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Economists' Forum

The director of 'Inside Job' replies

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By Charles Ferguson, writer and director of Inside Job

In his article "The economist's reply to the 'Inside Job'" Prof Frederic Mishkin misrepresents both his own activities, including his interview for my film, and the widespread conflicts of interest which have distorted academic economics and its role in the financial crisis.

First, Prof Mishkin alleges that I focused exclusively on his report on Iceland. But in an interview in September 2009 lasting more than an hour, and for which I can supply both video and transcript, I asked Prof Mishkin about his general views of the financial crisis and its causes, his 2006 report *Financial Stability In Iceland,* his activities as a governor of the Federal Reserve Board, his post-crisis views on issues ranging from financial reform to the growing inequality of income and wealth in the US and his consulting activities since returning to Columbia University.

Prof Mishkin suggests that his 2006 report on Iceland identified various systemic risks, that the majority of bad behaviour in Iceland's financial system occurred afterwards, and that Iceland's real risks were unknowable. At the time he wrote his report, Iceland's banking system had already borrowed $50bn, more than four times Iceland's gross domestic product, in the preceding five years Iceland's Financial Supervisory Authority had a total of 40 employees, including clerical staff, to monitor all of the country's financial companies and markets, including banking, investing, and insurance and during the bubble about a third of these regulators departed to work for the banks. Prof Mishkin's report does not mention this.

Moreover, Prof Mishkin writes in his article: "The filmmaker made insinuations that I didn't disclose that I was compensated for the study – even though he learned the precise amount of the fee in 2006 from a public disclosure that I made."

However, Prof Mishkin did not disclose in the report that he was paid to write it. Indeed, one of the most disturbing things I learned in making Inside Job, an issue discussed in the film, is that US universities do not require disclosure of financial conflicts of interest by faculty members, place no limits on the sources and size of professors' outside income, and do not collect information on the size of this income. The only reason we now know of Prof Mishkin's payment for the Iceland report is that he was later forced to disclose it when he was appointed to the US Federal Reserve Board.

These failings would be unimportant if they were isolated and unrepresentative, and I have no desire to destroy Prof Mishkin. Unfortunately, however, these failings are not isolated, and that is the important message.

Over the past 30 years, the economics discipline has been systematically subverted, in much the same way as American politics – by money, especially from the financial services industry. Many of the most prominent economists in America are now paid to testify in Congress, to serve on boards of directors, testify in antitrust cases and regulatory proceedings, and to give speeches to the companies and industries they study and write about with supposed objectivity. This is not a marginal activity; it is now an industry, run by a half dozen large companies.

Some prominent academics have close ties to financial services yet neither their university employers nor the journals in which they publish require them to disclose their conflicts of interest, their financial positions, or the relationship between their financial interests and the policy positions they take.

It is time to end this. At a minimum, federal law should require public disclosure of all outside income that is in any way related to professors' publishing and policy advocacy. It may be desirable to go even further, and to limit the total size of outside income that potentially generates conflicts of interest.

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