Film Review - Michael Hodson

The Big Short

2015, Paramount, Director Adam McKay

The Big Short has been nominated for 5 BAFTA and 5 Academy Awards, winning the Oscar for the best adapted screen play. But why has the film been released this year given it's based on the best-seller by Michael Lewis published in 2010? Certainly the subject matter seems to have lost none of its appeal. At the early evening performance I attended shortly after the film was released the cinema was very nearly full; and I was told the later performance was sold out. The mystery is why a film about the causes of the Great Recession of 2008 should be so popular seven and a half years after the event. Has this to do with the depth of the Great Recession, as the aftermath of the 2008 events are now called, its length and the tentative nature of the economic recovery? Or has it to do with an enduring sense of institutionalised wrong?

The Big Short makes the Great Recession upfront and personal. Like the book the film is about the 'weirdos' who bet that the price of US mortgage bonds would collapse. In other words they foresaw the Great Recession years before it happened. The film sets out their motivations, frustrations, sense of injustice and agonising decision making as they began to realise the consequences of the recession they were about to precipitate. Through the stories of these 'weirdos' and the bankers who accepted their bet the film sets out to explain how the financial contagion not only began but how it spread.

We're told that bankers like to make things seem complicated because then we'll understand why only they know what's going on. So the film uses some novel means to explain and make sure we understand what the various financial instruments mean. Margot Robbie (recall Neighbours) plays a dumb blonde in a bubble bath, sipping champagne explaining the meaning of a 'sub-prime mortgage bond.' American chef Anthony Bourdain compares collateralised debt obligations (CDOs) to using three-day old fish to make stew and to sell it as a fresh dish. Selena Gomez and Professor Richard Thaler at the black jack table explain that synthetic CDOs are a form of betting. They also explain how the value of the synthetics exceed the value of the mortgages by a large multiple thus multiplying the eventually huge impact of the mortgage defaults.

The film also shows in an often tragi-comic way the effects of personal and corporate greed and the logic of its impact in the market. A major lesson of *The Big Short* is buyer beware. Don't think anyone trying to sell you a financial service, or those whom you hire to buy one, are working for your good. Be aware of their motivation. The Great Recession is the result of moral hazard writ large.

So the banks dilute the quality of mortgage bonds in order to sell more bonds and earn more commissions. Mortgage brokers sell higher risk mortgages to those without jobs or assets because they can earn higher commissions; and because the banks will buy the mortgages from them thus eliminating their risk. The banks combine the poorer risk bonds, claim the benefits of diversification and sell them on as lower risk assets; again for the commission. (Here the film glosses over the genuine benefits of diversification and the necessary assumptions of statistical independence. If it was the case that mortgage defaults in different parts

Margot Robbie explaining the meaning of a 'sub-prime mortgage bond.'

of the USA were unrelated with no common underlying weakness then the value of the concocted mortgage portfolio would genuinely have been higher.) The rating agencies give high ratings to mortgage bonds and CDOs because they are paid by the issuing banks and because otherwise the banks will take the business to their rival down the block. CDO managers who put together the CDOs and advise buyers in effect depend on the issuing banks to provide them with the mortgages, and so give favourable advice.

At a higher level the chain goes on. The Securities and Exchange Commission (SEC) doesn't spend much on monitoring mortgages. (The film doesn't mention the ruling dogma of deregulation.) SEC employees are busy trying to secure employment with the big banks, and by implication are not interested in whistle blowing anyway. At the very top, bank CEOs are not restrained because they know the US Government will bail them out.

The film is better than the book at explaining alleged market rigging. Early in the film one of the speculators questions whether Goldman Sachs will pay up if indeed home-owners begin to default on their mortgages and related securities begin to fall in price. An important part of the plot is whether Goldman Sachs and other market makers actually will pay. Did they delay and continue to collect premiums until they had changed their position in the market?

The claim of the film is that the Great Recession was the result of the greatest fraud in American history. Why had America forgotten that fraud always leads to collapse? The point is made that price bubbles 'always have their markers' especially fraud.

So where does this lead us today? 'Very much as before' is the answer of some. If fraud is a leading indicator of market collapse, then how do we view more recent examples? What do we make of mis-selling payment protection insurance and LIBOR market rigging? Can we trust banks or any institution with a share of the action to make a market? The former Governor of the Bank of England, Baron Mervyn King, has recently warned us that we are heading for another crash unless we reform the banks more thoroughly.

'How do I carry my cross as a disciple of Christ?

We can see the plot of *The Big Short* as a re-run of the Prophets. Compare the two situations. Property companies foreclosing on mortgages: the rich seizing land; the poor suffer. In 7th century Judea the 'elders and princes' then 'join house to house and add field to field' (Isaiah 5:8). The system works because 'Everyone loves a bribe and runs after gifts' (Isaiah 1:23). The Ponzi game of derivative sales goes on working because no one believes they will be caught. The people of God turn to idols; then judgement comes. Like the 'weirdos' Assyria and Babylon come from nowhere. Paradoxically the greed of the banks is halted by the greed of the outsiders. Abuse of power in Judah is halted by the power of conquerors. Bank workers and others lose their jobs; the people of Judah are deported. When the immediate bank crisis is past people still don't believe the situation is right. When the Babylonian exiles return they still think they are in exile: a foreign power is still in control, people are still self-seeking, worshipping gods of power and money. It was this situation into which stepped Jesus, the Messiah, the rescuer of the world. It was this situation to which the Cross was the solution.

For me the great value of *The Big Short* is that it places me and all of us as individuals within the big picture. The film shows us that individuals can make a difference within our financial and political structures. This give us distance to see ourselves in our place of work. What values are we upholding both in support of our employers and perhaps as a critic within the workplace? Why am I doing this? To what values and practices have I become inured through familiarity? How do I face up to the hurt I may cause if I do what I consider is the right thing? How do I carry my cross as a disciple of Christ?

The film also gives us an incentive to look at the place of the financial sector in our economy and politics. This is no bad thing despite the calls to 'stop bashing the banks.' In the USA the influence of the banks will have a significant effect in the Presidential elections this year. (Is this the reason for the timing of the film's release?) In the UK the place and regulation of the financial sector will be a significant point of debate in the referendum on EU membership. By taking our vote seriously and viewing it as part of our discipleship can we, like the film, integrate our private and public responsibilities? Should we not look at politics too from a different perspective, as a way of advancing God's cause?

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