Speech delivered by Phil Angelides, Chairman of the US Financial Crisis Inquiry Commission, at the XXIV Congress of the Socialist International, in Cape Town, South Africa

30 August 2012

Good morning,

What a pleasure to be here in South Africa. Thank you very much for having me here today. Mr President, Mr Secretary General, distinguished delegates; it's my honour to be here with so many people from around the world who are working through the democratic process to advance the causes of economic opportunity and social justice.

I am honoured to join with the distinguished members who are on today's panel and who are keynote speakers. And of course, I am honoured to be speaking with you about how in the wake of this devastating financial crisis we build an economy of jobs and growth and social protection. And let me add a personal note: it is a tremendous honour to be here today in South Africa, a nation which speaks and shines throughout the world as a testament to the possibilities of social democracy.

Today I am going to speak to you about three quick subjects. First of all, the roots of the financial crisis, a matter that those on the right, the conservative forces and the banking forces, would have us forget. Secondly, I will talk about where we stand today four years after the financial meltdown on Wall Street that catapulted the global economy into a tailspin and particularly about the ongoing power of the financial sector and about pernicious problems of income inequality that damage our economy, our social fabric and our democracies. And finally, I want to talk about where collectively we need to go to move past this crisis and to re-make, rather than just rebuild, how we re-make a financial system and economy of sustained strength and broad opportunity.

Let me start on a personal note. When I was appointed the head of the Financial Crisis Inquiry Commission in United States in 2009, I did so as someone who had two decades of experience in both the public and private sectors, and each in those sectors with our financial system. I thought I knew something about how our financial system worked, but I must tell you that this was a journey of personal revelation because along the way I was fascinated, surprised, disturbed and repelled at what I saw. Instead of seeing a banking system, I saw a casino system that was systematically looting and weakening our economy.

As we meet today, I think it's fair to say that the financial crisis never ended. People on Wall Street like to talk about the financial crisis that was, but let's be clear, in the US 23 million people are out of work or can't find full-time work. Nine trillion dollars in wealth was wiped away like a day trade gone bad. Four million families have lost their homes and that number may rise to 8 to 13 million. Of course, in Europe unemployment remains in double digits and growth has stagnated. Unemployment in Ireland, in Portugal, in Greece, in Spain, is at depression levels. And in too many countries across the world, including here in South Africa, there is the problem of pernicious unemployment that is structural and affects deeply the young people of our world. The yawning gap of income inequality, which helped give rise to the crisis, has persisted and grown in the wake of this calamity.

So it is in the context of this continuing crisis, the unwavering assault by the political right and their banking allies on common-sense economic policies, and their continuing attempts to re-write the history of the crisis that I would like to briefly speak this morning about what we found in our investigation because understanding the truth is the prerequisite to moving forward.

We were appointed, as I said, in 2009 and our charge was to examine the causes of the crisis, to look at the collapse of the major financial institutions that would have collapsed but for trillions of dollars of assistance from the taxpayers of our nation. Also if we found potential violations of law, we were instructed to refer those matters to law-enforcement officials. We reviewed millions of pages of documents that had never before been seen. We interviewed 700 witnesses, and we held 19 public hearings. The central question we asked is not whether or not the bailouts that had occurred in the US and in Europe subsequently was the right thing to do, but rather how had it come to be that in 2008 our world faced two stark and painful choices: either allow the collapse of the financial system or alternatively inject trillions of dollars of capital into that system while millions of working men and women still lost their jobs, their homes and their life savings.

Now, in doing this, we understood that powerful forces in Washington, on Wall Street and around the world did not want the truth revealed. They wanted to suggest that the crisis was a perfect storm, a collision of forces that no human could have anticipated. Our goal was to expose the facts, to identify responsibility and, most importantly, to make sure we wrote a historically accurate account of the crisis. Not to re-write it but to ensure it would not be re-written. And here is what we found.

First and foremost, notwithstanding the rhetoric you hear from the financial sector about a perfect storm, this was an avoidable crisis not a result of Mother Nature, computer systems gone awry. It was the result of human action, inaction, and misjudgement. - and I want to say very clearly – the deliberate deregulatory, free-market policies that stripped bare the public protections that had bolstered our economy.

Despite those who say that not one could have seen it coming, the warning signs were ample. In our country, there were widespread and egregious predatory lending practices. By 2004, the FBI was warning of a pandemic of mortgage fraud. Banks transformed themselves all over the world from lending institutions to institutions taking extraordinary risks. The derivative markets had exploded to be 600 trillion dollars in size. The shadow banking system by 2008 overwhelmed the regulated banking system. Yet, in the face of this obvious speculation and recklessness, our public leaders did not act. Probably the best example in our country was the actions of our ideological Federal Reserve Chairman Alan Greenspan, who stood aside as predatory lending distorted our market place. When it was all over, he told our Commission that in his tenure that he was 70% right and 30% wrong - to which I pointed out that the Captain of the Titanic was 99% right and 1% wrong.

But let’s be clear, with their misplaced faith in the miracle of private markets and with undying allegiance to the notion that the private realm could solve our economic and public policy concerns, leaders turned a blind eye to the coming tragedy.

In our Report, we found widespread failures of financial regulation which I might say was the direct result not only of an ideology that equated the self-preservation instincts of financial institutions with the public interest, but also the result of the fact that the financial industry in the US alone spent nearly three billion dollars on lobbying in the 10 years running up to the crisis. So time and time again, we saw regulators who failed to act when the excesses were clear.

We saw reckless actions by CEOs of corporate organisations, failures in corporate governance. At AIG, which required a 180 billion dollar bailout, we saw reckless exposure to credit default swaps. But, of course, that didn't affect the CEO who walked out with 107 million dollars. At Citigroup, which lost tens of billions of dollars on subprime securities and required a public bailout and guarantee of over three hundred billion dollars, we saw Robert Rubin and other executives walk out with tens of millions of dollars. Time and time again, we saw the effective looting of the public treasury for private gain.

And finally of course, we documented in our Report systemic breaches in accountability and ethics at all levels during the run up to the crisis. Lenders and mortgage brokers who steered borrowers into loans they could never afford. Companies making loans to people they knew could not pay back those loans. A dramatic rise in mortgage fraud. Between 2005 and 2007, in my country alone, a trillion dollars in fraudulent loans. And of course we've seen evidence, as yet unprosecuted, that firms bought and sold mortgage securities consisting of millions of defective mortgages and peddled them across the globe.

Our Report can be found on the web at fcic.law.stanford.edu. The bottom line is clear – as is the evidence - and the report clearly lays it out: the crisis was the result of the abject failure of the economic and financial policies of conservative forces and their big bank allies that they had pushed across this globe for three decades.

So in the wake of this crisis, I believe it's important to examine where we stand today with respect to two forces that helped shape this crisis. First let me talk a little bit about the financial sector and where that sits today, and secondly, let me talk some about income inequality, which helped propel this crisis as working families and poor people borrowed to compensate for wages that had been stagnant for years and years.

First, the financial sector. As we meet today, let me say bluntly, that very little if anything has changed. Spared the consequences of their actions by bailouts in the US and in Europe and having paid no real political, economic or legal price for their wrongdoings, Wall Street and their international colleagues have returned to business as usual. The 600 trillion dollar derivatives market today remains unregulated and in the dark. Speculation remains pervasive and rampant whether it's the financial derivatives that are traded by institutions like J P Morgan - and we saw the recent blow-up that cost billions of dollars - or whether it's consistent attacks on European sovereign debt.

The credit rating agencies are unreformed today after their abysmal performance, after stamping triple A ratings on 40 thousand mortgage securities between 2000 and 2007. Two thirds of the provisions of the newly enacted financial reform law in the US are still not in place because of the lobbying and the pressure of the financial industry. And of course, while many working people in my country and across this globe struggle, Wall Street has done quite well. Compensation at publicly traded Wall Street firms rebounded to 135 billion dollars by 2010, a record.

The top 10 banks now control 77% of the banking assets in our country and last year, while the nation struggled and much of the world struggled with high unemployment, the five biggest banks in the US logged in profits of 51 billion dollars.

And if you look at the newspapers today, they read like a rap sheet, a police rap sheet. You see words like money laundering, bid rigging, price fixing, fraud. Normally when you see those words you think of the mafia, but unfortunately today those words are applicable to the conduct of Wall Street. HSBC, Standard Charter Bank, ING are charged with money laundering. Wells Fargo, J P

Morgan, UPS all swept in a scandal in which they bilked cities and states out of tens of millions of dollars in interest earnings. Barclays found manipulating the most important interest rate in the world, costing investors and savers tens of billions of dollars.

A recent survey reported on by Reuters found that 24% of financial services executives in the US and the UK believe that they have to engage in illegal or unethical conduct to succeed in the financial industry. 26% said that they were aware of wrongdoing in the workplace and 16% said that if they could do insider trading and get away with it, they would.

And the unrepentant and unreformed bankers are waging a fierce rear-guard action against any kind of meaningful reform. In the US, they have spent more than half a billion dollars in lobbying and political contributions since the financial collapse, stymieing rules, blocking appointments of key regulators and using their allies, the Republicans in the House of Representatives, to slash the budgets at the very enforcement agencies that are supposed to regulate and investigate them.

And now, they and their conservative allies are waging a full-scale campaign to re-write the history of this crisis. They are blaming the crisis on workers and on the social democratic policies and programmes that have given us the longest sustained growth and broadly shared prosperity in world history. They blame our budget deficit on fundamental social democratic programmes when the evidence is clear that these deficits today are the result of the collapse of the economy. 7.5 trillion dollars of the US debt is directly attributable to the meltdown. And they are blaming workers, whether it is in Wisconsin or in Ohio, they are going after teachers and fire fighters and working men and women who are the life blood of our economy. Take my state of California, for example, where public workers are under attack. Teachers who teach in the classroom after 30 years of work get a pension of 24 hundred dollars a year, with barely an impact on the state budget. But meanwhile the collapse of the economy has cost California 35 billion dollars a year in revenues and over the last 15 years the forces of the right have managed to engineer 15billion dollars a year in tax breaks, much of that for the wealthy and big corporations.

And finally of course, as PM Papandreou said, they are blaming the debtors - nations and homeowners - and they are blaming them for the reckless extension of credit that the lenders themselves made in the run-up to this crisis.

One of my favourite US Presidents said it well about Wall Street. When he campaigned for re-election in 1948 Harry Truman said, “the Wall Street reactionaries are not satisfied with being rich. They want to increase their power and their privileges regardless of what happens to the other fellow. They are gluttons of privilege.” And at the same time that the financial sector’s power today is greater than ever over our democracy and our markets, in the wake of the crisis we have emerged with greater and greater income inequality that will cripple our productivity and our ability to rebuild our economy.

As my friend and college classmate Professor Cornwell West has noted, we are increasingly becoming “a world of advanced sectors and regions connected with one another and weakly linked to the backward sectors and regions of their own societies”. While income inequality has now risen in 17 of 22 of the OECD countries in the last 30 years, I sadly report that the increase in inequality is among the starkest in my country. The share of income held by the wealthiest 1% is now at its highest level since 1928. We have the lowest ratio of wages to GDP since the Great Depression and the longest length of average unemployment since records have been kept. And the fact is that wages for working people have now been stagnant for over a decade while the wages of CEOs continue to hurtle upwards.

This is not sustainable. Aristotle said that poverty, the absence of a shared stake in society, was a great threat to democracy and Lester Thurow of MIT has rightly asked, "How does one preach political equality in an economy of ever growing inequality?" Coming out of this cataclysm, who would have imagined that the financial sector which drove this crisis would emerge stronger than ever, that inequality would be deepening across this globe, and that the forces on the right who led us down the road to disaster with their Wall Street and corporate sponsors in tow, would be so ascendant. That this is the case is politically, morally and economically unacceptable. So, what is to be done?

First, let me speak about the political imperative, and let me talk bluntly. Both the right and the forces of financial power have distorted the facts, twisted history and lied very directly about the causes of where we are today.

We often have been too timid in making our case. We should be clear, speaking the truth and reminding the world of what brought us to where we are today. We ourselves have too often deferred to powerful financial interests and too often have indulged the right's ill-timed and ill-conceived austerity agenda. While we respect what free markets can do to propel an economy forward, we recognise the power of public and collective action to build strong and enduring economic strength.

We, though, have yet to advance an agenda of dramatic change to re-make, not merely re-build, our economy, repudiating the right's fierce policies, and capturing the hopes and imagination of all those who have been left out, locked out and left behind. Without equivocation, without reservation, we must begin our journey to reform by telling the truth of what has brought our economy down. It is their policies, it is their agenda and it was their financial and corporate allies. The truth and history are on our side.

So, from a programmatic standpoint, where do we go? We must have a bold and clear agenda and I believe in many respects, President Papandreou has laid out some very important markers for where we must take our journey.

First and foremost, we need justice. To turn the page and to move on, we must first account for the truth of what occurred in this crisis. And that means we need national and international pursuit of the wrongdoing that destroyed our world economy. Before we can turn the page, we need to right wrongs. We need to let the people know that there is one system of justice, not one for people of wealth and power and another for everyone else. And we must make sure that there is a full investigation and prosecution of wrongdoing.

This is important, not only as a matter of equity and being able to turn the page and move on to the next era of economic development. It is importance for deterrence. It is important to make sure that this kind of wrongdoing does not occur again. After all, if someone robs a convenience store of a thousand dollars and can settle a week later for 25 dollars with no admission of wrongdoing, would they do it again? Of course they would. And therefore today I say that on an international basis we must call for full investigation and prosecution with real consequences for the actions that were wrong and illegal in the run-up to the financial crisis.

Secondly, we must reform, rein-in and re-purpose our financial sector. While we do respect the power of the market place, let's be clear: it's time to fundamentally reform a financial system that dominates, rather than serves our economy. It's become rampant with speculation that destabilises our economy, it's become infected with corruption, and it has now become so powerful that is distorting our markets and our democracies. It's time to replace the financial sector that is all about money making money with a financial system in which capital is deployed to create jobs and wealth and growth for our societies.

In 1980 in the US, 15% of the corporate profits in our economy came from the financial sector. By the 2000s, that had risen to over 30%. During the same period, there was an enormous rise in the amount of debt taken on by financial interests compared to the debt of enterprises creating the products and services and goods that create employment.

The time is long past due to reverse direction. And what that means is we need stronger national and international regulation to stop the race to the bottom in financial practices. We need real strength and will in our regulators so that there is real oversight and real enforcement in the market place.

We need to break-up the biggest financial institutions. They've become too big to fail, too big to manage, too big to regulate and too big to exist and, as I have said before, they are distorting and destroying our markets as well as our democracies. And most critically, we must re-direct capital away from speculation to productive uses which serve our societies.

In sum, we must re-purpose our financial system to serve and not dominate our economic system and our democracies.

Thirdly, we must fairly address the pressing problem of debt that continues to hang over the world in the wake of the financial crisis. We hear much about the profligacy of borrowers, but no one should forget that it was the lenders who recklessly extended credit to fuel the speculative bubble that led to the crash.

Yet since the financial collapse of 2008, the world has been run for the lenders. And I say this not just as someone of Greek descent and proudly so, but if you look at bail-out after bail-out – including the bailout of Greece – they have been bail-outs of the bankers. Time and time again the world has been run to rescue lenders and it's time to have an equitable allocation of losses coming out of this financial crisis.

We will not succeed as a global economy if nations continue to groan under unsustainable debt. In the US, one in five home-owners owes more on their homes than their mortgages, with those homeowners facing 700 billion dollars in negative equity. We must provide debt relief so that workers and businesses and nations can once again return to the path of economic progress.

And finally and most importantly, it's time to launch a new era of investment, mobilising public will, public capital and private sector resources to re-make our economy into one of durable strength and to replace the economy of speculation and looting of our human and natural resources. This means investments in research and development, technology, education and infrastructure to build the proper foundations of future prosperity. It is a formula that worked well in the post-war era and propelled us to four decades of sustained and powerful economic growth properly shared.

This means definitive and direct policies to raise wages and expand jobs, including the strengthening of unions that have been among the most powerful forces to keep wages up across this world. It means a firm commitment to invest in a new, sustainable green economy to create new wealth and to make sure that we deal with the pressing issues of climate change. This means investments in energy efficiency, public transit, renewable energy, transmission systems, and liveable cities. And, in this vein, I would proudly point to my own state where we adopted the strongest energy efficiency standards in the world for buildings, creating 1.5 million jobs. And, to my policies as California's Treasurer where I committed 26 billion dollars to investments in green technology and liveable cities that have paid off and will continue to pay off in terms of long term sustainable economic progress.

And of course, finally, any new economic dynamic must call for a full scale attack on income inequality which not only threatens our economic future but our political stability and, most importantly, our values. We need a triple bottom line strategy of creating jobs, closing the gap of inequality and building a more sustainable world.

Let me close with a thought. We face powerful, relentless moneyed interests. But only in the social democratic process can we win and achieve our objectives. As Amartya Sen has noted, economic and political freedom reinforce one another. And of course, South Africa is a living and shining example of what can occur. In my own country, the greatest steps forward to create equality of opportunity, strengthen the economy, and broaden shared prosperity has come in times of difficulty and crisis. In the US, in the midst of the Civil War in which 600 thousand of my fellow countrymen died, it was in that period of time that Abraham Lincoln built a transcontinental railway, created land grant colleges that trained a workforce for the industrial revolution, and passed something called the Homestead Act that made millions of Americans landowners for the first time. It was during the Great Depression when one third of our country was ill housed, ill clothed and ill fed that Franklin D Roosevelt built the strongest system of social protection and the strongest economy in the world. And in the 1960s during the civil rights struggles, it was then that we declared a war on poverty, and within eight years of that declaration, lifted one half of Americans out of poverty.

We can and must prevail. We must leave this Congress with a simple resolution, that we believe in a different kind of economy and society and we are willing to do the work necessary to achieve it. And that is one person having belief in his heart mobilising ten, mobilising one hundred, mobilising one thousand, mobilising ten thousand and ultimately millions, to join the cause.

Thank you for having me here today and I look forward to working with you to build an economy of strength and prosperity. Thank you.