INSIDE JOB

Written By
Charles Ferguson

Co-Written By
Chad Beck & Adam Bolt

01:00:00.00 {START}

{TITLE: SONY PICTURES CLASSICS}

{The global economic crisis of 2008
cost tens of millions of people their
savings, their jobs, and their homes.

This is how it happened.}

01:00:41.18

{ICELAND
POPULATION: 320,000
GROSS DOMESTIC PRODUCT: $13 BILLION
BANK LOSSES: $100 BILLION}

01:01:07.00

NARRATOR: Iceland is a stable democracy with a high standard of living; and until recently, extremely low unemployment and government debt.

ANDRI MAGNASON: We had the complete infrastructure of a modern society; clean energy, food production, fisheries, with a quota system to manage them.

GYLFI ZOEGA: Good healthcare, good education; you know, clean air; uh, not much crime; uh, it's good, a good place for families to live.

ANDRI MAGNASON: We had almost, uh, end-of-history status.

01:01:40.15

NARRATOR: But in 2000, Iceland's government began a broad 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: Many of the most beautiful areas in the highlands, with the most spectacular colors, are geothermal. So nothing comes without consequence.

01:02:38.19

[BOOM!]

01:02:53.15

NARRATOR: At the same time, the government privatized Iceland's three largest banks. The result was one of the purest experiments in financial deregulation ever conducted.

01:03:09.20

{SEPTEMBER 2008}

DEMONSTRATOR: We have had enough! But how could all of this happen?

GYLFI ZOEGA: Finance took over. Um, and uh, more or less wrecked the place.

NARRATOR: In a five-year period, these three tiny banks, which had 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.

01:03:35.27

GYLFI ZOEGA: There was a massive bubble. Stock prices went up by a factor of nine; uh, house prices more than doubled.

NARRATOR: Iceland's bubble gave rise to people like Jón Ásgeir 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.

01:04:01.17

ANDRI MAGNASON: Newspapers always had the headline: this millionaire 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.

01:04:22.15

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

01:04:33.05

NARRATOR: American accounting firms, like KPMG, audited the Icelandic banks and investment firms, and found nothing wrong; and American credit-rating agencies said Iceland was wonderful.

SIGRÍÐUR BENEDIKTSDÓTTIR: In February 2007, the rating agencies decided to upgrade the banks to the highest possible rate – AAA.

GYLFI ZOEGA: It went so far as the government here traveling with the bankers, as a, as, as a PR show.

01:05:03.15

NARRATOR: When Iceland's banks collapsed at the end of 2008, unemployment tripled in six months.

ANDRI MAGNASON: There is nobody unaffected in Iceland.

01:05:22.24

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

GYLFI ZOEGA: Yes, that's the case.

NARRATOR: The government regulators who should have been protecting the citizens of Iceland had done nothing.

GYLFI ZOEGA: You have two lawyers from the regulator, {STUTTER} 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?

01:06:01.24

NARRATOR: One-third of Iceland's financial regulators went to work for the banks.

GYLFI ZOEGA: But this is a universal problem, huh. In New York, you have the same problem, right?

01:06:13.25 {MUSIC CUE}

{SONY PICTURES CLASSICS
PRESENTS
A REPRESENTATIONAL PICTURES FILM
IN ASSOCIATION WITH
SCREEN PASS PICTURES

A CHARLES FERGUSON FILM}

{INSIDE JOB}

01:06:44.22

CHARLES FERGUSON: What do you think of Wall Street incomes these days?

PAUL VOLCKER: Excessive.

{PAUL VOLCKER
FORMER FEDERAL RESERVE CHAIRMAN}

01:06:51.17

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: We deeply regret our breaches of U.S. law.

{NARRATED BY MATT DAMON}

01:07:12.18

JONATHAN ALPERT: They're amazed at how much cocaine these Wall Streeters can use, and get up and go to work the next day.

{MUSIC BY ALEX HEFFES}

01:07:21.21

GEORGE SOROS: I didn't know what credit default swaps are. 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.

{BARNEY FRANK
CHAIRMAN, FINANCIAL SERVICES COMMITTEE
U.S. HOUSE OF REPRESENTATIVES}

{DIRECTORS OF PHOTOGRAPHY
SVETLANA CVETKO &
KALYANEE MAM}

{RESEARCH: KALYANEE MAM}

01:07:52.07

KENNETH ROGOFF: The government's just writing checks. 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: Uh, I, I would not.

{DAVID McCORMICK
UNDER SECRETARY OF THE TREASURY
BUSH ADMINISTRATION}

01:08:07.00

CHARLES FERGUSON: Are you comfortable with the level of compensation in the financial services industry?

SCOTT TALBOTT: If they've earned it, then yes. I am.

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

SCOTT TALBOTT: I think they've earned it.

{SCOTT TALBOTT
CHIEF LOBBYIST
FINANCIAL SERVICES ROUNDTABLE}

01:08:17.00

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

SATYAJIT DAS: Oh, you could say that.

{GRAPHICS BY BIGSTAR}

01:08:31.00

ANDREW SHENG: They were having massive private gains at public loss.

{ANDREW SHENG
CHIEF ADVISOR
CHINA BANKING REGULATORY COMMISSION}

{EDITORS
CHAD BECK & ADAM BOLT}

01:08:43.20

LEE HSIEN LOONG: When you start thinking that you can create something out of nothing, it's very difficult to resist.

{LEE HSIEN LOONG
PRIME MINISTER, SINGAPORE}

01:09:03.04

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}

01:09:20.00

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

GILLIAN TETT: I was getting a lot of anonymous e-mails from bankers; saying, you can't quote me, but I'm really concerned.

01:09:32.00

CHARLES FERGUSON: Why do you think there isn't a more systematic investigation being undertaken?

{EXECUTIVE DIRECTORS
JEFFREY LURIE &
CHRISTINA WEISS LURIE}

NOURIEL ROUBINI: Because then you will find the culprits.

{NOURIEL ROUBINI
PROFESSOR, NYU BUSINESS SCHOOL}

01:09:42.00

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

GLENN HUBBARD: I don't see that we do.

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

{PRODUCED BY AUDREY MARRS}

01:09:58.00

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

ELIOT SPITZER: The regulators didn't do their job. They, they 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}

01:10:22.00

{SEPTEMBER 15, 2008}

NEWS REPORTER: Over the weekend, Lehman Brothers, one of the most 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: World financial markets are way down today, following dramatic developments for two Wall Street giants.

WOMAN SPEAKING FOREIGN LANGUAGE: [UI].

MAN SPEAKING FRENCH: [UI].

01:10:45.00

NARRATOR: In September 2008, the bankruptcy of the U.S. investment bank Lehman Brothers, and the collapse of the world's largest insurance company, AIG, triggered a global financial crisis.

NEWSCASTER: – fears gripped markets overnight, with Asian stocks slammed by –

NEWSMAN: Stocks fell off a cliff – the largest single point drop in history.

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

01:11:10.00

NARRATOR: The result was a global recession, which cost the world tens of trillions of dollars; rendered 30 million people unemployed; and doubled the national debt of the United States.

01:11:21.00

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

NOURIEL ROUBINI: If you look at the cost of it — destruction of 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.

01:11:41.00

NARRATOR: This crisis was not an accident. It was caused by an 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.

01:12:03.25 **{PART I: HOW WE GOT HERE}**

NARRATOR: After the Great Depression, the United States had 40 years 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.

01:12:33.00

{SAMUEL HAYES

PROFESSOR EMERITUS OF INVESTMENT BANKING

HARVARD BUSINESS SCHOOL}

SAMUEL HAYES: In the traditional, uh, investment-banking-partnership 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.

01:12:48.02

NARRATOR: Paul Volcker served in the Treasury Department, and was chairman of the Federal Reserve from 1979 to 1987. Before going into government, he was a financial economist at Chase Manhattan Bank.

{PAUL VOLCKER

CHAIRMAN

FEDERAL RESERVE BOARD (1979-1987)}

PAUL VOLCKER: When I left Chase to go in the Treasury, in 1969, I think my income was in the neighborhood of 45,000 dollars a year.

CHARLES FERGUSON: Forty-five thousand dollars a year.

01:13:11.00

SAMUEL HAYES: Morgan Stanley, in 1972, had approximately 110 total 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.

01:13:36.14

NARRATOR: In the 1980s, the financial industry exploded. The investment banks went public, giving them huge amounts of stockholder money. People on Wall Street started getting rich.

01:13:49.00

{CHARLES MORRIS
AUTHOR
THE TWO TRILLION DOLLAR MELTDOWN}

CHARLES MORRIS: I had a friend who was a bond trader at Merrill 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.

01:14:13.14

RONALD REAGAN: The highest order of business before the nation is to restore our economic prosperity.

NARRATOR: In 1981, President Ronald Reagan chose as Treasury secretary the CEO of the investment bank Merrill Lynch, Donald Regan.

01:14:27.00

{DONALD REGAN
TREASURY SECRETARY (1981-1985)}

DONALD REGAN: Wall Street and the president do see eye to eye.

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

NARRATOR: The Reagan administration, supported by economists and financial lobbyists, started a 30-year period of financial deregulation.

01:14:45.00 In 1982, the Reagan administration deregulated savings 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: It may be the biggest bank heist in our history.

NARRATOR: Thousands of savings and loan executives went to jail for looting their companies. One of the most extreme cases was Charles Keating.

01:15:17.28

MAN: Mr. Keating, you got a word?

NARRATOR: In 1985, when federal regulators began investigating him, 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.

01:15:45.01 Charles Keating went to prison shortly afterwards. As 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.

01:16:01.00 During the Clinton administration, deregulation continued under Greenspan and Treasury secretaries Robert Rubin — the former CEO of the investment bank Goldman Sachs — and Larry Summers, a Harvard economics professor.

01:16:15.26

NOURIEL ROUBINI: The financial sector, Wall Street being powerful; having lobbies, having lots of money; step by step, uh, captured the political system; you know, both on the Democratic and the Republican side.

01:16:28.00

NARRATOR: By the late 1990s, the financial sector had consolidated 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.

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.

01:17:02.00

{ROBERT GNAIZDA
FORMER DIRECTOR
GREENLINING INSTITUTE}

ROBERT GNAIZDA: It was illegal to acquire Travelers. Greenspan said nothing. The Federal Reserve gave 'em an exemption for a year; and then they got the law passed.

NARRATOR: In 1999, at the urging of Summers and Rubin, Congress 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.

01:17:30.02

{ROBERT RUBIN WOULD LATER MAKE $126 MILLION
AS VICE CHAIRMAN OF CITIGROUP.

HE DECLINED TO BE INTERVIEWED FOR THIS FILM.}

01:17:36.20

{WILLEM BUITER
CHIEF ECONOMIST, CITIGROUP}

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

01:17:48.10

{GEORGE SOROS
CHAIRMAN
SOROS FUND MANAGEMENT}

GEORGE SOROS: Markets are inherently unstable, or at least 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.

01:18:27.21

NARRATOR: The next crisis came at the end of the '90s. The 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.

01:18:49.10

ELIOT SPITZER: In the absence of meaningful federal action — and 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.

01:19:00.24

NARRATOR: Eliot Spitzer's investigation revealed that the 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: Infospace; given the highest possible rating; dismissed by an analyst as a "piece of junk." Excite, also highly rated, called "such a piece of crap."

01:19:25.14

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

ELIOT SPITZER: The defense that was proffered by many of the 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: In December 2002, 10 investment banks settled the case for 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

MORGAN STANLEY	$125 MILLION
UBS	$80 MILLION
GOLDMAN SACHS	$110 MILLION
CITIGROUP	$110 MILLION}

01:19:51.09

NARRATOR: Scott Talbott is the chief lobbyist for the Financial 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: I, you'll have to be specific.

CHARLES FERGUSON: Okay. Uh –

SCOTT TALBOTT: And first of all, criminal activity shouldn't be accepted, period.

01:20:14.13 {MUSIC CUE}

01:20:23.26

NARRATOR: Since deregulation began, the world's biggest 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}

01:20:45.14 Credit Suisse helped funnel money for Iran's nuclear program, and for the Aerospace Industries Organization of Iran, which builds ballistic missiles.

MAN: Any information that would identify it as Iranian would be removed.

NARRATOR: The bank was fined 536 million dollars.

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

01:21:05.17

WOMAN: Did you comment, tch-, that she should, quote, lose any documents connected with the account?

{NOVEMBER 9, 1999}
{ALBERT MISAN
VP, CITIBANK PRIVATE BANK (NY)}

ALBERT MISAN: I said that in a kidding manner. It was at the early stages of this. I did not mean it seriously.

01:21:18.28

{FREDDIE MAC
ACCOUNTING FRAUD – FINED $125 MILLION
FANNIE MAE
ACCOUNTING FRAUD – FINED $400 MILLION}

NARRATOR: Between 1998 and 2003, Fannie Mae overstated its earnings by more than 10 billion dollars.

FRANKLIN RAINES: These accounting standards are highly complex, and require determinations over which experts often disagree.

NARRATOR: CEO Franklin Raines, who used to be President Clinton's budget director, received over 52 million dollars in bonuses.

01:21:43.18

{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: Would you be willing to supply the names?

MARK BRANSON: If there's a treaty framework –

SEN. CARL LEVIN: No treaty framework; you've agreed you participated in a fraud.

MARK BRANSON: Mm.

01:22:09.14

{HELPED ENRON CONCEAL FRAUD: FINED $385 MILLION
CITIBANK – JP MORGAN – MERRILL LYNCH}

NEWSCASTER: But while the companies face unprecedented fines, the investment firms do not have to admit any wrongdoing.

01:22:16.02

SCOTT TALBOTT: When you're this large, and you're dealing 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: I totally agree with you about high tech versus financial services. But high tech –

CHARLES FERGUSON: So how come? What, what's –

ELIOT SPITZER: Well, high tech is a fundamentally creative business, where the value generation and the income derives from actually creating something new and different.

01:22:48.17

NARRATOR: Beginning in the 1990s, deregulation and advances in 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.

01:23:04.20

ANDREW SHENG: Since the, uh, end of the Cold War, uh, a lot of, uh, 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: Absolutely! You know, as Warren Buffett said; you know, weapons of mass destruction.

01:23:25.23

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

ANDREW LO: Regulators, politicians, and businesspeople did not take seriously the threat of financial innovation on the, uh, the stability of the financial system.

01:23:36.23

NARRATOR: Using derivatives, bankers could gamble on virtually 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.

01:23:54.20 In 1998, someone tried to regulate them.

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.

01:24:17.24

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: In May of 1998, the CFTC issued a proposal to regulate derivatives. Clinton's Treasury Department had an immediate response.

01:24:38.08

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.

01:25:06.03

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

SATYAJIT DAS: The banks were now heavily reliant for earnings on these types of activities. And that led to a titanic battle to prevent this set of instruments from being regulated.

NARRATOR: Shortly after the phone call from Summers, Greenspan, Rubin, and SEC Chairman Arthur Levitt issued a joint statement condemning Born, and recommending legislation to keep derivatives unregulated.

{JULY 24, 1998}

ALAN GREENSPAN: Regulation of derivatives transactions that are privately negotiated, by professionals, is unnecessary.

01:25:38.29

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: They are unifying markets, they are reducing regulatory 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.}

01:26:06.17

{LARRY SUMMERS
TREASURY SECRETARY (1999-2001)}

LARRY SUMMERS: Our very great, uh, hope; that it will be possible to 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: I wish to associate myself with all of the remarks of Secretary Summers.

{ALAN GREENSPAN
CHAIRMAN, FEDERAL RESERVE BOARD}

01:26:34.24

NARRATOR: In December of 2000, Congress passed the Commodity Futures Modernization Act. Written with the help of financial-industry lobbyists, it banned the regulation of derivatives.

01:26:48.12

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

FRANK PARTNOY: Once that was done, it was off to the races. And the use of derivatives and financial innovation, uh, exploded dramatically after 2000.

01:26:58.02 {JANUARY 20, 2001}

MAN: – so help me God.

GEORGE W. BUSH: – so help me God.

NARRATOR: By the time George W. Bush took office in 2001, the U.S. 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}

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.

01:27:34.12

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.

01:27:51.21

NARRATOR: In the old system, when a homeowner paid their mortgage 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.

01:28:33.11 The investment banks paid rating agencies to evaluate 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.

01:28:50.05 This system was a ticking time bomb. Lenders didn't 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.

01:29:17.11

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

GILLIAN TETT: You weren't gonna be on the hook; and there weren't regulatory constraints. Um, so it was a green light to just pump out more and more and more loans.

NARRATOR: Between 2000 and 2003, the number of mortgage loans made each year nearly quadrupled.

NOURIEL ROUBINI: Everybody in this, uh, securitization food chain, 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.

01:29:46.05

NARRATOR: In the early 2000s, there was a huge increase in the riskiest loans, called subprime. But when thousands of subprime loans were combined to create CDOs, many of them still received AAA ratings.

01:30:03.06

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

GILLIAN TETT: Um-hm.

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?

01:30:19.08

GILLIAN TETT: They didn't do that; and in retrospect, they should have done.

CHARLES FERGUSON: So did these guys know that they were doing something dangerous?

SAM HAYES: I think they did.

> {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.}

01:30:44.12

ROBERT GNAIZDA: All the incentives that the financial institutions offered to their mortgage brokers were based on selling the most profitable products, which were predatory loans.

01:30:55.00

{ERIC HALPERIN
DIRECTOR, CENTER FOR RESPONSIBLE LENDING
WASHINGTON, DC}

ERIC HALPERIN: The banker makes more money if they put you in a subprime loan, that's where they're gonna, that's where they're gonna put ya.

01:31:00.00 **{PART II: THE BUBBLE (2001-2007)}**

NARRATOR: Suddenly, hundreds of billions of dollars a year were 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: Real estate is real. They can see their asset; they can live in their asset; they can rent out their asset.

01:31:27.05

CHARLES MORRIS: You had a huge boom in housing, that made no sense at all. The financing appetites of the financial sector drove what everybody else did.

NOURIEL ROUBINI: Last time we had a housing bubble was in the late '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.

01:32:07.12

VOICE OVER: At 500 dollars a ticket, they've come to hear how to buy their very own piece of the American dream.

ROBERT GNAIZDA: Goldman Sachs; Bear Stearns; Lehman Brothers; 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.

01:32:33.15

NARRATOR: Countrywide Financial, the largest subprime lender, issued 97 billion dollars' worth of loans. It made over 11 billion dollars in profits as a result.

01:32:46.22 On Wall Street, annual cash bonuses spiked. Traders and 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.

01:33:05.04

NOURIEL ROUBINI: On Wall Street, this housing and credit bubble was 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.

01:33:20.09

{MARTIN WOLF
CHIEF ECONOMICS COMMENTATOR
THE FINANCIAL TIMES}

MARTIN WOLF: It wasn't real profits, it wasn't real 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.

01:33:38.27

NARRATOR: Through the Home Ownership and Equity Protection Act, the 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: For 20 years, Robert Gnaizda was the head of Greenlining, a powerful consumer advocacy group. He met with Greenspan on a regular basis.

01:34:04.17

ROBERT GNAIZDA: We gave him an example of Countrywide, and 150 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.

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.}

01:34:45.02

{CHRISTOPHER COX
SEC CHAIRMAN
JUNE 2, 2005}

CHRISTOPHER COX: In this amazing world of instant global 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.}

01:35:01.04

{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: Yes. Yeah, I, I think there has been a, a, a systematic gutting, or whatever you want to call it, of the agency and its capability, through cutting back of staff.

01:35:20.03

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

LYNN E. TURNER: Yeah. When that gentleman would go home at night, he could turn the lights out.

01:35:33.17

NARRATOR: During the bubble, the investment banks were borrowing 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.

01:36:05.14

> {KENNETH ROGOFF
> PROFESSOR OF ECONOMICS, HARVARD}

KENNETH ROGOFF: The SEC somehow decided to let investment banks 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}

01:36:21.20

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.

01:36:37.13

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: Yes.

WILLIAM DONALDSON: We do indeed. Unanimous.

And we are adjourned.

01:37:03.00

{DANIEL ALPERT
MANAGING DIRECTOR
WESTWOOD CAPITAL}

DANIEL ALPERT: The degree of leverage in the financial system, uh, 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.

01:37:22.10

NARRATOR: There was another ticking time bomb in the financial 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.

01:37:52.23 But unlike regular insurance, speculators could also buy credit default swaps from AIG in order to bet against CDOs they didn't own.

01:38:04.13

SATYAJIT DAS: In insurance, you can only insure something you own. 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.

01:38:31.01

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

NOURIEL ROUBINI: People were essentially being rewarded for taking 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.

01:39:07.13

NARRATOR: AIG's Financial Products Division in London issued 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.

01:39:34.00

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

JOSEPH CASSANO: It's hard for us, with, and with, without being 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.

01:39:48.05

NARRATOR: In 2007, AIG's auditors raised warnings. One of them, 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.

01:40:16.29

NARRATOR: In 2005, Raghuram Rajan, then the chief economist of the 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: It was, uh, I guess, the central bankers of the 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.

01:40:55.15

NARRATOR: Rajan's paper focused on incentive structures that 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.

01:41:18.29

RAGHURAM RAJAN: It's very easy to generate performance by 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}

01:41:30.12

KENNETH ROGOFF: Rajan wa-, you know, hit the nail on the head. What 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.

01:41:45.26

RAGHURAM RAJAN: Summers was, was vocal. He basically thought that I 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.}

01:42:18.08

FRANK PARTNOY: You're gonna make an extra 2 million dollars a 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.

01:42:31.26 {MUSIC CUE}
{THE HAMPTONS
2 HOURS FROM NEW YORK CITY}

01:43:15.21

ROBERT GNAIZDA: It never was enough. They don't want to own one 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.

01:43:29.10

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

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

01:43:40.20

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}

01:43:50.11

{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.

01:44:16.10

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

{HARVEY MILLER
LEHMAN'S BANKRUPTCY LAWYER}

HARVEY MILLER: Yes.

CHARLES FERGUSON: How many were there?

HARVEY MILLER: Well, there were six, including the 767s. They also had a helicopter.

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

01:44:32.11

{JEFFREY LANE
VICE CHAIRMAN
LEHMAN BROTHERS (2003-2007)}

JEFFREY LANE: You're dealing with Type A personalities, and uh, uh, Type A personalities know everything in the world.

WILLEM BUITER: Banking became a pissing contest, you know; m-, mine's bigger than yours; that kind of stuff. It was all men that ran it, incidentally.

JEFFREY LANE: Fifty-billion-dollar deals were not large enough, so we do hundred-billion-dollar deals.

01:44:48.07

JONATHAN ALPERT: These people are risk-takers; they're 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.}

01:45:18.17

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

ANDREW LO: Recently, neuroscientists have done experiments where, 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.

01:45:38.24

JONATHAN ALPERT: A lot of people feel that they need to really participate in that behavior to make it, to get promoted, to get recognized.

NARRATOR: According to a Bloomberg article, business entertainment 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.

01:46:05.24

JONATHAN ALPERT: There's just a blatant disregard for the 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.

01:46:18.10 {MUSIC CUE}

{KRISTIN DAVIS RAN AN ELITE PROSTITUTION RING
FROM HER HIGH-RISE APARTMENT.

IT WAS LOCATED A FEW BLOCKS FROM
THE NEW YORK STOCK EXCHANGE.}

01:46:27.19

CHARLES FERGUSON: How many customers?

KRISTIN DAVIS: About 10,000 at that point in time.

01:46:36.01

CHARLES FERGUSON: What fraction were from Wall Street?

KRISTIN DAVIS: Of the higher-end clients, probably – 40 to 50 percent.

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

KRISTIN DAVIS: Lehman Brothers; yeah, they're all in there.

JONATHAN ALPERT: Morgan Stanley was a little less of that. Uh, I think Goldman was, was pretty, pretty big with that.

01:46:57.03

KRISTIN DAVIS: A lot of clients would call me, and say, can you get 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: What's happening is services are being charged to computer repair.

01:47:14.19

KRISTIN DAVIS: Trading research; you know; consulting for market compliance. [They], I just usually gave them a piece of letterhead, and said, make your own invoice.

01:47:22.04

CHARLES FERGUSON: So this pattern of behavior, you think, extends to the senior management of the firm.

JONATHAN ALPERT: Absolutely does, yeah. I know for a fact that it does. It extends to the very top.

01:47:36.19

{ALLAN SLOAN
SENIOR EDITOR
FORTUNE MAGAZINE}

ALLAN SLOAN: A friend of mine, who, who's involved in a company 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.

01:48:11.17 This is not a loan you'd really make, right? 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.

01:48:33.18

NARRATOR: Goldman Sachs sold at least 3.1 billion dollars' 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.

01:48:49.19

{MAY 30, 2006}

GEORGE W. BUSH: {COUGH} Good morning, welcome to the White House. I 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.

01:49:04.08

NARRATOR: You might think it would be hard for Paulson to adjust to 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.

01:49:30.24

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

ALLAN SLOAN: The article came out in October of 2007. Already, a third of the mortgages defaulted. Now, uh, most of them are goin'.

01:49:49.16

NARRATOR: One group that had purchased these now-worthless 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}

01:50:19.27

NARRATOR: By late 2006, Goldman had taken things a step further. It 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.

01:50:35.02 By purchasing credit default swaps from AIG, Goldman could bet against CDOs it didn't own, and get paid when the CDOs failed.

01:50:45.26

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

01:51:01.11

NARRATOR: Goldman Sachs bought at least 22 billion dollars of credit 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.}

01:51:36.08

SEN. CARL LEVIN: Six hundred million dollars; Timberwolf Securities 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.

01:51:51.27

> {DANIEL SPARKS
> FORMER MORTGAGES DEPARTMENT HEAD}

DANIEL SPARKS: This was an e-mail to me in late June.

SEN. CARL LEVIN: Right. And you're callin' Timberwolf –

DANIEL SPARKS: After the transaction.

SEN. CARL LEVIN: No no; you sold Timberwolf after as well.

DANIEL SPARKS: W-, we did trades after that.

SEN. CARL LEVIN: Yeah, okay. The next e-mail; take a look; July 1, '07; tells the sales force, "the top priority is Timberwolf."

01:52:10.04 Your top priority to sell is that shitty deal. Uh, if 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: M-, Mr. Chairman, just tryin' to understand --

SEN. CARL LEVIN: No, I think you understand it; I don't think you want to answer it.

01:52:25.28

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: Again, uh, uh, Senator, I, I will repeat, you know, we have a, a duty to, to serve our clients by showing prices on transaction where they ask us to show prices for.

01:52:43.01

SEN. CARL LEVIN: What do you think about selling securities which your own people think are – crap? Does that bother you?

{LLOYD BLANKFEIN
CHAIRMAN & CEO
GOLDMAN SACHS}

LLOYD BLANKFEIN: I think they would, again, as a hypothetical?

SEN. CARL LEVIN: No. This is real.

LLOYD BLANKFEIN: Well then I don't –

SEN. CARL LEVIN: We heard it today.

LLOYD BLANKFEIN: Well –

SEN. CARL LEVIN: We heard it today: this is a shitty deal, this is crap.

LLOYD BLANKFEIN: I, I, I heard nothing today that makes me think anything, um, went wrong.

01:53:08.09

SEN. CARL LEVIN: Is there not a conflict when you sell something to 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: In the –

SEN. CARL LEVIN: Do you see a problem?

LLOYD BLANKFEIN: In the context of market-making, that is not a conflict.

01:53:27.20

{DAVID VINIAR
EXECUTIVE VICE PRESIDENT AND CFO
GOLDMAN SACHS}

SEN. CARL LEVIN: When you heard that your employees, in these e-mails, said, god, what a shitty deal; god, what a piece of crap; do you feel anything?

DAVID VINIAR: I f-, I think that's very unfortunate to have on e-mail.

SEN. CARL LEVIN: Are you b-

DAVID VINIAR: And, and, and very unfortunate – I don't, I don't –

SEN. CARL LEVIN: On e-mail?

DAVID VINIAR: [UI] –

SEN. CARL LEVIN: How about feeling that way?

DAVID VINIAR: I think it's very unfortunate for anyone to have said that, in any form.

{SEN. TOM COBURN (R-OK)
RANKING MEMBER
GOVERNMENTAL AFFAIRS SUBCOMMITTEE
ON INVESTIGATIONS}

01:53:48.26

SEN. TOM COBURN: Is it your understanding that your competitors were engaged in similar activities?

LLOYD BLANKFEIN: Uh, yes. And, and to a greater extent than us, in most cases.

01:53:58.12

NARRATOR: Hedge fund manager John Paulson made 12 billion dollars 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.

01:54:12.24 Morgan Stanley was also selling mortgage securities that 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.}

01:54:56.19

CHARLES MORRIS: You would have thought that pension funds would have 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.

01:55:09.04

> {BILL ACKMAN
> HEDGE FUND MANAGER}

BILL ACKMAN: None of these securities got issued without the imprimatur, you know, the Good Housekeeping Seal of Approval, of the rating agencies.

NARRATOR: The three rating agencies — Moody's, S&P, and Fitch — made billions of dollars giving high ratings to risky securities. Moody's, the largest rating agency, quadrupled its profits between 2000 and 2007.

01:55:32.02

BILL ACKMAN: Moody's and S&P get compensated based on putting 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.

01:55:48.03

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

JEROME FONS: The rating agencies could have stopped the party, and 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: AAA-rated instruments mushroomed from just a handful to thousands and thousands.

01:56:09.09

JEROME FONS: Hundreds of billions of dollars, uh, were being rated. You know – and –

CHARLES FERGUSON: Per year.

JEROME FONS: Per year; oh, yeah.

01:56:16.05

FRANK PARTNOY: I've now testified before both houses of Congress on 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.

01:56:35.17

DEVEN SHARMA: S&P's ratings express our opinion.

STEPHEN JOYNT: Our ratings are, uh, are our opinions. But they're opinions.

RAYMOND McDANIEL: Opinions, and those are, they are just opinions.

STEPHEN JOYNT: I think we are emphasizing the fact that our ratings are, uh, uh, are opinions.

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

01:56:54.18

DEVEN SHARMA: They do not speak to the market value of a security, the volatility of its price, or its suitability as an investment.

01:57:02.25 **{PART III: THE CRISIS}**

01:57:20.16

{JULY, 2005}

NEWSWOMAN: We have so many economists coming on our air, and saying, 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?

01:57:38.03

BEN BERNANKE: Well, I, I guess I don't buy your premise. It's a pretty unlikely possibility. We've never had a decline in house prices on a nationra-, ba-, a nationwide basis.

NARRATOR: Ben Bernanke became chairman of the Federal Reserve Board 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.}

01:58:03.28

NARRATOR: Robert Gnaizda met with Ben Bernanke and the Federal Reserve Board three times after Bernanke became chairman.

ROBERT GNAIZDA: Only at the last meeting did he suggest that there was a problem, and that the government ought to look into it.

CHARLES FERGUSON: When? When was that? What year?

ROBERT GNAIZDA: It's 2009; March 11th, in D.C.

CHARLES FERGUSON: This year.

ROBERT GNAIZDA: This year we met, yes.

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

ROBERT GNAIZDA: Yes.

01:58:31.21

NARRATOR: One of the six Federal Reserve Board governors serving 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.

01:58:53.18

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?

01:59:32.16

FREDERIC MISHKIN: I think that people did. We had people looking at, a whole group of people looking at this, for whatever reason –

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.

01:59:44.15

NARRATOR: As early as 2004, the FBI was already warning about an 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.

02:00:06.19 Then came Nouriel Roubini's warnings in 2006; Allan Sloan's articles in Fortune magazine and the Washington Post in 2007; and repeated warnings from the IMF.

02:00:18.02

> {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.

02:00:27.21

NARRATOR: In May of 2007, hedge fund manager Bill Ackman circulated 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.

02:00:46.27

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?

NARRATOR: By 2008, home foreclosures were skyrocketing, and the 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.

02:01:13.24

GEORGE SOROS: Chuck Prince, of Citibank, famously said that, uh, uh, we have to dance until the music stops. Actually, the music had stopped already when he said that.

NARRATOR: The market for CDOs collapsed, leaving the investment banks holding hundreds of billions of dollars in loans, CDOs, and real estate they couldn't sell.

NOURIEL ROUBINI: When the crisis started, uh, both the budha-, uh, Bush administration and uh, and the Federal Reserve were totally behind the curve. They did not understand the extent of it.

02:01:47.27

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.

02:02:30.11

> {G7 MEETING, TOKYO
> FEBRUARY 9, 2008}

HENRY PAULSON: We're gonna keep growing, okay? And obviously, 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.}

02:02:45.01

{MARCH 16, 2008}

WOMAN REPORTER: In a matter of days, one of the pillars of Wall Street sold to rival –

NARRATOR: In March of 2008, the investment bank Bear Stearns ran out 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: That was the time when the administration could have come in, and put in place, you know, various kinds of measures that would have reduced system risk.

02:03:11.05

{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: I, I, eh, well, I've seen those investment 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.

02:03:36.01

NARRATOR: On September 7th, 2008, Henry Paulson announced the federal takeover of Fannie Mae and Freddie Mac, two giant mortgage lenders on the brink of collapse.

HENRY PAULSON: Nothing about our actions today in any way reflects a changed view of the housing correction or the strength of other U.S. financial institutions.

02:03:56.02

NARRATOR: Two days later, Lehman Brothers announced record losses of 3.2 billion dollars, and its stock collapsed.

02:04:03.26

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: I think that's, I think that's fair.

02:04:23.22

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

JEROME FONS: Uh, more likely A2.

CHARLES FERGUSON: A2.

JEROME FONS: Yeah.

CHARLES FERGUSON: Okay.

JEROME FONS: Yeah.

CHARLES FERGUSON: A2 is still not bankrupt.

JEROME FONS: No no no. No. That's, that's a high 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?

02:04:55.06

JEROME FONS: Well, that's a good question. {LAUGHTER} 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: Um-hm.

CHARLES FERGUSON: Um –

DAVID McCORMICK: Well, first, that's what the regulators, 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 –

02:05:28.18

CHARLES FERGUSON: Forgive me, but that's clearly not true. I m-

DAVID McCORMICK: What do you mean, it's not true?

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?

02:05:45.02

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 –

02:05:58.20

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.

02:06:08.20

NEWSCASTER: Governor Fred Mishkin is resigning, effective August 31. 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: His departure leaves the Fed board with three of its seven seats vacant; just when the economy needs it most.

02:06:32.24

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?

02:06:42.05

NARRATOR: By Friday, September 12th, Lehman Brothers had run out of 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}

02:07:06.19 But Lehman wasn't alone. Merrill Lynch, another 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.}

02:07:34.04

HARVEY MILLER: We all jumped into a yellow cab; and went down to the 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.

02:08:03.05

CHARLES FERGUSON: You said this.

HARVEY MILLER: Yes. They just said they had considered all of the 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: Yes.

02:08:21.08

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.

02:08:42.04

NARRATOR: Paulson and Bernanke had not consulted with other governments, and didn't understand the consequences of foreign bankruptcy laws.

{SEPTEMBER 16, 2008}

REPORTER: – bankers at Lehman Brothers London continued to empty their desks today.

NARRATOR: Under British law, Lehman's London office had to be closed immediately.

HARVEY MILLER: All transactions came to a halt. And [there are] thousands and thousands and thousands of transactions.

GILLIAN TETT: The hedge funds who had had assets with Lehman in London discovered overnight, to their complete horror, that they couldn't get those assets back.

02:09:10.00

SATYAJIT DAS: One of the points of the hub failed. And that had huge knock-on effects around the system.

NEWSWOMAN: The oldest money market fund in the nation wrote off roughly three quarters of a billion dollars in bad debt issued by the now-bankrupt Lehman Brothers.

02:09:24.23

NARRATOR: Lehman's failure also caused a collapse in the commercial paper market, which many companies depend on to pay for operating expenses, such as payroll.

NEWSWOMAN: That means maybe they have to lay off employees; they can't buy parts. It stops business in its tracks.

GILLIAN TETT: Suddenly, people stood, and said: Listen; what can we believe in? There's nothing we can trust anymore.

02:09:43.25

NARRATOR: That same week, AIG owed 13 billion dollars to holders of credit default swaps; and it didn't have the money.

ANDREW SHENG: AIG was another hub. If AIG had stopped, you know, all planes may have to be, you know, stop flying.

NARRATOR: On September 17th, AIG is taken over by the government. And one day later, Paulson and Bernanke ask Congress for 700 billion dollars to bail out the banks.

HENRY PAULSON: We are coming together –

NARRATOR: They warn that the alternative would be a catastrophic financial collapse.

02:10:13.13

NOURIEL ROUBINI: It was scary. You know, the entire system froze up; 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: I am playing the hand that was dealt me. Uh, a lot of what I am dealing with, eh, you know, I'm dealing with the consequences of things that were done, often, many years ago.

02:10:35.07

DAVID McCORMICK: Secretary Paulson spoke throughout the fall. And 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: I am being serious. What, what would you have expected? Uh, I, I'm, what are, what were you looking for that you didn't see?

02:10:49.22

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: So a-, again, what –

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

DAVID McCORMICK: C-, can we turn this off for a second?

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

02:11:13.21

NARRATOR: When AIG was bailed out, the owners of its credit default 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.

02:11:45.17

NARRATOR: At the same time, Paulson and Geithner forced AIG to 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: Well, I think it's fair to say that the financial markets today are incredibly complicated.

02:12:08.28

GEORGE W. BUSH: – supply urgently needed money so banks and other financial institutions –

NARRATOR: On October 4th, 2008, President Bush signs a 700-billion-dollar bailout bill. But world stock markets continue to fall, amid fears that a global recession is now underway.

02:12:28.20 The bailout legislation does nothing to stem the tide of layoffs and foreclosures. Unemployment in the United States and Europe quickly rises to 10 percent. The recession accelerates, and spreads globally.

02:12:46.01

CHARLES MORRIS: I began to get really scared, 'cause I hadn't foreseen the whole world going down at the same rate at the same time.

NARRATOR: By December of 2008, General Motors and Chrysler are 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.

02:13:14.14

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

> {CHINA GRAND LIGHTING FACTORY
> GUANGDONG PROVINCE, CHINA}

02:13:24.14

JOANNA XN: Here you can earn a lot of money, like, uh, 70, 80, uh, 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.

02:13:57.19 Some of the factories try to cut off some workers. Some people will get poor because they'll lose their jobs. Life gets harder.

> {SINGAPORE}

02:14:16.18

> {PATRICK DANIEL
> EDITOR IN CHIEF
> SINGAPORE PRESS HOLDINGS}

PATRICK DANIEL: We were growing at about 20 percent. It was a super 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!

02:14:35.17

LEE HSIEN LOONG: Even as the crisis unfolded, we didn't know how wide it was going to spread, or how severe it was going to be. And we were still hoping that there would 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.

02:15:23.09

{FORECLOSURES IN THE UNITED STATES
REACHED 6 MILLION BY EARLY 2010.}

ERIC HALPERIN: Every time a home goes into foreclosure, it affects 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.

02:15:50.10

{COLUMBA RAMOS
SAN JOSE, CA}

COLUMBA RAMOS: {We went out on a weekend to see what houses were for 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: {Everything was beautiful, the house was very pretty. 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.

02:16:39.23

{"TENT CITY"
PINELLAS COUNTY, FLORIDA}

02:16:48.02

{ERIC EVANOUSKAS
VOLUNTEER, CATHOLIC CHARITIES}

ERIC EVANOUSKAS: The vast majority I've seen lately, 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.

02:17:00.15

{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.

02:17:21.29 **{PART IV: ACCOUNTABILITY}**

{RICHARD FULD
CEO OF LEHMAN BROTHERS}

RICHARD FULD: When the company did well, we did well; when the company did not do well, sir, we did not do well.

NARRATOR: The men who destroyed their own companies, and plunged the 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.

02:17:54.03

RICHARD FULD: The system worked.

ANGELO MOZILO: It doesn't make any sense for us to make a loan that's gonna fail, 'cause we lose. They lose; the borrower loses; the community loses; and we lose.

02:18:02.26

NARRATOR: Countrywide's CEO Angelo Mozilo made 470 million dollars between 2003 and 2008. One hundred forty million came from dumping his Countrywide stock in the 12 months before the company collapsed.

02:18:17.04

BILL ACKMAN: Ultimately, I hold the board accountable when a 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.

02:18:31.25

SCOTT TALBOTT: The board of directors and the compensation 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: Well, I think that, if you look at those, uh, in, I would give about a B. Because –

CHARLES FERGUSON: A B?

SCOTT TALBOTT: Yes.

CHARLES FERGUSON: Not an F.

SCOTT TALBOTT: Not an F, not an F.

02:18:51.11

NARRATOR: Stan O'Neal, the CEO of Merrill Lynch, received 90 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.

02:19:08.05

CHARLES FERGUSON: Instead of being fired, Stan O'Neal is allowed to resign, and takes away 151 million dollars.

SCOTT TALBOTT: That's a decision that that board of directors made at that point – you know –

CHARLES FERGUSON: And what grade do you give that decision?

SCOTT TALBOTT: Uh, that's a tougher one. I don't know if I would give that one a B as well.

02:19:23.24

NARRATOR: O'Neal's successor, John Thain, was paid 87 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.

02:19:55.27

MARTIN SULLIVAN: And you want to make sure that the key players and the key, key employees, uh, within AIGFP; yeah, we retain that intellectual knowledge.

02:20:03.18

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.

02:20:34.03

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.

02:21:00.06

NARRATOR: In the U.S., the banks are now bigger, more powerful, and more concentrated than ever before.

MARTIN WOLF: There are fewer competitors, and a lot of smaller banks have been taken over by big ones. JP Morgan today is even bigger than it was before.

NOURIEL ROUBINI: JP Morgan took over first Bear Stearns and then WAMU; Bank of America took over Countrywide and Merrill Lynch; Wells Fargo took over Wachovia.

02:21:26.25

NARRATOR: After the crisis, the financial industry, including the 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.

02:21:41.04

CHARLES FERGUSON: Do you think the financial services industry has excessive political influence in the United States?

SCOTT TALBOTT: No. I think that every person in, in the w-, in the 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: The, you can walk into any hearing room, uh, that you 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.

02:22:16.28

NARRATOR: Between 1998 and 2008, the financial industry spent over 5 billion dollars on lobbying and campaign contributions. And since the crisis, they're spending even more money.

02:22:30.07 The financial industry also exerts its influence in a more subtle way; one that most Americans don't know about. It has corrupted the study of economics itself.

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

02:22:58.15

NARRATOR: Since the 1980s, academic economists have been major 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.

02:23:16.20

CHARLES MORRIS: The guys who taught these things tended to get paid a lot of money being consultants. Business school professors don't live on a faculty salary. They do very, very well.

02:23:32.03

{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.

02:23:47.26

NARRATOR: Martin Feldstein is a professor at Harvard, and one of the 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.

02:24:10.05

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.

02:24:32.01

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

GLENN HUBBARD: I've taught at Northwestern and Chicago, Harvard and Columbia.

NARRATOR: Glenn Hubbard is the dean of Columbia Business School, and was the chairman of the Council of Economic Advisers under George W. Bush.

02:24:44.16

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

GLENN HUBBARD: I don't think so, no. You certainly, you certainly wouldn't get that impression by the drubbing that they regularly get, uh, in Washington.

02:24:59.12

NARRATOR: Many prominent academics quietly make fortunes while 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.

02:25:20.04 Two bankers who used these services were Ralph Ciofi and 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.

02:25:39.06

CHARLES FERGUSON: Do you think that the economics discipline has, uh, a conflict of interest problem?

GLENN HUBBARD: I'm not sure I know what you mean.

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: Oh, I see what you're saying. I doubt it. You know, most academic economists, uh, you know, aren't wealthy businesspeople.

02:26:05.07

NARRATOR: Hubbard makes 250,000 dollars a year as a board member of 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.

02:26:23.19 Laura Tyson, who declined to be interviewed for this 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.

02:26:55.02 Larry Summers, who as Treasury secretary played a 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.

02:27:23.25 Frederic Mishkin, who returned to Columbia Business School after leaving the Federal Reserve, reported on his federal disclosure report that his net worth was between 6 million and 17 million dollars.

02:27:36.14

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.

02:27:53.17

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 –

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.

02:28:30.10

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.}

02:28:43.10

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.

02:28:55.21

GLENN HUBBARD: I think what should be publicly available is whenever anybody does research on a topic, that they disclose if they have any financial conflict with that research.

CHARLES FERGUSON: But if I recall, there is no policy to that effect.

GLENN HUBBARD: I can't imagine anybody not doing that – in terms of putting it in a paper. You would, there would be significant professional sanction for failure to do that.

02:29:18.25

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.

02:29:30.24

NARRATOR: Richard Portes, the most famous economist in Britain, and 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.

02:29:44.12

RICHARD PORTES: The banks themselves are highly liquid. They've 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: Richard, thank you so much.

NARRATOR: Like Mishkin, Portes's report didn't disclose his payment from the Icelandic Chamber of Commerce.

02:30:03.04

{JOHN CAMPBELL
CHAIRMAN
HARVARD ECONOMICS DEPARTMENT}

CHARLES FERGUSON: Does Harvard require disclosures of financial conflict of interest in publications?

JOHN CAMPBELL: Um, not to my knowledge.

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

JOHN CAMPBELL: No.

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

JOHN CAMPBELL: I don't see why.

02:30:20.03

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: Hm, ye-, well – yeah; basically irrelevant.

02:30:34.18

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.

02:31:00.29

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?

02:31:15.10

GLENN HUBBARD: No, to my knowledge, I don't think my consulting clients are even on my CV, so –

CHARLES FERGUSON: Uh, who are your consulting clients?

GLENN HUBBARD: I don't believe I have to discuss that with you.

CHARLES FERGUSON: Okay. Uh, uh –

GLENN HUBBARD: Look, you have a few more minutes, and the interview is over.

02:31:30.09

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.

02:31:39.09

CHARLES FERGUSON: Do they include other financial services firms?

GLENN HUBBARD: Possibly.

CHARLES FERGUSON: You don't remember?

GLENN HUBBARD: This isn't a deposition, sir. I was polite enough to give you time; foolishly, I now see. But you have three more minutes. Give it your best shot.

02:31:54.25

NARRATOR: In 2004, at the height of the bubble, Glenn Hubbard 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.

02:32:29.02

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: I think, uh, it's certainly important to disclose the, um – the, um –

02:32:54.00 Well, I think that's also a little different from 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.}

02:33:15.19

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

CHARLES MORRIS: Well, heh heh, heh, it has no relevance to anything, really. And, and fe-, indeed, I think, um, it's a part of the, it's a s-, important part of the problem.

02:33:32.23 **{PART V: WHERE WE ARE NOW}**

02:33:47.10

NARRATOR: The rising power of the U.S. financial sector was part of 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.

02:34:24.15

DANIEL ALPERT: For many, many years, the 660 million people in the 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.

02:34:41.16

NARRATOR: American factory workers were laid off by the tens of thousands.

DANIEL ALPERT: Our manufacturing base was destroyed, literally over the course of a few years.

02:34:49.23

NARRATOR: As manufacturing declined, other industries rose. The 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.

02:35:07.26 While top private universities like Harvard have 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.

02:35:29.04 Increasingly, the most important determinant of whether Americans go to college is whether they can find the money to pay for it.

Meanwhile, American tax policy shifted to favor the wealthy.

02:35:41.21

{OCTOBER 11, 2006}

GEORGE W. BUSH: When I first came to office, I thought taxes were too high; and they were.

NARRATOR: The most dramatic change was a series of tax cuts designed 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.

02:36:04.05

GEORGE W. BUSH: We had a comprehensive plan that, when acted, has left nearly 1.1 trillion dollars in the hands of American workers, families, investors, and small business owners.

02:36:14.05

NARRATOR: Most of the benefits of these tax cuts went to the wealthiest 1 percent of Americans.

GEORGE W. BUSH: And by the way, it was really the cornerstone, in many ways, of our economic recovery policy.

02:36:25.23

NARRATOR: Inequality of wealth in the United States is now higher 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: As the middle class falls further and further behind, there is a political urge to respond by making it easier to get credit.

{OCTOBER 13, 2002}

GEORGE W. BUSH: You don't have to have a lousy home. The low-income home buyer can have just as nice a house as anybody else.

NARRATOR: American families borrowed to finance their homes, their cars, their healthcare, and their children's educations.

02:37:10.09

CHARLES MORRIS: People in the bottom 90 percent lost ground between 1980 and 2007. It all went to the top 1 percent.

NARRATOR: For the first time in history, average Americans have less education and are less prosperous than their parents.

02:37:34.26

BARACK OBAMA: The era of greed and irresponsibility on Wall Street and in Washington has led us to a financial crisis as serious as any that we have faced since the Great Depression.

NARRATOR: When the financial crisis struck just before the 2008 election, Barack Obama pointed to Wall Street greed and regulatory failures as examples of the need for change in America.

BARACK OBAMA: A lack of oversight in Washington and on Wall Street is exactly what got us into this mess.

NARRATOR: After taking office, President Obama spoke of the need to reform the financial industry.

02:38:09.04

{SEPTEMBER 14, 2009}

BARACK OBAMA: We want a systemic-risk regulator; increased capital requirements. We need a consumer financial protection agency; we need to change Wall Street's culture.

NARRATOR: But when finally enacted in mid-2010, the administration's financial reforms were weak; and in some critical areas, including the rating agencies, lobbying, and compensation, nothing significant was even proposed.

02:38:32.28

ROBERT GNAIZDA: Addressing Obama and, quote, regulatory reform: my response, if it was one word, would be: Ha!

There's very little reform.

CHARLES FERGUSON: How come?

ROBERT GNAIZDA: It's a Wall Street government.

02:38:51.27

{APPLAUSE}

NARRATOR: Obama chose Timothy Geithner as Treasury secretary. 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: When Tim Geithner was testifying to be confirmed as 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.}

02:39:24.07

NARRATOR: The new president of the New York Fed is William C. 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.

02:39:48.08 To head the Commodity Futures Trading Commission, Obama picked Gary Gensler, a former Goldman Sachs executive who had helped ban the regulation of derivatives.

To run the Securities and Exchange Commission, Obama picked Mary Shapiro, the former CEO of FINRA, the investment-banking industry's self-regulation body.

02:40:08.14 Obama's chief of staff, Rahm Emanuel, made 320,000 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.

02:40:27.25

ELIOT SPITZER: The most senior economic advisors are the very people who were there, who built the structure.

WILLEM BUITER: When it was clear that Summers and Geithner were going to play major roles as advisors; first, uh, I knew this was going to be status quo.

NARRATOR: The Obama administration resisted regulation of bank compensation, even as foreign leaders took action.

02:40:48.26

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

NARRATOR: In September of 2009, Christine Lagarde and the finance 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.

02:41:22.15

SATYAJIT DAS: Their view is, this is a temporary blip, and things will go back to normal.

{AUGUST 25, 2009}

BARACK OBAMA: And that is why I am reappointing him to another term as chairman of the Federal Reserve. Thank you so much, Ben.

NARRATOR: In 2009, Barack Obama reappointed Ben Bernanke.

BEN BERNANKE: Thank you, Mr. President.

02:41:40.11

NARRATOR: As of mid-2010, not a single senior financial executive 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.

02:42:05.11

ROBERT GNAIZDA: I certainly would think of criminal act-, action 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: Yes. Yes.

CHARLES FERGUSON: In, in regard to –

ROBERT GNAIZDA: They'd be very hard to, to win.

CHARLES FERGUSON: Yeah.

ROBERT GNAIZDA: But I think they could do it, if they got enough underlings to tell the truth.

02:42:31.05

NARRATOR: In an industry in which drug use, prostitution, and 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.

02:42:43.13

KRISTIN DAVIS: They gave me a plea bargain, and I t-, I took it. Um, 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: That's correct. That's correct.

02:42:54.15

ELIOT SPITZER: There is a sensibility that you don't use 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.

02:43:15.28

{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.}

02:43:27.25

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.

02:43:48.11

NARRATOR: In 2009, as unemployment hit its highest level in 17 years, Morgan Stanley paid its employees over 14 billion dollars; and Goldman Sachs paid out over 16 billion. In 2010, bonuses were even higher.

02:44:03.26

ANDREW SHENG: Why should a financial engineer, uh, be paid, uh, 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.

02:44:28.02

NARRATOR: For decades, the American financial system was stable and 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.

02:44:59.04 They will tell us that we need them, and that what they do is too complicated for us to understand. They will tell us it won't happen again. They will spend billions fighting reform.

It won't be easy. But some things are worth fighting for.

02:45:23.15 {CREDITS}

02:48:49.17 {END OF FILE}