Francesco Guerrera

Why generalists were not equipped to cover the complexities of the crisis

Francesco Guerrera, US Finance and Business Editor of the *Financial Times*, argues that journalists were lied to by many who were benefiting from the boom. But they were not good enough to see through the lies

Late September 2008 was a miserable time in New York. Memories of the hot, sticky summer were already beginning to fade and the hint of chill in the air was an unwelcome harbinger of yet another of the city's frigid winters. The weather's declining fortunes added to the sense of foreboding and fatigue that permeated the *Financial Times*' newsroom in midtown Manhattan.

We were just coming off the most extraordinary set of events many of us will ever get to report on: the collapse of Lehman Brothers, one of Wall Street's oldest investment banks, and AIG, the world's largest insurer, the subsequent paralysis in global financial market, emergency actions by central bankers across the world and widespread panic among investors.

As the excitement generated by those heady autumn days had begun to subside, my colleagues and I were feeling a little burnt-out and had begun expressing a wish rarely heard from daily newspaper journalists: we were longing for a period of "normalcy", a "quiet time". But the financial crisis was not going to let us off the hook that easily.

The rumblings of the next big story had begun shortly after the Lehman drama: a big retail bank in the US was about to fail. After weeks of reporting and looking at share price movements, we had enough to run with a story: we knew the name of the bank (Washington Mutual, the sixth-largest bank in the US at the time), the reason for its deep-seated problems (sub-prime mortgages) and we had even heard that frightened savers had begun taking their money out.

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But neither the *FT* nor rival media organisations dared raising the prospect of a WaMu collapse in the run-up to its failure – which duly occurred on 26 September when regulators seized it and sold off some of its parts to JPMorgan Chase. We did reports on its plunging share price and increasingly-doomed efforts to shore up liquidity but never mentioned the possibility that, within days, WaMu could be no more.

Self-censorship over WaMu's distress

It was self-censorship, at least at the *FT*. We discussed it internally and concluded that by splashing the prospect of WaMu's distress on the front page, we would have provoked a run on the bank and killed off its last, desperate, attempts to survive. Was that a responsible attitude or a reprehensible failure to get an important story out?

The question, in different guises, has been hurled at financial media ever since the financial crisis exploded nearly two years ago. From media experts, to academics, bloggers, and even dinner party guests, the charge has been the press failed to forewarn the public a huge bubble was about to burst and, to a lesser extent, that it was slow and sloppy in covering it once the crisis erupted.

This point of view was summarised by Will Hutton, the former editor of the *Observer*, when he said: "General journalists, as well as business journalists, are really guilty in this. They have indulged madness in the last five years."

I beg to differ, at least with regards to the corner of the press that I know best: printed media (I have different views on how television, especially in the US, handled the turmoil but that is really not my area of expertise). It is true: the press was far from blameless in its coverage of both the pre-crisis and the crisis itself. Unlike WaMu, where we knew but did not tell, there were issues which even experienced financial journalists knew little about.

This was no 1929 stock market crash, when blue-chip, household names saw their shares fall to zero in a matter of hours. The current malaise found its roots in hidden corners of the financial world: not many reporters working for mainstream publications had heard of collaterised debt obligations and auction rate securities but it was those, and other, complex and under-reported instruments which became the epicenter of the financial earthquake that shook the world economy to its foundations.

The criticism that the media was looking in the wrong places for evidence of cracks in the world financial order is also well-founded. I myself wrote extensively on how the excessive debt loaded by private equity groups on the companies they bought before the

crisis would prove their undoing. I was only half right: over-leverage was one of the key reasons for the turmoil but among banks and consumers, not private equity.

Don't blame the media

But blaming the media for failing to spot a crisis that was missed, by their own admission, by monetary authorities, credit rating agencies, economists and the world's top bankers (and this is not an exhaustive list), is too facile a knee-jerk reaction. Let me address some of the specific criticism in detail.

A common accusation is that mass media failed to spot the crisis because they were afraid of upsetting their advertisers – the large corporations, banks, and, crucially, property developers that were making billions of dollars by inflating the bubble. Danny Schechter (2009) provides a relatively cool-headed summary of this line of attack in the *British Journalism Review*. In the words of Mr Schechter, an American blogger, investigative journalist and film-maker: "The newspaper industry became, in some communities, the marketing arm of the real-estate industry. In some cities you actually had newspapers getting a piece of the action of sales through the ads they generated – they were actually part of the corruption."

This crisis is, in many ways, a story of conflict of interests (banks' profits depended on their ability to produce ever-complex securities they could sell to investors, credit rating agencies were paid by banks to rate the securities they themselves produced and investors had powerful incentives not to ask questions to lock in favourable returns).

But it is difficult to see how media outlets could have been gagged by their advertisers. Even leaving aside the strict separation ("Church and State" we call it at the *FT*) between editorial and commercial sides that is respected in most English and US publications, the mechanics of the crisis, and the way journalism works, argue against it.

For Mr Schechter's thesis to be right, there should have been a concerted effort by powerful corporate interest to ban coverage of the "property miracle" experienced by the US and many European countries – one that we now know was based on the ridiculous notion that house prices would never decline.

In reality, the opposite happened. Property groups, banks and even corporations fed off the housing bull market and could not have not been happier advertising, and giving interviews about, how they were profiting from the boom and how the new age of prosperity was sustainable.

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Similarly, the idea that advertisers could stifle investigative work by journalists on these matters is simply naïve. Long-term investigative projects are rarely (never?) known to advertisers and vice versa: reporters tend to know, or care, little about who advertises in their outlet. Short of postulating that a cadre of corrupt editors *around the world* "leaked" plans for investigative articles to Big Business – a stretch even for conspiracy-theory-friendly bloggers – it is hard to see how such corporate censorship could have taken place.

Reality not flattering for the profession

My fear is that the reality was a lot simpler – but still not very flattering for our profession. The reason why there was a dearth of investigative work before the crisis is that for decades that genre of journalism has been in decline. The dire financial straits much of the media finds itself in meant that the fourth estate was unprepared and underfunded to spot the coming turmoil.

A variation of Mr Schechter's corruption criticism maintains that journalists and editors had become captive of the people and companies they were reporting on. Bruce Watson, of the US finance news website DailyFinance, went as far as talking of an "institutionalised Stockholm syndrome". "Much of the financial media have been all too easily swayed by the arguments of the very people and institutions they were supposed to watch," he wrote in an article on 28 May.

Mr Watson is on to something. Journalists have to strike a delicate, and ultimately imperfect, balance between keeping their sources sweet, maintaining access to corporations and their executive officers, and unearthing stories that both contacts and companies might not like. But in most cases, this stops well short of a "Stockholm syndrome". The incentives journalists have to get ahead in their profession make sure of that. Let's face it: every reporter wants to be on the front page (or in the lead slot in the evening news) and the best way to do that, at least in financial journalism, is to get scoops on "sexy stories": wrongdoing, scandals and other assorted malfeasance (remember the old US television news adage: "If it bleeds it leads"?).

While access is important, indeed crucial, to getting to the right story, self-interest dictates that, when faced with upsetting a source or a company or landing a major story, a journalist would opt for the latter and live with the consequence of the former.

"Trust me, I am a journalist"

In making this argument, I do realise I am asking readers to take a leap of faith ("Trust-me, I am a journalist") into believing reporters will not succumb to the vested interests of their sources. And I am not saying such a thing cannot happen. All I want to add to the

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discussion is that my experience in journalism – especially in scoop-getting journalism – suggests otherwise.

What I think happened during the crisis is that journalism's traditional tenet of presenting two sides of the same story backfired. When the media did find evidence of problems in the housing market, in financial derivatives or even in the business models of banks (as many of us did and wrote about), it had to give the subject of their stories the right of reply, and to faithfully report what they said.

What those subjects did say, to paraphrase, was: "Nothing to see here, move on." I have notebooks laden with complacent quotes from bankers, regulators and "experts", challenging/deriding the notion the US housing bubble would burst, or even acknowledging it was a bubble.

How could I and others not report that? Had we ignored such claims – and the enormous profits and skyrocketing share prices of the companies that benefited from the boom – we would have been accused, as we have many times during less turbulent times, of needless scaremongering, of crying wolf where there was nothing but sheep.

We were lied to. We were not good enough or resourceful enough to see through the lies. But we were lied to by a whole set of people with a vested interest in prolonging the boom. So if there is a charge that should stick to our brethren at the end of this crisis, it is not the one of corruption, or being enamoured of our sources. If anything, we should be accused of incompetence and ignorance. We did not know and we did not do enough to find out.

As the *FT*'s editor Lionel Barber wrote in the newspaper on 22 April, financial journalists failed to grasp the consequences of a wave of deregulation that followed the end of the dotcom bubble, did not understand the risk posed by the giant US mortgage financiers Fannie Mae and Freddie Mac, and did not dig deep enough into the trillions of dollars in assets banks parked outside their balance sheets to minimise regulatory scrutiny.

Decline in numbers of specialist reporters

And that is partly due to the way the profession has changed over the years. Aside from the decline in investigative firepower mentioned above, the financial strictures of many publications meant that fewer and fewer media outlets can afford specialist reporters. The trend has been towards using journalists as "heat-seeking missiles" generalists who can be deployed wherever the news agenda goes. The downside was that neither they nor their editors were adequately equipped to deal with the complexities of this crisis, especially when it came to predicting it.

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Having dealt with the many shortcomings by the mainstream press throughout this article, I would like to conclude with a provocative question to the so-called "new media" – the blogs, internet sites and even television channels that have set themselves up as an alternative to traditional outlets.

My question is simply: where were you? If, as many of you correctly say, "Big Media" did a bad job of predicting the crisis, what stopped you from filling the gap? I have my ideas but that, as Michael Ende said in the *Neverending Story*, "is another story and shall be told another time".

Reference

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Note on Contributor

Francesco Guerrera is the US Finance and Business Editor for the *Financial Times*. His beat includes US financial services and large US-based corporations including Citigroup, JP Morgan and General Electric. Guerrera joined the *FT* in 2000. Before his most recent appointment in 2008, he served as the *FT*'s US Business Editor during 2006-2007, where his beat included corporations, investors and capital markets, and before that he was the Asia financial correspondent, based in Hong Kong. There, he covered merger and acquisitions activity, in addition to regional business and financial affairs. Before his Asia post, he was based in Brussels reporting in the European Union competition, financial services and internal market matters. Prior to joining the *FT*, Guerrera was on the City and Business desk of the *Independent* and covered financial news at AFXNews. He earned a first-class degree in Economics and Journalism from City University, London, and speaks fluent Italian, Spanish and French.