Inside Job

By Charles Ferguson
The global economic crisis of 2008 cost tens of millions of people their savings, their jobs, and their homes. This is how it happened.

ICELAND

POPULATION:
GROSS DOMESTIC PRODUCT: $13 BILLION

BANK LOSSES:

NARRATOR:
living; and until recently, extremely low unemployment and government debt.

ANDRI MAGNASON:
society; clean energy, food production, fisheries, with a quota system to manage them.

GYLFI ZOEKA:

uh, not much crime; uh, it’s good, a good place for families to live.

ANDRI MAGNASON:

NARRATOR:
policy of deregulation that would have disastrous consequences; first for the environment, and then for the economy. They started by allowing multinational corporations like Alcoa to build giant aluminum-smelting plants, and exploit Iceland’s natural geothermal and hydroelectric
energy sources.

**ANDRI MAGNASON:**
with the most
spectacular colors, are geothermal. So nothing comes without consequence.

01:
[BOOM!]

01:
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**NARRATOR:**
three largest banks.
The result was one of the purest experiments in financial deregulation ever conducted.

01:
{SEPTEMBER 2008}

**DEMONSTRATOR:**

**GYLFI ZOEKA:**
place.

**NARRATOR:**
never operated
outside of Iceland, borrowed 120 billion dollars, ten times the size of Iceland’s economy.
The bankers showered money on themselves, each other, and their friends.

01:

**GYLFI ZOEKA:**
factor of nine;
uh, house prices more than doubled.

**NARRATOR:**
Jóhannesson. He
borrowed billions from the banks to buy up high-end retail businesses in London. He
also bought a pinstriped private jet, a 40-million-dollar yacht, and a Manhattan
penthouse.

01:

**ANDRI MAGNASON:**
bought this company, uh, in the UK, or in Finland, or in, in France, or wherever; uh, instead of saying, this millionaire took a billion-dollar loan to buy this company, and he took it from your local bank.

01:

**GYLFI ZOEGER:**
advised deposit-holders to withdraw money, and put them in the money market funds. The Ponzi scheme needed everything it could, huh?

01:

**NARRATOR:**
Icelandic banks and investment firms, and found nothing wrong; and American credit-rating agencies said Iceland was wonderful.

**SIGRÍ.UR BENEDIKTSÓTTIR:** In February 2007, the rating agencies decided to upgrade the banks to the highest possible rate – AAA.

**NARRATOR:**
unemployment tripled in six months.

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

GYLFI ZOEKA:

NARRATOR:
the citizens
of Iceland had done nothing.

GYLFI ZOEKA:
going to a bank
to talk about some issue. When they approach the bank, they would see 19,
uh, SUVs
outside, heh, outside the bank. Right? So you got to the bank, and you have
the 19
lawyers sitting, uh, in front of you, right? They are very well prepared;
uh, uh, ready to
kill any argument you make. And then, if you do really well, they offer you
a job, right?

NARRATOR:
work for the banks.

GYLFI ZOEKA:
have the same
problem, right?

{SONY PICTURES CLASSICS

PRESENTS :
A REPRESENTATIONAL PICTURES FILM
IN ASSOCIATION WITH
SCREEN PASS PICTURES
A CHARLES FERGUSON FILM}
{INSIDE JOB}
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CHARLES FERGUSON: What do you think of Wall Street incomes these days?

PAUL VOLCKER:
CHARLES FERGUSON: I have been told it’s extremely difficult for the IMF to criticize the United States.

DOMINIQUE STRAUSS-KAHN: I won’t say that.

MARK BRANSON:

JONATHAN ALPERT:

Streeters can use, and get up and go to work the next day.

GEORGE SOROS:

I’m a little bit old-fashioned.

CHARLES FERGUSON: Has Larry Summers ever expressed remorse?

REP. BARNEY FRANK: Um, I, I don’t hear confessions.

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KENNETH ROGOFF:
That’s Plan A, that’s Plan B, and that’s Plan C.
CHARLES FERGUSON: Would you support legal controls on executive pay?

DAVID McCORMICK:
{DAVID McCORMICK
UNDER SECRETARY OF THE TREASURY
BUSH ADMINISTRATION}

01:
CHARLES FERGUSON: Are you comfortable with the level of compensation in the financial services industry?

SCOTT TALBOTT:
CHARLES FERGUSON: Do you think they’ve earned it?

SCOTT TALBOTT:
{SCOTT TALBOTT
CHIEF LOBBYIST :
FINANCIAL SERVICES ROUNDTABLE}

01:
CHARLES FERGUSON: And so you’ve helped these people blow the world up.

SATYAJIT DAS:
{GRAPHICS BY BIGSTAR}

01:
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ANDREW SHENG:
{ANDREW SHENG
CHIEF ADVISOR :
CHINA BANKING REGULATORY COMMISSION}
{EDITORS
CHAD BECK & ADAM BOLT}

01:
LEE HSIEH LOONG:
something out of
nothing, it's very difficult to resist.

(PRIME MINISTER, SINGAPORE)

01:

CHRISTINE LAGARDE: I'm concerned that a lot of people want to go back
to the old
way; the way they were operating prior to the crisis.

(FRANCE)

ASSOCIATE PRODUCERS

KALYANEE MAM:
& ANNA MOOT-LEVIN

01:

(GILLIAN TETT
U.S. MANAGING EDITOR
THE FINANCIAL TIMES)

GILLIAN TETT:
saying, you
can't quote me, but I'm really concerned.

01:

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

EXECUTIVE DIRECTORS
JEFFREY LURIE &
CHRISTINA WEISS LURIE

NOURIEL ROUBINI:

(PROFESSOR, NYU BUSINESS SCHOOL)

01:

CHARLES FERGUSON: Do you think that Columbia Business School has any
significant conflict-of-interest problem?
GLENN HUBBARD:
(GLENN HUBBARD
CHIEF ECONOMIC ADVISOR, BUSH ADMINISTRATION
DEAN, COLUMBIA BUSINESS SCHOOL)
(PRODUCED BY AUDREY MARRS)

01:
(ELLIOT SPITZER
FORMER GOVERNOR OF NEW YORK
FORMER NEW YORK ATTORNEY GENERAL)

ELLIOT SPITZER:
had the power to
do every case that I made when I was state attorney general. They just
didn’t want to.
(PRODUCED, WRITTEN AND DIRECTED BY
CHARLES FERGUSON)

01:
(SEPTEMBER 15, 2008)

NEWS REPORTER:
venerable
and biggest investment banks, was forced to declare itself bankrupt; another, Merrill
Lynch, was forced to sell itself today. Crisis talks are underway –

WOMAN REPORTER:
following dramatic
developments for two Wall Street giants.
WOMAN SPEAKING FOREIGN LANGUAGE: [UI].
MAN SPEAKING FRENCH: [UI].

01:

NARRATOR:
bank Lehman
Brothers, and the collapse of the world’s largest insurance company, AIG, triggered a
global financial crisis.

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

01:

NARRATOR:
tens of trillions of dollars; rendered 30 million people unemployed; and doubled the national debt of the United States.

01:

{NOURIEL ROUBINI
SENIOR ECONOMIST
PROFESSOR, NYU BUSINESS SCHOOL}

NOURIEL ROUBINI:
equity wealth, of housing wealth; the destruction of income, of jobs; 50 million people globally could end up below the poverty line again — this is just a, a hugely, hugely expensive crisis.

01:

NARRATOR:
out-of-control industry. Since the 1980s, the rise of the U.S. financial sector has led to a series of increasingly severe financial crises. Each crisis has caused more damage, while the industry has made more and more money.

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01:

NARRATOR:
of economic
growth, without a single financial crisis. The financial industry was tightly regulated. Most regular banks were local businesses, and they were prohibited from speculating with depositors’ savings. Investment banks, which handled stock and bond trading, were small, private partnerships.

01:

{SAMUEL HAYES
Inside Job transcript – Sony Pictures – September 2010
PROFESSOR EMERITUS OF INVESTMENT BANKING
Inside Job transcript – Sony Pictures – September 2010
11
HARVARD BUSINESS SCHOOL}

SAMUEL HAYES:
model, the
partners put the money up. And obviously, the partners watched that money very carefully. They wanted to live well, but they didn’t want to bet the ranch on anything.

01:

NARRATOR:
chairman of the
Federal Reserve from 1979 to 1987. Before going into government, he was a financial economist at Chase Manhattan Bank.
{PAUL VOLCKER
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CHAIRMAN:
Inside Job transcript – Sony Pictures – September 2010
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FEDERAL RESERVE BOARD (1979–1987)}

PAUL VOLCKER:
think my income
was in the neighborhood of 45,000 dollars a year.
CHARLES FERGUSON: Forty-five thousand dollars a year.

01:
SAMUEL HAYES:
personnel; one
office; and capital of 12 million dollars.
Now, Morgan Stanley has 50,000 workers, and has capital of several billion;
and has
offices all over the world.

01:

NARRATOR:
investment banks went
public, giving them huge amounts of stockholder money. People on Wall
Street started
getting rich.

01:

{CHARLES MORRIS

AUTHOR :
THE TWO TRILLION DOLLAR MELTDOWN}

CHARLES MORRIS:
Lynch in the 1970s.
He had a job as a train conductor at night, cause he had three kids
and couldn’t support
them on what a bond trader made. By, heh, 1986, he was making millions of
dollars,
and thought it was because he was smart.

01:

RONALD REAGAN:
restore our
economic prosperity.

NARRATOR:
secretary the CEO
of the investment bank Merrill Lynch, Donald Regan.

01:

{DONALD REGAN
TREASURY SECRETARY (1981–1985)}
I've talked to many leaders of Wall Street. They all say, we're behind the president one hundred percent.

NARRATOR:
financial lobbyists, started a 30-year period of financial deregulation.

01:
and loan companies, allowing them to make risky investments with their depositors' money. By the end of the decade, hundreds of savings and loan companies had failed. This crisis cost taxpayers 124 billion dollars, and cost many people their life savings.

TOM BROKAW:

NARRATOR:
looting their companies. One of the most extreme cases was Charles Keating.

01:

MAN:

NARRATOR:
Keating hired an economist named Alan Greenspan. In this letter to regulators, Greenspan praised Keating's sound business plans and expertise; and said he saw no risk in allowing Keating to invest his customers' money. Keating reportedly paid Greenspan 40,000 dollars.

01:

for Alan Greenspan, President Reagan appointed him chairman of America's central bank, the Federal
Reserve. Greenspan was reappointed by presidents Clinton and George W. Bush.

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

01:

NOURIEL ROUBINI:
having lobbies,
having lots of money; step by step, uh, captured the political system; you know, both on
the Democratic and the Republican side.

01:

NARRATOR:
into a few gigantic
firms, each of them so large that their failure could threaten the whole system; and the
Clinton administration helped them grow even larger.
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In 1998, Citicorp and Travelers merged, to form Citigroup, the largest financial services
company in the world. The merger violated the Glass-Steagall Act, a law passed after
the Great Depression, which prevented banks with consumer deposits from engaging in
risky investment banking activities.

01:

{ROBERT GNAIZDA
FORMER DIRECTOR
GREENLINING INSTITUTE}

ROBERT GNAIZDA:
nothing. The
Federal Reserve gave them an exemption for a year; and then they got the law passed.
NARRATOR:

passed the
Gramm-Leach-Bliley Act, known to some as the Citigroup Relief Act. It
overturned
Glass-Steagall, and cleared the way for future mergers.

01:

{ROBERT RUBIN WOULD LATER MAKE $126 MILLION
AS VICE CHAIRMAN OF CITIGROUP.
HE DECLINED TO BE INTERVIEWED FOR THIS FILM.}

01:

{WILLEM BUITER
CHIEF ECONOMIST, CITIGROUP}

WILLEM BUITER:

monopoly
power; because banks like lobbying power; because, um, banks know that when
they're too big, they will be bailed.

01:

{GEORGE SOROS

CHAIRMAN:
SOROS FUND MANAGEMENT}

GEORGE SOROS:

potentially unstable. An
appropriate metaphor is the oil tankers. They are very big; and therefore,
you have to
put in compartments to prevent the sloshing around of oil from capsizing
the boat. The
design of the boat has to take that into account. And after the, uh, uh,
Depression, the
Inside Job transcript – Sony Pictures – September 2010
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regulations actually introduced these very ti-, watertight compartments. And
deregulation has led to the end of co-, compartmentalization.

01:

NARRATOR:
investment banks fueled a massive bubble in Internet stocks, which was followed by a crash in 2001 that caused 5 trillion dollars in investment losses. The Securities and Exchange Commission, the federal agency which had been created during the Depression to regulate investment banking, had done nothing.

01:

ELIOT SPITZER:
there has been none — and given the clear failure of self-regulation; it has become necessary for others to step in and adopt the protections needed.

01:

NARRATOR:
investment banks had promoted Internet companies they knew would fail. Stock analysts were being paid based on how much business they brought in. And what they said publicly was quite different from what they said privately.

NEWSCASTER:
by an analyst as a "piece of junk." Excite, also highly rated, called "such a piece of crap."

01:

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

ELIOT SPITZER:
investment banks was not, you're wrong; it was, everybody's doing it, and everybody knows it's going on, and therefore nobody should rely on these analysts anyway.

NARRATOR:
a total of 1.4 billion dollars, and promised to change their ways.

BEAR STEARNS $80 MILLION
CREDIT SUISSE $200 MILLION
DEUTSCHE BANK $80 MILLION
J.P. MORGAN $80 MILLION
MERRILL LYNCH $200 MILLION

Inside Job transcript – Sony Pictures – September 2010

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

NARRATOR:

Services Roundtable, one of the most powerful groups in Washington, which represents nearly all of the world’s largest financial companies.

CHARLES FERGUSON: Are you comfortable with the fact that several of your member companies have engaged in large-scale criminal activity?

SCOTT TALBOTT:

CHARLES FERGUSON: Okay. Uh –

SCOTT TALBOTT:

accepted, period.

NARRATOR:

financial firms have been caught laundering money, defrauding customers, and cooking their books; again and again and again.

JP MORGAN – BRIBED GOVERNMENT OFFICIALS
RIGGS BANK – LAUNDERED MONEY FOR CHILEAN DICTATOR AUGUSTO PINOCHET
CREDIT SUISSE – LAUNDERED MONEY FOR IRAN
IN VIOLATION OF US SANCTIONS

01: nuclear program, and for the Aerospace Industries Organization of Iran, which builds ballistic missiles.

MAN: removed.

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

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WOMAN: documents connected with the account?

{NOVEMBER 9, 1999}

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

ALBERT MISAN: stages of this. I did not mean it seriously.

01: 

{FREDDIE MAC ACCOUNTING FRAUD – FINED $125 MILLION

FANNIE MAE: ACCOUNTING FRAUD – FINED $400 MILLION}

NARRATOR: by more than 10 billion dollars.

FRANKLIN RAINES: require determinations over which experts often disagree.

NARRATOR:
Clinton's budget director, received over 52 million dollars in bonuses.

01:
{UBS FRAUD – FINED $780 MILLION}
When UBS was caught helping wealthy Americans evade taxes, they refused to cooperate with the U.S. government.

SEN. CARL LEVIN:

MARK BRANSON:

SEN. CARL LEVIN:
participated in a fraud.

MARK BRANSON:

01:
{HELPED ENRON CONCEAL FRAUD: FINED $385 MILLION
CITIBANK – JP MORGAN – MERRILL LYNCH}
Inside Job transcript – Sony Pictures – September 2010

NEWSCASTER:
investment firms do not have to admit any wrongdoing.

01:

SCOTT TALBOTT:
with this many products and this many customers, mistakes happen.
CHARLES FERGUSON: The financial services industry seems to have a level of criminality that is, you know, somewhat distinctive. When was the last time that Cisco or Intel or Google or Apple or IBM, you know –

ELIOT SPITZER:
financial services. But high tech –
CHARLES FERGUSON: So how come? What, what’s –

ELIOT SPITZER:
where the value
generation and the income derives from actually creating something new and different.

01:

NARRATOR:
technology led to an explosion of complex financial products, called derivatives. Economists and bankers claimed they made markets safer. But instead, they made them unstable.

01:

ANDREW SHENG:
phys-, former physicists and mathematicians decided to apply their skills not on, you know, Cold War technology, but on financial markets. And uh, together with investment bankers and hedge funds - CHARLES FERGUSON: Creating different weapons.

ANDREW SHENG:
know, weapons of mass destruction.

01:

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

ANDREW LO:
seriously the threat of financial innovation on the, uh, the stability of the financial system.

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01:

NARRATOR:
anything. They could bet on the rise or fall of oil prices, the bankruptcy of a company; even the weather. By
the late 1990s, derivatives were a 50-trillion-dollar unregulated market.

01:
Brooksley Born graduated first in her class at Stanford Law School, and was the first woman to edit a major law review. After running the derivatives practice at Arnold & Porter, Born was appointed by President Clinton to chair the Commodity Futures Trading Commission, which oversaw the derivatives market.

01:
MICHAEL GREENBERGER: Brooksley Born asked me if I would come work with her. Uh, we decided that this was a serious, potentially destabilizing market.

{MICHAEL GREENBERGER FORMER DEPUTY DIRECTOR (1997-2000) COMMODITY FUTURES TRADING COMMISSION}

NARRATOR:
derivatives.
Clinton’s Treasury Department had an immediate response.

01:
MICHAEL GREENBERGER: I happened to go into Brooksley’s office. And she was just putting down the receiver on her telephone. And the blood had drained from her face. And she looked at me, and said: That was Larry Summers. He had 13 bankers in his office. He conveyed it in a very bullying fashion – sort of directing her to stop.

01:
{SATYAJIT DAS DERIVATIVES CONSULTANT AUTHOR, TRADERS, GUNS & MONEY}

SATYAJIT DAS:
these types of activities. And that led to a titanic battle to prevent this set of instruments from being regulated.
NARRATOR:
Rubin, and SEC
Chairman Arthur Levitt issued a joint statement condemning Born, and recommending legislation to keep derivatives unregulated.
Inside Job transcript - Sony Pictures - September 2010
{JULY 24, 1998}

ALAN GREENSPAN:
privately negotiated, by professionals, is unnecessary.

01:
REP. BARNEY FRANK: She was overruled, unfortunately, uh, first by the Clinton administration; and then by the Congress. In 2000, uh, Senator Phil Gramm took a major role in getting a bill passed that pretty much exempted derivatives from regulation.
{JULY 21, 2000}
SENATOR PHIL GRAMM (R-TX)

CHAIRMAN:
SENATE BANKING COMMITTEE

PHIL GRAMM:
burden. I believe that we need to do it.
{AFTER LEAVING THE SENATE, PHIL GRAMM BECAME VICE-CHAIRMAN OF UBS. SINCE 1993, HIS WIFE WENDY HAD SERVED ON THE BOARD OF ENRON.}

01:
{LARRY SUMMERS TREASURY SECRETARY (1999-2001)}

LARRY SUMMERS:
move this year on legislation that in a suitable way goes to create legal certainty for OTC, uh, derivatives.
{LARRY SUMMERS LATER MADE
$20 MILLION AS A CONSULTANT TO A HEDGE FUND THAT RELIED HEAVILY ON DERIVATIVES.

ALAN Greenspan:
of Secretary Summers.

ALAN Greenspan
CHAIRMAN, FEDERAL RESERVE BOARD

01:
Inside Job transcript – Sony Pictures – September 2010

NARRATOR:

Modernization Act. Written with the help of financial-industry lobbyists, it banned the regulation of derivatives.

01:

FRANK Partnoy
PROFESSOR LAW AND FINANCE UNIVERSITY OF CALIFORNIA, SAN DIEGO

FRANK Partnoy:
use of derivatives and financial innovation, uh, exploded dramatically after 2000.

01:

MAN:

GEORGE W. BUSH:

NARRATOR:
financial sector was vastly more profitable, concentrated, and powerful than ever before. Dominating this industry were five investment banks;

MORGAN STANLEY :
LEHMAN BROTHERS

MERRILL LYNCH :
BEAR STEARNS} two financial conglomerates;
{CITIGROUP JP MORGAN} three securities-insurance companies;
{AIG MBIA : AMBAC} and three rating agencies.
{MOODY'S STANDARD & POOR'S FITCH}
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And linking them all together was the securitization food chain, a new system which connected trillions of dollars in mortgages and other loans with investors all over the world.

01:
REP. BARNEY FRANK: Thirty years ago, if you went to get a loan for a home, the person lending you the money expected you to pay him or her back. You got a loan from a lender who wanted you to pay him back. We've since developed securitization, whereby the people who make the loan are no longer at risk if there is a failure to repay.

01:
NARRATOR:
every month,
the money went to their local lender. And since mortgages took decades to repay, lenders were careful.
In the new system, lenders sold the mortgages to investment banks. The investment banks combined thousands of mortgages and other loans— including car loans, student loans, and credit-card debt—to create complex derivatives, called collateralized debt
obligations, or CDOs. The investment banks then sold the CDOs to investors. Now, when homeowners paid their mortgages, the money went to investors all over the world.

01: the CDOs, and many of them were given a AAA rating, which is the highest possible investment grade. This made CDOs popular with retirement funds, which could only purchase highly rated securities.

01: care anymore about whether a borrower could repay, so they started making riskier loans. The investment banks didn’t care, either; the more CDOs they sold, the higher their profits. And the rating agencies, which were paid by the investment banks, had no liability if their ratings of CDOs proved wrong.

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

GILLIAN TETT: weren’t regulatory constraints. Um, so it was a green light to just pump out more and more and more loans. Inside Job transcript – Sony Pictures – September 2010

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NARRATOR: each year nearly quadrupled.

NOURIEL ROUBINI: from the very beginning until the end; they didn’t care about the quality of the mortgage; they were
caring about maximizing their volume, and getting a fee out of it.

01:

**NARRATOR:**

riskiest loans, called subprime. But when thousands of subprime loans were combined to create CDOs,
many of them still received AAA ratings.

01:

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

**GILLIAN TETT:**

CHARLES FERGUSON: - that carry the equivalent of deductibles, where there are
limits on the risks that can be taken on, and so forth. They didn’t do that, did they?

01:

**GILLIAN TETT:**

should have done.
CHARLES FERGUSON: So did these guys know that they were doing something dangerous?

**SAM HAYES:**

{THE INVESTMENT BANKS ACTUALLY PREFERRED SUBPRIME LOANS, BECAUSE THEY CARRIED HIGHER INTEREST RATES.
THIS LED TO A MASSIVE INCREASE IN PREDATORY LENDING.}
{BORROWERS WERE NEEDLESSLY PLACED IN EXPENSIVE SUBPRIME LOANS, AND MANY LOANS WERE GIVEN TO PEOPLE WHO COULD NOT REPAY THEM.}

01:

**ROBERT GNAIZDA:**

offered to their mortgage brokers were based on selling the most profitable products, which were predatory loans.

Inside Job transcript - Sony Pictures - September 2010
ERIC HALPERIN:
subprime loan,
that’s where they’re gonna, that’s where they’re gonna put ya.

PART II:
(2001-2007)

NARRATOR:
flowing through the securitization chain. Since anyone could get a mortgage, home purchases and housing prices skyrocketed. The result was the biggest financial bubble in history.

MAN:
their asset; they can rent out their asset.

CHARLES MORRIS:
at all. The financing appetites of the financial sector drove what everybody else did.

NOURIEL ROUBINI:
’80s. In that case, the increase in home price had been relatively minor. That housing bubble led to a relatively severe recession. From 1996 until 2006, real home prices effectively doubled.

VOICE OVER:
to buy their very own
piece of the American dream.

**ROBERT GNAIZDA:**
Merrill Lynch, were all in on this. The uh, p-, sub-, subprime lending alone increased from 30 billion a year in funding to over 600 billion a year, in 10 years. They knew what was happening.

01:

**NARRATOR:**
97 billion dollars’ worth of loans. It made over 11 billion dollars in profits as a result.

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01:

CEOs became enormously wealthy during the bubble. Lehman Brothers was a top underwriter of subprime lending; and their CEO, Richard Fuld, took home 485 million dollars.

01:

**NOURIEL ROUBINI:**
leading, uh, to hundreds of billions of dollars of profits. You know, by 2006, about 40 percent of all profits of S&P 500 firms was coming from financial institutions.

01:

{MARTIN WOLF
CHIEF ECONOMICS COMMENTATOR
THE FINANCIAL TIMES}

**MARTIN WOLF:**
income; it was just money that was being created by the system, and booked as income two, three years down the road.

There’s a default; it’s all wiped out. I think this was, in fact, in retrospect, a great big national — and not
just national, global
- Ponzi scheme.

01:

NARRATOR:
Federal Reserve Board had broad authority to regulate the mortgage industry. But Fed Chairman Alan Greenspan refused to use it.
REP. BARNEY FRANK: Alan Greenspan said, no, that’s regulation; ideologically, I don’t believe in it.

NARRATOR:
a powerful consumer advocacy group. He met with Greenspan on a regular basis.

01:

ROBERT GNAIZDA:
different complex adjustable-rate mortgages. And he said: If you had a doctorate in math, you wouldn’t be able to understand them enough to know which was good for you and which wasn’t.

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So we thought he was gonna take action. But, as the conversation continued, it was clear he was stuck with his ideology.
We met again with Greenspan in 05. Often we met with him twice a year, and never less than once a year. And he wouldn’t change his mind.
{ALAN GREENSPAN DECLINED TO BE INTERVIEWED FOR THIS FILM.}

01:
{CHRISTOPHER COX

SEC CHAIRMAN :
JUNE 2, 2005}
CHRISTOPHER COX:
communications, the free
and efficient movement of capital is helping to create the greatest
prosperity in human
history.

{THE SECURITIES AND EXCHANGE COMMISSION
CONDUCTED NO MAJOR INVESTIGATIONS OF THE
INVESTMENT BANKS DURING THE BUBBLE.}

01:

{OCTOBER 7, 2008}
REP. PETER WELCH: A hundred and forty six people were cut from the enforcement
division of the e-, SEC; is that what you also testified to?

{LYNN E. TURNER
FORMER CHIEF ACCOUNTANT
SECURITIES AND EXCHANGE COMMISSION}

LYNN E. TURNER:

systematic gutting, or
whatever you want to call it, of the agency and its capability, through
cutting back of
staff.

01:

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

LYNN E. TURNER:
could turn
the lights out.

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01:

NARRATOR:

heavily, to buy
more loans, and create more CDOs.
The ratio between borrowed money and the banks’ own money was called
leverage.
The more the banks borrowed, the higher their leverage.
In 2004, Henry Paulson, the CEO of Goldman Sachs, helped lobby the
Securities and Exchange Commission to relax limits on leverage, allowing the banks to sharply increase their borrowing.

KENNETH ROGOFF:

gamble a lot
more. That was nuts. I don’t know why they did that, but they did that.

ON APRIL 28, 2004, THE SEC MET TO CONSIDER LIFTING LEVERAGE LIMITS ON THE INVESTMENT BANKS

COMMISSIONER HARVEY J. GOLDSCHMID: We’ve said these are the big guys and clearly that’s true. But that means if anything goes wrong, it’s going to be an awfully big mess.

[LAUGHTER]
DIRECTOR ANNETTE L. NAZARETH: At these levels, you obviously are dealing with the most highly sophisticated financial institutions.

COMMISSIONER ROEL C. CAMPOS: These are the firms that do most of the derivative activity in the United States. We talked to some of them as to what their comfort level was.

DIRECTOR ANNETTE L. NAZARETH: The firms actually thought that the number was, uh, appropriate.

CHAIRMAN WILLIAM DONALDSON: Do the commissioners vote to adopt the rule amendments and new rules as recommended by the staff?

WILLIAM DONALDSON: We do indeed. Unanimous. And we are adjourned.
DANIEL ALPERT: became absolutely frightening; investment banks leveraging up to the level of, you know, 33 to 1. Uh, which means that a tiny, 3-percent decrease in the value of their asset base would leave them insolvent.

NARRATOR: system: AIG, the world's largest insurance company, was selling huge quantities of derivatives, called credit default swaps. For investors who owned CDOs, credit default swaps worked like an insurance policy. An investor who purchased a credit default swap paid AIG a quarterly premium. If the CDO went bad, AIG promised to pay the investor for their losses.

Let's say you and I own property; I own a house. I can only insure that house once. The derivatives universe essentially enables anybody to actually insure that house. So you could insure that; somebody else could do that. So 50 people might insure my house. So what happens is, if my house burns down, now the number of losses in the system becomes proportionately larger.
NARRATOR: didn’t have to put aside any money to cover potential losses. Instead, AIG paid its employees huge cash bonuses as soon as contracts were signed. But if the CDOs later went bad, AIG would be on the hook.

NOURIEL ROUBINI: massive risks. Uh, in good times, they generate short-term revenues and profits, and therefore bonuses. But that’s gonna lead to the firm to be bankrupt over time. That’s a totally distorted system of compensation.

01:

NARRATOR: 500 billion dollars worth of credit default swaps during the bubble, many of them for CDOs backed by subprime mortgages. The 400 employees at AIGFP made 3.5 billion dollars between 2000 and 2007. Joseph Cassano, the head of AIGFP, personally made 315 million dollars.

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

JOSEPH CASSANO: flippant, to even see a scenario, within any kind of realm of reason, that would see us losing one dollar in any of those transactions.

01:

NARRATOR: Joseph St. Denis,
resigned in protest after Cassano repeatedly blocked him from investigating AIGFP's accounting.

REP. HENRY WAXMAN: Let me tell you one person that didn't get a bonus while everybody else was getting bonuses:

{HENRY WAXMAN CHAIRMAN, HOUSE OVERSIGHT COMMITTEE} - that was St. Denis, Mr. St. Denis, who tried to alert the two of you to the fact that you were running into big problems. He quit in frustration, and he didn't get a bonus.

01:
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NARRATOR:
International Monetary Fund, delivered a paper at the annual Jackson Hole Symposium, the most elite banking conference in the world.
CHARLES FERGUSON: Who was in the audience?

RAGHURAM RAJAN :
CHIEF ECONOMIST (2003-2007) INTERNATIONAL MONETARY FUND (IMF)"

RAGHURAM RAJAN:
world. Um, ranging from Mr. Greenspan himself; Ben Bernanke; Larry Summers was there; Tim Geithner was there. The title of the paper was, essentially: Is Financial Development Making the World Riskier? And the conclusion was, uh, it is.

01:

NARRATOR:
generated huge cash bonuses based on short-term profits, but which imposed no penalties for later losses. Rajan argued that these incentives encouraged bankers to take risks that
might eventually destroy their own firms, or even the entire financial system.

01:

RAGHURAM RAJAN:

taking on more risk.
And so what you need to do is compensate for risk-adjusted performance. And that’s where all the bodies are buried.
{KENNETH ROGOFF
PROFESSOR OF ECONOMICS, HARVARD}

01:

KENNETH ROGOFF:

he particularly said was, you guys have claimed you have found a way to make more profits with less risk. I say you’ve found a way to make more profits with more risk, and there’s a big difference.

01:

RAGHURAM RAJAN:

was criticizing the change in the financial world, and was worried about, uh, you know,
regulation which would reverse this whole change. So essentially, he accused me of being a Luddite. He wanted to make sure that we didn’t bring in a whole new set of regulations to constrain the financial sector at that point.
{LARRY SUMMERS DECLINED TO BE INTERVIEWED FOR THIS FILM.}

01:

FRANK PARTNOY:

year – or 10 million dollars a year – for putting your financial institution at risk. Someone
else pays the bill, you don’t pay the bill. Would you make that bet?
Most people who worked on Wall Street said, sure, I’d make that bet.

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

01:

ROBERT GNAIZDA:
home; they
want to own five homes, and they want to have an expensive penthouse on
Park
Avenue; and they want to have their own private jet.

01:

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

SCOTT TALBOTT:
heed, or take
exception at your word very high. I mean, it’s all relative.

01:

REP. HENRY WAXMAN: You have a 14-million-dollar oceanfront home in Florida; you
have a summer vacation home in Sun Valley, Idaho; you and your wife have an art
collection filled with million-dollar paintings.
{RICHARD FULD
CEO, LEHMAN BROTHERS}

01:

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{LAWRENCE McDONALD
FORMER VICE PRESIDENT
LEHMAN BROTHERS}

LAWRENCE McDONALD: Richard Fuld never appeared on the trading floor. There
was art advisors up there all the time. You know, he had his own private
elevator. The-, the, he went out of his way to be disconnected.
I mean, his elevator - they hired technicians to program it, you know, so that his driver would call in in the morning, and a security guard would hold it. And there's only like a two- or three-second window where he actually has to see people. And he hops into this elevator, and goes straight to 31.

01:
CHARLES FERGUSON: Lehman owned a bunch of corporate jets. Do you know about this?

{HARVEY MILLER
LEHMAN'S BANKRUPTCY LAWYER}

HARVEY MILLER:
CHARLES FERGUSON: How many were there?

HARVEY MILLER:
he had a helicopter.
CHARLES FERGUSON: I see. Isn't that kind of a lot of planes to have, for -

01:
{JEFFREY LANE

VICE CHAIRMAN :
LEHMAN BROTHERS (2003-2007)}

JEFFREY LANE:
uh, Type A personalities know everything in the world.

WILLEM BUITER:
mine's bigger than yours; that kind of stuff. It was all men that ran it, incidentally.

JEFFREY LANE:
we do hundredbillion-dollar deals.

01:
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JONATHAN ALPERT:
impulsive.
{JONATHAN ALPERT IS A THERAPIST WHOSE CLIENTS INCLUDE MANY HIGH-LEVEL WALL STREET EXECUTIVES.}
It's part of their behavior, it's part of their personality. And that manifests outside of work as well. It's quite typical for the guys to go out, to go to strip bars, to use drugs. I see a lot of cocaine use, a lot of use of prostitution. {-THE OWNER OF THE V.I.P. CLUB IN CHELSEA, WHO ESTIMATES THAT ABOUT 80 PERCENT OF HIS CLIENTS ARE WALL STREET TYPES.}

01:
{ANDREW LO PROFESSOR & DIRECTOR MIT LABORATORY FOR FINANCIAL ENGINEERING}

ANDREW LO:
uh, they've, uh, taken individuals and put them into an MRI machine. And they have them play a game where the prize is money. And they noticed that when these subjects earn money, the part of the brain that gets stimulated is the same part that cocaine stimulates.

01:

JONATHAN ALPERT:
participate in that behavior to make it, to get promoted, to get recognized.

NARRATOR:
represents 5 percent of revenue for New York derivatives brokers, and often includes strip clubs, prostitution, and drugs. A New York broker filed a lawsuit in 2007 against his firm, alleging he was required to retain prostitutes to entertain traders.
impact that their actions
might have on, on society, on family. They have no problem using a
prostitute, uh, and
going home to their wife.

[KRISTIN DAVIS RAN AN ELITE PROSTITUTION RING
FROM HER HIGH-RISE APARTMENT.
IT WAS LOCATED A FEW BLOCKS FROM
THE NEW YORK STOCK EXCHANGE.]

CHARLES FERGUSON: How many customers?

KRISTIN DAVIS:

CHARLES FERGUSON: What fraction were from Wall Street?

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

KRISTIN DAVIS:

JONATHAN ALPERT:
think Goldman
was, was pretty, pretty big with that.

KRISTIN DAVIS:
me a Lamborghini
for the night for the girl?
These guys were spending corporate money; I had many black cards from, you
know,
the various financial firms.

JONATHAN ALPERT:
to computer
01:

**KRISTIN DAVIS:**
compliance. [They],
I just usually gave them a piece of letterhead, and said, make your own
invoice.

01:

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

01:

**JONATHAN ALPERT:**
does. It extends
to the very top.

01:

ALLAN SLOAN

**SENIOR EDITOR :**
FORTUNE MAGAZINE

ALLAN SLOAN:
that has a big
financial presence, said: Well, it’s about time you learned about
subprime mortgages.
So he set up a session with his trading desk and me; and, and a techie,
who, who did all
this - gets very excited; runs to his computer; pulls up, in about three
seconds, this
Goldman Sachs issue of securities.
It was a complete disaster. Borrowers had borrowed, on average, 99.3
percent of the
price of the house. Which means they have no money in the house. If
anything goes
wrong, they’re gonna walk away from the mortgage.

01:
You’ve gotta be crazy.
But somehow, you took 8,000 of these loans; and by the time the guys were
done at
Goldman Sachs and the rating agencies, two-thirds of the loans were rated
AAA, which
meant they were rated as safe as government securities. It’s, it’s utterly mad.

01:

NARRATOR:
worth of these toxic CDOs
in the first half of 2006. The CEO of Goldman Sachs at this time was Henry
Paulson,
the highest-paid CEO on Wall Street.

01:
{MAY 30, 2006}

GEORGE W. BUSH:
am
pleased to announce that I will nominate Henry Paulson to be the secretary
of the
Treasury. He has a lifetime of business experience; he has an intimate
knowledge of
financial markets; he has earned a reputation for candor and integrity.

01:
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NARRATOR:
a meager
government salary. But taking the job as Treasury secretary was the best
financial
decision of his life.
Paulson had to sell his 485 million dollars of Goldman stock when he went
to work for
the government. But because of a law passed by the first President Bush, he
didn’t have
to pay any taxes on it. It saved him 50 million dollars.

01:
{IN 2007, ALAN SLOAN PUBLISHED AN ARTICLE ABOUT
THE CDOs ISSUED DURING PAULSON’S LAST MONTHS AS CEO.}
ALLAN SLOAN:
third of the mortgages defaulted. Now, uh, most of them are goin’.

01:

NARRATOR:
securities was the Public Employees Retirement System of Mississippi, which provides monthly benefits to over 80,000 retirees. They lost millions of dollars, and are now suing Goldman Sachs.

{AVERAGE ANNUAL RETIREMENT BENEFITS FOR A MISSISSIPPI PUBLIC EMPLOYEE: $18,750
AVERAGE ANNUAL COMPENSATION OF A GOLDMAN SACHS EMPLOYEE: $600,000
HANK PAULSON’S COMPENSATION IN 2005: $31,000,000}

01:

NARRATOR:
didn’t just sell toxic CDOs; it started actively betting against them at the same time it was telling customers that they were high-quality investments.

01:
could bet against CDOs it didn’t own, and get paid when the CDOs failed.

01:

ALLAN SLOAN:
you know, we don’t really like this kind of mortgage anymore, and we thought you ought to know, you

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know. They, they didn’t really say anything; but, you know, you could just feel the laughter coming over the phone.
default swaps from AIG. It was so much that Goldman realized that AIG itself might go bankrupt; so they spent 150 million dollars insuring themselves against AIG’s potential collapse.

Then, in 2007, Goldman went even further. They started selling CDOs specifically designed so that the more money their customers lost, the more money Goldman Sachs made.

{GOLDMAN SACHS’ CEO AND ALL OF ITS SENIOR EXECUTIVES DECLINED TO BE INTERVIEWED FOR THIS FILM.}
{BUT IN APRIL 2010, THEY WERE FORCED TO TESTIFY BEFORE CONGRESS.}

01:

**SEN. CARL LEVIN:**

is what you sold. Before you sold them, this is what your sales team were tellin’ to each other. Boy, that Timberwolf was one shitty deal.

01:

{DANIEL SPARKS FORMER MORTGAGES DEPARTMENT HEAD}

**DANIEL SPARKS:**

**SEN. CARL LEVIN:**

**DANIEL SPARKS:**

**SEN. CARL LEVIN:**

**DANIEL SPARKS:**

**SEN. CARL LEVIN:**

&#039;07; tells the sales force, "the top priority is Timberwolf."

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01:
you have an adverse interest to your client, do you have the duty to disclose that to your client; to tell that client of your adverse interest? That’s my question.

DANIEL SPARKS:

SEN. CARL LEVIN:
you want to answer it.

01:
SEN. SUSAN COLLINS (R-ME): Do you believe that you have a duty to act in the best interests of your clients?

{FABRICE TOURRE
EXECUTIVE DIRECTOR,
STRUCTURED PRODUCTS GROUP TRADING
GOLDMAN SACHS}

FABRICE TOURRE:
we have a, a duty to, to serve our clients by showing prices on transaction where they ask us to show prices for.

01:

SEN. CARL LEVIN:
your own people think are - crap? Does that bother you?

{LLOYD BLANKFEIN
CHAIRMAN & CEO
GOLDMAN SACHS}

LLOYD BLANKFEIN:

SEN. CARL LEVIN:

LLOYD BLANKFEIN:

SEN. CARL LEVIN:

LLOYD BLANKFEIN:
SEN. CARL LEVIN:
crap.

LLOYD BLANKFEIN:
anything, um, went wrong.
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01:

SEN. CARL LEVIN:
somebody, and then are determined to bet against that same security; and you don’t disclose that to the person you’re selling it -

LLOYD BLANKFEIN:

SEN. CARL LEVIN:

LLOYD BLANKFEIN:
conflict.

01:
{DAVID VINIAR
EXECUTIVE VICE PRESIDENT AND CFO
GOLDMAN SACHS}

SEN. CARL LEVIN:
e-mails, said, god, what a shitty deal; god, what a piece of crap; do you feel anything?

DAVID VINIAR:
e-mail.

SEN. CARL LEVIN:

DAVID VINIAR:
don’t -

SEN. CARL LEVIN:
DAVID VINIAR:

SEN. CARL LEVIN:

DAVID VINIAR:
said that, in any form.

{SEN. TOM COBURN (R-OK)

RANKING MEMBER :
GOVERNMENTAL AFFAIRS SUBCOMMITTEE
ON INVESTIGATIONS}

01:

SEN. TOM COBURN:
engaged in
similar activities?

LLOYD BLANKFEIN:
most cases.

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01:

NARRATOR:
betting against
the mortgage market. When John Paulson ran out of mortgage securities to
bet against,
he worked with Goldman Sachs and Deutsche Bank to create more of them.

01:
it was betting
against, and it's now being sued by the government employees
retirement fund of the
Virgin Islands for fraud.
The lawsuit alleges that Morgan Stanley knew that the CDOs were junk.
Although they
were rated AAA, Morgan Stanley was betting they would fail. A year later,
Morgan
Stanley had made hundreds of millions of dollars, while the investors had
lost almost all
of their money.

{GOLDMAN SACHS, JOHN PAULSON,
AND MORGAN STANLEY WEREN'T ALONE.
THE HEDGE FUNDS TRICADIA AND MAGNETAR MADE BILLIONS BETTING AGAINST CDOs THEY HAD DESIGNED WITH MERRILL LYNCH, J.P. MORGAN, AND LEHMAN BROTHERS.
THE CDOs WERE SOLD TO CUSTOMERS AS "SAFE" INVESTMENTS.

01:

CHARLES MORRIS:
said,
those are subprime; why am I buying them? And they had these guys at Moody's and Standard and Poor's who said, that's a AAA.

01:

{BILL ACKMAN
HEDGE FUND MANAGER}

BILL ACKMAN:
imprimatur, you know,
the Good Housekeeping Seal of Approval, of the rating agencies.

NARRATOR:
made billions of dollars giving high ratings to risky securities. Moody's, the largest rating agency, quadrupled its profits between 2000 and 2007.

01:
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BILL ACKMAN:
out ratings reports. And the more structured securities they gave a AAA rating to, the higher their earnings were gonna be for the quarter.
Imagine if you went to the New York Times, and you said, look, if you write a positive story, I'll pay you 500,000 dollars. But if you don't, I'll give you nothing.

01:
JEROME FONS:
said: We're sorry – you know – we're gonna tighten our standards. This is – a-, and, and immediately cut off a lot of the flow of funding to risky borrowers.

FRANK PARTNOY:
to thousands and thousands.

01:

JEROME FONS:
You know – and

CHARLES FERGUSON: Per year.

JEROME FONS:

01:

FRANK PARTNOY:
the credit rating agency issue. And both times, they trot out very prominent First Amendment lawyers, and argue that when we say something is rated AAA, that is merely our opinion; you shouldn't rely on it.

01:

DEVEN SHARMA:

STEPHEN JOYNT:
they're opinions.

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

STEPHEN JOYNT:
are, uh, uh, are opinions.
THEY DIDN’T SHARE THEIR OPINIONS WITH US.
THEY ALL DECLINED TO BE INTERVIEWED FOR THIS FILM.

DEVEN SHARMA:
the volatility of
its price, or its suitability as an investment.

NEWSWOMAN:
oh, this is
a bubble, and it’s going to burst, and this is going to be a real
issue for the economy.
Some say it could even cause a recession at some point.
What is the worst-case scenario, if in fact we were to see prices come down
substantially across the country?

BEN BERNANKE:
It’s a pretty unlikely
possibility. We’ve never had a decline in house prices on a nationra-,
ba-, a nationwide
basis.

NARRATOR:
in
February 2006, the top year for subprime lending. But despite numerous
warnings,
Bernanke and the Federal Reserve Board did nothing.
{BEN BERNANKE DECLINED
TO BE INTERVIEWED FOR THIS FILM.}
Reserve Board
three times after Bernanke became chairman.

ROBERT GNAIZDA:
was a problem,
and that the government ought to look into it.
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CHARLES FERGUSON: When? When was that? What year?

ROBERT GNAIZDA:
CHARLES FERGUSON: This year.

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

ROBERT GNAIZDA:

01:

NARRATOR:
under Bernanke
was Frederic Mishkin, who was appointed by President Bush in 2006.
{FREDERIC MISHKIN
GOVERNOR, FEDERAL RESERVE (2006-2008)}
CHARLES FERGUSON: Did you participate in the semiannual meetings that, uh,
Robert Gnaizda and, and, uh, Greenlining had with the Federal Reserve
Board?
FREDERIC MISHKIN: Yes I did. I was actually on the committee that, uh, that was
involved, involved with that; the Consumer Community Affairs Committee.

01:
CHARLES FERGUSON: He warned, in an extremely explicit manner, about what
was going on; and he came to the Federal Reserve Board with loan documentation
of the
kind of loans that were frequently being made. And he was listened to
politely, and
nothing was done.
FREDERIC MISHKIN: Yeah. So, uh, again, I, I don’t know the details, in
terms of, of,
uh, of, um – uh, in fact, I, I just don’t I, I – eh, eh, whatever
not sure exactly, I, eh, uh – it's actually, to be honest with you, I can't remember the, the, this kind of discussion. But certainly, uh, there, there were issues that were, uh, uh, coming up. But then the question is, how pervasive are they?
CHARLES FERGUSON: Why didn't you try looking?

01:  
FREDERIC MISHKIN: I think that people did. We had people looking at, a whole group of people looking at this, for whatever reason –
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CHARLES FERGUSON: Excuse me, you can't be serious. If you would have looked, you would have found things.
FREDERIC MISHKIN: Uh, you know, that's very, very easy to always say that you can always find it.

01:  
NARRATOR: epidemic of mortgage fraud. They reported inflated appraisals, doctored loan documentation, and other fraudulent activity.
In 2005, the IMF's chief economist, Raghuram Rajan, warned that dangerous incentives could lead to a crisis.

02:  
Sloan's articles in Fortune magazine and the Washington Post in 2007; and repeated warnings from the IMF.

02:  
{DOMINIQUE STRAUSS-KAHN
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND (IMF)}
DOMINIQUE STRAUSS-KAHN: I said it, and on behalf of the institution: ah, the crisis
which is in front of us is a huge crisis —

CHARLES FERGUSON: Who did you talk to?

02:

NARRATOR:
a
presentation called "Who's Holding the Bag?", which described how the
bubble would
unravel.
And in early 2008, Charles Morris published his book about the impending
crisis.

02:

FREDERIC MISHKIN: You’re just not sure, what do you do? And you, you
might have
some suspicions that underwriting standards are being weakened; but then
the question
is, should you do anything about it?
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NARRATOR:
securitization
food chain imploded. Lenders could no longer sell their loans to the
investment banks;
and as the loans went bad, dozens of lenders failed.

02:

GEORGE SOROS:
we have to
dance until the music stops. Actually, the music had stopped already when
he said that.

NARRATOR:
banks holding
hundreds of billions of dollars in loans, CDOs, and real estate they
couldn’t sell.

NOURIEL ROUBINI:
Bush
administration and uh, and the Federal Reserve were totally behind the
They did not understand the extent of it.

02:
CHARLES FERGUSON: At what point do you remember thinking, for the first time, this is dangerous, this is bad?
CHRISTINE LAGARDE: I remember very well, uh, one, uh, I think it was a G7 meeting, of February 2008. And I remember discussing the issue with, with Hank Paulson. And I clearly remember telling Hank: we are watching this tsunami coming. And you just – proposing that we ask which swimming costume we are going to put on.
CHARLES FERGUSON: What was his response, what was his feeling?
CHRISTINE LAGARDE: Things are pretty much under control. Yes, we are looking at, uh, this situation carefully, and uh – yeah, it’s under control.

02:
{G7 MEETING, TOKYO
FEBRUARY 9, 2008}

HENRY PAULSON:
I’ll, I’ll say it: if, if you keep, if you’re growing, you’re not in recession, right? I mean, we, w-, we all know that.
{THE RECESSION HAD ACTUALLY STARTED FOUR MONTHS BEFORE PAULSON MADE THIS STATEMENT.}

02:
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{MARCH 16, 2008}

WOMAN REPORTER:
Street sold to rival –

NARRATOR:
of cash, and was acquired for two dollars a share by JP Morgan Chase. The deal was backed by 30 billion dollars in emergency guarantees from the Federal Reserve.
SIMON JOHNSON:

come in, and
put in place, you know, various kinds of measures that would have reduced
system risk.

02:
{JULY 10, 2008}
REP. PAUL KANJORSKI (D-PA): The information that I'm receiving from
some entities
is the end is not here; that there are other shoes to fall.

HENRY PAULSON:

banks, uh, working with
the, uh, the, the Fed and the SEC to strengthen their liquidity, to
strengthen their, uh,
the, the, the, their capital positions.
I get reports all the time. Our re-, our regulators are, are, are very
vigilant.

02:

NARRATOR:

federal takeover
of Fannie Mae and Freddie Mac, two giant mortgage lenders on the brink of
collapse.

HENRY PAULSON:

changed view
of the housing correction or the strength of other U.S. financial
institutions.

02:

NARRATOR:

3.2 billion
dollars, and its stock collapsed.

02:

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CHARLES FERGUSON: The effects of Lehman and AIG in September still came as a surprise. I mean, this is even after July, and Fannie and Freddie. So clearly, there was stuff that as of September — major stuff — that nobody knew about.

DAVID McCORMICK:

02:
CHARLES FERGUSON: Bear Stearns was rated AAA, like, a month before it went bankrupt?

JEROME FONS:
CHARLES FERGUSON: A2.

JEROME FONS:
CHARLES FERGUSON: Okay.

JEROME FONS:
CHARLES FERGUSON: A2 is still not bankrupt.

JEROME FONS:
investment grade; solid investment-grade rating. Lehman Brothers; A2, within days of failing. Um, AIG, AA, within days of being bailed out. Um, uh, Fannie Mae and Freddie Mac were AAA when they were rescued. Um, Citigroup, Merrill; all, all of them had investment-grade ratings.

CHARLES FERGUSON: How can that be?

02:

JEROME FONS:
That's a great question.
CHARLES FERGUSON: At no point did the administration ever go to all the major institutions, and say, you know: this is serious; tell us what your positions are; you know, uh, no bullshit; where are you?

DAVID McCORMICK:
CHARLES FERGUSON: Um —
DAVID McCORMICK:
that’s their job, right? Their job is to understand the exposure across these different institutions, and they have a very refined, uh, understanding that I think became more refined as the crisis, um, proceeded. So —

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02:
CHARLES FERGUSON: Forgive me, but that’s clearly not true. I m—

DAVID McCORMICK:
CHARLES FERGUSON: In August of 2008, were you aware of the, the credit ratings held then by Lehman Brothers, Merrill Lynch, AIG; and did you think that they were accurate?

02:
FREDERIC MISHKIN: Well, uh, e-, uh, certainly by that time, it was clear that that earlier credit ratings were inaccurate, because they had been downgraded substantially.
CHARLES FERGUSON: No they hadn’t.
FREDERIC MISHKIN: Uh, there’s still, there was still some downgrading, in terms of the, the industry, concerns of the ind—, certainly the stock prices —

02:
CHARLES FERGUSON: Not some; all those firms were rated at least A2 until a couple of days before they, uh, were rescued.
FREDERIC MISHKIN: Well then, you know, then the answer is, I just don’t, don’t know enough to t—, really answer your question on this particular issue.

02:
NEWSCASTER:
He says he plans to return to his teaching post at Columbia’s Graduate School of
CHARLES FERGUSON: Why did you leave the Federal Reserve in August of 2008 – I mean, in, in the middle of the worst financial crisis –
FREDERIC MISHKIN: So, so, uh, that, uh, I had to, to revise a textbook.

NEWSCASTER:
seven seats vacant; just when the economy needs it most.

CHARLES FERGUSON: Well, I’m sure your textbook is important and widely read. But in August of 2008, you know, some, somewhat more important things were going on in the world, don’t you think?

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NARRATOR:
cash, and the entire investment banking industry was sinking fast. The stability of the global financial system was in jeopardy.
That weekend, Henry Paulson and Timothy Geithner, president of the New York Federal Reserve, called an emergency meeting with the CEOs of the major banks in an effort to rescue Lehman.
{VIKRAM PANDIT – CEO OF CITIGROUP
JOHN J. MACK – CEO OF MORGAN STANLEY
JAMIE DIMON – CEO OF JP MORGAN
LLOYD BLANKFEIN – CEO OF GOLDMAN SACHS}

major investment bank, was also on the brink of failure. And that Sunday, it was acquired by Bank of America.
The only bank interested in buying Lehman was the British firm Barclay’s. But British regulators demanded a financial guarantee from the U.S. government. Paulson refused.
NEITHER LEHMAN NOR THE FEDERAL GOVERNMENT HAD DONE ANY PLANNING FOR BANKRUPTCY.

02:

HARVEY MILLER:
Federal Reserve Bank. They wanted the bankruptcy case commenced before midnight of September 14. We kept pressing that this would be a, uh, terrible event. And at some point, I used the word "Armageddon." Had they fully considered the consequences of what they were proposing? The effect on the market would be extraordinary.

02:
CHARLES FERGUSON: You said this.

HARVEY MILLER:
comments that we had made; and they were still of the belief that in order to calm the markets and move forward, it was necessary for Lehman to go into bankruptcy.

CHARLES FERGUSON: Calm the markets.

HARVEY MILLER:

02:
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CHARLES FERGUSON: When were you first told that Lehman in fact was going to go bankrupt?
CHRISTINE LAGARDE: Ah, after the fact.
CHARLES FERGUSON: After the fact.
CHRISTINE LAGARDE: Um-hm.
CHARLES FERGUSON: Wow. Okay. Um - and - what was your reaction when you learned of it?
CHRISTINE LAGARDE: Holy cow.

02:

NARRATOR:
governments, and didn’t understand the consequences of foreign bankruptcy laws.
REPORTER:
their desks
today.

NARRATOR:
closed immediately.

HARVEY MILLER:
thousands and
thousands and thousands of transactions.

GILLIAN TETT:
London
discovered overnight, to their complete horror, that they couldn’t get
those assets back.

02:

SATYAJIT DAS:
knock-on
effects around the system.

NEWSWOMAN:
roughly three
quarters of a billion dollars in bad debt issued by the now-bankrupt Lehman
Brothers.

02:

NARRATOR:
commercial paper market,
which many companies depend on to pay for operating expenses, such as
payroll.

NEWSWOMAN:
can’t buy
parts. It stops business in its tracks.

GILLIAN TETT:
believe in?
There's nothing we can trust anymore.

02:

**NARRATOR:**
credit default swaps; and it didn’t have the money.

**ANDREW SHENG:**
planes may have to be, you know, stop flying.

**NARRATOR:**
And one day later, Paulson and Bernanke ask Congress for 700 billion dollars to bail out the banks.

**HENRY PAULSON:**

**NARRATOR:**
financial collapse.

02:

**NOURIEL ROUBINI:**
every part of the financial system, every part of the credit system. Nobody could borrow money. It was like a cardiac arrest of the global financial system.

{SEPTEMBER 15, 2008}

**HENRY PAULSON:**
what I am dealing with, eh, you know, I’m dealing with the consequences of things that were done, often, many years ago.

02:

**DAVID McCORMICK:**
all the potential root causes of this — and there are plenty — he called ‘em. Uh, so I, I’m not sure —

**CHARLES FERGUSON:** You’re not being serious about that, are you?
DAVID McCORMICK: expected? Uh, I, I’m, what are, what were you looking for that you didn’t see?

02: CHARLES FERGUSON: He was the senior advocate for prohibiting the regulation of credit default swaps; and also lifting the leverage limits on the investment banks.

DAVID McCORMICK: Inside Job transcript - Sony Pictures - September 2010
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CHARLES FERGUSON: He mentioned those things? I never heard him mention those things.

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

02: NARRATOR: swaps, the most prominent of which was Goldman Sachs, were paid 61 billion dollars the next day. Paulson, Bernanke, and Tim Geithner forced AIG to pay 100 cents on the dollar, rather than negotiate lower prices. Eventually, the AIG bailout cost taxpayers over 150 billion dollars. MICHAEL GREENBERGER: A hundred and sixty billion dollars went through AIG; 14 billion went to Goldman Sachs.

02: NARRATOR: surrender its right to sue Goldman and the other banks for fraud.
CHARLES FERGUSON: Isn’t there a problem when the person in charge of dealing with
this crisis is the former CEO of Goldman Sachs; someone who had a major role in
causing it?

DAVID McCORMICK:
financial markets today are
incredibly complicated.

02:

GEORGE W. BUSH:
financial
institutions -

NARRATOR:
700-billion-dollar bailout
bill. But world stock markets continue to fall, amid fears that a global
recession is now
underway.

02:
layoffs and
foreclosures. Unemployment in the United States and Europe quickly rises to 10
percent. The recession accelerates, and spreads globally.
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02:

CHARLES MORRIS:
hadn’t foreseen the whole
world going down at the same rate at the same time.

NARRATOR:
facing
bankruptcy. And as U.S. consumers cut back on spending, Chinese
manufacturers see
sales plummet. Over 10 million migrant workers in China lose their jobs.

02:
DOMINIQUE STRAUSS-KAHN: At the end of the day, the poorest, as always, pay
the
most.
02:

**JOANNA XN:**

U.S. dollars per month. As a farmer in the countryside, you cannot earn as much money. The workers just wire their salaries to their hometown. To give to their families. The crisis started in America. We all know it will be coming to China.

02:

people will get poor because they’ll lose their jobs. Life gets harder.

{SINGAPORE}

02:

{PATRICK DANIEL
EDITOR IN CHIEF
SINGAPORE PRESS HOLDINGS}

**PATRICK DANIEL:**

year. And then we suddenly went to minus nine this quarter. Exports collapsed. And we're talking like 30 percent. So we just took a hit, you know, fell off a cliff, boom!

02:

**LEE HSIEN LOONG:**

how wide it was going to spread, or how severe it was going to be. And we were still hoping that there would be some way for us to have a shelter, and be, uh, less battered by the storm. But it is not possible. It's a very globalized world; the economies are all linked together.

02:

{FORECLOSURES IN THE UNITED STATES}
ERIC HALPERIN:

everyone who
lives around that house. 'Cause when that property goes on the market, it's gonna be
sold at a lower price; maybe before it goes on the market, it won't be well maintained.
We estimate another 9 million homeowners will lose their homes.

02:

{COLUMBA RAMOS
SAN JOSE, CA

COLUMBA RAMOS:
sale.
We saw one we liked. The payment was going to be $3,200.)
{COLUMBA RAMOS AND HER HUSBAND DON'T SPEAK ENGLISH.
THEY WERE DEFRAUDED BY THEIR MORTGAGE BROKER,
WHO WAS PAID BY A PREDATORY LENDER.}

COLUMBA RAMOS:
The payment was low. Everything was - we won the lottery. But the reality was when the
first payment arrived.
I felt very bad for my husband. Because he works too much.

02:

{"TENT CITY"
PINELLAS COUNTY, FLORIDA}

02:

{ERIC EVANOUSKAS
VOLUNTEER, CATHOLIC CHARITIES}

ERIC EVANOUSKAS:
unfortunately, are people who
have just been hurt by the economy. They were living, you know, day to day, paycheck
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to paycheck, and unfortunately, that ran out. And unemployment isn't gonna pay a
house mortgage; it’s not gonna pay a car bill.

02:
{STEVEN A. STEPHEN
FORMER CONSTRUCTION WORKER}
STEVEN A. STEPHEN: I was a log-truck driver. And they shut down, they shut down all the logging systems up there; shut down the sawmills and everything. So I moved down here, I had a construction job. And the construction jobs got shut down too, so – things are so tough, there’s a lot of people out there, and pretty soon, you’re gonna be seeing more camps like this around, because there’s just no jobs right now.

02:
{RICHARD FULD
CEO OF LEHMAN BROTHERS}

RICHARD FULD:
company did not do well, sir, we did not do well.

NARRATOR:
world into crisis, walked away from the wreckage with their fortunes intact. The top five executives at Lehman Brothers made over a billion dollars between 2000 and 2007; and when the firm went bankrupt, they got to keep all the money.

02:

RICHARD FULD:

ANGELO MOZILO:
that’s gonna fail, cause we lose. They lose; the borrower loses; the community loses; and we lose.

02:

NARRATOR:
dollars between 2003 and 2008. One hundred forty million came from dumping his Countrywide stock
in the 12 months before the company collapsed.

BILL ACKMAN: business fails. Cause the board is responsible for hiring and firing the CEO and overseeing big strategic decisions. The problem with board composition in America is the way boards are elected. You know, the boards are pretty much, in many cases, picked by the CEO.

SCOTT TALBOTT: committees are the two bodies best situated to determine the pay packages, uh, for executives.

CHARLES FERGUSON: How do you think they’ve done over the past 10 years?

SCOTT TALBOTT: would give about a B. Because -

CHARLES FERGUSON: A B?

SCOTT TALBOTT: CHARLES FERGUSON: Not an F.

SCOTT TALBOTT:

NARRATOR: million dollars in 2006 and 2007 alone. After driving his firm into the ground, Merrill Lynch’s board of directors allowed him to resign; and he collected 161 million dollars in severance.

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

SCOTT TALBOTT:
made at that point -
you know -
CHARLES FERGUSON: And what grade do you give that decision?

SCOTT TALBOTT:
would give that one a B as
well.

02:
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NARRATOR:
million dollars in 2007; and
in December of 2008, two months after Merrill was bailed out by U.S.
taxpayers, Thain
and Merrill’s board handed out billions in bonuses.
In March of 2008, AIG’s Financial Products Division lost 11 billion
dollars. Instead of
being fired, Joseph Cassano, the head of AIGFP, was kept on as a consultant
- for a
million dollars a month.

02:

MARTIN SULLIVAN:
the key, key
employees, uh, within AIGFP; yeah, we retain that intellectual knowledge.

02:
DOMINIQUE STRAUSS-KAHN: I attended a very interesting, uh, dinner,
organized by
Hank Paulson, a little more than one year ago; uh, with some officials and
a couple of,
uh, CEOs from the biggest, uh, banks in the U.S. And uh, surprisingly
enough, all these
gentlemen were arguing, uh, we were too greedy; so we have part
responsibility. Fine.
And then they were turning to the treasurer, to the secretary of the
Treasury, and say,
you should regulate more, because we are too greedy, we can’t avoid it. The only way to avoid this is to have more regulation.

02:
CHARLES FERGUSON: I have spoken to many bankers about –
DOMINIQUE STRAUSS-KAHN: Um hm.
CHARLES FERGUSON: – this question, including very senior ones. And uh, this is the first time that I’ve ever heard anybody say that they actually wanted their compensation to be regulated –
DOMINIQUE STRAUSS-KAHN: Yeah, because it was at the moment where they were afraid. And uh, after, when solution to the crisis began to appear, then probably they, they changed their mind.

02:

NARRATOR:
more concentrated than ever before.
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MARTIN WOLF:
have been taken over by big ones. JP Morgan today is even bigger than it was before.

NOURIEL ROUBINI:
WAMU; Bank of America took over Countrywide and Merrill Lynch; Wells Fargo took over Wachovia.

02:

NARRATOR:
Financial Services Roundtable, worked harder than ever to fight reform. The financial sector employs 3,000 lobbyists, more than five for each member of Congress.

02:
CHARLES FERGUSON: Do you think the financial services industry has
excessive political influence in the United States?

SCOTT TALBOTT:
country is represented here in Washington.
CHARLES FERGUSON: And you think that all segments of American society have equal and fair access to the system?

SCOTT TALBOTT:
would like.
Yes, I do.
CHARLES FERGUSON: Um, one could walk into any hearing room; one can not necessarily write the kind of lobbying checks that your industry writes, or engage in the level of political contributions that your industry engages in.

02:

NARRATOR:
billion dollars on lobbying and campaign contributions. And since the crisis, they're spending even more money.

02:
more subtle way; one that most Americans don't know about. It has corrupted the study of economics itself.

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

02:
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NARRATOR:
advocates of deregulation, and played powerful roles in shaping U.S. government policy. Very few of
these economic experts warned about the crisis. And even after the crisis, many of them opposed reform.

02:

CHARLES MORRIS:
a lot of money being consultants. Business school professors don’t live on a faculty salary. They do very, very well.

02:

{MARTIN FELDSTEIN
PROFESSOR OF ECONOMICS, HARVARD}
CHARLES FERGUSON: Over the last decade, the financial services industry has made about 5 billion dollars’ worth of political contributions in the United States. Um; that’s kind of a lot of money. That doesn’t bother you?
MARTIN FELDSTEIN: No.

02:

NARRATOR:
world’s most prominent economists. As President Reagan’s chief economic advisor, he was a major architect of deregulation. And from 1988 until 2009, he was on the board of directors of both AIG and AIG Financial Products, which paid him millions of dollars.

02:
CHARLES FERGUSON: You have any regrets about having been on AIG’s board?
MARTIN FELDSTEIN: I have no comments. No, I have no regrets about being on AIG’s board.
CHARLES FERGUSON: None.
MARTIN FELDSTEIN: That I can s-, absolutely none. Absolutely none.
CHARLES FERGUSON: Okay. Um – you have any regrets about, uh, AIG’s decisions?
MARTIN FELDSTEIN: I cannot say anything more about AIG.
GLENN HUBBARD: and Columbia.

NARRATOR: was the chairman of the Council of Economic Advisers under George W. Bush.

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

GLENN HUBBARD: certainly wouldn’t get that impression by the drubbing that they regularly get, uh, in Washington.


Matthew Tannin, Bear Stearns hedge fund managers prosecuted for securities fraud. After hiring The Analysis Group, both were acquitted. Glenn Hubbard was paid 100,000 dollars to testify in their defense.

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

GLENN HUBBARD:
CHARLES FERGUSON: Do you think that a significant fraction of the economics discipline, a number of economists, have financial conflicts of interests that in some way might call into question or color -

GLENN HUBBARD:
know, most academic economists, uh, you know, aren’t wealthy businesspeople.

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02:

NARRATOR:
Met Life, and was formerly on the board of Capmark, a major commercial mortgage lender during the bubble, which went bankrupt in 2009. He has also advised Nomura Securities, KKR Financial Corporation, and many other financial firms.

02:
film, is a professor at the University of California, Berkeley. She was the chair of the Council of Economic Advisers, and then director of the National Economic Council in the Clinton administration. Shortly after leaving government, she joined the board of Morgan Stanley, which pays her 350,000 dollars a year. Ruth Simmons, the president of Brown University, makes over 300,000 dollars a year on the board of Goldman Sachs.

02:
critical role in the deregulation of derivatives, became president of Harvard in 2001. While at Harvard, he
made millions consulting to hedge funds, and millions more in speaking fees, much of it from investment banks. According to his federal disclosure report, Summers’s net worth is between 16.5 million and 39.5 million dollars.

School after leaving the Federal Reserve, reported on his federal disclosure report that his net worth was between 6 million and 17 million dollars.

CHARLES FERGUSON: In 2006, you coauthored a study of Iceland’s financial system.
FREDERIC MISHKIN: Right, right.
CHARLES FERGUSON: Iceland is also an advanced country with excellent institutions, low corruption, rule of law. The economy has already adjusted to financial liberalization – while prudential regulation and supervision is generally quite strong.

FREDERIC MISHKIN: Yeah. And that was the mistake. That it turns out that, uh, that the prudential regulation and supervision was not strong in Iceland. And particularly during this period –
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CHARLES FERGUSON: So what led you to think that it was?
FREDERIC MISHKIN: I think that, uh, you’re going with the information you have at, and generally, uh, the view was that, that, uh, that Iceland had very good institutions. It was a very advanced country –
CHARLES FERGUSON: Who told you that?
FREDERIC MISHKIN: – and [they had not] –
CHARLES FERGUSON: Who did, what kind of research –
FREDERIC MISHKIN: Well, it –
CHARLES FERGUSON: – did you do?
FREDERIC MISHKIN: – you, you talk to people, you have faith in, in, uh, the Central
Bank, which actually did fall down on the job. Uh, that, uh, clearly, it, this, uh -
CHARLES FERGUSON: Why do you have "faith" in a central bank?
FREDERIC MISHKIN: Well, that faith, you, ya, d-, because you ha-, go with the information you have.

02:
CHARLES FERGUSON: Um, how much were you paid to write it?
FREDERIC MISHKIN: I was paid, uh, I think the number was, uh, it’s public information.
{FREDERIC MISHKIN WAS PAID $124,000 BY THE ICELANDIC CHAMBER OF COMMERCE TO WRITE THIS PAPER.}

02:
CHARLES FERGUSON: Uh, on your CV, the title of this report has been changed from "Financial Stability in Iceland" to "Financial Instability in Iceland."
FREDERIC MISHKIN: Oh. Well, I don’t know, if, itch-, whatever it is, is, the, uh, the thing - if it’s a typo, there’s a typo.

02:
GLENN HUBBARD:
anybody does research on a topic, that they disclose if they have any financial conflict with that research.
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CHARLES FERGUSON: But if I recall, there is no policy to that effect.

GLENN HUBBARD:
terms of putting it in a paper. You would, there would be significant professional sanction for failure to do that.

02:
CHARLES FERGUSON: I didn’t see any place in the study where you indicated that you had been paid, uh, by the Icelandic Chamber of Commerce to produce it. Um -
FREDERIC MISHKIN: No, I {MUMBLE} –
CHARLES FERGUSON: Okay.

02:

NARRATOR:
a professor at
London Business School, was also commissioned by the Icelandic Chamber of
Commerce in 2007 to write a report which praised the Icelandic financial
sector.

02:

RICHARD PORTES:
actually made
money on the fall of the Icelandic krona.
These are strong banks; their funding, their market funding is assured for the coming
year.
These are well-run banks.

NEWSMAN:

NARRATOR:
his payment from the Icelandic Chamber of Commerce.

02:

{JOHN CAMPBELL

CHAIRMAN :
HARVARD ECONOMICS DEPARTMENT}
CHARLES FERGUSON: Does Harvard require disclosures of financial conflict of
interest in publications?

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

JOHN CAMPBELL:
CHARLES FERGUSON: Don’t you think that’s a problem?
JOHN CAMPBELL:

02:
CHARLES FERGUSON: Martin Feldstein being on the board of AIG; Laura Tyson going
on the board of Morgan Stanley; uh, Larry Summers making 10 million dollars
a year
consulting to financial services firms; irrelevant.

JOHN CAMPBELL:

02:
CHARLES FERGUSON: You’ve written a very large number of articles,
about a very
wide array of subjects. You never saw fit to investigate the risks of
unregulated credit
default swaps?
MARTIN FELDSTEIN: I never did.
CHARLES FERGUSON: Same question with regard to executive compensation; uh, the
regulation of corporate governance; the effect of political contributions –
MARTIN FELDSTEIN: What, uh, what, uh, w-, I don’t know that I would
have anything to
add to those discussions.

02:
CHARLES FERGUSON: I’m looking at your resume now. It looks to me as if the
majority of your outside activities are, uh, consulting and directorship
arrangements with
the financial services industry. Is that, would you not agree with that
characterization?

02:
GLENN HUBBARD:
clients are even
on my CV, so –
CHARLES FERGUSON: Uh, who are your consulting clients?

GLENN HUBBARD:

CHARLES FERGUSON: Okay. Uh, uh –
GLENN HUBBARD:
is over.

02:
CHARLES FERGUSON: Do you consult for any financial services firms?
FREDERIC MISHKIN: Uh, the answer is, I do.
CHARLES FERGUSON: And -
FREDERIC MISHKIN: And, but I d-, I do not want to go into details about that.

02:
CHARLES FERGUSON: Do they include other financial services firms?

GLENN HUBBARD:
CHARLES FERGUSON: You don’t remember?

GLENN HUBBARD:

enough to give you time;
foolishly, I now see. But you have three more minutes. Give it your best shot.

02:

NARRATOR:
coauthored a widely
read paper with William C. Dudley, the chief economist of Goldman Sachs. In the paper,
Hubbard praised credit derivatives and the securitization chain, stating that they had
improved allocation of capital, and were enhancing financial stability. He cited reduced
volatility in the economy, and stated that recessions had become less frequent and
milder.
Credit derivatives were protecting banks against losses, and helping to distribute risk.

02:
CHARLES FERGUSON: A medical researcher writes an article, saying: to treat this
disease, you should prescribe this drug. It turns out Doctor makes 80
percent of personal income from manufacturer of this drug. Does not bother you.

JOHN CAMPBELL:
disclose the, um - the, um -

02:
cases that we are talking about here. Because, um - um -

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{THE PRESIDENTS OF HARVARD UNIVERSITY AND COLUMBIA UNIVERSITY REFUSED TO COMMENT ON ACADEMIC CONFLICTS OF INTEREST. BOTH DECLINED TO BE INTERVIEWED FOR THIS FILM.}

02:
CHARLES FERGUSON: So, uh, what do you think this says about the economics discipline?

CHARLES MORRIS:
really. And, and fe-, indeed, I think, um, it's a part of the, it's a s-, important part of the problem.

02:

02:

NARRATOR:
a wider change in America. Since the 1980s, the United States has become a more unequal society, and its economic dominance has declined. Companies like General Motors, Chrysler, and U.S. Steel - formerly the core of the U.S. economy - were poorly managed, and falling behind their foreign competitors. And as countries like China opened their economies, American companies sent jobs overseas to save money.

02:

DANIEL ALPERT:
developed world were effectively sheltered from all of this additional labor that existed on the planet. Suddenly, the Bamboo Curtain and the Iron Curtain are lifted; and you have 2.5 billion additional people.

02:

NARRATOR:
thousands.

DANIEL ALPERT:
the course of a few years.

02:

NARRATOR:
United States leads the world in information technology, where high-paying jobs are easy to find. But those jobs require an education. And for average Americans, college is increasingly out of reach.

02:
billions of dollars in their endowments, funding for public universities is shrinking, and tuition is rising. Tuition for California’s public universities rose from 650 dollars in the 1970s to over 10,000 dollars in 2010.

02:
Americans go to college is whether they can find the money to pay for it. Meanwhile, American tax policy shifted to favor the wealthy.
GEORGE W. BUSH:
too high; and they were.

NARRATOR:
by Glenn Hubbard, who at the time was serving as President Bush’s chief economic advisor. The Bush administration sharply reduced taxes on investment gains, stock dividends, and eliminated the estate tax.

02:

GEORGE W. BUSH:
left nearly 1.1 trillion dollars in the hands of American workers, families, investors, and small business owners.

02:

NARRATOR:
wealthiest 1 percent of Americans.

GEORGE W. BUSH:
many ways, of our economic recovery policy.

02:

NARRATOR:
than in any other developed country. American families responded to these changes in two ways: by working longer hours, and by going into debt.

RAGHURAM RAJAN:
behind, there is a political urge to respond by making it easier to get credit.
GEORGE W. BUSH:
low-income home
buyer can have just as nice a house as anybody else.

NARRATOR:
cars, their
healthcare, and their children’s educations.

02:

CHARLES MORRIS:
1980 and
2007. It all went to the top 1 percent.

NARRATOR:
education and
are less prosperous than their parents.

02:

BARACK OBAMA:
and in
Washington has led us to a financial crisis as serious as any that we have faced since
the Great Depression.

NARRATOR:
election, Barack
Obama pointed to Wall Street greed and regulatory failures as examples of the need for
change in America.

BARACK OBAMA:
is exactly what
got us into this mess.

NARRATOR:
reform the
financial industry.

02:

{SEPTEMBER 14, 2009}
BARACK OBAMA:
requirements.
We need a consumer financial protection agency; we need to change Wall Street’s culture.
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NARRATOR:
administration’s financial reforms were weak; and in some critical areas, including the rating agencies, lobbying, and compensation, nothing significant was even proposed.

02:

ROBERT GNAIZDA:
response, if it was one word, would be: Ha!
There’s very little reform.
CHARLES FERGUSON: How come?

ROBERT GNAIZDA:

02:
{APPLAUSE}

NARRATOR:
Geithner was the president of the New York Federal Reserve during the crisis, and one of the key players in the decision to pay Goldman Sachs 100 cents on the dollar for its bets against mortgages.

ELIOT SPITZER:
Treasury secretary, he said, I have never been a regulator. Now that said to me, he did not understand his job as president of the New York Fed.
{TIMOTHY GEITHNER DECLINED TO BE INTERVIEWED FOR THIS FILM.}
NARRATOR:
Dudley, the former chief economist of Goldman Sachs, whose paper with Glenn Hubbard praised derivatives. Geithner’s chief of staff is Mark Paterson, a former lobbyist for Goldman; and one of the senior advisors is Lewis Sachs, who oversaw Tricadia, a company heavily involved in betting against the mortgage securities it was selling.

picked Gary Gensler, a former Goldman Sachs executive who had helped ban the regulation of derivatives.

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

dollars serving on the board of Freddie Mac. Both Martin Feldstein and Laura Tyson are members of Obama’s Economic Recovery Advisory Board. And Obama’s chief economic advisor is Larry Summers.

ELIOT SPITZER:
who were there, who built the structure.

WILLEM BUITER:
going to play major roles as advisors; first, uh, I knew this was going to be status quo.

NARRATOR:
compensation, even as foreign leaders took action.
CHRISTINE LAGARDE: I think the financial industry is a service industry; it should serve others before it serves itself.

NARRATOR:
ministers of Sweden, the Netherlands, Luxembourg, Italy, Spain, and Germany called for the G20 nations, including the United States, to impose strict regulations on bank compensation. And in July of 2010, the European Parliament enacted those very regulations. The Obama administration had no response.

SATYAJIT DAS:
will go back to normal.
(AUGUST 25, 2009)

BARACK OBAMA:
as chairman of the Federal Reserve. Thank you so much, Ben.

NARRATOR:

BEN BERNANKE:

NARRATOR:
had been criminally prosecuted, or even arrested; no special prosecutor had been appointed; not a single financial firm had been prosecuted criminally for securities fraud or accounting fraud. The Obama administration has made no attempt to recover any of the compensation given to financial executives during the bubble.
ROBERT GNAIZDA: against some of Countrywide’s top leaders, like Mozilo. I’d certainly look at Bear Stearns, Goldman Sachs and Lehman Brothers, and Merrill Lynch.
CHARLES FERGUSON: For criminal prosecutions.

ROBERT GNAIZDA: CHARLES FERGUSON: In, in regard to -

ROBERT GNAIZDA: Yeah.

ROBERT GNAIZDA: underlings to tell the truth.

NARRATOR: fraudulent billing of prostitutes as a business expense occur on an industrial scale, it wouldn’t be hard to make people talk, if you really wanted to.

KRISTIN DAVIS: they were not interested in any of my records; they weren’t interested in anything.
CHARLES FERGUSON: They were not interested in your records.

KRISTIN DAVIS:

ELIOT SPITZER: people’s - uh, personal vices in the context of Wall Street cases, necessarily, to get them to flip. I think maybe it’s, after the cataclysms that we’ve been through, maybe people will
reevaluate that. I'm not the one to pass judgment on that right now.

Inside Job transcript – Sony Pictures – September 2010

02:

{FEDERAL PROSECUTORS WERE PERFECTLY HAPPY
TO USE ELIOT SPITZER'S PERSONAL VICES
TO FORCE HIM TO RESIGN IN 2008.
THEY HAVE NOT DISPLAYED A SIMILAR ENTHUSIASM
WITH REGARD TO WALL STREET.}

02:

REP. MICHAEL CAPUANO: You come to us today, telling us, we're sorry; we didn't mean it; we won't do it again; trust us.
Well, I have some people in my constituency that actually robbed some of your banks.
And they say the same thing! They're sorry, they didn't mean it; they won't do it again.

02:

NARRATOR:

years, Morgan
Stanley paid its employees over 14 billion dollars; and Goldman Sachs paid out over 16 billion. In 2010, bonuses were even higher.

02:

ANDREW SHENG:

four, four times to
a hundred times more than the, a real engineer? A real engineer build bridges; a
financial engineer build, build dreams. And uh, you know, when those dream turn out to
be nightmares, other people pay for it.

02:

NARRATOR:

safe. But
then something changed. The financial industry turned its back on society,
corrupted
our political system, and plunged the world economy into crisis. At enormous cost, we’ve avoided disaster, and are recovering. But the men and institutions that caused the crisis are still in power; and that needs to change.

02:
do is too complicated
for us to understand. They will tell us it won’t happen again. They will spend billions fighting reform.

Inside Job transcript – Sony Pictures – September 2010
It won’t be easy. But some things are worth fighting for.

02:

02: