**Credulity in business journalism: A history of the business press since the 1970s**

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Over the past three decades, the economy has changed in ways that affect Americans across many dimensions of their lives. The appetite for information about the economy has grown accordingly. To the credit of the nation's media, financial, business, and economics coverage expanded rapidly to supply the information, and the sophistication and training of the nation's business reporters and editors improved markedly. Financial and business journalism has changed almost as much as the economy over the past three decades.

But in the process, a central obligation of journalism was, I believe, increasingly lost—the protection of the public interest. Moreover, it would be difficult to claim that financial and business journalism became either more objective or more daring in its willingness to take unpopular stands. To the contrary, it may well have become more credulous and eager to please.

As business coverage grew more technical, editors and reporters also seemed to acquire the values and points of views of their key sources, including business people and academic experts, who were accorded more credit for objectivity than was warranted. Moreover, as journalism in general became more opinionated, reporters and business commentators, taking on the role of expert themselves, were less clear about distinguishing between opinion and fact, and the pressure on reporters to have educated views on technical matters grew.

The lack of traditional journalistic skepticism is, in particular, a serious loss. In the U.S., a key function of the media has been to challenge the establishment, represent the interests of readers and viewers, and provide checks and balances on the natural tendency of those in power to control the flow of information. A nation in which class conflict never fully developed depended on a free press to balance power among business, government and the people.

As editors expanded their institutions' coverage and reporters became better educated in their fields, a new, concerted effort was directed towards understanding complex issues and developing reportorial expertise. But all too often lost in the process was a reporter's key tool: reporting. Academic and political economists and business analysts, especially those employed by financial firms, too frequently became the main prism through which the press interpreted economic events rather than on-the-ground reporting.

As the business press expanded, and increasingly became a profit center, it also became sensitive to the latest trends. "New journalism" meant, as noted above, more reporter opinion. This required business reporters themselves to develop a point of view, which was often the one held by their sources. At the same time, journalism in general in America became glamorized, with emphasis on personality and celebrity. Business news succumbed to this trend.

The rise of business coverage on television, especially the cable stations, also changed the nature of the way business news was reported. In general, news on television was turned from a public service which was allowed to lose money for its company in the 1950s and 1960s to entertainment which was required to make money. Both print and TV media became more sensitive to the need to capture the largest audience, to shorten stories, to make them snappy, to encourage uninformed debate and controversy, and to celebrate personalities.

In the process, the business media all too often came to side with, and even aggressively promote, consensus views that served wealthy vested interests well. If the audience wanted to believe in a bullish stock market, it mostly got bullish news—all the more reinforced by Wall Street sources who usually profited by their appearances. As Americans turned against labor unions, they got less news about organized labor or the state of working America. Again, vested interests often benefited. Only as the audience became pessimistic about the economy did the media become more critical of government economic policies and business practices. Only after credit crises or scandal did the media aggressively take on Wall Street.

In an attempt to relate the evolution of business journalism in recent times, I will in particular briefly discuss the media coverage of financial deregulation in the 1990s, the rise of the New Economy, the irresponsible coverage of Enron before the scandal, and the modest attention paid to the plight of middle and lower income workers.

The central feature of the newly evolved business press was the disturbing loss of skepticism. As David Wessell of the *Washington Post* told me several years ago, "There is much more glorification than suspicion of business today. Remember, Bill Gates is now the American hero."

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Intense interest in financial, business and economic issues is not new to the post-World War II era or even to the twentieth century. Economics always touched the lives of Americans and gave rise to lively outbreaks of journalistic interest. Urgent debates about free trade, federal land sales, government investment in infrastructure, corporate charters, gold-backed currencies, and a central bank had a wide audience in the early 1800s.

Investment guides became popular in the late 1800s, as did debates over how to regulate the economy. Henry George's proposals about a single tax on land attracted a wide audience. The debates about using silver to back the currency were ubiquitous. Social Darwinism was for a while a remarkably popular economic philosophy justifying income inequality. The popular Horatio Alger stories were essentially myths about economic opportunity. Edward Bellamy's famed best-seller, *Looking Backward*, was substantially about economic change, hardship and solutions.

In the early 1900s, anti-business attitudes rose and muckrakers usually published their hard-hitting and well-documented books by installment in magazines like *McClure's*. As business management, production, and distribution became more sophisticated and more a part of everyday lives in the 1920s—including the growth of white collar bureaucracies— magazines like *Fortune* and *Business Week* were started to document and paint the picture of these new gargantuan enterprises and their leaders. During the Depression, the economy dominated news, of course. Financial scandal was a commonplace story. New government programs received constant attention.

Public works were avidly discussed. The Depression in many ways was a decade of miracles; The Empire State Building, to take but one grand example, was built in two years.

After World War II, however, the economy worked too well, it seemed, to attract much complaint or even attention. Americans went to college, got jobs, moved to the suburbs. Roads were built and the stock market went up. Healthcare and pensions were affordable. Incomes rose rapidly across the pay spectrum.

There was criticism of monopoly power, conformism, "organization men," and the new advertising methods. John Kenneth Galbraith, Vance Packard and William Whyte wrote angry best sellers, and from the right, there were William Buckley and Milton Friedman, among others, complaining about the encroachment of government. But little made it on a quotidian basis into the newspapers and weekly magazines; on balance, these were debates among intellectuals.

The turning point was the late 1960s and early 1970s. The placid progress of the economy was at last interrupted by painful recessions, confusingly high inflation and interest rates, and car lines at the gas pump. Most important was a revolution in finance. A saver would only lose ground to inflation if he or she left money in a savings account as inflation ate away buying power and bank interest rates were kept low by regulation. Interest rates rose for new investment instruments, however. Everybody, it seemed, had to learn more about how to invest their life savings in new ways, and about how to borrow.

The rise of finance dominated the changes. Debt rose nearly three times faster than income from the 1970s onward. Where there were several hundred mutual funds in the 1970s , there are? now several thousand—of all kinds to suit all needs. The financial industry's profit share of GDP tripled over a generation. The Dow Jones industrial rose by twelve times before dividends since 1982.

But those were not the only changes. Healthcare costs rose rapidly and "managed care" made it necessary for people to choose their doctors and their health plans. Lay-offs became more common and people wanted to know how to prepare themselves better for a good career. Two-worker families became the norm, which meant more eating out and taking home, more need for household services, more need for a second and third car. Acquiring a good education and paying the rapidly rising costs became critical as a college education became a necessary but not necessarily sufficient qualification for a middle-class job.

Eventually, companies began requiring that workers manage their own pension accounts in Defined Contribution Plans. Just buying a life insurance policy became more complicated.

There were also many more consumer products from which to choose. Japanese manufacturers by and large led the way with new models of cars that were of high quality, and new electronics products like the VCR and Walkman. The world followed. The PC revolution then began in the 1980s; the PC was time Magazine's Man of the Year in 1982. Sony Trinitron became the TV of choice and itself actually was awarded an Emmy.

In 1973, Time Inc. started *Money Magazine. The Wall Street Journal* started expanding vigorously. Until 1978, *the New York Times* had no independent business section, just a business page. It then started a separate section and soon expanded its business reporting staff by thirty to forty percent. The weekly news magazines expanded their business sections. New magazines were started to address new technologies and products.

In sum, the media for the most part rose to the occasion, motivated by their obligation to report what people wanted and retain their audience, but also by the rush of new advertisers who made it necessary to fill the space, attract the readers and viewers, and still maintain standards.

Reporters had also raised their level of expertise. Leonard Silk had long had an outstanding column on economics in *the New York Times.* Hobart Rowan was a stalwart for the *Washington Post* in the 1960s and 1970s. *Time Magazine* had established a distinguished Board of Economists to report on matters in the late 1960s. Reporters with serious economics training were being hired. Others were encouraged to specialize in computers, healthcare, education, and so on. Trade magazines had long existed, but now there were new industries that required new magazines. *Wired* was the conspicuous leader for web-related stories, and a tireless promoter of the New Economy.

TV business coverage also began. In the late 1970s, the “Financial News Network” was started in the incipient cable market—cable was yet to be a profitable industry. In 1982, ESPN started a news program in the early morning called “Business Times.” They were eventually merged into CNBC, owned by NBC. CNN had the popular business anchor Lou Dobbs on every night. Television added a new dimension to business news, as noted-- slicker, quicker, and tabloid-like. And it began to compete for advertising dollars with print.

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Given the expansion of business news, was the public better informed? I cannot offer a definitive answer on balance. But I can say this. In many areas they were not.

In the 1960s, business was barely glamorous. The bull market of the late 1960s had begun to put money managers and conglomerators in the spotlight. But business was not the career choice of the young as yet. The Depression, still seen as a failure of business and a result of greed, had not been eliminated from the national memory. Business still was looked on with disdain and profits with distrust.

As business gradually became more glamorous, the press naturally went along. Business leaders like Lee Iacocca became stars. Forbes 400 was started in 1982, a demarcation line in the long successful march to glamorize the rich after the blow the rich had taken in the Depression of the 1930s. Wall Street firms increased their public relations staffs dramatically. Business journalism too often went with the latest fashion, leaving much of what was actually going on unexplored and unchallenged.

Several episodes stand out.

## FINANCIAL MERGERS

In the late 1990s, there were many mergers of large commercial banks, brokers and insurance companies. These were once prohibited by New Deal legislation, notably the Glass-Steagall Acts. It had been correctly thought that commercial and investment banking was too fraught with potential conflicts of interest to be run under the same roof. A bank making a loan with savers’ money to a company in which it had an equity stake—or in which it sold stock to clients—was likely to take too much risk.

In addition, banks were special business entities. They were the fulcrum of a system of credit on which the nation’s economy depended. They had special privileges as a result. Should their financial reserves run low, they could borrow from the nation’s central bank, the Federal Reserve. If the interest rates charged were onerous, the Fed could lower them.

Trust was historically the key issue for banks. Should they be able to sell mutual funds, insurance, stocks and far fancier and riskier investments out of the same trusted offices where they once simply took a saver’s money? Should they be able to invest that money anywhere they thought they should?

There was another question. Could these giant companies be efficiently managed? With so many different products under one roof, it was more than a reasonable question.

In fact, Glass Steagall was being undermined for more than a decade. Banks were increasingly allowed to enter other businesses through their holding companies or dispensations from the Federal Reserve. Interest rate controls such as the famed Regulation Q were being dismantled ever since the legendary Walter Wriston, head of Citibank, set his sights on undoing them back in the 1960s.

In general, the economics profession had come to believe that the antitrust authorities viewed markets too narrowly. To compete, companies in all kinds of industries had to be allowed to become larger. The great financial merger of the period was Citibank and Traveler's Group in 1998, a $70 billion combination, enormous at the time.

With Bill Clinton's support, Glass Steagall was effectively undone. The financial and business media hardly stirred. I carefully combed the major media for articles in 1999 in research sponsored by the Shorenstein Center of Harvard. There was a handful of articles expressing concern about potential conflicts of interest. But the vast majority of stories essentially supported the elimination of the most important financial regulations the U.S. ever established. "There is a general view out there," Paul Steiger, the managing editor of the *Wall Street Journal* told me, "that the antitrust laws are outdated and need to be overhauled. It is certainly fashionable in economic and business circles to support mergers."

With banks and brokers aligned, new entities to create debt were easy to start. The securitization of mortgage securities was largely uncontrolled. Derivative markets were overseen much less vigorously than securities markets. And few in the press raised an eyebrow. When Long-Term Capital Management failed in 1997, no new regulations or requirements for more open reporting were urged by even the Democratic administration. There were again a handful of demurrers in the press, but concern passed quickly.

A little earlier, there was no concern in the press about the Clinton administration's demands that developing nations eliminate controls on international capital flows. Only after the Asian financial crisis of 1997 did voices arise to challenge the idea that liberalized flows—the pure free market in international capital, and a boon to Wall Street firms—was not ideal.

Why? There were few experts in mainstream academic departments or, of course, on Wall Street who were shouting alarms. The economics experts generally supported liberalized markets, they supported the larger financial entities and they supported a belief that competition in a free market was adequate check and balance in itself. Newly sophisticated reporters trusted the experts and adopted their views as their own.

The repository of accessible experts were Wall Street firms and banks themselves, as well as a handful of academic experts, some of whom received consultancies from private enterprise. The financial community had the experts: the economists, the traders, the analysts. All had vested interests but the business press relied on them as sources. The reporting on the end of financial regulations and the diminution of oversight was a low point for financial journalism. As Robert Samuelson, who I think can be fairly described as a conservative *Washington Post* columnist, told me, "We've had mild grumbling about ATM fees but no outcry about dangerous financial power."

## THE NEW ECONOMY AND ENRON

Was there really a new economy? Yes, but only if we had new economies time and again in America. The media's enthusiasm for a new economy that, it claimed, was unprecedented appealed to readers, to advertisers, and to Wall Street, which cited it as support for soaring stock prices. More sophisticated reporters developed convoluted theories to support their views, assured they were now on the side of the experts. Eventually a few experts at universities rose up with new theories to give the grand idea academic credibility. That was all the financial press needed.

Again under the auspices of the Shorenstein Center I combed articles on the new economy between the early 1970s and 2001. Again, there was hardly a demurrer. In 2000, in particular, the New Economy was the rage, the explanation for both an economic boom and soaring stock prices.

The reporting on the new economy was remarkably casual. I found that the definition of a New Economy changed over the years even within the same publications. Some first defined it as the services economy, then globalization, then the combination of services, globalization and information technology, the latter a catchall for anything having to do with the computer. Finally, as the Internet grew in popularity, the New Economy essentially became the web itself. The Internet surely changed American life and business, but so did many other inventions before it: television, the telephone, the automobile, the electric light bulb, the steam engine, and the kerosene lamp and the mechanical sewing machine of an earlier age, among many other seminal commercialized inventions. Remember the cotton gin?.

But there was no payoff in providing readers and viewers with cool and calm historical perspective. The New Economy of the 1990s was said to be without equal. It was the equivalent of the industrial revolution itself.

What drove the claims about the new economy was that productivity growth began to rise again after a long drought. What else could be the cause but technological change? But this was not enough. It had to be once-in-a-century change.

Economists who claimed the stock market was a prescient digestive mechanism supported the view. Why else were stock prices up so far so fast? The Stanford economic historian Paul David also provided an historical analogy with the development of electricity which was highly subjective, but which helped explain, if dubiously, the new facts.

In retrospect, we know that the boom was dependent on business and consumer borrowing and looser Federal Reserve policy, as well as the new products generated by the Internet. This sort of combination of economic factors occurred time and again in America: in the 1920s, the 1950s and 1960s, even the 1880s.

Again, only a few journalists demurred, and only in passing. High technology advertising soared in the business press by 50 to 80 percent in 2000 alone, providing plenty of encouragement to the media to exaggerate the benefits and significance of the New Economy.

Serious damage was done in the process. “The stock market’s rise is an accurate reflection of the growing strength of the New Economy,” wrote *Business Week* in 1996. The effulgent reporting on the New Economy helped support unsustainable and insensible levels of stock prices, and induced sophisticated and unsophisticated investors alike to buy into a bubble. The press, especially the television press, helped encourage the unschooled “day trading” of the period.

In particular, the praise for Enron, the relatively new energy company, stood out as a remarkable example of press irresponsibility. Enron, though in the energy distribution business, was basically a New Economy company. Through the intelligent use of free market trading, it would promise a small town that it would supply it energy thirty years from now at a set price. In truth, the company pulled off financial shenanigan after shenanigan to hide its poor earnings. The press followed Wall Street’s claims. Enron stock soared and Wall Street, wanting to support the price, ignored potential bad news—especially analysts at Citigroup, whose investment bankers sold shares for the company.

*Fortune* named Enron the most innovative company in America. Many other publications followed suit. There were one or two independent analysts who questioned the validity of the company's financial claims, but they were ignored. Finally a researcher at *Fortune* challenged the company. But what unraveled Enron was not a journalist. It was the end of the bull market, which made its financial manipulations untenable, and soon its losses could no longer be hidden.

Enron was a fraud, of course. Pension funds lost hundreds of millions of dollars as Enron shares fell in value to pennies. Thousands lost their jobs. Most disheartening, the management urged employee to invest their 401(k) money in Enron stock. There were tales of many if not most losing almost all of their retirement pension assets as a result.

Many of the nation's prestigious lawyers, accountants and investment banks participated in the deceptions or in others like it. These were the business press's key sources. No apology was issued by the business press for its remarkable errors in judgment, no call to improve their standards or examine what went wrong.

## THE FORGOTTEN WORKER

In its glamorization of the rich and powerful, the business press, I believe, has also begun to forget the American worker. This tendency evolved since the 1970s. But what is most bothersome about it is that, if the press does not represent mid-level and low-level workers, who will?

I did not undertake a systematic examination of recent articles on this subject, so what I present below is anecdotal. But it is nevertheless important to consider. In the 1970s, the press often wrote about stagnating average wages and rising levels of lay-offs. But as inflation replaced unemployment as the nation's main concern, the business media also changed its focus—if gradually. By the time of the Clinton boom beginning in 1996, with wages at last rising strongly, twenty years of previous stagnation (of average wages) was increasingly forgotten.

A new common theme was that even if real wages grow slowly or not at all, there were many wonderful new products that improved Americans' lives. But there were always new wonderful products for Americans in earlier periods, and real wages rose rapidly on top of that.

One reason there was not more complaint from typical American workers was that they could borrow against their homes to make ends meet. Spouses went to work as well in increasing numbers.

But also, there were no powerful organizations to represent another view. Labor unions had lost clout and prestige. The Democrats under Clinton also wanted to convey the message that Americans were doing well, despite the sagging data. Without more than a handful of sources arguing that workers were doing poorly, and who were at the time thought to be suspiciously "liberal," the press by and large came to reduce its coverage of labor issues and its attention to the poor performance of wages.

In fact, male wages at the median were no higher in the 1990s than they were in the 1970s. Meantime, the costs of healthcare, education and in some parts of the nation, housing, rose much more rapidly than incomes.

As an example, consider how rarely concerns were raised in this period that the nation's minimum wage was not increased. How little one heard of abuses by business in violation of labor laws until recently.

In the last two years, this has begun to change, but only as the American economy softens, the unemployment rate rises, and the subprime mortgage crisis forces the nation to recognize how dependent its rapid growth has been on unusual levels of debt. Wages and family incomes are falling even as the nation's productivity rises. The facts are now inescapable, opinion surveys tell us, that the economy is the nation's primary worry, and the business press is at last catching on.

In fact, there were good stories. At *The New York Times*, reporters like Steve Greenhouse and Lou Uchitelle kept pace with the problems in the labor markets. But my subjective view is that these stories became more rare. In fact, violations of labor laws regarding minimum wages, maximum hours and union organizing have risen significantly in the past two decades. America seems unaware of them. Only a handful in the press report them. It is unlikely anyone in the TV business media does.

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Where the business press has excelled is in personal finance—though often without adequate attention to risks. In terms of financial information, there is no comparison to the financial press a generation ago. TV has come enormously far as well. But its level of responsibility is inadequate and should be more carefully monitored by the Securities and Exchange Commission.

Business journalism also reports on managerial issues far better than in the past. The rise in interest about how to manage companies well, how to compete globally, and so on, has been well met by business journalism. I leave out many individual achievements, of course, as well as several superb stars of the media. Gretchen Morgenson of *The New York Times* deserves singular mention.

But essentially, the financial and business press has lost its sense of skepticism and its responsibility as a public watchdog. It has become dependent on sources whose vested interests are not understood or are ignored.

One last disturbing point requires mentioning. In an attempt to appear to be presenting all sides of the issue, the business press often gives equal time to irresponsible or even silly views. Thus, public discussion of issues like Social Security, healthcare reform, and the budget deficit has suffered. On the other hand, when there is no other "acceptable" point of view, such as was the case for so many years regarding the plight of workers, the business press too often cannot or does not do the hard work of reporting on its own.

The financial and business press, unlike the general press regarding, for example, weapons of mass destruction in Iraq, has escaped serious criticism. It quickly forgets its extraordinary lapses. Perhaps the business press is not taken seriously, even by itself. But it should be. It can do great damage and much good.

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