which had been created during the Depression to regulate investment
banking, had done nothing.

01:

ELIOT SPITZER:
there has been
none — and given the clear failure of self-regulation; it has become necessary for others
to step in and adopt the protections needed.

01:

NARRATOR:
investment banks had
promoted Internet companies they knew would fail. Stock analysts were being paid
based on how much business they brought in. And what they said publicly was quite
different from what they said privately.

NEWSCASTER:
by an analyst
as a "piece of junk." Excite, also highly rated, called "such a piece of crap."

01:
{ELIOT SPITZER
GOVERNOR, NEW YORK STATE (2007-2008)
ATTORNEY GENERAL, NEW YORK STATE (1999-2007)

ELIOT SPITZER:
investment banks was
not, you're wrong; it was, everybody's doing it, and everybody knows it's going on, and
therefore nobody should rely on these analysts anyway.

NARRATOR:

a total of 1.4
billion dollars, and promised to change their ways.
{BEAR STEARNS $80 MILLION
CREDIT SUISSE $200 MILLION
DEUTSCHE BANK $80 MILLION
J.P. MORGAN $80 MILLION
MERRILL LYNCH $200 MILLION
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MORGAN STANLEY $125 MILLION
UBS $80 MILLION
GOLDMAN SACHS $110 MILLION
CITIGROUP $110 MILLION}

01:

NARRATOR:
Services Roundtable,
one of the most powerful groups in Washington, which represents nearly all of the
world's largest financial companies.
CHARLES FERGUSON: Are you comfortable with the fact that several of your member
companies have engaged in large-scale criminal activity?

SCOTT TALBOTT:
CHARLES FERGUSON: Okay. Uh –

SCOTT TALBOTT:
accepted, period.

01:

01:

NARRATOR:
financial firms have been
caught laundering money, defrauding customers, and cooking their books; again and
again and again.
{JP MORGAN – BRIBED GOVERNMENT OFFICIALS
RIGGS BANK – LAUNDERED MONEY FOR
CHILEAN DICTATOR AUGUSTO PINOCHET
CREDIT SUISSE – LAUNDERED MONEY FOR IRAN

IN VIOLATION OF US SANCTIONS}

01:
nuclear program, and for the
Aerospace Industries Organization of Iran, which builds ballistic missiles.

MAN:
removed.

NARRATOR:
Citibank helped funnel 100 million dollars of drug money out of Mexico.

01:
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WOMAN:
documents
connected with the account?
{NOVEMBER 9, 1999}
{ALBERT MISAN
VP, CITIBANK PRIVATE BANK (NY)}

ALBERT MISAN:
stages of this. I did
not mean it seriously.

01:
{FREDDIE MAC
ACCOUNTING FRAUD – FINED $125 MILLION

FANNIE MAE :
ACCOUNTING FRAUD – FINED $400 MILLION}

NARRATOR:
by more
than 10 billion dollars.

FRANKLIN RAINES:
require
determinations over which experts often disagree.

NARRATOR:

Clinton's budget director,
received over 52 million dollars in bonuses.

01:
{UBS FRAUD – FINED $780 MILLION}
When UBS was caught helping wealthy Americans evade taxes, they refused to cooperate with the U.S. government.

SEN. CARL LEVIN:

MARK BRANSON:

SEN. CARL LEVIN:
participated in a fraud.

MARK BRANSON:

01:
{HELPED ENRON CONCEAL FRAUD: FINED $385 MILLION
CITIBANK – JP MORGAN – MERRILL LYNCH}
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NEWSCASTER:
investment
firms do not have to admit any wrongdoing.

01:

SCOTT TALBOTT:
with this many products
and this many customers, mistakes happen.
CHARLES FERGUSON: The financial services industry seems to have a level of criminality that is, you know, somewhat distinctive. When was the last time that Cisco or
Intel or Google or Apple or IBM, you know –

ELIOT SPITZER:
financial services. But
high tech –
CHARLES FERGUSON: So how come? What, what's –

ELIOT SPITZER:
where the value

generation and the income derives from actually creating something new and different.

01:

NARRATOR:
technology led to
an explosion of complex financial products, called derivatives. Economists and bankers
claimed they made markets safer. But instead, they made them unstable.

01:

ANDREW SHENG:
phys-, former
physicists and mathematicians decided to u-, apply their skills not on, you know, Cold
War technology, but on financial markets. And uh, together with investment bankers and
hedge funds –
CHARLES FERGUSON: Creating different weapons.

ANDREW SHENG:
know, weapons
of mass destruction.

01:
{ANDREW LO
PROFESSOR & DIRECTOR
MIT LABORATORY FOR FINANCIAL ENGINEERING}

ANDREW LO:
seriously the
threat of financial innovation on the, uh, the stability of the financial system.
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01:

NARRATOR:
anything. They could
bet on the rise or fall of oil prices, the bankruptcy of a company; even the weather. By

the late 1990s, derivatives were a 50-trillion-dollar unregulated market.

01:
Brooksley Born graduated first in her class at Stanford Law School, and was the first
woman to edit a major law review. After running the derivatives practice at Arnold &
Porter, Born was appointed by President Clinton to chair the Commodity Futures Trading
Commission, which oversaw the derivatives market.

01:
MICHAEL GREENBERGER: Brooksley Born asked me if I would come work with her.

Uh, we decided that this was a serious, potentially destabilizing market.
{MICHAEL GREENBERGER
FORMER DEPUTY DIRECTOR (1997-2000)
COMMODITY FUTURES TRADING COMMISSION}

NARRATOR:
derivatives.
Clinton's Treasury Department had an immediate response.

01:
MICHAEL GREENBERGER: I happened to go into Brooksley's office. And she was just
putting down the receiver on her telephone. And the blood had drained from her face.
And she looked at me, and said: That was Larry Summers. He had 13 bankers in his
office. He conveyed it in a very bullying fashion – sort of directing her to stop.

01:
{SATYAJIT DAS
DERIVATIVES CONSULTANT
AUTHOR, TRADERS, GUNS & MONEY}

SATYAJIT DAS:
these types of
activities. And that led to a titanic battle to prevent this set of instruments from being
regulated.

NARRATOR:
Rubin, and SEC
Chairman Arthur Levitt issued a joint statement condemning Born, and recommending
legislation to keep derivatives unregulated.
Inside Job transcript – Sony Pictures – September 2010
{JULY 24, 1998}

ALAN GREENSPAN:
privately
negotiated, by professionals, is unnecessary.

01:
REP. BARNEY FRANK: She was overruled, unfortunately, uh, first by the Clinton
administration; and then by the Congress. In 2000, uh, Senator Phil Gramm took a
major role in getting a bill passed that pretty much exempted derivatives from, from
regulation.
{JULY 21, 2000
SENATOR PHIL GRAMM (R-TX)

CHAIRMAN :
SENATE BANKING COMMITTEE}

PHIL GRAMM:
burden. I
believe that we need to do it.
{AFTER LEAVING THE SENATE,
PHIL GRAMM BECAME VICE-CHAIRMAN OF UBS.
SINCE 1993, HIS WIFE WENDY HAD
SERVED ON THE BOARD OF ENRON.}

01:
{LARRY SUMMERS
TREASURY SECRETARY (1999-2001)}

LARRY SUMMERS:
move this year
on legislation that in a suitable way goes to create legal certainty for OTC, uh,
derivatives.
{LARRY SUMMERS LATER MADE

$20 MILLION AS A CONSULTANT TO A HEDGE
FUND THAT RELIED HEAVILY ON DERIVATIVES.}

ALAN GREENSPAN:
of Secretary
Summers.
{ALAN GREENSPAN
CHAIRMAN, FEDERAL RESERVE BOARD}

01:
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NARRATOR:

Modernization Act. Written with the help of financial-industry lobbyists, it banned the
regulation of derivatives.

01:
{FRANK PARTNOY
PROFESSOR LAW AND FINANCE
UNIVERSITY OF CALIFORNIA, SAN DIEGO}

FRANK PARTNOY:
use of
derivatives and financial innovation, uh, exploded dramatically after 2000.

01:

MAN:

GEORGE W. BUSH:

NARRATOR:
financial sector
was vastly more profitable, concentrated, and powerful than ever before. Dominating
this industry were five investment banks;
{GOLDMAN SACHS

MORGAN STANLEY :
LEHMAN BROTHERS

MERRILL LYNCH :

BEAR STEARNS}
– two financial conglomerates;
{CITIGROUP
JP MORGAN}
– three securities-insurance companies;
{AIG

MBIA :
AMBAC}
– and three rating agencies.
{MOODY'S
STANDARD & POOR'S
FITCH}
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And linking them all together was the securitization food chain, a new system which
connected trillions of dollars in mortgages and other loans with investors all over the
world.

01:
REP. BARNEY FRANK: Thirty years ago, if you went to get a loan for a home, the
person lending you the money expected you to pay him or her back. You got a loan
from a lender who wanted you to pay him back. We've since developed securitization,
whereby the people who make the loan are no longer at risk if there is a failure to repay.

01:

NARRATOR:
every month,
the money went to their local lender. And since mortgages took decades to repay,
lenders were careful.
In the new system, lenders sold the mortgages to investment banks. The investment
banks combined thousands of mortgages and other loans — including car loans, student
loans, and credit-card debt — to create complex derivatives, called collateralized debt

obligations, or CDOs. The investment banks then sold the CDOs to investors. Now, when homeowners paid their mortgages, the money went to investors all over the
world.

01:
the CDOs, and
many of them were given a AAA rating, which is the highest possible investment grade.
This made CDOs popular with retirement funds, which could only purchase highly rated
securities.

01:
care anymore about
whether a borrower could repay, so they started making riskier loans. The investment
banks didn't care, either; the more CDOs they sold, the higher their profits. And the
rating agencies, which were paid by the investment banks, had no liability if their ratings
of CDOs proved wrong.

01:
{GILLIAN TETT
U.S. MANAGING EDITOR
THE FINANCIAL TIMES}

GILLIAN TETT:
weren't regulatory
constraints. Um, so it was a green light to just pump out more and more and more
loans.

NARRATOR:
each year
nearly quadrupled.

NOURIEL ROUBINI:
from the very
beginning until the end; they didn't care about the quality of the mortgage; they were

caring about maximizing their volume, and getting a fee out of it.

01:

NARRATOR:
riskiest loans, called
subprime. But when thousands of subprime loans were combined to create CDOs,
many of them still received AAA ratings.

01:
CHARLES FERGUSON: Now it would have been possible to create derivative products
that don't have these risks –

GILLIAN TETT:
CHARLES FERGUSON: – that carry the equivalent of deductibles, where there are
limits on the risks that can be taken on, and so forth. They didn't do that, did they?

01:

GILLIAN TETT:
should have done.
CHARLES FERGUSON: So did these guys know that they were doing something dangerous?

SAM HAYES:
{THE INVESTMENT BANKS ACTUALLY PREFERRED SUBPRIME
LOANS, BECAUSE THEY CARRIED HIGHER INTEREST RATES.
THIS LED TO A MASSIVE INCREASE IN PREDATORY LENDING.}
{BORROWERS WERE NEEDLESSLY PLACED IN EXPENSIVE
SUBPRIME LOANS, AND MANY LOANS WERE GIVEN
TO PEOPLE WHO COULD NOT REPAY THEM.}

01:

ROBERT GNAIZDA:
offered to their
mortgage brokers were based on selling the most profitable products, which were
predatory loans.
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01:
{ERIC HALPERIN
DIRECTOR, CENTER FOR RESPONSIBLE LENDING
WASHINGTON, DC}

ERIC HALPERIN:
subprime loan,
that's where they're gonna, that's where they're gonna put ya.

01:

{PART II:
(2001-2007)}

NARRATOR:
flowing through the
securitization chain. Since anyone could get a mortgage, home purchases and housing
prices skyrocketed. The result was the biggest financial bubble in history.

MAN:
their asset; they can
rent out their asset.

01:

CHARLES MORRIS:
at all. The
financing appetites of the financial sector drove what everybody else did.

NOURIEL ROUBINI:
'80s. In that
case, the increase in home price had been relatively minor. That housing bubble led to
a relatively severe recession.
From 1996 until 2006, real home prices effectively doubled.

01:

VOICE OVER:
to buy their very own

piece of the American dream.

ROBERT GNAIZDA:
Merrill Lynch,
were all in on this. The uh, p-, sub-, subprime lending alone increased from 30 billion a
year in funding to over 600 billion a year, in 10 years. They knew what was happening.

01:

NARRATOR:
97 billion
dollars’ worth of loans. It made over 11 billion dollars in profits as a result.

01:
CEOs became
enormously wealthy during the bubble.
Lehman Brothers was a top underwriter of subprime lending; and their CEO, Richard
Fuld, took home 485 million dollars.

01:

NOURIEL ROUBINI:
leading, uh, to
hundreds of billions of dollars of profits. You know, by 2006, about 40 percent of all
profits of S&P 500 firms was coming from financial institutions.

01:
{MARTIN WOLF
CHIEF ECONOMICS COMMENTATOR
THE FINANCIAL TIMES}

MARTIN WOLF:
income; it was just money that was
being created by the system, and booked as income two, three years down the road.
There's a default; it's all wiped out.
I think this was, in fact, in retrospect, a great big national — and not

just national, global
— Ponzi scheme.

01:

NARRATOR:
Federal
Reserve Board had broad authority to regulate the mortgage industry. But Fed
Chairman Alan Greenspan refused to use it.
REP. BARNEY FRANK: Alan Greenspan said, no, that's regulation; ideologically, I don't
believe in it.

NARRATOR:
a powerful
consumer advocacy group. He met with Greenspan on a regular basis.

01:

ROBERT GNAIZDA:
different
complex adjustable-rate mortgages. And he said: If you had a doctorate in math, you
wouldn't be able to understand them enough to know which was good for you and which
wasn't.
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So we thought he was gonna take action. But, as the conversation continued, it was
clear he was stuck with his ideology.
We met again with Greenspan in '05. Often we met with him twice a year, and never
less than once a year. And he wouldn't change his mind.
{ALAN GREENSPAN DECLINED
TO BE INTERVIEWED FOR THIS FILM.}

01:
{CHRISTOPHER COX

SEC CHAIRMAN :
JUNE 2, 2005}

CHRISTOPHER COX:
communications, the free
and efficient movement of capital is helping to create the greatest
prosperity in human
history.
{THE SECURITIES AND EXCHANGE COMMISSION
CONDUCTED NO MAJOR INVESTIGATIONS OF THE
INVESTMENT BANKS DURING THE BUBBLE.}

01:
{OCTOBER 7, 2008}
REP. PETER WELCH: A hundred and forty six people were cut from the
enforcement
division of the e-, SEC; is that what you also testified to?
{LYNN E. TURNER
FORMER CHIEF ACCOUNTANT
SECURITIES AND EXCHANGE COMMISSION}

LYNN E. TURNER:
systematic gutting, or
whatever you want to call it, of the agency and its capability, through
cutting back of
staff.

01:
REP. PETER WELCH: The SEC Office of, uh, Risk Management was reduced to a
staff,
did you say, of one?

LYNN E. TURNER:
could turn
the lights out.
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01:

NARRATOR:
heavily, to buy
more loans, and create more CDOs.
The ratio between borrowed money and the banks' own money was called
leverage.
The more the banks borrowed, the higher their leverage.
In 2004, Henry Paulson, the CEO of Goldman Sachs, helped lobby the

Securities and
Exchange Commission to relax limits on leverage, allowing the banks to sharply
increase their borrowing.

01:
{KENNETH ROGOFF
PROFESSOR OF ECONOMICS, HARVARD}

KENNETH ROGOFF:
gamble a lot
more. That was nuts. I don't know why they did that, but they did that.
{ON APRIL 28, 2004, THE SEC MET TO CONSIDER
LIFTING LEVERAGE LIMITS ON THE INVESTMENT BANKS}

01:
COMMISSIONER HARVEY J. GOLDSCHMID: We've said these are the big guys and
clearly that's true. But that means if anything goes wrong, it's going to be an awfully big
mess.
[LAUGHTER]
DIRECTOR ANNETTE L. NAZARETH: At these levels, you obviously are dealing with
the most highly sophisticated financial institutions.

01:
COMMISSIONER ROEL C. CAMPOS: These are the firms that do most of the
derivative activity in the United States. We talked to some of them as to what their
comfort level was.
DIRECTOR ANNETTE L. NAZARETH: The firms actually thought that the number was,
uh, appropriate.
CHAIRMAN WILLIAM DONALDSON: Do the commissioners vote to adopt the rule
amendments and new rules as recommended by the staff?

ALL:
WILLIAM DONALDSON: We do indeed. Unanimous.
And we are adjourned.

01:
{DANIEL ALPERT
MANAGING DIRECTOR
WESTWOOD CAPITAL}

DANIEL ALPERT:
became
absolutely frightening; investment banks leveraging up to the level of, you know, 33 to 1.
Uh, which means that a tiny, 3-percent decrease in the value of their asset base would
leave them insolvent.

01:

NARRATOR:
system: AIG, the
world's largest insurance company, was selling huge quantities of derivatives, called
credit default swaps.
For investors who owned CDOs, credit default swaps worked like an insurance policy.
An investor who purchased a credit default swap paid AIG a quarterly premium. If the
CDO went bad, AIG promised to pay the investor for their losses.

01:
credit default
swaps from AIG in order to bet against CDOs they didn't own.

01:

SATYAJIT DAS:
Let's say you
and I own property; I own a house. I can only insure that house once. The derivatives
universe essentially enables anybody to actually insure that house. So you could insure
that; somebody else could do that. So 50 people might insure my house.
So what happens is, if my house burns down, now the number of losses in the system
becomes proportionately larger.

01:

NARRATOR:
didn't have to put aside
any money to cover potential losses. Instead, AIG paid its employees huge cash
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bonuses as soon as contracts were signed. But if the CDOs later went bad, AIG would
be on the hook.

NOURIEL ROUBINI:
massive risks.
Uh, in good times, they generate short-term revenues and profits, and therefore
bonuses. But that's gonna lead to the firm to be bankrupt over time. That's a totally
distorted system of compensation.

01:

NARRATOR:
500 billion dollars
worth of credit default swaps during the bubble, many of them for CDOs backed by
subprime mortgages.
The 400 employees at AIGFP made 3.5 billion dollars between 2000 and 2007. Joseph
Cassano, the head of AIGFP, personally made 315 million dollars.

01:
{JOSEPH CASSANO ON AN AIG CONFERENCE CALL
WITH INVESTORS, AUGUST 2007.}

JOSEPH CASSANO:
flippant, to even see
a scenario, within any kind of realm of reason, that would see us losing one dollar in any
of those transactions.

01:

NARRATOR:
Joseph St. Denis,

resigned in protest after Cassano repeatedly blocked him from investigating AIGFP's
accounting.
REP. HENRY WAXMAN: Let me tell you one person that didn't get a bonus while
everybody else was getting bonuses:
{HENRY WAXMAN
CHAIRMAN, HOUSE OVERSIGHT COMMITTEE}
– that was St. Denis, Mr. St. Denis, who tried to alert the two of you to the fact that you
were running into big problems. He quit in frustration, and he didn't get a bonus.

01:

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NARRATOR:

International
Monetary Fund, delivered a paper at the annual Jackson Hole Symposium, the most
elite banking conference in the world.
CHARLES FERGUSON: Who was in the audience?

RAGHURAM RAJAN :

CHIEF ECONOMIST (2003-2007)
INTERNATIONAL MONETARY FUND (IMF)}

RAGHURAM RAJAN:

world. Um, ranging
from Mr. Greenspan himself; Ben Bernanke; Larry Summers was there; Tim Geithner
was there.
The title of the paper was, essentially: Is Financial Development Making the World
Riskier? And the conclusion was, uh, it is.

01:

NARRATOR:

generated huge cash
bonuses based on short-term profits, but which imposed no penalties for later losses.
Rajan argued that these incentives encouraged bankers to take risks that

might
eventually destroy their own firms, or even the entire financial system.

01:

RAGHURAM RAJAN:
taking on more risk.
And so what you need to do is compensate for risk-adjusted performance. And that's
where all the bodies are buried.
{KENNETH ROGOFF
PROFESSOR OF ECONOMICS, HARVARD}

01:

KENNETH ROGOFF:
he
particularly said was, you guys have claimed you have found a way to make more profits
with less risk. I say you've found a way to make more profits with more risk, and there's
a big difference.

01:

RAGHURAM RAJAN:
was
criticizing the change in the financial world, and was worried about, uh, you know,
regulation which would reverse this whole change. So essentially, he accused me of

being a Luddite. He wanted to make sure that we didn't bring in a whole new set of
regulations to constrain the financial sector at that point.
{LARRY SUMMERS DECLINED
TO BE INTERVIEWED FOR THIS FILM.}

01:

FRANK PARTNOY:
year — or 10 million
dollars a year — for putting your financial institution at risk. Someone

else pays the bill,
you don't pay the bill. Would you make that bet?
Most people who worked on Wall Street said, sure, I'd make that bet.

01:
{MUSIC CUE}
{THE HAMPTONS
2 HOURS FROM NEW YORK CITY}

01:

ROBERT GNAIZDA:
home; they
want to own five homes, and they want to have an expensive penthouse on Park
Avenue; and they want to have their own private jet.

01:
CHARLES FERGUSON: You think this is an industry where high, very high compensation levels are justified?

SCOTT TALBOTT:
heed, or take
exception at your word very high. I mean, it's all relative.

01:
REP. HENRY WAXMAN: You have a 14-million-dollar oceanfront home in Florida; you
have a summer vacation home in Sun Valley, Idaho; you and your wife have an art
collection filled with million-dollar paintings.
{RICHARD FULD
CEO, LEHMAN BROTHERS}

01:
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{LAWRENCE McDONALD
FORMER VICE PRESIDENT
LEHMAN BROTHERS}
LAWRENCE McDONALD: Richard Fuld never appeared on the trading floor. There was art advisors up there all the time. You know, he had his own private elevator. The-,
the, he went out of his way to be disconnected.

I mean, his elevator – they hired technicians to program it, you know, so that his driver
would call in in the morning, and a security guard would hold it. And there's only like a
two- or three-second window where he actually has to see people. And he hops into this
elevator, and goes straight to 31.

01:
CHARLES FERGUSON: Lehman owned a bunch of corporate jets. Do you know about

this?
{HARVEY MILLER
LEHMAN'S BANKRUPTCY LAWYER}

HARVEY MILLER:
CHARLES FERGUSON: How many were there?

HARVEY MILLER:
had a helicopter.
CHARLES FERGUSON: I see. Isn't that kind of a lot of planes to have, for –

01:
{JEFFREY LANE

VICE CHAIRMAN :
LEHMAN BROTHERS (2003-2007)}

JEFFREY LANE:
uh, Type A
personalities know everything in the world.

WILLEM BUITER:
mine's bigger than
yours; that kind of stuff. It was all men that ran it, incidentally.

JEFFREY LANE:
we do hundredbillion-
dollar deals.

01:
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JONATHAN ALPERT:
impulsive.
{JONATHAN ALPERT IS A THERAPIST WHOSE CLIENTS
INCLUDE MANY HIGH-LEVEL WALL STREET EXECUTIVES.}
It's part of their behavior, it's part of their personality. And that manifests outside of work
as well.
It's quite typical for the guys to go out, to go to strip bars, to use drugs. I see a lot of
cocaine use, a lot of use of prostitution.
{–THE OWNER OF THE V.I.P. CLUB IN CHELSEA, WHO ESTIMATES
THAT ABOUT 80 PERCENT OF HIS CLIENTS ARE WALL STREET TYPES.}

01:
{ANDREW LO
PROFESSOR & DIRECTOR
MIT LABORATORY FOR FINANCIAL ENGINEERING}

ANDREW LO:
uh, they've, uh,
taken individuals and put them into an MRI machine. And they have them play a game
where the prize is money. And they noticed that when these subjects earn money, the
part of the brain that gets stimulated is the same part that cocaine stimulates.

01:

JONATHAN ALPERT:
participate in that
behavior to make it, to get promoted, to get recognized.

NARRATOR:
represents 5
percent of revenue for New York derivatives brokers, and often includes strip clubs,
prostitution, and drugs. A New York broker filed a lawsuit in 2007 against his firm,
alleging he was required to retain prostitutes to entertain traders.

01:

JONATHAN ALPERT:
impact that their actions
might have on, on society, on family. They have no problem using a prostitute, uh, and
going home to their wife.

01:
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{KRISTIN DAVIS RAN AN ELITE PROSTITUTION RING
FROM HER HIGH-RISE APARTMENT.
IT WAS LOCATED A FEW BLOCKS FROM
THE NEW YORK STOCK EXCHANGE.}

01:
CHARLES FERGUSON: How many customers?

KRISTIN DAVIS:

01:
CHARLES FERGUSON: What fraction were from Wall Street?

KRISTIN DAVIS:
percent.
CHARLES FERGUSON: And were all the major Wall Street firms represented?
Goldman Sachs.

KRISTIN DAVIS:

JONATHAN ALPERT:
think Goldman
was, was pretty, pretty big with that.

01:

KRISTIN DAVIS:
me a Lamborghini
for the night for the girl?
These guys were spending corporate money; I had many black cards from, you know,
the various financial firms.

JONATHAN ALPERT:
to computer

repair.

01:

KRISTIN DAVIS:
compliance. [They],
I just usually gave them a piece of letterhead, and said, make your own invoice.

01:
CHARLES FERGUSON: So this pattern of behavior, you think, extends to the senior
management of the firm.
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JONATHAN ALPERT:
does. It extends
to the very top.

01:
{ALLAN SLOAN

SENIOR EDITOR :
FORTUNE MAGAZINE}

ALLAN SLOAN:
that has a big
financial presence, said: Well, it's about time you learned about subprime mortgages.
So he set up a session with his trading desk and me; and, and a techie, who, who did all
this – gets very excited; runs to his computer; pulls up, in about three seconds, this
Goldman Sachs issue of securities.
It was a complete disaster. Borrowers had borrowed, on average, 99.3 percent of the
price of the house. Which means they have no money in the house. If anything goes
wrong, they're gonna walk away from the mortgage.

01:
You've gotta be crazy.
But somehow, you took 8,000 of these loans; and by the time the guys were

done at
Goldman Sachs and the rating agencies, two-thirds of the loans were rated AAA, which
meant they were rated as safe as government securities. It's, it's utterly mad.

01:

NARRATOR:
worth of these toxic CDOs
in the first half of 2006. The CEO of Goldman Sachs at this time was Henry Paulson,
the highest-paid CEO on Wall Street.

01:
{MAY 30, 2006}

GEORGE W. BUSH:
am
pleased to announce that I will nominate Henry Paulson to be the secretary of the
Treasury. He has a lifetime of business experience; he has an intimate knowledge of
financial markets; he has earned a reputation for candor and integrity.

01:
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NARRATOR:
a meager
government salary. But taking the job as Treasury secretary was the best financial
decision of his life.
Paulson had to sell his 485 million dollars of Goldman stock when he went to work for
the government. But because of a law passed by the first President Bush, he didn't have
to pay any taxes on it. It saved him 50 million dollars.

01:
{IN 2007, ALAN SLOAN PUBLISHED AN ARTICLE ABOUT
THE CDOs ISSUED DURING PAULSON'S LAST MONTHS AS CEO.}

ALLAN SLOAN:
third of the
mortgages defaulted. Now, uh, most of them are goin'.

01:

NARRATOR:
securities was the
Public Employees Retirement System of Mississippi, which provides monthly benefits to
over 80,000 retirees. They lost millions of dollars, and are now suing Goldman Sachs.
{AVERAGE ANNUAL RETIREMENT BENEFITS
FOR A MISSISSIPPI PUBLIC EMPLOYEE: $18,750
AVERAGE ANNUAL COMPENSATION OF A
GOLDMAN SACHS EMPLOYEE: $600,000
HANK PAULSON'S COMPENSATION IN 2005: $31,000,000}

01:

NARRATOR:
didn't just sell
toxic CDOs; it started actively betting against them at the same time it was telling
customers that they were high-quality investments.

01:
could bet against
CDOs it didn't own, and get paid when the CDOs failed.

01:

ALLAN SLOAN:
you know, we
don't really like this kind of mortgage anymore, and we thought you ought to know, you
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know. They, they didn't really say anything; but, you know, you could just feel the
laughter coming over the phone.

01:

NARRATOR:
default swaps
from AIG. It was so much that Goldman realized that AIG itself might go bankrupt; so
they spent 150 million dollars insuring themselves against AIG's potential collapse.
Then, in 2007, Goldman went even further. They started selling CDOs specifically
designed so that the more money their customers lost, the more money Goldman Sachs
made.
{GOLDMAN SACHS' CEO AND ALL OF ITS SENIOR
EXECUTIVES DECLINED TO BE INTERVIEWED FOR THIS FILM.}
{BUT IN APRIL 2010, THEY WERE FORCED
TO TESTIFY BEFORE CONGRESS.}

01:

SEN. CARL LEVIN:
is what you sold.
Before you sold them, this is what your sales team were tellin' to each other.
Boy, that Timberwolf was one shitty deal.

01:
{DANIEL SPARKS
FORMER MORTGAGES DEPARTMENT HEAD}

DANIEL SPARKS:

SEN. CARL LEVIN:

DANIEL SPARKS:

SEN. CARL LEVIN:

DANIEL SPARKS:

SEN. CARL LEVIN:
'07; tells the sales
force, "the top priority is Timberwolf."
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01:
you have an adverse
interest to your client, do you have the duty to disclose that to your client; to tell that
client of your adverse interest? That's my question.

DANIEL SPARKS:

SEN. CARL LEVIN:
you want to answer it.

01:
SEN. SUSAN COLLINS (R-ME): Do you believe that you have a duty to act in the best
interests of your clients?
{FABRICE TOURRE
EXECUTIVE DIRECTOR,
STRUCTURED PRODUCTS GROUP TRADING
GOLDMAN SACHS}

FABRICE TOURRE:
we have a, a duty
to, to serve our clients by showing prices on transaction where they ask us to show
prices for.

01:

SEN. CARL LEVIN:
your own people
think are – crap? Does that bother you?
{LLOYD BLANKFEIN
CHAIRMAN & CEO
GOLDMAN SACHS}

LLOYD BLANKFEIN:

SEN. CARL LEVIN:

LLOYD BLANKFEIN:

SEN. CARL LEVIN:

LLOYD BLANKFEIN:

SEN. CARL LEVIN:
crap.

LLOYD BLANKFEIN:
anything, um, went
wrong.

01:

SEN. CARL LEVIN:
somebody, and
then are determined to bet against that same security; and you don't
disclose that to the
person you're selling it –

LLOYD BLANKFEIN:

SEN. CARL LEVIN:

LLOYD BLANKFEIN:
conflict.

01:
{DAVID VINIAR
EXECUTIVE VICE PRESIDENT AND CFO
GOLDMAN SACHS}

SEN. CARL LEVIN:
e-mails, said, god,
what a shitty deal; god, what a piece of crap; do you feel anything?

DAVID VINIAR:
e-mail.

SEN. CARL LEVIN:

DAVID VINIAR:
don't –

SEN. CARL LEVIN:

DAVID VINIAR:

SEN. CARL LEVIN:

DAVID VINIAR:
said that, in any form.
{SEN. TOM COBURN (R-OK)

RANKING MEMBER :
GOVERNMENTAL AFFAIRS SUBCOMMITTEE
ON INVESTIGATIONS}

01:

SEN. TOM COBURN:
engaged in
similar activities?

LLOYD BLANKFEIN:
most cases.

01:

NARRATOR:
betting against
the mortgage market. When John Paulson ran out of mortgage securities to bet against,
he worked with Goldman Sachs and Deutsche Bank to create more of them.

01:
it was betting
against, and it's now being sued by the government employees retirement fund of the
Virgin Islands for fraud.
The lawsuit alleges that Morgan Stanley knew that the CDOs were junk. Although they
were rated AAA, Morgan Stanley was betting they would fail. A year later, Morgan
Stanley had made hundreds of millions of dollars, while the investors had lost almost all
of their money.
{GOLDMAN SACHS, JOHN PAULSON,

AND MORGAN STANLEY
WEREN'T ALONE.
THE HEDGE FUNDS TRICADIA AND MAGNETAR MADE
BILLIONS BETTING AGAINST CDOs THEY HAD DESIGNED WITH
MERRILL LYNCH, J.P. MORGAN, AND LEHMAN BROTHERS.
THE CDOs WERE SOLD TO CUSTOMERS AS "SAFE" INVESTMENTS.}

01:

CHARLES MORRIS:
said,
those are subprime; why am I buying them? And they had these guys at
Moody's and
Standard and Poor's who said, that's a AAA.

01:
{BILL ACKMAN
HEDGE FUND MANAGER}

BILL ACKMAN:
imprimatur, you know,
the Good Housekeeping Seal of Approval, of the rating agencies.

NARRATOR:
made billions of
dollars giving high ratings to risky securities. Moody's, the largest
rating agency,
quadrupled its profits between 2000 and 2007.

01:

BILL ACKMAN:
out ratings
reports. And the more structured securities they gave a AAA rating to, the
higher their
earnings were gonna be for the quarter.
Imagine if you went to the New York Times, and you said, look, if you write
a positive
story, I'll pay you 500,000 dollars. But if you don't, I'll
give you nothing.

01:

{JEROME FONS
FORMER MANAGING DIRECTOR
MOODY'S RATING AGENCY}

JEROME FONS:
said: We're
sorry – you know – we're gonna tighten our standards. This is – a-, and, and
immediately cut off a lot of the flow of funding to risky borrowers.

FRANK PARTNOY:
to
thousands and thousands.

01:

JEROME FONS:
You know – and
–
CHARLES FERGUSON: Per year.

JEROME FONS:

01:

FRANK PARTNOY:
the credit
rating agency issue. And both times, they trot out very prominent First Amendment
lawyers, and argue that when we say something is rated AAA, that is merely our opinion;
you shouldn't rely on it.

01:

DEVEN SHARMA:

STEPHEN JOYNT:
they're opinions.
RAYMOND McDANIEL: Opinions, and those are, they are just opinions.

STEPHEN JOYNT:
are, uh, uh, are
opinions.

{THEY DIDN'T SHARE THEIR OPINIONS WITH US.
THEY ALL DECLINED TO BE INTERVIEWED FOR THIS FILM.}

01:

DEVEN SHARMA:
the volatility of
its price, or its suitability as an investment.

01:

01:
{JULY, 2005}

NEWSWOMAN:
oh, this is
a bubble, and it's going to burst, and this is going to be a real issue for the economy.
Some say it could even cause a recession at some point.
What is the worst-case scenario, if in fact we were to see prices come down

substantially across the country?

01:

BEN BERNANKE:
It's a pretty unlikely
possibility. We've never had a decline in house prices on a nationra-, ba-, a nationwide
basis.

NARRATOR:
in
February 2006, the top year for subprime lending. But despite numerous warnings,
Bernanke and the Federal Reserve Board did nothing.
{BEN BERNANKE DECLINED
TO BE INTERVIEWED FOR THIS FILM.}

01:

NARRATOR:

Reserve Board
three times after Bernanke became chairman.

ROBERT GNAIZDA:
was a problem,
and that the government ought to look into it.
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CHARLES FERGUSON: When? When was that? What year?

ROBERT GNAIZDA:
CHARLES FERGUSON: This year.

ROBERT GNAIZDA:
CHARLES FERGUSON: And so for the two previous years you met him; even in 2008?

ROBERT GNAIZDA:

01:

NARRATOR:
under Bernanke
was Frederic Mishkin, who was appointed by President Bush in 2006.
{FREDERIC MISHKIN
GOVERNOR, FEDERAL RESERVE (2006-2008)}
CHARLES FERGUSON: Did you participate in the semiannual meetings that, uh, Robert Gnaizda and, and, uh, Greenlining had with the Federal Reserve Board?
FREDERIC MISHKIN: Yes I did. I was actually on the committee that, uh, that was
involved, involved with that; the Consumer Community Affairs Committee.

01:
CHARLES FERGUSON: He warned, in an extremely explicit manner, about what was
going on; and he came to the Federal Reserve Board with loan documentation of the
kind of loans that were frequently being made. And he was listened to politely, and
nothing was done.
FREDERIC MISHKIN: Yeah. So, uh, again, I, I don't know the details, in terms of, of,
uh, of, um – uh, in fact, I, I just don't – I, I – eh, eh, whatever

information he provide, I'm
not sure exactly, I, eh, uh – it's, it's actually, to be honest with you, I can't remember the,
the, this kind of discussion. But certainly, uh, there, there were issues that were, uh, uh,
coming up. But then the question is, how pervasive are they?
CHARLES FERGUSON: Why didn't you try looking?

01:
FREDERIC MISHKIN: I think that people did. We had people looking at, a whole group
of people looking at this, for whatever reason –
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CHARLES FERGUSON: Excuse me, you can't be serious. If you would have looked,
you would have found things.
FREDERIC MISHKIN: Uh, you know, that's very, very easy to always say that you can
always find it.

01:

NARRATOR:
epidemic of
mortgage fraud. They reported inflated appraisals, doctored loan documentation, and
other fraudulent activity.
In 2005, the IMF's chief economist, Raghuram Rajan, warned that dangerous incentives
could lead to a crisis.

02:
Sloan's articles in
Fortune magazine and the Washington Post in 2007; and repeated warnings from the
IMF.

02:
{DOMINIQUE STRAUSS-KAHN
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND (IMF)}
DOMINIQUE STRAUSS-KAHN: I said it, and on behalf of the institution: ah, the crisis

which is in front of us is a huge crisis –
CHARLES FERGUSON: Who did you talk to?
DOMINIQUE STRAUSS-KAHN: The government, Treasury, s-, Fed, everybody.

02:

NARRATOR:
a
presentation called "Who's Holding the Bag?", which described how the bubble would
unravel.
And in early 2008, Charles Morris published his book about the impending crisis.

02:
FREDERIC MISHKIN: You're just not sure, what do you do? And you, you might have
some suspicions that underwriting standards are being weakened; but then the question
is, should you do anything about it?
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NARRATOR:
securitization
food chain imploded. Lenders could no longer sell their loans to the investment banks;
and as the loans went bad, dozens of lenders failed.

02:

GEORGE SOROS:
we have to
dance until the music stops. Actually, the music had stopped already when he said that.

NARRATOR:
banks holding
hundreds of billions of dollars in loans, CDOs, and real estate they couldn't sell.

NOURIEL ROUBINI:
Bush
administration and uh, and the Federal Reserve were totally behind the

curve. They did
not understand the extent of it.

02:
CHARLES FERGUSON: At what point do you remember thinking, for the first time, this
is dangerous, this is bad?
CHRISTINE LAGARDE: I remember very well, uh, one, uh, I think it was a G7 meeting,
of February 2008. And I remember discussing the issue with, with Hank Paulson. And I
clearly remember telling Hank: we are watching this tsunami coming. And you just –
proposing that we ask which swimming costume we are going to put on.
CHARLES FERGUSON: What was his response, what was his feeling?
CHRISTINE LAGARDE: Things are pretty much under control. Yes, we are looking at,
uh, this situation carefully, and uh – yeah, it's under control.

02:
{G7 MEETING, TOKYO
FEBRUARY 9, 2008}

HENRY PAULSON:
I’ll, I'll say it: if, if
you kee-, keep, if you're growing, you're not in recession,
right? I mean, we, w-, we all
know that.
{THE RECESSION HAD ACTUALLY STARTED
FOUR MONTHS BEFORE PAULSON MADE THIS STATEMENT.}

02:

{MARCH 16, 2008}

WOMAN REPORTER:
Street sold to rival –

NARRATOR:
of cash, and
was acquired for two dollars a share by JP Morgan Chase. The deal was backed by 30
billion dollars in emergency guarantees from the Federal Reserve.

{SIMON JOHNSON
PROFESSOR, MIT
FORMER CHIEF ECONOMIST
INTERNATIONAL MONETARY FUND}

SIMON JOHNSON:
come in, and
put in place, you know, various kinds of measures that would have reduced system risk.

02:
{JULY 10, 2008}
REP. PAUL KANJORSKI (D-PA): The information that I'm receiving from some entities
is the end is not here; that there are other shoes to fall.

HENRY PAULSON:
banks, uh, working with
the, uh, the, the Fed and the SEC to strengthen their liquidity, to strengthen their, uh,
the, the, the, their capital positions.
I get reports all the time. Our re-, our regulators are, are, are very vigilant.

02:

NARRATOR:
federal takeover
of Fannie Mae and Freddie Mac, two giant mortgage lenders on the brink of collapse.

HENRY PAULSON:
changed view
of the housing correction or the strength of other U.S. financial institutions.

02:

NARRATOR:
3.2 billion
dollars, and its stock collapsed.

02:

48
CHARLES FERGUSON: The effects of Lehman and AIG in September still came as a
surprise. I mean, this is even after July, and Fannie and Freddie. So clearly, there was
stuff that as of September — major stuff — that nobody knew about.

DAVID McCORMICK:

02:
CHARLES FERGUSON: Bear Stearns was rated AAA, like, a month before it went bankrupt?

JEROME FONS:
CHARLES FERGUSON: A2.

JEROME FONS:
CHARLES FERGUSON: Okay.

JEROME FONS:
CHARLES FERGUSON: A2 is still not bankrupt.

JEROME FONS:
investment grade; solid
investment-grade rating. Lehman Brothers; A2, within days of failing. Um, AIG, AA,
within days of being bailed out. Um, uh, Fannie Mae and Freddie Mac were AAA when
they were rescued. Um, Citigroup, Merrill; all, all of 'em had investment-grade ratings.
CHARLES FERGUSON: How can that be?

02:

JEROME FONS:
That's a great question.
CHARLES FERGUSON: At no point did the administration ever go to all the major
institutions, and say, you know: this is serious; tell us what your positions are; you know,
uh, no bullshit; where are you?

DAVID McCORMICK:
CHARLES FERGUSON: Um –

DAVID McCORMICK:
that's their job, right? Their
job is to understand the exposure across these different institutions, and they have a
very refined, uh, understanding that I think became more respon-, more refined as the
crisis, um, proceeded. So –
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02:
CHARLES FERGUSON: Forgive me, but that's clearly not true. I m-

DAVID McCORMICK:
CHARLES FERGUSON: In August of 2008, were you aware of the, the credit ratings
held then by Lehman Brothers, Merrill Lynch, AIG; and did you think that they were
accurate?

02:
FREDERIC MISHKIN: Well, uh, e-, uh, certainly by that time, it was clear that that earlier
credit ratings were inaccurate, because they had been downgraded substantially.
CHARLES FERGUSON: No they hadn't.
FREDERIC MISHKIN: Uh, there's still, there was still some downgrading, in terms of the,
the industry, concerns of the ind-, certainly the stock prices –

02:
CHARLES FERGUSON: Not some; all those firms were rated at least A2 until a couple
of days before they, uh, were rescued.
FREDERIC MISHKIN: Well then, you know, then the answer is, I just don't, don't know
enough to t-, really answer your question on this particular issue.

02:

NEWSCASTER:
He says he
plans to return to his teaching post at Columbia's Graduate School of

Business.
CHARLES FERGUSON: Why did you leave the Federal Reserve in August of 2008 – I
mean, in, in the middle of the worst financial crisis –
FREDERIC MISHKIN: So, so, uh, that, uh, I had to, to revise a textbook.

NEWSCASTER:
seven seats
vacant; just when the economy needs it most.

02:
CHARLES FERGUSON: Well, I'm sure your textbook is important and widely read. But
in August of 2008, you know, some, somewhat more important things were going on in
the world, don't you think?

02:

NARRATOR:
cash, and the
entire investment banking industry was sinking fast. The stability of the global financial
system was in jeopardy.
That weekend, Henry Paulson and Timothy Geithner, president of the New York Federal
Reserve, called an emergency meeting with the CEOs of the major banks in an effort to
rescue Lehman.
{VIKRAM PANDIT - CEO OF CITIGROUP
JOHN J. MACK - CEO OF MORGAN STANLEY
JAMIE DIMON - CEO OF JP MORGAN
LLOYD BLANKFEIN - CEO OF GOLDMAN SACHS}

02:
major investment bank,
was also on the brink of failure. And that Sunday, it was acquired by Bank of America.
The only bank interested in buying Lehman was the British firm Barclay's. But British
regulators demanded a financial guarantee from the U.S. government. Paulson refused.

{NEITHER LEHMAN NOR THE FEDERAL GOVERNMENT
HAD DONE ANY PLANNING FOR BANKRUPTCY.}

02:

HARVEY MILLER:
Federal
Reserve Bank. They wanted the bankruptcy case commenced before midnight of September 14. We kept pressing that this would be a, uh, terrible event. And at some
point, I used the word "Armageddon." Had they fully considered the consequences of
what they were proposing? The effect on the market would be extraordinary.

02:
CHARLES FERGUSON: You said this.

HARVEY MILLER:
comments that we
had made; and they were still of the belief that in order to calm the markets and move
forward, it was necessary for Lehman to go into bankruptcy.
CHARLES FERGUSON: Calm the markets.

HARVEY MILLER:

02:

CHARLES FERGUSON: When were you first told that Lehman in fact was going to go
bankrupt?
CHRISTINE LAGARDE: Ah, after the fact.
CHARLES FERGUSON: After the fact.
CHRISTINE LAGARDE: Um-hm.
CHARLES FERGUSON: Wow. Okay. Um – and – what was your reaction when you learned of it?
CHRISTINE LAGARDE: Holy cow.

02:

NARRATOR:
governments, and
didn't understand the consequences of foreign bankruptcy laws.

{SEPTEMBER 16, 2008}

REPORTER:
their desks
today.

NARRATOR:
closed immediately.

HARVEY MILLER:
thousands and
thousands and thousands of transactions.

GILLIAN TETT:
London
discovered overnight, to their complete horror, that they couldn't get those assets back.

02:

SATYAJIT DAS:
knock-on
effects around the system.

NEWSWOMAN:
roughly three
quarters of a billion dollars in bad debt issued by the now-bankrupt Lehman Brothers.

02:

NARRATOR:
commercial paper market,
which many companies depend on to pay for operating expenses, such as payroll.

NEWSWOMAN:
can't buy
parts. It stops business in its tracks.
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GILLIAN TETT:
believe in?

There's nothing we can trust anymore.

02:

NARRATOR:
credit default
swaps; and it didn't have the money.

ANDREW SHENG:
planes may
have to be, you know, stop flying.

NARRATOR:
And one day
later, Paulson and Bernanke ask Congress for 700 billion dollars to bail out the banks.

HENRY PAULSON:

NARRATOR:
financial collapse.

02:

NOURIEL ROUBINI:
every part of
the financial system, every part of the credit system. Nobody could borrow money. It
was like a cardiac arrest of the global financial system.
{SEPTEMBER 15, 2008}

HENRY PAULSON:
what I am
dealing with, eh, you know, I'm dealing with the consequences of things that were done,
often, many years ago.

02:

DAVID McCORMICK:
all the potential
root causes of this — and there are plenty — he called 'em. Uh, so I, I'm not sure –
CHARLES FERGUSON: You're not being serious about that, are you?

DAVID McCORMICK:
expected? Uh, I,
I'm, what are, what were you looking for that you didn't see?

02:
CHARLES FERGUSON: He was the senior advocate for prohibiting the regulation of
credit default swaps; and also lifting the leverage limits on the investment banks.

DAVID McCORMICK:
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CHARLES FERGUSON: He mentioned those things? I never heard him mention those
things.

DAVID McCORMICK:
{HENRY PAULSON DECLINED
TO BE INTERVIEWED FOR THIS FILM.}

02:

NARRATOR:
swaps, the most
prominent of which was Goldman Sachs, were paid 61 billion dollars the next day.
Paulson, Bernanke, and Tim Geithner forced AIG to pay 100 cents on the dollar, rather
than negotiate lower prices. Eventually, the AIG bailout cost taxpayers over 150 billion
dollars.
MICHAEL GREENBERGER: A hundred and sixty billion dollars went through AIG; 14
billion went to Goldman Sachs.

02:

NARRATOR:
surrender its right
to sue Goldman and the other banks for fraud.
CHARLES FERGUSON: Isn't there a problem when the person in charge of dealing with

this crisis is the former CEO of Goldman Sachs; someone who had a major role in
causing it?

DAVID McCORMICK:
financial markets today are
incredibly complicated.

02:

GEORGE W. BUSH:
financial
institutions –

NARRATOR:
700-billion-dollar bailout
bill. But world stock markets continue to fall, amid fears that a global recession is now
underway.

02:
layoffs and
foreclosures. Unemployment in the United States and Europe quickly rises to 10
percent. The recession accelerates, and spreads globally.

02:

CHARLES MORRIS:
hadn't foreseen the whole
world going down at the same rate at the same time.

NARRATOR:
facing
bankruptcy. And as U.S. consumers cut back on spending, Chinese manufacturers see
sales plummet. Over 10 million migrant workers in China lose their jobs.

02:
DOMINIQUE STRAUSS-KAHN: At the end of the day, the poorest, as always, pay the
most.

{CHINA GRAND LIGHTING FACTORY
GUANGDONG PROVINCE, CHINA}

02:

JOANNA XN:
U.S. dollars per
month. As a farmer in the countryside, you cannot earn as much money. The workers
just wire their salaries to their hometown. To give to their families.
The crisis started in America. We all know it will be coming to China.

02:
people will get
poor because they'll lose their jobs. Life gets harder.
{SINGAPORE}

02:
{PATRICK DANIEL
EDITOR IN CHIEF
SINGAPORE PRESS HOLDINGS}

PATRICK DANIEL:
year. And
then we suddenly went to minus nine this quarter. Exports collapsed. And we're talking
like 30 percent.
So we just took a hit, you know, fell off a cliff, boom!

02:

LEE HSIEN LOONG:
how wide it was going
to spread, or how severe it was going to be. And we were still hoping that there would
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be some way for us to have a shelter, and be, uh, less battered by the storm. But it is
not possible. It's a very globalized world; the economies are all linked together.

02:
{FORECLOSURES IN THE UNITED STATES

REACHED 6 MILLION BY EARLY 2010.}

ERIC HALPERIN:
everyone who
lives around that house. 'Cause when that property goes on the market, it's gonna be
sold at a lower price; maybe before it goes on the market, it won't be well maintained.
We estimate another 9 million homeowners will lose their homes.

02:
{COLUMBA RAMOS
SAN JOSE, CA}

COLUMBA RAMOS:
sale.
We saw one we liked. The payment was going to be $3,200.}
{COLUMBA RAMOS AND HER HUSBAND DON'T SPEAK ENGLISH.
THEY WERE DEFRAUDED BY THEIR MORTGAGE BROKER,
WHO WAS PAID BY A PREDATORY LENDER.}

COLUMBA RAMOS:
The
payment was low. Everything was – we won the lottery. But the reality was when the
first payment arrived.
I felt very bad for my husband. Because he works too much.

02:
{"TENT CITY"
PINELLAS COUNTY, FLORIDA}

02:
{ERIC EVANOUSKAS
VOLUNTEER, CATHOLIC CHARITIES}

ERIC EVANOUSKAS:
unfortunately, are people who
have just been hurt by the economy. They were living, you know, day to day, paycheck

to paycheck, and unfortunately, that ran out. And unemployment isn't gonna pay a house mortgage; it's not gonna pay a car bill.

02:
{STEVEN A. STEPHEN
FORMER CONSTRUCTION WORKER}
STEVEN A. STEPHEN: I was a log-truck driver. And they shut down, they shut down all
the logging systems up there; shut down the sawmills and everything. So I moved down
here, I had a construction job. And the construction jobs got shut down too, so – things
are so tough, there's a lot o' people out there, and pretty soon, you're gonna be seeing
more camps like this around, because there's just no jobs right now.

02:
{RICHARD FULD
CEO OF LEHMAN BROTHERS}

RICHARD FULD:
company did not
do well, sir, we did not do well.

NARRATOR:
world into
crisis, walked away from the wreckage with their fortunes intact.
The top five executives at Lehman Brothers made over a billion dollars between 2000
and 2007; and when the firm went bankrupt, they got to keep all the money.

02:

RICHARD FULD:

ANGELO MOZILO:
that's gonna fail,
'cause we lose. They lose; the borrower loses; the community loses; and we lose.

02:

NARRATOR:
dollars between 2003
and 2008. One hundred forty million came from dumping his Countrywide stock

in the
12 months before the company collapsed.

02:
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BILL ACKMAN:
business fails. 'Cause
the board is responsible for hiring and firing the CEO and overseeing big strategic
decisions. The problem with board composition in America is the way boards are
elected. You know, the boards are pretty much, in many cases, picked by the CEO.

02:

SCOTT TALBOTT:
committees are the
two bodies best situated to determine the pay packages, uh, for executives.

CHARLES FERGUSON: How do you think they’ve done over the past 10 years?

SCOTT TALBOTT:
would give about a B.
Because –
CHARLES FERGUSON: A B?

SCOTT TALBOTT:
CHARLES FERGUSON: Not an F.

SCOTT TALBOTT:

02:

NARRATOR:
million dollars in 2006
and 2007 alone. After driving his firm into the ground, Merrill Lynch's board of directors
allowed him to resign; and he collected 161 million dollars in severance.

02:
CHARLES FERGUSON: Instead of being fired, Stan O'Neal is allowed to

resign, and
takes away 151 million dollars.

SCOTT TALBOTT:
made at that point –
you know –
CHARLES FERGUSON: And what grade do you give that decision?

SCOTT TALBOTT:
would give that one a B as
well.

02:
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NARRATOR:
million dollars in 2007; and
in December of 2008, two months after Merrill was bailed out by U.S. taxpayers, Thain
and Merrill's board handed out billions in bonuses.
In March of 2008, AIG's Financial Products Division lost 11 billion dollars. Instead of
being fired, Joseph Cassano, the head of AIGFP, was kept on as a consultant – for a
million dollars a month.

02:

MARTIN SULLIVAN:
the key, key
employees, uh, within AIGFP; yeah, we retain that intellectual knowledge.

02:
DOMINIQUE STRAUSS-KAHN: I attended a very interesting, uh, dinner, organized by
Hank Paulson, a little more than one year ago; uh, with some officials and a couple of,
uh, CEOs from the biggest, uh, banks in the U.S. And uh, surprisingly enough, all these
gentlemen were arguing, uh, we were too greedy; so we have part responsibility. Fine.
And then they were turning to the treasurer, to the secretary of the Treasury, and say,

you should regulate more, because we are too greedy, we can't avoid it. The only way
to avoid this is to have more regulation.

02:

CHARLES FERGUSON: I have spoken to many bankers about –
DOMINIQUE STRAUSS-KAHN: Um hm.
CHARLES FERGUSON: – this question, including very senior ones. And uh, this is the
first time that I've ever heard anybody say that they actually wanted their compensation
to be regulated –
DOMINIQUE STRAUSS-KAHN: Yeah, because it was at the moment where they were afraid. And uh, after, when solution to the crisis began to appear, then probably they,
they changed their mind.

02:

NARRATOR:

more
concentrated than ever before.
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MARTIN WOLF:

have been
taken over by big ones. JP Morgan today is even bigger than it was before.

NOURIEL ROUBINI:

WAMU; Bank of
America took over Countrywide and Merrill Lynch; Wells Fargo took over Wachovia.

02:

NARRATOR:

Financial Services
Roundtable, worked harder than ever to fight reform. The financial sector employs 3,000
lobbyists, more than five for each member of Congress.

02:

CHARLES FERGUSON: Do you think the financial services industry has

excessive
political influence in the United States?

SCOTT TALBOTT:
country is
represented here in Washington.
CHARLES FERGUSON: And you think that all segments of American society have equal and fair access to the system?

SCOTT TALBOTT:
would like.
Yes, I do.
CHARLES FERGUSON: Um, one could walk into any hearing room; one can not necessarily write the kind of lobbying checks that your industry writes, or engage in the
level of political contributions that your industry engages in.

02:

NARRATOR:
billion dollars
on lobbying and campaign contributions. And since the crisis, they're spending even
more money.

02:
more subtle way; one
that most Americans don't know about. It has corrupted the study of economics itself.

GEORGE SOROS:
support.
Because, uh, uh, people argued it for their own benefit. The economics profession was
the main source of that illusion.

02:
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NARRATOR:
advocates of
deregulation, and played powerful roles in shaping U.S. government policy. Very few of

these economic experts warned about the crisis. And even after the crisis, many of
them opposed reform.

02:

CHARLES MORRIS:
a lot of
money being consultants. Business school professors don't live on a faculty salary.
They do very, very well.

02:
{MARTIN FELDSTEIN
PROFESSOR OF ECONOMICS, HARVARD}
CHARLES FERGUSON: Over the last decade, the financial services industry has made
about 5 billion dollars' worth of political contributions in the United States. Um; that's
kind of a lot of money.
That doesn't bother you?
MARTIN FELDSTEIN: No.

02:

NARRATOR:
world's most
prominent economists. As President Reagan's chief economic advisor, he was a major
architect of deregulation. And from 1988 until 2009, he was on the board of directors of
both AIG and AIG Financial Products, which paid him millions of dollars.

02:
CHARLES FERGUSON: You have any regrets about having been on AIG's board?
MARTIN FELDSTEIN: I have no comments. No, I have no regrets about being on AIG's
board.
CHARLES FERGUSON: None.
MARTIN FELDSTEIN: That I can s-, absolutely none. Absolutely none.
CHARLES FERGUSON: Okay. Um – you have any regrets about, uh, AIG's decisions?
MARTIN FELDSTEIN: I cannot say anything more about AIG.

02:
{GLENN HUBBARD
CHIEF ECONOMIC ADVISOR, BUSH ADMINISTRATION
DEAN, COLUMBIA BUSINESS SCHOOL}

GLENN HUBBARD:
and Columbia.

NARRATOR:
was the
chairman of the Council of Economic Advisers under George W. Bush.

02:
CHARLES FERGUSON: Do you think the financial services industry has too much, uh,
political power in the United States?

GLENN HUBBARD:
certainly wouldn't get that
impression by the drubbing that they regularly get, uh, in Washington.

02:

NARRATOR:
helping the
financial industry shape public debate and government policy. The Analysis Group,
Charles River Associates, Compass Lexecon, and the Law and Economics Consulting
Group manage a multi-billion-dollar industry that provides academic experts for hire.

02:
Matthew
Tannin, Bear Stearns hedge fund managers prosecuted for securities fraud. After hiring
The Analysis Group, both were acquitted.
Glenn Hubbard was paid 100,000 dollars to testify in their defense.

02:
CHARLES FERGUSON: Do you think that the economics discipline has, uh, a

conflict of
interest problem?

GLENN HUBBARD:
CHARLES FERGUSON: Do you think that a significant fraction of the economics

discipline, a number of economists, have financial conflicts of interests that in some way
might call into question or color –

GLENN HUBBARD:
know, most academic
economists, uh, you know, aren't wealthy businesspeople.
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02:

NARRATOR:
Met Life,
and was formerly on the board of Capmark, a major commercial mortgage lender during
the bubble, which went bankrupt in 2009. He has also advised Nomura Securities, KKR
Financial Corporation, and many other financial firms.

02:
film, is a professor at
the University of California, Berkeley. She was the chair of the Council of Economic
Advisers, and then director of the National Economic Council in the Clinton

administration.
Shortly after leaving government, she joined the board of Morgan Stanley, which pays
her 350,000 dollars a year.
Ruth Simmons, the president of Brown University, makes over 300,000 dollars a year on
the board of Goldman Sachs.

02:
critical role in the
deregulation of derivatives, became president of Harvard in 2001. While at Harvard, he

made millions consulting to hedge funds, and millions more in speaking fees, much of it
from investment banks.
According to his federal disclosure report, Summers's net worth is between 16.5 million
and 39.5 million dollars.

02:
School after leaving
the Federal Reserve, reported on his federal disclosure report that his net worth was
between 6 million and 17 million dollars.

02:
CHARLES FERGUSON: In 2006, you coauthored a study of Iceland's financial system.
FREDERIC MISHKIN: Right, right.
CHARLES FERGUSON: Iceland is also an advanced country with excellent institutions,
low corruption, rule of law. The economy has already adjusted to financial liberalization
– while prudential regulation and supervision is generally quite strong.

02:
FREDERIC MISHKIN: Yeah. And that was the mistake. That it turns out that, uh, that
the prudential regulation and supervision was not strong in Iceland. And particularly
during this period –
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CHARLES FERGUSON: So what led you to think that it was?
FREDERIC MISHKIN: I think that, uh, you're going with the information you have at, and
generally, uh, the view was that, that, uh, that Iceland had very good institutions. It was
a very advanced country –
CHARLES FERGUSON: Who told you that?
FREDERIC MISHKIN: – and [they had not] –
CHARLES FERGUSON: Who did, what kind of research –
FREDERIC MISHKIN: Well, it –
CHARLES FERGUSON: – did you do?
FREDERIC MISHKIN: – you, you talk to people, you have faith in, in, uh, the Central

Bank, which actually did fall down on the job. Uh, that, uh, clearly, it, this, uh –
CHARLES FERGUSON: Why do you have "faith" in a central bank?
FREDERIC MISHKIN: Well, that faith, you, ya, d-, because you ha-, go with the
information you have.

02:
CHARLES FERGUSON: Um, how much were you paid to write it?
FREDERIC MISHKIN: I was paid, uh, I think the number was, uh, it's public information.
{FREDERIC MISHKIN WAS PAID $124,000
BY THE ICELANDIC CHAMBER OF COMMERCE
TO WRITE THIS PAPER.}

02:
CHARLES FERGUSON: Uh, on your CV, the title of this report has been changed from
"Financial Stability in Iceland" to "Financial Instability in Iceland."
FREDERIC MISHKIN: Oh. Well, I don't know, if, itch-, whatever it is, is, the, uh, the
thing – if it's a typo, there's a typo.

02:

GLENN HUBBARD:
anybody does
research on a topic, that they disclose if they have any financial conflict with that
research.
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CHARLES FERGUSON: But if I recall, there is no policy to that effect.

GLENN HUBBARD:
terms of putting it in a
paper. You would, there would be significant professional sanction for failure to do that.

02:
CHARLES FERGUSON: I didn't see any place in the study where you indicated that you
had been paid, uh, by the Icelandic Chamber of Commerce to produce it. Um –

FREDERIC MISHKIN: No, I {MUMBLE} –
CHARLES FERGUSON: Okay.

02:

NARRATOR:
a professor at
London Business School, was also commissioned by the Icelandic Chamber of Commerce in 2007 to write a report which praised the Icelandic financial sector.

02:

RICHARD PORTES:
actually made
money on the fall of the Icelandic krona.
These are strong banks; their funding, their market funding is assured for the coming
year.
These are well-run banks.

NEWSMAN:

NARRATOR:
his payment from the Icelandic
Chamber of Commerce.

02:
{JOHN CAMPBELL

CHAIRMAN :
HARVARD ECONOMICS DEPARTMENT}
CHARLES FERGUSON: Does Harvard require disclosures of financial conflict of

interest in publications?

JOHN CAMPBELL:

CHARLES FERGUSON: Do you require people to report the compensation they’ve received from outside activities?

JOHN CAMPBELL:
CHARLES FERGUSON: Don't you think that's a problem?

JOHN CAMPBELL:

02:
CHARLES FERGUSON: Martin Feldstein being on the board of AIG; Laura Tyson going
on the board of Morgan Stanley; uh, Larry Summers making 10 million dollars a year
consulting to financial services firms; irrelevant.

JOHN CAMPBELL:

02:
CHARLES FERGUSON: You've written a very large number of articles, about a very
wide array of subjects. You never saw fit to investigate the risks of unregulated credit
default swaps?
MARTIN FELDSTEIN: I never did.
CHARLES FERGUSON: Same question with regard to executive compensation; uh, the
regulation of corporate governance; the effect of political contributions –
MARTIN FELDSTEIN: What, uh, what, uh, w-, I don't know that I would have anything to
add to those discussions.

02:
CHARLES FERGUSON: I'm looking at your resume now. It looks to me as if the
majority of your outside activities are, uh, consulting and directorship arrangements with
the financial services industry. Is that, would you not agree with that characterization?

02:

GLENN HUBBARD:
clients are even
on my CV, so –
CHARLES FERGUSON: Uh, who are your consulting clients?

GLENN HUBBARD:

CHARLES FERGUSON: Okay. Uh, uh –

GLENN HUBBARD:
is over.

02:
CHARLES FERGUSON: Do you consult for any financial services firms?
FREDERIC MISHKIN: Uh, the answer is, I do.
CHARLES FERGUSON: And –
FREDERIC MISHKIN: And, but I d-, I do not want to go into details about that.

02:
CHARLES FERGUSON: Do they include other financial services firms?

GLENN HUBBARD:
CHARLES FERGUSON: You don't remember?

GLENN HUBBARD:
enough to give you time;
foolishly, I now see. But you have three more minutes. Give it your best shot.

02:

NARRATOR:
coauthored a widely
read paper with William C. Dudley, the chief economist of Goldman Sachs. In the paper,
Hubbard praised credit derivatives and the securitization chain, stating that they had
improved allocation of capital, and were enhancing financial stability. He cited reduced
volatility in the economy, and stated that recessions had become less frequent and
milder.
Credit derivatives were protecting banks against losses, and helping to distribute risk.

02:
CHARLES FERGUSON: A medical researcher writes an article, saying: to treat this
disease, you should prescribe this drug. It turns out Doctor makes 80

percent of
personal income from manufacturer of this drug. Does not bother you.

JOHN CAMPBELL:
disclose the, um – the, um –

02:
cases that we are talking about
here. Because, um – um –

{THE PRESIDENTS OF HARVARD UNIVERSITY
AND COLUMBIA UNIVERSITY REFUSED TO COMMENT
ON ACADEMIC CONFLICTS OF INTEREST.
BOTH DECLINED TO BE INTERVIEWED FOR THIS FILM.}

02:
CHARLES FERGUSON: So, uh, what do you think this says about the economics discipline?

CHARLES MORRIS:
really. And,
and fe-, indeed, I think, um, it's a part of the, it's a s-, important part of the problem.

02:

02:

NARRATOR:
a wider change in
America. Since the 1980s, the United States has become a more unequal society, and
its economic dominance has declined. Companies like General Motors, Chrysler, and
U.S. Steel — formerly the core of the U.S. economy — were poorly managed, and falling
behind their foreign competitors. And as countries like China opened their economies,
American companies sent jobs overseas to save money.

02:

DANIEL ALPERT:

developed world
were effectively sheltered from all of this additional labor that existed on the planet.
Suddenly, the Bamboo Curtain and the Iron Curtain are lifted; and you have 2.5 billion
additional people.

02:

NARRATOR:
thousands.

DANIEL ALPERT:
the course of a
few years.

02:

NARRATOR:
United States leads
the world in information technology, where high-paying jobs are easy to find. But those

jobs require an education. And for average Americans, college is increasingly out of
reach.

02:
billions of dollars in their
endowments, funding for public universities is shrinking, and tuition is rising. Tuition for
California's public universities rose from 650 dollars in the 1970s to over 10,000 dollars
in 2010.

02:
Americans go to
college is whether they can find the money to pay for it.
Meanwhile, American tax policy shifted to favor the wealthy.

02:
{OCTOBER 11, 2006}

GEORGE W. BUSH:
too high; and they
were.

NARRATOR:
by Glenn
Hubbard, who at the time was serving as President Bush's chief
economic advisor. The
Bush administration sharply reduced taxes on investment gains, stock
dividends, and
eliminated the estate tax.

02:

GEORGE W. BUSH:
left nearly 1.1
trillion dollars in the hands of American workers, families, investors, and
small business
owners.

02:

NARRATOR:
wealthiest 1 percent of
Americans.

GEORGE W. BUSH:
many ways, of our
economic recovery policy.

02:

NARRATOR:
than in any other
developed country.
American families responded to these changes in two ways: by working longer
hours,
and by going into debt.

RAGHURAM RAJAN:
behind, there is a
political urge to respond by making it easier to get credit.

{OCTOBER 13, 2002}

GEORGE W. BUSH:
low-income home
buyer can have just as nice a house as anybody else.

NARRATOR:
cars, their
healthcare, and their children's educations.

02:

CHARLES MORRIS:
1980 and
2007. It all went to the top 1 percent.

NARRATOR:
education and
are less prosperous than their parents.

02:

BARACK OBAMA:
and in
Washington has led us to a financial crisis as serious as any that we have faced since
the Great Depression.

NARRATOR:
election, Barack
Obama pointed to Wall Street greed and regulatory failures as examples of the need for
change in America.

BARACK OBAMA:
is exactly what
got us into this mess.

NARRATOR:
reform the
financial industry.

02:
{SEPTEMBER 14, 2009}

BARACK OBAMA:
requirements.
We need a consumer financial protection agency; we need to change Wall Street's
culture.
Inside Job transcript – Sony Pictures – September 2010
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NARRATOR:
administration's financial
reforms were weak; and in some critical areas, including the rating agencies, lobbying,
and compensation, nothing significant was even proposed.

02:

ROBERT GNAIZDA:
response, if
it was one word, would be: Ha!
There’s very little reform.
CHARLES FERGUSON: How come?

ROBERT GNAIZDA:

02:
{APPLAUSE}

NARRATOR:
Geithner was the
president of the New York Federal Reserve during the crisis, and one of the key players
in the decision to pay Goldman Sachs 100 cents on the dollar for its bets against
mortgages.

ELIOT SPITZER:
Treasury
secretary, he said, I have never been a regulator. Now that said to me, he did not
understand his job as president of the New York Fed.
{TIMOTHY GEITHNER DECLINED
TO BE INTERVIEWED FOR THIS FILM.}

02:

NARRATOR:
Dudley, the former
chief economist of Goldman Sachs, whose paper with Glenn Hubbard praised derivatives.
Geithner's chief of staff is Mark Paterson, a former lobbyist for Goldman; and one of the
senior advisors is Lewis Sachs, who oversaw Tricadia, a company heavily involved in
betting against the mortgage securities it was selling.

02:
picked Gary
Gensler, a former Goldman Sachs executive who had helped ban the regulation of
derivatives.
Inside Job transcript – Sony Pictures – September 2010
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To run the Securities and Exchange Commission, Obama picked Mary Shapiro, the
former CEO of FINRA, the investment-banking industry's self-regulation body.

02:
dollars serving on
the board of Freddie Mac.
Both Martin Feldstein and Laura Tyson are members of Obama's Economic Recovery
Advisory Board. And Obama's chief economic advisor is Larry Summers.

02:

ELIOT SPITZER:
who were
there, who built the structure.

WILLEM BUITER:
going to play
major roles as advisors; first, uh, I knew this was going to be status quo.

NARRATOR:
compensation,
even as foreign leaders took action.

02:
CHRISTINE LAGARDE: I think the financial industry is a service industry; it should
serve others before it serves itself.

NARRATOR:
ministers of
Sweden, the Netherlands, Luxembourg, Italy, Spain, and Germany called for the G20
nations, including the United States, to impose strict regulations on bank compensation.
And in July of 2010, the European Parliament enacted those very regulations. The
Obama administration had no response.

02:

SATYAJIT DAS:
will go back to
normal.
{AUGUST 25, 2009}

BARACK OBAMA:
as chairman
of the Federal Reserve. Thank you so much, Ben.

NARRATOR:

BEN BERNANKE:

02:
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NARRATOR:
had been criminally
prosecuted, or even arrested; no special prosecutor had been appointed; not a single
financial firm had been prosecuted criminally for securities fraud or accounting fraud.
The Obama administration has made no attempt to recover any of the compensation
given to financial executives during the bubble.

02:

ROBERT GNAIZDA:
against some of
Countrywide's top leaders, like Mozilo. I'd certainly look at
Bear Stearns, Goldman
Sachs and Lehman Brothers, and Merrill Lynch.
CHARLES FERGUSON: For criminal prosecutions.

ROBERT GNAIZDA:
CHARLES FERGUSON: In, in regard to –

ROBERT GNAIZDA:
CHARLES FERGUSON: Yeah.

ROBERT GNAIZDA:
underlings to tell the
truth.

02:

NARRATOR:
fraudulent billing of
prostitutes as a business expense occur on an industrial scale, it
wouldn't be hard to
make people talk, if you really wanted to.

02:

KRISTIN DAVIS:
they were not
interested in any of my records; they weren't interested in anything.
CHARLES FERGUSON: They were not interested in your records.

KRISTIN DAVIS:

02:

ELIOT SPITZER:
people's – uh, personal vices
in the context of Wall Street cases, necessarily, to get them to flip. I
think maybe it's,
after the cataclysms that we've been through, maybe people will

reevaluate that. I'm, I'm
not the one to pass judgment on that right now.
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02:
{FEDERAL PROSECUTORS WERE PERFECTLY HAPPY
TO USE ELIOT SPITZER'S PERSONAL VICES
TO FORCE HIM TO RESIGN IN 2008.
THEY HAVE NOT DISPLAYED A SIMILAR ENTHUSIASM
WITH REGARD TO WALL STREET.}

02:
REP. MICHAEL CAPUANO: You come to us today, telling us, we're sorry; we didn't
mean it; we won't do it again; trust us.
Well, I have some people in my constituency that actually robbed some of your banks.
And they say the same thing! They're sorry, they didn't mean it; they won't do it again.

02:

NARRATOR:
years, Morgan
Stanley paid its employees over 14 billion dollars; and Goldman Sachs paid out over 16
billion. In 2010, bonuses were even higher.

02:

ANDREW SHENG:
four, four times to
a hundred times more than the, a real engineer? A real engineer build bridges; a
financial engineer build, build dreams. And uh, you know, when those dream turn out to
be nightmares, other people pay for it.

02:

NARRATOR:
safe. But
then something changed. The financial industry turned its back on society,

corrupted
our political system, and plunged the world economy into crisis.
At enormous cost, we’ve avoided disaster, and are recovering. But the men and
institutions that caused the crisis are still in power; and that needs to change.

02:
do is too complicated
for us to understand. They will tell us it won't happen again. They will spend billions
fighting reform.
Inside Job transcript – Sony Pictures – September 2010
It won't be easy. But some things are worth fighting for.

02:

02: