

An additional comment on *Inside Job*, the documentary about the financial meltdown

11 November 2010

I recently saw Charles Ferguson's *Inside Job*, the documentary about the 2008 financial crash, and I think Joanne Laurier's comment successfully explains both the strengths and weaknesses of the film.

With a wide variety of effective "talking head" interviews and clips from various Congressional hearings, the movie examines—with the help of diagrams explaining some of the more technical material—how the current economic downturn occurred.

The interviews make the greatest emotional appeal, as the filmmakers deliberately focus on the contrast between those academics who are nothing more than open intellectual prostitutes for big business and economists who warned of the impending financial disaster and argued for greater regulation.

Ms. Laurier makes a reference to the powerful interview in *Inside Job* with Glenn Hubbard, the current Dean of the Graduate School of Business at Columbia University, a strong supporter of deregulation in the interests of the banks and corporations. The interaction was best summed up by Hubbard himself when, as the questions get tougher, he protests that he obviously made a mistake in granting the interview and tells the filmmakers that they have three minutes left before he throws them out of his office. In an obvious fit of anger, Hubbard declares that the interviewer in the time remaining should give it his best shot.

However, the weakness of the film was best summed up toward the end when narrator Matt Damon states that something went awfully wrong and that we must do something to fix it.

But this most important question remains unanswered: 'What was it that went wrong?', i.e., why did this massive and systemic economic meltdown take place? The film's underlying theme is that the problem was a lack of or decline in financial regulation, and if deregulation had not taken place, the current crisis would never have happened. It follows that the obvious solution is for the government to re-regulate the economy.

Those critics of the financial industry interviewed in the film, as well as many others, who maintain that regulation is the solution seek to save capitalism from itself. They work under the sometimes hidden and sometimes openly stated assumption that the market can work for the benefit of all mankind, if it is only rationally controlled. However, in reality, the 'free market' only works for the benefit of the capitalist elite and this is rooted in nature of the system itself.

It is perhaps worthwhile to look at some of the writings of two of the economists who were interviewed and uphold this outlook, Nouriel Roubini and Raghuram G. Rajan.

In Roubini's book, *Crisis Economics* (2010), coauthored with Stephen Mihm, the authors write "the surviving banks are paying out record bonuses, despite the fact that they owe their lives to government largesse." It is this fact that makes the "absence of reform... profoundly unfortunate" (p. 183).

Rajan, the chief economist for the International Monetary Fund is—as *Inside Job* points out—one of the individuals credited with anticipating the crisis in a paper written in 2005. In his latest book, entitled *Fault Lines* (2010), he writes, "Instead of testing providence,

we should take this crisis as a wake-up call for reform.” (p. 155).

But it is perhaps the Nobel Laureate in Economics, Joseph Stiglitz, in his latest book *Free Fall* (2010), who—although not one of the interviewees in *Inside Job*—perhaps best sums up this outlook in the following passage:

“The quarter century from 1945 to 1971 was exceptional in that though there were fluctuations, there were no banking crises anywhere in the world except in Brazil, in 1962. Both before and after this period they were a regular feature of economic life. Professor Franklin Allen of the Wharton School of the University of Pennsylvania and Douglas Gale of New York University provide a convincing interpretation for why the quarter century after World War II was free from crisis: the global recognition of the need for strong regulation. The greater stability may have been one of the factors contributing to the high rate of growth during this period. Government intervention had resulted in a more stable economy—and may have even contributed to the rapid growth and greater equality of that era.” (p. 240).

This passage is remarkable in light of the fact that Stiglitz does not say anything in his book about what happened in 1971. In August of that year US President Richard Nixon ended the Bretton Woods agreement of 1944 that established the postwar economic system. The Nixon administration did this by essentially separating the US dollar from gold backing, refusing any longer to exchange gold for American currency held by foreign countries. The action at the same time also ended the fixed currency relations among nations.

This watershed decision in 1971 was forced upon Nixon. It came about as a consequence of the postwar printing of paper dollars out of any alignment with the necessary gold backing, which had provided the basis for the expansion of the US economy rooted in the growth of this form of fictitious capital. The situation had reached the point by August 1971 where there was not enough bullion in Fort Knox to meet the demands of countries that were seeking to obtain gold for the dollars that they were holding.

It is no accident that following 1971 a period opened up which witnessed the growth of derivatives, numerous economic crises, an astronomical rise in the price of gold (or the reduction of the value of the US dollar), the continuous lowering of real wages of working people, and growing economic inequality.

In other words, deregulation did not *cause* the current crisis. Quite the contrary—the objective economic contradictions of capitalism themselves *created the need for and realization of* deregulation by the ruling elite in order to increase the power of finance capitalism at the expense of the working population.

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