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IS THE NARRATIVE OF "THE BIG SHORT" THE BEST EXPLANATION OF THE FINANCIAL CRISIS?

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PARTICIPANTS:

Opening Remarks:

DAVID WESSEL
Director, The Hutchins Center on Fiscal and Monetary Policy; Senior Fellow, Economic Studies, The Brookings Institution

Panel Discussion:

DAVID WESSEL, Moderator
Director, The Hutchins Center on Fiscal and Monetary Policy; Senior Fellow, Economic Studies, The Brookings Institution

ADAM McKAY
Director, "The Big Short"

GREG IP
Chief Economics Commentator, The Wall Street Journal

ADAM DAVIDSON
Co-Founder and Contributor, Planet Money, NPR; Consultant for "The Big Short" Movie

DONALD KOHN
Senior Fellow, Economic Studies, The Brookings Institution

DANNY MOSES
Partner/Co-Founder, Seawolf Capital

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P R O C E E D I N G S

MR. WESSEL: Welcome back. I'm David Wessel. I'm director of the Hutchins Center on Fiscal and Monetary Policy here at Brookings. I'm pleased to be joined by Adam McKay, the director of "The Big Short." (Applause)

We have made special arrangements so everybody in this room has become a voter in the Oscars.

MR. MOSES: I love it. I love it.

MR. WESSEL: You may notice that the median age of this crowd is about 20 years younger than the Oscars. (Laughter)

Don Kohn, who's a colleague of mine here at Brookings. (Applause)

MR. KOHN: One clapper.

MR. WESSEL: Vice chairman of the Federal Reserve and is helping to keep the world safe as a member of the Financial Policy Committee of the Bank of England.

Greg Ip, my longtime friend, who's the economic commentator at the Wall Street Journal and author of a book called "Foolproof", about how just when you think things are safe is when you should start worrying. (Laughter)

Danny Moses, who was at FrontPoint, played by Rafe Spall in the movie. I'm tempted to ask you about, like, restaurants and stuff. (Laughter)

MR. MOSES: Adam and I had a whole discussion about that.

MR. WESSEL: He's now at Seawolf Capital. And finally, Adam Davidson, who's one of the co-founders of NPR's Planet Money and was a consultant on the movie.

We're going to talk for a bit up here. (Applause) I think you should wait till they say something before you applaud.

We're going to talk for a bit and then we'll have time for some questions. I'm afraid we won't be able to get all the questions in, but it's really encouraging to see so many people here and in the overflow room and I'm sure online, as well. And I think the reason for that is because the movie has already accomplished what Adam McKay set out to do.

Adam McKay said he wanted to start a conversation about what happened in the financial crisis, what were the causes, what were the consequences, and whether we've done enough to prevent or least reduce the odds of a repeat. And a number of people in this room and in the other room and online is evidence that they have started the conversation.

But I actually think the most remarkable thing is that someone could make a movie about CDS and CDO and mortgage-backed securities and traders and actually do two things of great consequence. One is to have the courage to say we're going to step outside the movie, break the fourth wall, I want to explain to you something. And Adam Davidson and Grep Ip and I have spent most of our careers trying to think of ways to explain things to people. None of us were smart enough to think about putting a beautiful woman in a bathtub with bubble bath and champagne. (Laughter) So I give them a lot of credit and I can only imagine what people said in Hollywood when he said, so, I'm going to have this scene with Dick Thaler from the University of Chicago.

But the second thing, and this actually said something interesting about America, is what Adam Davidson told us about doing this event he muttered something about Oscars. I felt like, okay, this guy has really drunk the Kool-Aid, right? This is a movie about mortgage-backed securities, right? It has been nominated for Best Picture, Best Director, Christian Bale has been nominated for the Best Actor in a Supporting Role, Film Editing, and Writing, which is just, I think, an extraordinary accomplishment. (Applause)

So I'd like to start, Adam, by asking you, so, what happens? You read Michael Lewis' book and you said this is the humorous, funny movie I've always thought of making? (Laughter)

MR. McKAY: Honestly, yeah, that was kind of it. It was -- you know, we had done a movie called "The Other Guys" with Mark Wahlberg and Will Ferrell that was sort of, you know, a riff on cop movies. And when we were writing the movie we kept talking about what's the jeopardy plot? And my co-writer, Chris Henchy, would say, like, well, maybe it's drug smugglers or maybe it's, you know, a kingpin. I was like I don't know, man. This was right after the collapse and I kept saying we just lost $5 trillion just disappeared, like it seemed so quaint to do a movie with drug dealers in it. (Laughter) And I said I think the villain has to be like some sort of creepy, you know, hedge fund guy. No offense to hedge fund people here. (Laughter)

MR. WESSEL: Or creepy people.

MR. McKAY: As opposed to charming and soulful hedge fund people. (Laughter) So I, at that point, started thinking about could I make a laugh-out-loud comedy that was like an allegory for the collapse?

And we have a crazy producer named Kevin Messick, who's an EP on this movie, who can get anyone on the phone. So within like two days Paul Krugman was on the phone and I was talking to him. And I was like I want to do a comedy allegory of the collapse. And he's like, well, let's talk about it.

And we had an hour and a half discussion and we built this whole movie, that even though it was kind of laugh-driven, that was all about the collapse. And then in the end I ended with these credits that talked about Ponzi schemes and the bailouts. And the movie came out and it did really well, but everyone was baffled by the part of it that was about the collapse. When they saw the credits they were like where did that come from? And I realized that people, you know, they were busy laughing, so they weren't really thinking about the underlying meaning.

But as a result of that, I got kind of hooked on this subject. I started reading a lot. I had some very close family members who had lost their homes, a lot of friends who had lost their jobs. We had to downsize our company, Funny or Die. So I started realizing --

MR. WESSEL: The name of the company is Funny or Die?

MR. McKAY: It is really Funny or Die, yeah. It's a website that -- I don't know who knows it or who doesn't, but it's a website. (Applause) There we go. I'm the one who knows, not you.

MR. WESSEL: I'm a budget nerd. I don't pretend to be something I'm not.

MR. McKAY: Of course, of course. But so I just kept reading about this and eventually when you're doing that you come across "The Big Short." So I picked it up one night at 9:00 and I remember my wife was in bed, the girls were put to bed, and I was like, all right, I'm going to read this. And I could not put it down. And I was like this is crazy. This is a page-turner that's about this financial esoterica. And then there's these amazing characters in the middle of it. And for the first time I feel like I sort of understand what happened with the collapse and I was hooked at that moment. I was just like this has to be a movie.

And from then on, I just kept reading about it. I tend to get obsessive, my wife will tell you, so I from that point on just started reading everything and watching everything.

And then finally, when it came to a point to make the movie, Adam Davidson came in and he and I would sit in my office for like six hours a day and I would just ask him questions and we would argue. And I just kept sort of filtering what happened. The final goal was that I could tell my 10-year-old daughter what exactly happened with the collapse.

For those who know Funny or Die, Pearl from "The Landlord" is my 10-year-old daughter. (Laughter) And so finally, in the very end, after many discussions and arguments, I told Pearl what happened. And she was like, yeah, I think I understand that. And that was it. Then I knew I was ready to do it.

MR. WESSEL: Should have invited Pearl instead of Adam. (Laughter)

MR. McKAY: By the way, for sure. For sure.

MR. WESSEL: For sure.

MR. McKAY: Yeah.

MR. WESSEL: So, Adam, what was it like being the bridge between a financial economic journalist and a bunch of Hollywood comedy writers?

MR. DAVIDSON: Yeah. Well, first of all, I want to say for most of that time Pearl would walk in the room and then run out as fast as possible.

MR. McKAY: That's true.

MR. WESSEL: Showing her good sense, yeah.

MR. DAVIDSON: Yeah. I mean, for me, when I got -- my brother works at Paramount and that's how the relationship started. About two years ago, he said, oh, this guy Adam McKay. And I said, oh, I love his movies.

He wants to do "The Big Short." He'd love to talk to you.

And, you know, I probably had the same thought a lot of people would have, but the very first time we talked I realized, oh, this is just a very intelligent, curious guy who wants to understand things. I think for me the transformation I had, I've spent my career at NPR and The New York Times and working hard to make this stuff intelligible, but realizing I'm reaching an audience that is already actively pursuing big public policy information. It doesn't mean they fully understand it, but they are taking an active step.

And I think, like many people, I had thought of popular culture, movies that play in strip malls -- or not strip malls, played wherever, you know, that's going to be -- you inherently have to dumb it down. And I think, without fully thinking about it, I thought either you get to be someone like us where you're a serious journalist talking to serious people about serious subjects or you're a silly clown, like Adam McKay. (Laughter)

And what I learned from Adam and from watching him make choice after choice after choice to keep the substance, to keep the real information there, while almost making it funny and lively, was that it actually is possible, that this choice I thought I had to make was a false choice. And I think throughout -- I mean, the experience was just as perfect as imaginable. I mean, it was just a wonderful experience.

But probably one of the great moments was we were test screening it just at a mall outside of Los Angeles and they show it just to the people who come. And then at the end of it, they do a focus group with about 20 people and ask them to explain what a CDO is, and they explain what a CDO is. And these were people who didn't know what a stock or a bond really was, they couldn't tell you the difference. And it just -- I mean, honestly, I feel like right now I'm trying to figure out what this means for my life because I feel like --

MR. WESSEL: It's over, Adam.

MR. DAVIDSON: It's over, yes, or it's just beginning.

MR. WESSEL: This is the peak. (Laughter)

MR. DAVIDSON: Yeah, yeah. Because I think what he accomplished was this ability to take that deep substance and engage everybody. The movie's done very well outside of, you know, coastal, highly educated cities. I do understand the Cambridge Kendall Square Theater is the single biggest dollars per screen, but it's done very well throughout the country.

MR. WESSEL: So I think everybody who's seen the movie agrees that it's engaging and clever. And we all -- you know, Anthony Bourdain or Dick Thaler, those scenes are just remarkable in that they actually explain something that I think -- a novice, as Adam said.

I think the big question is we know in our society that movies have incredible power in creating a narrative. We know that there are many kids in America who all they'll ever know about Martin Luther King is "Selma." And we know that we went through something devastating. We went through something that most people didn't anticipate. The shorts in the book and the movie are exceptions. And we know that there will be policy choices made and sometimes policy choices are made by politicians who get their information more from movies than from Brookings' whitepapers, so we have to worry about that.

So I want to talk a little bit about is this the right narrative? What does it get right? Is it complete and what isn't complete?

But I want to start with you, Danny. I mean, you kind of lived this thing, so when you see the movie or read the book, does it resemble anything that was going on in real life?

MR. MOSES: Certainly. I think having worked with Michael Lewis on first his article in Vanity Fair in 2009 and then what turned out to be a book, so first he thought it would just be an article. And he says, wow, I actually think I can turn this into a book. And Michael Lewis was doing what Adam was doing. Michael was doing for a book what Adam was doing for a movie, how can I tell the audience and explain this information in a way that people will understand? Michael did it. He had more pages to work with, you know, obviously, than you did, Adam, but he was able to have it come across.

And then it hit the public, mainstream. And then in 2011, Paramount came around and said this may be picked up as a movie. Michael Lewis at that point says it probably won't be, but just sign whatever, it's fine. (Laughter)

So, Mike, sign your life rights away, that's a great idea. So that happened in 2011 and the project was pretty must dead. I never kept up with it; I wasn't really paying attention to it.

And then a little over a year ago, or more than that now, Adam's group picked it up.

Dede Gardner read it, picked it up, Plan B, and decided to make it into a movie. So I thought they did an incredible job. I actually thought watching the movie you didn't really have to know what a CDO was to understand the tone that was being portrayed in the movie. You probably didn't think when you were watching the movie I want to figure that out, I want to figure that out, because Adam was able to express, I think, the tone of what it was, what Wall Street was doing, what people were buying, that it was a bad product, that it was exploited, those types of things.

So in that sense, yes, the movie did a great job explaining it, but I think the way they explained it took the pressure off of actually having to define those things in the way -- whether it was fourth wall or whether it was just applying it to what was going on in the world, people losing their homes, Wall Street people not going to jail, things like that. So in that sense, it captured the element in time I think for what had occurred.

MR. WESSEL: Did you really go around in Florida, knocking on doors to see if people were there?

MR. MOSES: Well, we went to Florida. And, Adam, am I allowed to critique the movie?

MR. WESSEL: Yes.

MR. McKAY: Of course you are. Of course.

MR. WESSEL: (inaudible)

MR. MOSES: It's a non-fiction -- there was no alligator chasing us, obviously. (Laughter) There were alligators present, I'm certain of it, they were in the backyard, but we never saw any of them. But we did channel check neighborhoods in Miami, we did it in Las Vegas, we did it in California, just to see what was actually happening. So it was interesting to relive it again once in a book and then in a movie is obviously surreal.

MR. WESSEL: Yeah, I bet.

MR. MOSES: Yeah.

MR. WESSEL: So, Greg, you've written about this. Do you think this is the right narrative? Let's take that everything in the movie is a pretty good representation of what happened to the shorts and everything. Is this a good way to tell people what just happened?

MR. IP: Hard for me to answer that because it's like asking, well, would a movie about the assassination of Archduke Franz Ferdinand be the right way to tell the story of the First World War? I mean, that is a great big octopus of an event whose roots go back decades. And when you have something as colossal and large and destructive as the global financial crisis, I don't think you could come up with a single story and make a movie about it that does the entire thing justice.

What I love about the movie is what you said at the beginning, is that it takes the hardest part of the story to tell, which is the abstruseness of the finance and breaks it down into easy pieces. Even for us who cover the stuff for a living, this stuff is hard. And like everybody in my direct family their eyes glaze over and they fall asleep or they change the subject whenever I try to talk about what I do for a living. So if I can get them to see this movie maybe they'll actually stay awake long enough for me to tell them what I did that day. So I think that's a real thing.

But where my interpretation differs from Adam's is that he has a very moralistic kind of undertone to the movie and it comes up very strongly in the coda at the end. And I think that that's kind of simplistic because greed and bad incentives and criminality are evergreens, they did not suddenly erupt and we didn't have five times more of it in the 2000s than in other decades. The question has to be how did those ever-present features of humanity somehow also catalyze into a crisis as damaging? And for that you have to turn to the broader forces, which really don't get talked much about in the movie. You know, why were interest rates so low? Why was there this giant pool of money in the name of this fabulous research series that Adam headed up?

Like we talk about all these directives. The people who were designing these derivatives thought they were fixing flaws in the system that made it unsafe. And, in fact, they were actually doing the opposite. The people who were closest to the mortgage market lost the most money. I mean, Dick Fuld lost his company, you know, like Angelo Mozilo lost his company. All the heads of all those companies who were on the wrong side of the shorts lost their jobs, most of them, some of them lost their companies. They were drinking the Kool-Aid.

So when the question comes down to was it criminality or was it stupidity, I guess, Adam, you probably are more on the criminality side, I'm probably more on the stupidity side. But even --

MR. McKAY: Well, we sort of leave it as an open question. I mean, there's a fine line between both. One of the themes of the movie is what's the difference between criminality and stupidity and pride? But anyway, continue.

MR. IP: Yeah. But the more I thought about it afterwards, the more I also began to realize that even if you're like me and you tend to think of these sort of like global forces going on, those forces actualize themselves through human beings, okay? If you've seen in the panic in the markets for the last few weeks, smart people like Olivier Blanchard are going around scratching their heads trying to figure out why the markets are panicking. Because the markets act through human beings with their belief systems and their incentive systems, and we need stories like "The Big Short" to remind of us the human beings who are actualizing these forces I'm just talking about. There are reasons that we cannot explain using economics why sometimes housing bubbles inflate and deflate and don't cause a crisis and sometimes they do. And so that's why I'm glad we have this movie.

MR. WESSEL: Don, did it resemble anything that you saw from the inside?

MR. KOHN: Yes, I certainly had some bad flashbacks there to when Bear Stearns was going down. I think if I could expand a little bit on Greg's points, to me the Kool-Aid was partly and importantly about 20 years of prosperity with very few recessions, 25 years of prosperity, something economists called "the great moderation." Business cycles hadn't been abolished, but they were much narrower. Economies recovered. They didn't happen very often. House prices always went up. So I think there was a huge amount of complacency in the system.

And the point is raised in the movie and certainly in the book who was on the other side of these trades? Why weren't they more careful about what they were doing? Why weren't they digging in? And I think they thought because, oh, nothing bad can really happen or if it's going to happen it'll be kind of small because the last 25 years that's all that's really happened.

I think the second point to make in terms of how it got amplified and magnified is the tremendous complexity of the interactions within the financial sector. So people often contrast the dot-com bust and the housing bust, and in both cases I think the loss of wealth wasn't that different, but one resulted in a very shallow recession and one resulted in a horrible great recession with huge employment, 10 percent, et cetera. And I think part of the problem was the financial institutions, it wasn't just that some people made money and some people lost money. That went through the financial institutions that are at the heart of our market economy. The CDOs and the CDSs were so opaque no one knew where the losses were coming to rest and so everyone fled. So what happened in the fall of 2008 was a huge run on banks, on money market funds, on everything, and that's what really amplified the shock coming from the housing market was the collapse of the financial system, and that's what I didn't see coming.

I mean, I thought -- in the middle of 2005, the Federal Reserve, we had a briefing and it said houses are 20 percent overvalued, but, unfortunately, the other part of the briefing was, yeah, when they collapse there'll be some problems and it's a bad thing. But no one foresaw the kind of collapse of the financial system that made it so awful.

MR. WESSEL: Adam, let me ask you a little bit about the ending. So it must be hard to figure out how to end a movie like this.

MR. McKAY: Sure.

MR. WESSEL: And the viewer is left with the impression that we didn't do anything.

MR. McKAY: Mm-hmm.

MR. WESSEL: And I'm sure you've heard even today, given that you're in Washington, that people who actually think we did stuff, maybe not enough, wonder why did you leave it that way. Have you had second thoughts?

MR. McKAY: No, no second thoughts, but I think we talked about the idea that, you know, I think at this point there's no question the banks have continued to grow. I would say they are still too big to fail. I would say you look at the ratings agencies, no real -- beyond paying some fines, nothing really happened to them. No one was put in jail except for one banker.

To me, yes, Dodd-Frank had some great stuff in it, so that's fine, but I don't think it went far enough. And I think as far as the recovery that we've had, we've seen that it's been a recovery more for the top 1 percent and the 99 percent has had wages that are flat.

But just back to what these gentlemen were talking about real quickly, which I think is important. I think there is definitely some very large macro forces in play that contributed to the collapse, but I think it can't be downplayed the hunger that these banks had once they created these esoteric securities that they were selling, these products. Once they started making money off these MBSs, you saw banking, as far as a portion of GDP in the '70s, go from 6 percent to at the peak of this bubble 24 percent. So there was a massive hunger going on in banking for these mortgages to fill out these products. And I think to say that that's just a byproduct of, you know, a bubble or certain large macro forces isn't exactly correct. I think there was clearly a fine line between stupidity, blindness, and fraud that was in action and everyone was getting paid at every level of this.

So anyway, just to answer that. Yeah. (Applause)

MR. WESSEL: Adam, what did you think of the ending?

MR. DAVIDSON: You know, I'd say the biggest fights we had, and that's why we're sitting on opposite ends of the table (Laughter) --

MR. McKAY: Yeah.

MR. DAVIDSON: -- we can no longer be in the same room together, although we agreed through lawyers to be here together tonight, but, you know, I think we talked a lot about the ending and --

MR. McKAY: Can I say one thing?

MR. DAVIDSON: Yeah.

MR. McKAY: Davidson gave me the ending of the bespoke tranche opportunities, which is the very ending of the movie.

MR. DAVIDSON: Yeah.

MR. McKAY: And, I mean, right in the edit room and I was like that is perfect. (Laughter)

MR. DAVIDSON: Yeah. So, I mean, look, I think I'm fully with Greg that there was -- and, you know, much of my work during the crisis was about there was global macroeconomic trends. You know, I basically buy the global savings glut story that Brookings' Ben Bernanke tells. You know, I think China's currency rate regime and tepid growth in Japan and Europe contributed to global capital market imbalances that created the conditions for some kind of bubble somewhere, this desperate search for yield.

And I did pitch to McKay that there'd be like 45 minutes in the middle where I explain all of this. (Laughter) And he wouldn't even shoot it to humor me.

MR. WESSEL: Showing his good sense once again.

MR. DAVIDSON: Yeah, right.

SPEAKER: (inaudible) been in a bubble bath.

MR. DAVIDSON: Yeah. (Laughter) I think that particularly for an American audience, but I think for a global audience that one of the major lessons I learned in this crisis, and it really happened when I truly learned what a CDO is and understood this product, and learned that this product cannot -- and I don't want to go into too much of it -- but a CDO, there's basically a mortgage --

MR. WESSEL: They just saw the movie. They don't need your explanation.

MR. DAVIDSON: Yeah. They saw the movie, okay, good.

MR. WESSEL: And they did it better than you're going to do it.

MR. DAVIDSON: Yeah, yeah, yeah. Hey, I helped write that. But so the CDO cannot exist in an environment where there is aggressive regulation. It can't exist when there's what I before the crisis believed in, you know, a truly self-correcting market. And the CDO to me, learning what the CDO is and learning that this thing passed through all the checks that I truly believed in, you know, that I believed in, proved to me that the grownups weren't as all-knowing, weren't as solid as I expected.

MR. WESSEL: All right, but, Danny, do you think that everything is the same as it was five years ago or have we made some improvements?

MR. MOSES: Oh, it's very different. The pendulum has swung from one side to the other and I think we'll find a nice medium, but I think all the things that have happened from a regulatory perspective are positive to make a sound system. And the Dodd-Frank and Volcker rules are very good. The TARP and the TALF programs ended up working very well. And now we're going to see the other side of the equation. Be careful what you wish for. It's actually the right move, but the lack of liquidity now that the Wall Street firms have, which makes them not too big to fail, which is kind of where we want to get to, is creating, I believe, and will create over the next years to come a lot of volatility, and we've seen some of that recently. And it's not so much about the Fed raising rates as it is that they don't have your back anymore from quantitative easing perspective, which is great, also. The Fed should be doing what they're doing. But I think we have to adjust to the new normal.

And as Adam's alluding to and Greg mentioned, I do think that Wall Street's incentives, if they find a product they love, whether it's tulips back in the 1800s, whether it's Internet stocks, whatever it is, when they see it making money they'll make as much money as they can for a period of time. And to Adam's point, the system's now changed where that's not possible, but the lack of liquidity, again, which is a good thing, is going to bring a lot of --

MR. WESSEL: Right, but the most poignant for me, the most poignant scene in the movie is when you -- I don't know if this actually happened -- knock on the door of a guy who is renting a house, paying his rent, landlord isn't paying the thing, and then you see him living in the car. I mean, that -- like I don't really care that somebody lost money because they were in the Bear Stearns hedge fund. I don't care about that guy.

And there are things we have done -- the Consumer Financial Protection Bureau most notably -- to make that less likely to happen. And you wouldn't know that at the end of the movie. I'm not saying that you can put everything in a movie, but you leave the tone that nothing has actually been done.

MR. McKAY: Well, I would say the big elephant in the room is that our government is still completely captured by the banks. (Applause) And I think let's not pretend. I mean, what's happened with finance, you know, campaign finance reform is ridiculous. I in no way trust our government with the amount of money the banks are funneling into our Congress to buy, to overturn, to water down. You need a strong regulatory arm to balance out a market.

I mean, people forget the free hand of the market quote is preceded by a chapter on mercantilism and the rules that create a free market. We don't have that right now. Our government cannot be trusted to make those changes happen, to be a sounding board. And, yes, Dodd-Frank was great, but let's not forget right now every one of those provisions is being fought actively. There's a large number of people that want to repeal it completely.

So I just don't have that faith in the end and I think our ending was pitch perfect. I think people need to know there's a serious problem still going on. (Applause)

MR. WESSEL: Greg, did you want to weigh in?

MR. IP: Well, the bankers certainly don't feel they got off that easy. They've been fighting tooth and nail all these rules that have come out from the higher capital requirement to the existence of --

MR. McKAY: Well, that's because the profitability is the reason they're fighting it. They might as well fight it, there's no harm in doing it.

MR. IP: And they're a lot less profitable now if you actually look at their return on equity and so on. But if we were making a movie about the collapse of the NASDAQ bubble, the discussion we'd be having would be, well, was Sarbanes-Oxley good enough? Now, almost nobody remembers Sarbanes-Oxley, but actually, in the mid-2000s, when our regulators should have been looking at abuses in the mortgage market, they were obsessed with corporate governance fraud because that was what the last cycle was about. And so when I think about the present, I'm not really worried about CDOs any longer. They all blew up, they're gone. You know, there are no subprime --

MR. McKAY: I'm not either, by the way. I'm not either.

MR. IP: -- mortgages being written any longer, you know.

MR. McKAY: Yeah.

MR. IP: After the '87 stock market crash, portfolio insurance disappeared. But those same incentives of greed, of what you were saying that when Wall Street sees something they kill it with too much capital, is going on. We were talking about his last night, Danny. Like if you look at the price of oil for like 4 years was rock solid at around 100 bucks and everybody said Saudi Arabia will never, ever let the price go below $90, and so all the banks who could no longer make money in real estate, they poured money into energy. And Danny, I know, sees some opportunities to profit

MR. MOSES: We're not an energy fund, unfortunately.

MR. IP: Right. Now, I believe -- and that bubble is now actually in the process of deflating. Now, I believe that that actual deflation of that bubble is causing a lot of pain right now in places like North Dakota and Houston. But I also believe it will be far less traumatic than the collapse of the housing bubble was because you don't have the same confluence of so many things. And because some of the regulations and the natural pullback from risk that occurs after an event like that has prevented the same build-up of risks that made (inaudible) possible.

MR. McKAY: But let me get to Don. So, Don, what do you think, where have we done some good stuff and where do you think are the biggest gaps?

MR. KOHN: So I think we've done a lot of good stuff in the banking system. I agree with Adam that pulling back from it would be a problem, a mistake, and I worry about the people who say they want to repeal Dodd-Frank.

I think it's kind of ambiguous, you know. The far left and the far right, who both hate the big banks, so how all that's going to work out, I don't know. But I think we've gotten to a much better, safer place. I agree with Danny's comments on this.

But I also think it's important from a regulatory perspective to recognize that the incentives are there to go overboard and you need the regulations in place to prevent abuses and the capital in place to absorb the losses in the financial system if bad things happen. And the fact that the regulators in the U.S. and U.K. and elsewhere have gone to stress tests on the banks is very helpful, so they stress against this kind of thing.

I think where we're less complete is outside the banking system. So as the banks get more regulated, finance migrates to other places. The regulators are perfectly aware of this and they are looking at it, but the laws make it much harder to regulate once you get outside these heavily regulated industries, like banking and broker dealers. So I think we need to be really careful that regulating the core doesn't create problems outside.

MR. WESSEL: And what about the rating agencies? Adam made the point that they somehow seem to have gotten off scot free.

MR. McKAY: They're doing really, really well.

MR. KOHN: Yeah, that's a disappointment to me, also. So I think there have been a lot of changes made, but I wonder if there's enough. The basic model is a very difficult model. It's a model where the issuer pays and so the incentives are to make the issuer happy. The other side of this is you don't want to get a bad reputation that you're not doing good work. But the incentives to make the issuer happy, as we saw in the movie, are very, very powerful.

MR. WESSEL: Yeah, that was a pretty subtle theme there --

MR. KOHN: It's hard to --

MR. WESSEL: -- (inaudible). (Laughter)

MR. KOHN: It's hard to change that model. It used to be that the purchasers paid.

MR. WESSEL: Investors.

MR. KOHN: Investors paid and then the Xerox machine was invented. I'm not kidding. And then, so, one investor paid and then distributed it all. So they had to go to the issuer pays. It'd be great to come up with a different model where the incentives were lined up better with the public interest.

MR. WESSEL: Adam?

MR. DAVIDSON: One of the things that I got from working with McKay is a sense of moral outrage that I think we wanted people to leave the theater with, and that did not come easy to me. I feel like -- I come from the world of sort of calm Brookings Institution panels, where you say things that are very calm and reasonable, like I believe that rent-seeking regulatory capture is a deep issue in America. I think is there anybody --

MR. WESSEL: You must be at some earlier iteration of --

MR. DAVIDSON: Oh, okay, yeah. This is before.

MR. WESSEL: You're dating yourselves.

SPEAKER: That was in the 1950s.

MR. DAVIDSON: That was before you came. Before you came, yeah. But let me ask, are there any Ph.D. economists in the room who don't think that regulatory capture and rent seeking are really serious issues among the financial services? I see some Ph.D. economists. I think we all know that's a deep, deep issue in our country that something has changed somehow -- we can discuss how -- in the last 40 years or so, where finance has shifted.

And this is not a fringe, lefty view. This is a mainstream core view held, I think, it is the consensus view, of economists that a major way the financial services industry makes money is through rent seeking and regulatory capture. Those are fancy words for the way I think about it is you can make money by creating new products and services that benefit people or you can make money by transferring wealth from those who do create new productivity, enhancing products and services to yourself.

And we see that very clearly in farm subsidies where, you know, soybean farmers or something get money that we probably all agree they shouldn't get, but they do because they have three congressmen. The banks really do have all the congressmen because every congressmen has the biggest bank, the biggest --

MR. WESSEL: I don't know about that.

MR. DAVIDSON: They have a lot of them.

MR. WESSEL: That's not fair.

MR. DAVIDSON: Well, I'm thinking of one.

MR. WESSEL: On behalf of Bernie Sanders and Sherrod Brown, I --

SPEAKER: There's a few.

MR. McKAY: There's a few.

MR. DAVIDSON: There's a few, okay. All right.

MR. WESSEL: I take exception to that.

MR. McKAY: There's seven.

MR. DAVIDSON: So, yeah, only 532 of the -- (Laughter)

MR. WESSEL: Yeah.

MR. DAVIDSON: But if I can just say, so I think the outrage that viewers leave -- like, I don't -- the two minutes at the end of the film that I would have written are different maybe from what Adam would have written, although maybe not all that different. But the outrage that we saw people leave I think is the right outrage. That's the right register to engage our economy and I wish more people --

MR. WESSEL: Danny, did you want to in here?

SPEAKER: Can I (inaudible)?

MR. MOSES: No, I was going to say, let me go back to --

SPEAKER: Oh, yeah, go ahead.

MR. MOSES: Let's go back to Don's comments because I think it's really important to understand that it's a secular shift right now on Wall Street. It's not cyclical. What I mean is that the jobs that are being lost right now and the fixed income businesses, what we call FIC (phonetic) businesses, are permanent. They're adhering to -- they're doing the work that Dodd-Frank, Volcker Rule are supposed to be doing. They're already doing it. So the behavior has changed. So what it does is it creates, which is what we want, a not-too-big-to-fail environment, where wholesale funded businesses are being created. If you have a product that survives, that's wholesale funded and it does well, you're going to get rewarded for it. If it doesn't, it goes out of business and it won't affect anyone in this room except the people that had money invested in the firm. And that's kind of where we want to get to.

And the second comment I just wanted to make on rating agencies and Adam does a great job in the film, and I think it's really important to understand this, is that the first meeting we ever had, it was Vinnie and I in the early 2006 with the rating agencies at a conference in Florida. And Vinnie was -- he was great in the movie, he was portrayed great. But there was a moment where the Moody's representative -- it was Moody's, not S&P, their first meeting -- said to us -- we said, well, show us your models. How do you look at subprime bonds?

And so they showed us what bonds look like when the market's up 5 percent housing, when it's up 10, when it's up 15. And at that point it had been going up every year. We're like, well, where's your flat model for flat home prices? Well, we don't have that. (Laughter)

SPEAKER: Wow.

MR. MOSES: And where's your down model? Well, that doesn't exist. And it was at that moment that we said to ourselves, okay. And Vinnie had a tell. Vinnie had a great tell. It didn't come across in the movie, but Vinnie would do the fist to the cheek and then, look, I knew we had something, you know. (Laughter) So those were the kinds of things that were going on behind the scenes -- not behind, that actually were happening. And this was a conference where it was all fixed-income investors. And so, anyway, I wanted to just comment on those two things.

MR. WESSEL: Adam, you want --

MR. McKAY: Well, I was just curious, Danny, because you're obviously still active and working, like what do you think of the SEC? Like is that something that scares you? Is that something you're aware of?

MR. MOSES: I can't comment on that. (Laughter)

SPEAKER: Yeah, we're (inaudible).

MR. MOSES: Sorry about that.

MR. McKAY: Thanks for coming. Enjoy the meal.

MR. WESSEL: Can I make a point here, though? Because, I mean --

MR. McKAY: We heard this over and over again, by the way, when we would talk to people working in the industry. They would literally laugh about the SEC.

MR. MOSES: They weren't -- you know, I just want to say and I'm not going to go after the SEC (inaudible).

MR. McKAY: No, no, you deny. You said --

MR. MOSES: No, no, but I said there's only so much -- I actually believe that at the end of the day (inaudible) I don't think the banks realized what they had created, what had happened. I'm not giving them a free pass. I'm just saying it got so big so quickly, and it was in so many different places that I don't think there was a way to actually sum up how much synthetic gambling was going on in the markets because if you create a sell, you create a buy, you did it on the blackjack table obviously in the movie, but that's really -- you don't know how many people are lined up behind the blackjack table, and I really don't think they had a grip.

And I think when the government went to kind of look to rescue or the first iteration of providing some type of aid to these banks, I really -- and Don was probably involved in those discussions, I don't think anyone really realized how big the problem was, and I think it kept evolving and evolving, to think that all of a sudden Morgan Stanley and Goldman Sachs are at risk because there could be a run on the bank. So I'm not defending that situation at all. I'm just saying I think it got so big that it was uncharted territory for everybody.

MR. WESSEL: Greg?

MR. IP: Well, I was going to also add, well, first of all, one of the most interesting characters in *The Big Short*, he's touched on in the movie, but he's written about more in the book, is

Howie Hubler, who's a bond trader for Morgan Stanley. And he actually, like Greg Lippmann, realizes that there's a big short to be had here, and he starts shorting the lower rated tranches of the mortgage-backed securities. But it's very expensive to do that because it's basically buying an insurance premium and every month you're paying out this great big premium. So he needs to find a way to defray the costs.

So he sells some insurance on the AAA rated portions because even though he correctly ascertains that this lower rated stuff is going to go to heck, he incorrectly believes, buys the Kool-Aid, that the AAA stuff will not. So this kind of reconciles why some people could correctly guess that things had gotten out of hand and yet still drive their company into the ground because they had outsourced the due diligence to the rating agencies who had built their assumptions on models built on periods of time that had never seen a home price decline because one never had happened in their working knowledge.

So I'm often stunned when I work in this business how the people I meet, I presume a lot of knowledge and due diligence on their part and sometimes it's not there. It's a funny thing that Goldman Sachs gets a lot of bad rap, but they were on the short side through all these things. And if you take a look in 2008, there's a list that Bloomberg did of how much money all these guys had lost, UBS, AIG, Morgan Stanley. It's billions and billions and billions. You go through the entire top 20, Goldman Sachs isn't there. And it's not because Goldman Sachs is altruistic and honest and they're good guys and so on. No, it's because they did their own due diligence and they didn't drink the Kool-Aid. Right?

MR. WESSEL: Well --

MR. McKAY: They played a little bit of both sides.

MR. WESSEL: Yeah, advocates. But I want to get to Adam's moral outrage point because I don't actually agree, Adam, that -- I mean, I think that newspapers like moral outrage. I mean, I remember, I'm so old I was covering the Treasury when there was the Salomon Brothers scandal on the Treasury thing. And I remember Al Hunt, I was trying to explain it to Al Hunt and I didn't have the advantage that Adam had. And Al Hunt said, this is the bureau chief of the *Wall Street Journal* says, I don't really want to understand it. I just want to know who I should be pissed at. (Laughter)

And we did a piece about how the Treasury Borrowing Advisory Committee met and all that stuff. And so he was happy and I kept my job.

But my question about moral outrage is if I watch the movie, I think people who are long in the housing market are evil and that people who are short the housing market are somehow morally superior. Is that what you think or is that a dramatic device?

MR. McKAY: Well, it's a very tricky story because it is real life. So what I loved about it was there were no clear white hats or black hats. I think guys like Danny in the beginning were doing their job. I think they believed that the market when there's a bad investment, you should find a counter investment, and that's how the market corrects. And when I've talked to all these real people I get this sense that they believed in the market.

And then there's a moment where they realize the market has been corrupted on numerous levels. And I sense this deflation, especially from Jamie and Charlie. They almost to this day are so angry and it was like they were told there was no Santa Claus when they were six and they're so hurt by it. But if you look at what Danny did with FrontPoint and what they targeted with Steve Eisman, it was always corrupt companies. It was also companies that were, you know, way over their skis or full of pride.

So I don't think the morality of the movie really falls in the longs and shorts or the investment. I think one of the moments of the movie I'm most proud of is in the end, when Mark Baum, aka Steve Eisman, makes $200 million on that rooftop and everyone feels crappy about it, including the main character. And we were just saying, like, when in an American movie does that ever happen? Like normally it would be you'd play "I Feel Good" by James Brown and he would dance off. And I think that's really kind of what the movie's about, which is profit at what costs? You know, wealth at what cost? And what is -- you know, for the character of Mark Baum in our movie, at that moment he feels like he's become one of the rest of them and it destroys him.

So the morality if very ambiguous because it's a system that's like a wood chipper. It just chewed everyone up. I mean, I can't think of any like real clear heroes that came out of it, and that was important to us in telling the story. That's kind of the way we were looking at it.

MR. WESSEL: Interesting. Before we turn to questions anybody want to throw anything else on the table?

MR. KOHN: I'd like to pick up a point Adam made, which was taking the other side of these trades. I remember when I read the book first and it came back in the movie, these guys had a lot of trouble figuring out how to take the other side of the trade, how to short this market. What was inside the bonds? We would have been better off if more people could see inside those bonds, make that short trade. In 2004 and 2005, we might not have had the bubble that we had or at least not as high as we had. So I think the market doesn't really know about morality, but it would be great to have a market where it'd be just as easy to take both sides of the market.

MR. IP: Don, you realize you just made an argument in favor of more financial innovation and derivatives.

MR. KOHN: As long as it's wisely handled and there's enough capital --

MR. IP: What could go wrong?

MR. McKAY: It seems like morality in the market is transparency. I think that's what I would say, yeah.

MR. KOHN: Yeah, and I completely --

MR. McKAY: It's also amazing with Danny and his company, you guys weren't into bonds, right?

MR. MOSES: No, we were --

MR. McKAY: I mean --

MR. IP: They were equities guys. He told me he had to buy whole new computers, he had to subscribe to the --

MR. MOSES: Two more screens to my Bloomberg to watch fixed-income prices. But we were -- I would just add to that we traded equities and we were trading the underlying equities because we focused on financial services of the subprime mortgage companies that were public. And they were going down so quickly that we couldn't short more. There was no borrow availability. When you short something you need to borrow the stock to do it. They were paying these massive dividends, whether how long they were going to do that or not. So the cost to short the underlying equities of these companies was bad, so we asked the next question: Where are the bonds that are on their balance sheet? Where else can we get access to those? And it was that simple.

And what was weird is that the equities were dropping. If you remember there was a long period of time, and Adam gets that across in the movie, where the equities companies were getting hit, but the bonds -- not the corporate bonds of the company, but the bonds that they actually created -- were holding up. And so for us it was an opportunity cost. It was we could pay 2 to 3 percent and short these bonds at par and our risk is literally 2 to 3 percent unless you think the bonds are going to go much higher than par or short a stock that you're paying basically 30 to 40 percent per year to keep it short. So ours happened to be an economic decision.

And then we kind of got a little bit more confidence, a little bit more confidence, it went on, and Adam kind of realized in that you could not have portrayed the Steve Eisman-Wing Chau dinner any better than you did. That's exactly what happened. (Laughter) And watching Steve's face --

MR. WESSEL: Also a great scene.

MR. MOSES: A great scene. There was so much accuracy. I will say the movie is very accurate. The Nobu thing. (Laughter) But it was very accurate. And this is how it just kept evolving. And every time we'd have a meeting with somebody, it'd be like is this happening? Is this really -- and so you got that across I thought in a great way and you did a great job on it.

MR. WESSEL: So, Adam, if you were going to make another movie about this realm where would you look?

MR. McKAY: God, that's an interesting -- I don't know. Let me think. Well, you know, I would look back to Michael Lewis' books, but that's a cheat. I won't do that to you. Let me think of my own idea.

MR. DAVIDSON: Twelve angry FOMC members. (Laughter)

SPEAKER: Hey, take Ben's book.

MR. McKAY: You know, I would probably do a movie about loan sharks is really what I would do. You know what I would do? I would do payday lenders.

SPEAKER: Lending.

MR. McKAY: That's what I would do. I think that's an amazing story. (Applause) And that is a world that obviously is being challenged by Dodd-Frank, which is great, but it's still out there and it eviscerates people. That would be a very cool world.

MR. WESSEL: Okay, you heard it here first. All right, we're going to have a lot of questions and we're not going to get them all. So I'm going to take like three or four questions, we'll let people respond, and then we'll take a few more.

There's a guy on the aisle there. Yeah. The mic's coming to you. So tell us who you are and make it short.

MR. GOLASH: My question is very quick. I want to know --

MR. WESSEL: Who are you?

MR. GOLASH: Oh, my name's Mike Golash, Amalgamated Transit Union. I want to know, the question is whether or not the problems you saw arise as a result of the financial crisis were deeply rooted in the whole system of capitalism where accumulation of wealth constantly requires more and more investment, but, on the other hand, people don't have enough money to buy the stuff, so you need financial, you know, instruments, credit, et cetera, et cetera, and that leads to constant bubbles, whether it's housing, cars, schools, whatever it is. And there's sort of that inherent contradiction which you didn't really address in your movie.

MR. McKAY: Okay, thanks.

MR. WESSEL: Well, let me get a couple.

MR. McKAY: Oh, yeah, sure.

MR. WESSEL: There's a woman here in the black. Can you stand up? And then pass the mic behind you.

MS. SACKER: My name is Eliana Sacker (phonetic). I wonder why the media that covers the finances didn't disclose the financial shenanigans at the time, didn't see the oil going down from 100 to 27, and doesn't report it to the public. Thank you.

MR. WESSEL: Okay. And would you pass the mic behind you there to the gentleman with the blue scarf?

SPEAKER: The image of the banker used to be this patriarchal trusted figure, like Walter

Cronkite with a beard, but now it seems that it's more like Gordon Gekko and Wall Street, and I wonder how healthy that is to have that kind of Ivan Boesky face on capitalism. Between skepticism and trust on the other hand, where do you (inaudible; audio drop)?

MR. WESSEL: Okay, why don't we take one more? There's a gentleman on the aisle there.

MR. VASERA: Alejandro Vasera (phonetic). Thank you so much for making the film. I love the way you end it. You said that immigrants and poor people would be blamed. They continue to be so, except that now that we know that these loans were made to everybody who could chew gum and could be lured into these loans. And, in fact, immigrants were targeted for good and bad reasons. The good reasons is that they were often good credit risks, they had good credit records even though they had thin files. And, in fact, immigrants have fared better than native-born Americans in keeping their homes. Could you say something about that?

MR. WESSEL: Thanks. Alright. Let's see, Greg, you want to defend the media or do you want me to defend the media? (Laughter)

MR. IP: Look --

MR. WESSEL: Or make excuses?

MR. IP: A lot of my colleagues at the Journal then and now and another organization spent a lot of time writing about the things before the crisis and after the crisis that we thought could lead to a crisis. There was no mystery about the fact that housing was a bubble or acting very bubbly, that there's a lot of shoddy underwriting going on. We wrote a lot of stories about that. A colleague of mine, Greg Zuckerman, in December 2005 wrote about John Paulson shorting mortgage-backed securities. I wrote a number of stories about how the housing bubble could collapse and have another (inaudible).

I never understood the esoterica which a centerpiece of your movie, and I think this is another reason why I appreciate the movie, which is that I think at a certain level I was if not -- it's not so much that I was intimidated. It was that I was exhausted. I mean, you get this jargon thrown at you all the time and these people sound like they know what you're talking about and there's nobody who's not captured by the system who can tell you exactly how it works because everybody who understands how it works has drunk the Kool-Aid is part of the system.

So, I don't know, Adam, if you want to speak to this, as well, though. It's just -- and the other thing is that there's so many things coming at you all the time. I remember I spent all the time at the height of the bubble writing a big feature article about how the leveraged bio boom was going to bring us all down. There's this famous comment by Chuck Prince, you got to keep dancing. As long as the music's playing, you got to keep dancing. He was talking about leveraged buyouts. And I was wrong, LBOs didn't cause the crisis.

MR. WESSEL: Right. So I would say that the press failed because if we had done a better job, people would have heard the Paul Revere cry. Some of us tried, a lot of us fell short, and none of us had offices at the Wall Street Journal like the ones that are in the movie. (Laughter)

MR. MOSES: Can I just make one comment on that?

MR. WESSEL: Yeah, Danny.

MR. MOSES: I just want to make one comment that in the book we turned off CNBC. If anyone read the book you realize we turned it off because it was too much. And I'm sure Greg and David both wrote pieces and there were people that worked with them that also wrote pieces. It's easy to say that now, but from a behavioral finance perspective no one wanted to hear that the housing market was going to crash. You're going to go to a party and talk about that? You'd be drinking alone in a corner. So I think it's easier to look back now and say, oh, that -- you know, but you were a man on an island or you were a person on an island if you were making that call.

So I just wanted to add that, that it's easy to look back.

MR. McKAY: Just one thing and once again I think it kind of points to the theme I keep hitting, which is, you know, our press now tends to be owned by about five different companies. And I think we've lost, to some degree, that independent press, which I do think has an influence on the way these newspapers, these networks, where they look. It's just narrowed the focus quite a bit. I don't think it's healthy for journalism.

That's not entirely true, of course. There's the Internet, there are a lot of independent sources out there that are doing great work. But I think overall that corporate ownership and that very narrow sort of field of view has hurt the ability of our press to do its job, which gets back to our government being owned by these institutions.

MR. WESSEL: Don, I think the questioner about the role of the banker in the U.S., so I don't think it's quite right that the banker was always seen as an admirable patriarch. J.P. Morgan and his ilk were the great malefactors of wealth, got plenty of grief. But we have gone to a stage where working on Wall Street, unless you're Danny Moses and a friend of ours, it seems like something's wrong with you. Do you think we've gone too far in demonizing finance as part of the trying to bring it under control?

MR. KOHN: I think things got way out of balance and all the brightest graduates from the best schools were going into finance because it was seen as an instant wealth generator or nearly instant. You had to work very hard, but you made a lot of money, there's a big payoff for it. That pendulum had to swing back for the health of the society and I think it swung back. And I don't actually sense that bankers are more demonized than they deserve to be demonized. There are good ones and there are bad ones. There are ones that serve their community well and there are ones that don't. I think, again, as a regulator, it's our job to put in place the capital regulations to constrain the behavior of the ones that aren't doing a good job.

MR. WESSEL: Right, a little more contrition would have gone a long way, I think.

MR. KOHN: Right.

MR. WESSEL: Well, let's take a few more. I'm going to do this side. There's a gentleman there and then there's a woman with a scarf. Mic's coming. Tell us who you are and make it short.

MR. ROLAND: Neil Roland, MLex News. David, great panel. Next time invite Brad Pitt, please. (Laughter)

MR. WESSEL: We did invite Brad Pitt. And Adam Davidson said the reason to invite Brad Pitt was because Brad Pitt knew a surprising amount about the financial system. And I told Adam the contingent here who wanted Brad Pitt was not interested in his financial acumen. (Laughter)

MR. ROLAND: Donald Kohn, you advised Fed Chairman Greenspan and Bernanke.

The unbundling of the MBSs that was done admirably by the shorts, should any regulators have been doing that or was it correct to cede it to the credit rating agencies that failed to do so?

MR. WESSEL: Okay, thank you. Let me get a couple. A woman here and then there's a gentleman sitting next to you and then the woman behind.

SPEAKER: Hello. My name is Natalia (phonetic). I think we all agree that this film has done a great job explaining a complicated problem in a way that was very accessible to the public. And so my challenge is how do we now explain nuanced solutions to the public in an equal way so that it doesn't just become, well, we should put everybody in jail and never had any more bailouts?

MR. WESSEL: Thank you. Why don't you give the mic to the gentleman next to you? And then there's a woman behind you. Yeah, stand up so they can see.

SPEAKER: My name's Michael. I had the pleasure of being on the other side of the desk with you folks. I spent 15 years on Wall Street. I left in disgust. It didn't sit with me very well in '09. But I was on a structured derivative desk. We were creating bespoke synthetic CDS. We did that.

And I think when I read the book it was fascinating because it validated what I had thought had gone on. The movie, as well, but I'm still digesting it; I just saw it. But some of the things that I -- so the question going forward is what do we do now, right, in my opinion? And some of the things that I think are really important were missed, and those require us to look back at ourselves as a culture, which doesn't make for a good movie.

And two quick things. You hit on it and then you hit on it, as well, from the Wall Street Journal. One is our desire to buy cheap goods from China. And sitting on the desk creating those bespoke ABS (phonetic), CDS, we were selling those to Chinese companies so they could -- or their foreign central reserves so they could prop up or prop down their dollar. They can manage that to give us cheap goods. That was our fault, we did that. We bought those cheap goods.

And the other thing was homeownership, like we had this dream that homeownership is some right or privilege. And the folks on Wall Street, we didn't sell anything that people weren't willing to buy. You know, they didn't create this wealth and put it in their pocket. Like somebody mentioned, there's always someone on the other side of the trade, you know.

So I left Wall Street because I didn't like it, right, it doesn't fit for me. But I think it's wrong to paint with a broad brush that they're all evil people. They're not. They're worse than bad actors.

MR. WESSEL: Thank you. There's a woman, pass it back. Thank you.

MS. RICE: Hello. I'm Lisa Rice with the National Fair Housing Alliance. And my question is for you.

MR. WESSEL: For me?

MS. RICE: No, Mr. McKay.

MR. WESSEL: Oh, phew. (Laughter) Thank you.

MS. RICE: Next question for you. But one of the things in your movie is, you know, this sort of concept that it was these few people who were insiders on Wall Street who saw the crisis coming. And obviously, there were many, many more people who saw the crisis coming, lots of civil rights organizations, lots of consumer protection agencies who had been working years before the crisis to stop a lot of the practices that were contributing to the bubble and ultimately caused the foreclosure crisis. And I'm just wondering, A, if you were aware of those organizations and of those efforts and, B, if you were aware, why you didn't include, you know, that element in the movie and what your thoughts were there.

MR. WESSEL: Do you want to take that one first?

MR. McKAY: Well, it's really simple. Yes, I was aware of those efforts, but it's just really we have two hours, so we really focused on these individuals. And what I like --

MS. RICE: (inaudible; audio drop) (Laughter)

MR. McKAY: And what I loved about people like Danny and these characters was that, you know, they were people involved in Wall Street, but their sort of outsider nature, the idea of Dr. Burry being a guy who didn't watch any TV, who didn't participate in our 24-hour sort of culture of America. Just listened to Sepultura and speed metal and read numbers. Why was he able to see it when we weren't? So I liked that question at the center of it, but you're absolutely right, there were other people that saw it and worked hard to try and prevent it.

MR. WESSEL: And it's a tough question about is there a way to dramatize nuanced solutions to go with your nuanced diagnosis?

MR. McKAY: Yeah. You know, we really wanted to take the audience to the point of waking up about this, being familiar with it. One of the big points in the movie was that you shouldn't be intimidated by this strange jargon. You should be able to talk about this. Don't let anyone tell you you're not an expert. Here's what happened. You should be outraged. And then the next step comes after that. We didn't go as far as solutions.

But don't mistake the film. Banking is essential and necessary. It's a major part of modern civilization. We don't hate banking. We just hate banking when it gets too good at, you know, setting its own rules and then it run amok. That's what we're against.

So, you know, a lot of what we talked about with people is like, well, what can we do? We can vote, we can speak out. We should know that our representatives, how much money they're taking from banks and we're trying to be proactive in that sense. And we're talking about ideas like capital requirements. We already have some ideas about how to get these ideas across to more mainstream audiences. So the next part is the solution. We just felt like the story had kind of gone dormant and the idea of this movie was to wake it up.

MR. WESSEL: Don, why didn't the authorities see what the shorts saw?

MR. KOHN: Well, as I said, I think we did see that there was a bubble. What we didn't see was the weaknesses in the financial system. And in particular, this is partly an answer to the CDO/CDS thing, maybe we didn't understand those as well as we should have, but I think one of the things we did not understand was we thought the risk was dispersed through the financial system and that, yes, the house prices could fall and people would lose money and that was too bad. But that ended up being very concentrated in a few institutions and this question that constantly is raised in the movie and in the book, who was on the other side, a lot of it was AIG, who had to come in for a bailout, several mono-line (phonetic) insurance companies and several large institutions.

And I think we thought that things were better spread around and we didn't understand these very opaque instruments and their opaque interconnections and how everything came back to rest.

MR. MOSES: There was a small nuance that happened in the early '90s. There was a

GSE bill that was passed in 1992, I believe.

MR. WESSEL: Government-sponsored enterprises, Fannie and Freddie.

MR. MOSES: Correct, sorry, Fannie and Freddie. And it was about housing affordability and people should own homes and it was a very pro-housing bill, which is great, except to your mortgage-backed security question it changed -- this is a little technical, but it changed the risk weighting of mortgage-backed securities on banks' balance sheets. And so what I'm saying --

MR. WESSEL: Conformed to Basel, right?

MR. MOSES: Well, no, the Basel came after.

MR. WESSEL: This is pre-Basel.

MR. MOSES: This is pre-Basel, so this is 1992. So you could have mortgages on your balance sheet and you would not be required to keep as much capital against those mortgages as you would prior to that bill. So that, I think, helped not contribute to the crisis, what would have happened, but measuring the risk at the banks on those levels became a little bit different. It became a little bit harder at that point.

And then, you know, as banks were in 2006 and 2007 given their quarterly earnings and their Level 3 assets, Level 1, Level 2, Level 3, which is somewhat subjective, they had hedges on what they thought were hedges against these Level 3 assets. So what the FDIC would look at or the OCC would look at, they'd say, okay, well, we take your word for it. It looks okay, it looks like it's balanced. And it wasn't stress tested, I guess, at the time enough. So I would just explain that one question you asked before. I think it was (inaudible).

MR. WESSEL: Right. I think that another way of saying what you said is that there were people, as the questioner said, who saw consumers being ripped off. They didn't get a very friendly airing from Alan Greenspan's Federal Reserve, but Ned Gramlich, who was a governor at the Federal Reserve, was concerned about this not because he thought it was going to bring down the entire financial system, but they saw that there were some consumers who were not being protected.

I think the surprise was what Danny suggested, that there was such a house of cards built on this assumption that housing prices would fall that would cause the worst recession in most of our lifetimes, a financial crisis that Ben Bernanke describes as worst than the Great Depression itself, that really was an extraordinary failure of imagination.

MR. IP: Can I quickly touch on the question that she had about, like, how do we explain the solutions that are sometimes nuanced? I don't think the regulations we described are actually that complicated. The reason that they're controversial is because there are genuine disagreements on whether they on net actually do any good. And I'll just bring up a couple of examples.

One thing almost everybody agrees with, I certainly agree, is we should have more capital. You know, banks are less likely to fail with more capital. Well, one of the unintended consequences of that is the FDIC now requires new banks to have a lot more capital than they used to because we have had no new banks except one created in the last five years. So one reason our too big to fail problem is getting worse is because no new banks are being created. This is a form of regulatory capture. Big banks love the fact that it's very difficult to start a new bank now.

Now, you've talked about how big a problem it is in the bond markets now, the lack of liquidity is terrible. One of the important reasons is because Dodd-Frank and the Basel rules said, hey, we learned that we need to have banks hold more capital for their bond trading books. The taxpayers are subsidizing your hedge fund's ability to access liquidity at these banks. That has to stop. That's why you can't get the liquidity you used to. So you're obviously on the cost side of the cost-benefit test, making banks hold more capital.

So if breaking up the big banks sounds like an easy solution, try and figure out why the Democratic Party is tearing itself apart over this same question because there are strong arguments on both sides.

MR. DAVIDSON: And can I just mention that one bank, I happen to be friends with the guy who started it, he's an Amish bishop and it's a bank that serves the Amish community in Bird-in-Hand, Pennsylvania. I just wanted to mention that. (Laughter)

MR. WESSEL: So I'm afraid we're going to have to end it here because Adam and Adam have another engagement. I want to end where I began, that there is no question that Adam McKay has started a conversation. I mean, it's 7:40 (inaudible). (Applause) And I personally don't want Adam

McKay and Hollywood to come up with nuanced solutions, but I think that it's really important that without a conversation and without dramatizing people getting hurt and bad guys and good guys, we'll never get to the point of having nuanced solutions.

So thank you all for coming and thank you to all of you. And if you could -- we got to get these guys out of here before there's a mob scene, so if you could just wait a minute so they can get out, the studio would appreciate it.

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