Money, Markets and the News:

Press Coverage of the Modern Revolution in Financial Institutions

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The Joan Shorenstein Center

PRESS ▪ POLITICS

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Introduction

In March, 1999, the Shorenstein Center convened a conference of journalists, financial industry leaders, and policymakers to discuss the press's coverage of the momentous changes that have fundamentally reshaped American and global financial markets in the past 20 years.

Gathering at the Kennedy School's new Washington center, conference participants heard then-Secretary of Treasury Robert Rubin, Fannie Mae chairman Franklin Raines, and three panels of journalists, scholars, and policymakers raise important—and often critical—questions about whether the press has helped the broader public understand and keep pace with those vital changes.

Secretary Rubin outlined three central factors in what he called the financial industry's "revolutionary" transformation: globalization, deregulation, and new technologies. Shorenstein Center Senior Fellow Richard Parker then offered an in-depth look at how newspapers, newsweeklies, and television have presented and interpreted those tranformations. Reviewing more than 6,000 articles and broadcast transcripts over the past decade, Parker concluded first that "personal finance" has become a driving new force in the field, interpreting a wide array of economic and business news in a "news you can use" format. Second, he concluded that much of the coverage of financial markets and institutions has been shaped by "crisis" framing. In both cases, he cautioned that citizens as a result may have a highly-skewed and ill-informed understanding of the driving forces in global economic life.

Veteran journalist Jeff Madrick echoed Parker, chiding fellow journalists for their frequent lack of reportorial skepticism, and inadequately explaining—save in the aftermath—the risks that these new trends in global and American finance have brought. Madrick noted that "the press often seems to be among the financial industry's most ardent admirers," too swayed by the current prosperity of some to play its historic watchdog role on economic power.

Brookings economist Robert Litan offered a policy advisor's view. Though he found much that the press got right, he warned that the industry's "uncomfortably too-frequent crises" created the "greatest dangers for misreporting and misdiagnosis." Often missing the deeper structural issues, Litan argued that the press focused instead on personalities and institutional details. Focus on failure for the purpose of learning is important, but carefully covering alternative remedies—from government intervention to greater market discipline—requires a level of rigor and thoughtfulness that he thought could be substantially improved.

Joining the discussion, reporters from the *New York Times, Wall Street Journal, Washington Post,* and *Business Week*, as well as scholars, critiqued these views, adding insights and comments of their own. What follows are edited versions of the papers presented at the conference, commentary on those papers, the luncheon address by Franklin Raines, and the keynote address by Treasury Secretary Rubin. Anyone concerned about, or interested in, how the press is (or is not) covering the profound changes sweeping financial institutions today—changes symbolized not least in Congress's repeal of Glass-Steagall this past October—will find the collection both insightful and useful.

Author Biographies

Robert E. Rubin

Secretary of the Treasury, 1995–1999

Robert E. Rubin was sworn in as the 70th Secretary of the Treasury on January 10, 1995.

From January 20, 1993 to January 10, 1995, Mr. Rubin served in the White House as Assistant to the President for Economic Policy. In that capacity he directed the activities of the National Economic Council. The NEC's principal functions include: overseeing the Administration's domestic and international economic policymaking process, coordinating economic policy recommendations to the President, ensuring that economic policy decisions and programs are consistent with the President's stated goals, ensuring that those goals are effectively pursued, and monitoring the implementation of the President's economic policy goals.

Prior to joining the Administration, Mr. Rubin spent 26 years at Goldman, Sachs & Co. in New York City. He joined Goldman in 1966 as an associate, became a general partner in 1971 and joined the management committee in 1980. Mr. Rubin was Vice Chairman and Co-Chief Operating Officer from 1987 to 1990 and served as Co-Senior Partner and Co-Chairman from 1990 to 1992. Before joining Goldman, he was an attorney at the firm of Cleary, Gottlieb, Steen & Hamilton in New York City from 1964 to 1966.

Mr. Rubin's previous activities included membership on the Board of Directors of the New York Stock Exchange, Harvard Management Company, New York Futures Exchange, New York City Partnership and the Center for National Policy. He has also served on the Board of Trustees of the Carnegie Corporation of New York, Mt. Sinai Hospital and Medical School, the President's Advisory Committee for Trade Negotiations, the Securities and Exchange Commission Market Oversight and Financial Services Advisory Committee, the Mayor of New York's Council of Economic Advisors and the Governor's Council on Fiscal and Economic Priorities for the State of New York.

Mr. Rubin graduated summa cum laude from Harvard College in 1960 with an A.B. in economics. He received a L.L.B. from Yale Law School in 1964 and attended the London School of Economics.

Mr. Rubin was born in New York City on August 29, 1938. He is married to Judith Oxenberg Rubin, who served as the New York City Commissioner of Protocol for four years under Mayor David M. Dinkins. The Rubins have two adult sons, James and Philip.

Franklin D. Raines

Chairman and Chief Executive Officer, Fannie Mae

Franklin D. Raines is Chairman and Chief Executive Officer of Fannie Mae, a New York Stock Exchange company and the largest non-bank financial services company in the world. Fannie Mae is the nation's largest source of financing for home mortgages. He became Chairman and Chief Executive Officer on January 1, 1999.

The Fannie Mae Board of Directors designated Raines as the successor to James A. Johnson in April 1998. From May through December 31, 1998, Raines served as Chairman and CEO-Designate while a transition process occurred.

Raines stepped down as Director of the Office of Management and Budget (OMB) and a member of the President's Cabinet on May 20, 1998, after two years of service. Raines was the President's key negotiator in the talks that led to passage of the bipartisan Balanced Budget Act of 1997. Raines was the first OMB director in a generation to balance the federal budget. Raines also helped the President manage the federal government by coordinating procurement, financial management, information technology, and regulatory policies for all federal agencies.

From 1991 to 1996, Raines was Vice Chairman of Fannie Mae, in charge of the company's legal, credit policy, finance, and other corporate functions.

Prior to joining Fannie Mae, Raines was with Lazard Freres & Company for 11 years where he was a general partner. Before joining Lazard Freres, he served from 1977 to 1979 as Associate Director for Economics and Government in the Office of Management and Budget, Executive Office of the President; and Assistant Director of the White House Domestic Policy Staff.

Raines serves as a member of the board of directors of Fannie Mae, Pfizer Inc., America Online, Inc., and as chairman of the Visiting Committee of Harvard's Kennedy School of Government, and was formerly President of the Board of Overseers of Harvard University.

Raines served as a member of the congressionally-mandated Commission on Roles and Missions of the Armed Forces. He has also served on a number of federal and state public policy advisory groups regarding tax equity, education, poverty, and welfare reform.

Raines was elected a Fellow of the American Academy of Arts and Sciences, and a member of the Business Council, the Trilateral Commission, the National Academy of Social Insurance, and the Council on Foreign Relations.

Raines was graduated magna cum laude with a B.A. degree from Harvard College. He was graduated cum laude with a J.D. from Harvard Law School. He also attended Magdalen College, Oxford University, as a Rhodes Scholar.

Kathleen Day

Kathleen Day was on the start-up staff of *USA Today,* covering the break up of AT&T in two paragraphs for the Money section. After eight months, she joined the *Los Angeles Times,* covering biotechnology and defense electronics from 1983 to 1986. She joined the *Washington Post* in 1986, covering banking and the savings and loan crisis for several years; then Donald Trump's demise; the securities industry and the Salomon Brothers' securities scandal; health care; biotechnology and local defense contractors; and now, financial services.

She is the author of *S & L Hell: The People and Politics Behind the $1 Trillion Savings and Loan Scandal,* published in 1993 by W. W. Norton. *Business Week* named it one of the year's 10 best business books. It was recommended reading by the Sunday *New York Times Book Review,* which named it a notable book of the year.

On behalf of the Pew Charitable Trusts, she helped run financial journalism seminars for two weeks in the fall of 1994 in the newly independent Baltic countries—Latvia, Lithuania and Estonia. She taught journalism full time at American University in the 1997–1998 academic year but decided to forgo a tenure-track job offer there to return to the *Washington Post,* where she now covers banking and financial services.

She is a graduate of Bryn Mawr College, with an M.B.A. in finance from the New York University Stern School of Business and a M.S. from the Columbia University Graduate School of Journalism.

Diana B. Henriques

Diana B. Henriques is a financial investigative reporter for the *New York Times,* specializing in issues of corporate governance, market regulation and white-collar crime. Prior to joining the *Times* in 1989, she worked as a staff writer for *Barron's* magazine, published by Dow Jones & Company; as Wall Street correspondent for *The Philadelphia Inquirer;* and as a government investigative reporter for *The Trenton* (N.J.) *Times.*

Beyond her journalistic career, she is the author of *The Machinery of Greed: Public Authority Abuse and What to Do About It,* published in 1986 by Lexington Books, and *Fidelity's World: The Secret Life and Public Power of the Mutual Fund Giant,* published in 1995 by Scribners. She is currently at work on her third book, a financial biography set in Wall Street in the 1950s, also to be published by Scribners.

Ms. Henriques is a Phi Beta Kappa graduate of the George Washington University's Elliott School of International Affairs, and was a Visiting Fellow at Princeton University's Woodrow Wilson School in 1981–82, under a grant arrangement with the Daniel and Florence Guggenheim Foundation. She and her husband live in Hoboken, N.J.

Robert E. Litan

Robert E. Litan is the Director of the Economic Studies Program and Cabot Family Chair in Economics at the Brookings Institution, where he served as a Senior Fellow from 1984–1993 and from 1987 through 1993 as Director of two research centers in the Program. He is also the co-director of the new AEI-Brookings Joint Center on Regulatory Studies. He is both an economist and an attorney.

During his career at Brookings, Dr. Litan has authored, co-authored or edited 19 books and over 100 articles in journals, magazines and newspapers on government policies affecting financial institutions, regulatory and legal issues, international trade, and the economy in general. His most recent books include *Globaphobia: Confronting Fears About Open Trade* (with Gary Burtless, Robert Lawrence and Robert Shapiro); *Going Digital!* (with William Niskanen); *American Finance for the 21st Century* (with Jonathan Rauch); and *None of Your Business: World Data Flows and the European Privacy Directive* (with Peter Swire). Dr. Litan is also currently a co-editor of the *Brookings-Wharton Papers on Financial Services.*

Dr. Litan has served in several capacities in the federal government. During 1995 and 1996, he was associate director of the Office of Management and Budget (where he was responsible for overseeing budgetary and other policies of six cabinet agencies). From 1993 to 1995, he was Deputy Assistant Attorney General, in charge of civil antitrust litigation and regulatory issues, at the Department of Justice. From 1977 to 1979, he was the regulatory and legal staff specialist at the President's Council of Economic Advisers. In the early 1990s, Dr. Litan was a Member of the Commission on the Causes of the Savings and Loan Crisis.

Dr. Litan has practiced law with two Washington law firms, specializing in regulatory litigation, banking, and international trade matters. He was an associate attorney at Arnold & Porter from 1979 to 1982. From 1982 through 1990, he was affiliated with Powell, Goldstein, Frazer & Murphy, first as a senior associate, then as a partner, and subsequently as Counsel (during the period he was also at Brookings).

Dr. Litan has consulted for numerous organizations, public and private, and testified as an expert witness in a variety of legal and regulatory proceedings. During 1996–97 he has served as a consultant to the Treasury Department on its report to Congress on the future of the financial services industry. He also has spoken on a variety of economic issues before audiences throughout the country.

Dr. Litan received his B.S. in Economics (summa cum laude) from the Wharton School of Finance at the University of Pennsylvania; his J.D. from Yale Law School; and both his M. Phil. and Ph.D. in Economics from Yale University.

Jeffrey Madrick

Jeff Madrick is the author, most recently, of the *End of Affluence.* He is editor of *Challenge Magazine,* a bi-monthly publication which specializes in economic affairs. He is also regular economics contributor to *The New York Review of Books.* Madrick had been an award-winning economics reporter, correspondent and commentator for WNBC-TV, "Strictly Business," the syndicated business program, and NBC News. He was formerly finance editor and a columnist for *Business Week* magazine, and a columnist for *Money*. He has written for a wide range of publications, including the *New York Times, Washington Post,* and *American Prospect.* His other books include *Taking America and The Fundamentals of Municipal Securities.* He is currently writing a book about productivity and American political ideology, to be published by Random House, and editing a book of essays for the Century Fund Foundation.

Alan Murray

Alan Murray is bureau chief of the Washington bureau of *The Wall Street Journal.* Mr. Murray joined the *Journal* in November 1983 as a reporter covering economics in Washington. Named Washington deputy bureau chief in January 1992, he continued to cover major economic stories and periodically wrote the paper's "Outlook" column. He became bureau chief in September 1993.

Mr. Murray began his journalism career in June 1977 as the business and economics editor of the *Chattanooga* (Tenn.) *Times*. He joined the *Congressional Quarterly* in Washington, D. C., as a reporter in June 1980 and the following year became a reporter at the *Japan Economic Journal,* in Tokyo, on a Luce fellowship. He returned to the *Congressional Quarterly* in September 1982.

Mr. Murray appears daily on CNBC, weekly on "NBC News at Sunrise" and is also a regular panelist on PBS's "Washington Week in Review." He and *Journal* reporter, Jeffrey Birnbaum, wrote *Showdown at Gucci Gulch: Lobbyists and the Unlikely Triumph of Tax Reform,* published in 1987 by Random House. They were awarded the American Political Science Association's Carey McWilliams Award for the book in 1988.

Mr. Murray has won two Overseas Press Club awards (1991 & 1997) for his writings on Asia. In 1992, he received the Gerald Loeb Award and the John Hancock Award for Excellence in Business and Financial Journalism for his coverage of the Federal Reserve.

Mr. Murray serves on the Governing Council of the Miller Center for Public Affairs at the University of Virginia and on the Board of Visitors at the University of North Carolina.

Mr. Murray received a bachelor's degree in English literature from the University of North Carolina, where he was a John Motley Morehead scholar and a member of Phi Beta Kappa. He earned a master's degree at the London School of Economics.

William A. Niskanen

William A. Niskanen has served as chairman of the Cato Institute since 1985, having previously been acting chairman of President Reagan's Council of Economic Advisers. Niskanen is an expert in many areas of public policy including defense, education, health care, taxes, trade, and regulation. One of the most highly regarded microeconomists in the nation, Niskanen has taught economics at the University of California at Berkeley and Los Angeles. He has also served as director of economics at Ford Motor Company and as a defense analyst for the Pentagon, the RAND Corporation, and the Institute of Defense Analyses. He holds a B.A. from Harvard College and a Ph.D. in economics from the University of Chicago. Niskanen is the author of several books including *Policy Analysis and Public Choice* (1998); *Going Digital,* co-author (1998); and *Reagonomics: An Insider's Account of the Policies and the People* (1988).

Richard Parker

Richard Parker is senior fellow at the Joan Shorenstein Center, where he heads the research project on economics and journalism. An economist by training, he is a graduate of Dartmouth College and Oxford University. He has worked as an economist for the United Nations Development Program, and was a cofounder of *Mother Jones* magazine. He has held Marshall, Rockefeller, Danforth, and Shorenstein fellowships. His books include *The Myth of the Middle Class,* a study of U.S. income distribution, *Mixed Signals: The Future of Global Television News,* and the forthcoming intellectual biography, *John Kenneth Galbraith: The Making of American Economics.* Articles by Parker have appeared in numerous academic anthologies and journals and in the *New York Times, Washington Post, Los Angeles Times, New Republic, Nation, Harper's, Le Monde, Atlantic Monthly* and *International Economy,* among others.

Louis Uchitelle

Louis Uchitelle, who covers economics for the *New York Times,* has written on a wide-range of subjects, including job and labor issues, national and international economic trends, corporate and labor economics, Administration economic policies, and the Federal Reserve System.

He spent 20 weeks in Russia and the Ukraine in 1992 and 1993, reporting on the former Soviet Union's plunge into capitalism. From his Russian trips, he produced nearly 40 articles on many aspects of the transition to a market economy. He has also reported for the *Times* from Mexico and France and was named a senior writer in 1996. He was the lead writer that year for a series of articles entitled "The Downsizing of America," which explored the layoff phenomenon then spreading across the United States.

More recently, he has reported on the Asian crisis and its global economic consequences, on numerous aspects of the American economy, as well as workforce trends. He writes a column, "Economic View," that appears every other Sunday.

Before becoming an economics writer in 1987, Mr. Uchitelle was, for seven years, a senior editor in the Business News Department at the *Times.* He joined the paper in 1980 from the Associated Press, where he had been a reporter, editor, foreign correspondent in Latin America and news executive.

From 1964 to 1967 he was the news agency's correspondent and bureau chief in San Juan, Puerto Rico, with responsibility for the Caribbean. From 1967 to 1973 he was bureau chief in Buenos Aires, Argentina. Later, back in New York, he served as business editor for three years, holding that post until he joined the *Times.*

Mr. Uchitelle began in journalism as a general assignment reporter on *The Mount Vernon* (N.Y.) *Daily Argus,* before joining the Associated Press. For many years, he taught news and feature writing at Columbia University. He received a B.A. degree from the University of Michigan.

Chris Welles

Chris Welles is the Senior Editor of *Business Week,* where he supervises the magazine's finance section. He oversees stories about Wall Street, investment banking, insurance, real estate and consumer finance. Prior to this appointment, Welles was a staff writer at *Business Week* and *The Los Angeles Times,* and a contributing editor to *Esquire, New York,* and the *Institutional Investor.* From 1968 to 1969, he was business editor at the *Saturday Evening Post* and from 1962–1968, business editor of *Life* magazine.

From 1977 to 1986, Welles directed the Walter Bagehot Fellowship Program for mid-career journalists at the Columbia University Graduate School of Journalism. He taught a business and finance course for Journalism School students. His books include *The Elusive Bonanza, The Last Days of the Club,* and *Conflicts of Interest: Nonprofit Institutions.*

In 1997, the Society of Business Editors awarded Welles with their "Distinguished Achievement Award."

Keynote Address

Robert E. Rubin, Secretary of the Treasury

Good afternoon. As many of you know, I worked on Wall Street for 26 years before joining this administration a little over 6 years ago. During those 32 years I participated in the enormous changes in the financial services industry, changes that I think can without hyperbole be called, "revolutionary."

I remember that when I first went to Goldman Sachs we had people who sat in a room just next to the trading room who kept our accounts on a ledger with pens and pencils. (I think pencils, actually, so they could erase and make changes.) And our research department followed the economics of a very, very small handful of countries.

I remember once we had an institutional client come in, who said he wanted some recommendations, stock recommendations. We gave him the recommendations. About a year later, he called back and said, "I like one of those. I'm going to buy it."

That actually happened. I even remember the stock: it was Cheseborough Ponds.

Today, as you well know, a recommendation is stale after a few days. And it is my impression, at least, that for a lot of day traders, if they keep a stock overnight, it is a long-term investment.

I think it is fair to call all this truly dramatic change. What I would like to do today is focus on three different aspects of that change in the financial services markets and industry, and look at them a little more closely.

First has been *globalization of the markets.* As you all know, financial markets have become largely integrated across national borders, with enormous volumes of securities crossing borders every day, and with enormous numbers of securities from a large number of countries trading within each major market center.

Today, events in one market center affect other markets around the world almost instantaneously in ways that were simply unimaginable as recently as 15 years ago. In fact, I think it would be fair to say that the financial services industry is probably the first of the major industries to become a truly globalized international industry.

I remember when I first started at Goldman Sachs, if an American company wanted to raise money, the people would come in and ask us for the yields across the yield curve in the United States debt market. We would give them those yields, and they would then do whatever it is they wanted to do. By the early eighties, it was a whole different ball game. They would come in and want to know what it would cost them to fund in debt markets most cheaply, taking into account debt markets all over the world (with, obviously, the yields adjusted for the cost of hedging).

The second major change has been *financial innovation.* Thirty years ago, when I first started, there were basically three choices: cash, stocks, and bonds. Today even small investors can choose virtually any combination of characteristics they want from amongst equities, debt instruments and commodities. You can own everything from floating-rate bonds to options on futures, currency swaps, income warrants, or even esoteric combinations that involve equity, debt, and commodity futures all in one security. That is actually what I used to do when I was at Goldman Sachs, putting these things together, try to figure out what they meant, and then try to explain them to clients. I didn't understand them; neither did the clients.

Financial innovation has certainly meant, in many ways, lower costs. It has given far greater flexibility to the providers of capital in terms of the risk—reward spectrum—but I think with much less focus. It has also created new risks and new challenges, which I'll get to in a moment.

The third and final change has been *technology*, which has been indispensable to both financial innovation and globalization. Technology has brought the global markets into real-time contact with each other, so that information flows immediately, and traders can function instantaneously across global borders. And, of course, technology has been indispensable to financial engineering and mathematical calculations, which are absolutely necessary for these new types of derivatives.

This modern financial services industry has, at least in my view, created tremendous opportunities for people in this country and around the world, very much including the developing countries. Even taking into account the financial crisis of the last year-and-a-half, the developing countries have—over the last decade and a half, in some cases a little bit longer—attracted enormous flows of private sector capital that would have been unimaginable 20, 25 or 30 years ago. And that in turn has contributed to, and I think been indispensable to, rates of growth that have made an enormous difference to these countries.

However, just as the transformation of the financial service industry has created great opportunities, so too has it created great challenges, great risks, and substantial problems that need to be addressed—four in particular.

First are the questions of *portfolio and systemic risk.* All of the changes I just described have led to enormous complications with respect to risk management. One of the great financial challenges for any financial institution—which I remember exceedingly well from Goldman Sachs—is the fact that models, no matter how sophisticated, cannot capture all possible outcomes, or, to put the same thing differently, "the totality of reality." The totality of reality is far too complex to be captured by any model, no matter how sophisticated.

The consequence is that it is impossible for *any* institution to fully understand all of the risk to which it is exposed. I still remember about ten years ago when we had lost an enormous amount of money in positions that we thought didn't have that potential. So we got our most mathematically-oriented people, a bunch of Ph.D.'s in math to look at what happened. What we found was a lot of embedded options in our positions that none of us had realized were there—and in fairness, I don't think were recognizable until large market moves tested the positions.

Once you go beyond the most sophisticated people, it was certainly my impression when I was on The Street—and I have no reason to think this has changed—that most people who are involved with derivatives have relatively little understanding of the less-accessible risks involved, the embedded options, the potential for different pieces of these that should correlate in their movements, but in certain circumstances might not correlate. The consequence is that we have substantially less than a full understanding of the risk to which we may be exposed.

Moving from the investor to the global financial markets, the systemic risk of contagion that affects others in the global economy has increased greatly as a result of the changes in the industry. That is precisely why at the Treasury and at the Federal Reserve Board we have so intentionally focused on reforming the architecture of the global financial markets. Our goal with respect to this reform has been very clear: to have a system that is less prone to financial crisis and—when crisis occurs—to have response mechanisms that are much more effective at managing that crisis.

Our efforts have included ways to induce effective structure reform in developing countries and to have as well ways to focus industrial-country lenders on risk during good times in order to reduce the excess flows of capital during the bad times. (I personally think those excess flows had a lot to do with the problems we had in last year-and-a-half.)

I think we have made concrete progress on transparency and the very complex subject of private-sector burden-sharing. Changes have been made, but these are extremely complicated issues, both conceptually, analytically and practically.

Once you have reached a conclusion, you have then to develop a national consensus—which is not easy. Thus change to the system, which is already happening, will continue to happen, but it will happen in pieces over time. There are a host of ideas that on the surface seem sensible, that seem big, and so appeal to politicians—but which, upon closer inspection, are deeply flawed. It is easy to make dramatic statements. It is very difficult to do the hard work that is requisite, if you are going to have serious proposals that make sense. Our focus on financial architecture thus basically has had two facets, if you will: one, developing and putting in place sensible proposals, and two, preventing measures that do not make sense.

The second ramification of the transformation of financial services is the *greatly increased speed* at which problems can now spread. Last August, as you all probably remember, Russia defaulted on its debt. The ruble deteriorated enormously. And almost instantaneously markets around the world were substantially affected.

I think there was real risk in August, September—even into October—of a real gridlock in international financial markets. I think there was a second moment during this financial crisis when there was very serious risk of a crisis that could have enveloped the globe. One was December of 1997, when Korea was on the precipice. (Korea, by the way, had \$3 billion to \$4 billion worth of reserves in the last week of December 1997. Today it has \$51 billion worth of reserves.) In any event, because markets are so tied together for all kinds of reasons the problem of *contagion* has vastly increased.

Basically what it means is that turmoil in one market can greatly increase instability in markets all over the world. It can happen because the investors who invested on a global basis may suddenly have liquidity problems. Or it can simply happen because of a herd mentality. People who get hurt in one developing market may decide to withdraw from developing countries entirely, or at least for a while.

The third ramification of this revolution is its effect on *the divide between rich and poor countries.* There are certainly many countries in the world with underdeveloped financial markets—for example, most of the countries of Africa. That underdevelopment alone reduces the relative likelihood of attracting capital, which in turn increases the economic differences amongst countries.

Growing differences in financial sophistication are also increasing the income divide in our own country. Affluent people, institutions and businesses in America today have access to evermore sophisticated instruments for dealing with the use and provision of capital, and to divide risk in the ways they see fit.

On the other hand, part of the population—mostly in the inner cities and other economically-distressed areas—has very little access to financial services and capital, even when you judge this on a risk-adjusted basis. And that growing gap increases the already too-large gap in American incomes.

Expanding access in economically-distressed areas has been a strong focal point of this administration. One of our most effective tools has been the Community Reinvestment Act (CRA), which has faced recurrent attack and which is under attack once again this year. In fact, that effort to cut back CRA is, I think, one of the central issues in financial modernization legislation.

CRA encourages a bank to extend credit to creditworthy borrowers throughout communities in which it operates. It does not require a bank to lend to anyone who is other than creditworthy. Since 1993, a more vigorous and reformed CRA has been a key tool in the effort to bring more capital into the inner cities, rebuild housing, create businesses, create jobs.

Since 1993, the number of home mortgage loans extended to African-Americans has increased by almost 60 percent, to Hispanics by a little over 60 percent, to low and moderate income borrowers by a touch under 40 percent, figures that are well above overall market increases.

A fourth and final ramification of this transformation is the *increasing concentration of economic activity*. When I first went to Wall Street, there were enormous numbers of investment banking and commercial banking firms that provided full service. With the vast amounts of capital needed to compete in today's world—and with the need to have a strong presence in all of the global market centers in the world—there has been a great shrinkage in the number of firms. That shrinkage continues as large banking mergers and as cross-sectoral acquisitions, such as CitiBank's merger with Travelers, take place. These giant institutions provide enhanced service, but also raise very legitimate questions about systemic risk, concentration of power, and the needs of local communities.

These four changes and ramifications also involve updating our nation's financial services legislation. Financial modernization, as you know, is occurring on a regular basis in the marketplace. With the reduction of regulatory barriers, financial services firms are offering customers a wide range of financial products that cross sectoral lines. It is our view that, with good legislation, the process can proceed on an orderly basis. But good legislation—to be good—needs to be done right or it ought not to be done.

We believe good legislation would include breaking down the barriers between various sectors in the industry, maintaining the effectiveness of CRA, not expanding the mixture of banking and commerce, guaranteeing consumer protections, and allowing companies to choose the structure that makes the most business sense to them.

Let me conclude with this thought. The subjects I have discussed today are, I think, extremely important to the future economic well-being of the American people, probably more so than ever before.

One of the observations I would make, now that I have been here for over six years, is that as we address complex economic issues such as the global financial crisis, global financial markets, the future of the international trading system, the whole question of protectionism versus open markets, and a host of other matters, it is more important than ever to have an economically literate public.

There is simply far too little understanding of the economic issues that will be critical to our future. Fifteen years ago, very few people knew—or needed to know—the name of the currency of Thailand. Today that is very important to our well-being. The public also needs to understand the benefits of open markets in the United States to our economic well-being and our health, to lower costs, greater choice, greater competitiveness and efficiency, and the benefit that all that brings in terms of lower inflation and presumably lower interest rates.

I recently had a high official of an Asian country say to me that they were facing enormously increased pressures to restrict access to their markets, and that if we were to begin—we, the only major country in the world, with a really healthy economy, we, a country with four-and-a-half-percent unemployment—were to begin restricting access to our markets, it would create enormous additional pressure for protectionism in their country.

Were that, of course, to happen on a global basis, it could have enormously adverse consequences with respect to our exports. Countries that have been affected by the financial crisis will, by definition, not have strong domestic demand. So inevitably, in the early phases of recovery, they will have to be able to export. And it is very much in our economic interest that these countries recover, and therefore in our economic interest that our markets remain open to them.

Explaining questions around open markets versus protectionism—not only explaining but having the public understand—is absolutely critical if we are going to have an effective and successful economic policy for the future in this country. But that is extremely difficult to do unless you have a sufficiently economically literate American public.

I was thinking about something yesterday. *Sound* economic decisions are almost always not what people want to hear on a particular economic issue. And they are almost always politically very difficult. But if this country is going to be successful in making those kinds of decisions, we are going to need an informed public, because that is the only way we are going to win political support for the difficult decisions that are in our overall economic best interest. And that in turn, in large measure, depends on the media—which means it depends on you.

So let me close by saying that I think you have an absolutely critical role to play in providing the framework that will allow this country to do what it needs to, in order to realize what I think is the enormous potential we have in the 21st century.

Thank you very much.

Luncheon Address

Franklin Raines, Chairman and CEO of Fannie Mae

The Nobel economist Amartya Sen found that media scrutiny of a nation's financial arrangements makes its economy stronger. I agree. Fannie Mae cannot function well without the financial press. We need you to help us communicate with the financial markets, our customers, and most of all, people who want to become homeowners. That's why my company emphasizes transparency, disclosure and professional relations with the media. We also need you as a source of information about market developments, new innovations and consumer needs.

On some days, it all seems worth it. For instance, after we announced a plan to cut home buyers' mortgage insurance costs, *USA Today* declared, "Fannie Mae to Save Homeowners Millions." A few weeks ago, the magazine *Euromoney* did a story about our debt issues overseas, which protected average home buyers from the global credit crunch last fall. The headline was: "Fannie Mae Saves the Day." I'll take more of that.

On the other hand, there are certain steps the business press could take to improve this art form for all audiences, including consumers who are more financially literate than ever.

But first, the good news. In my view, financial journalism in 1999 may well be the best and brightest of all the media. You're buffeted by many of the same forces as the mainstream press, but financial journalism is remarkably free of the worst excesses. Consumers today are more concerned and sophisticated about the economy, and financial news is serving them well.

One reason is because financial news is no longer the Rodney Dangerfield of daily print journalism—an afterthought. Today, in paper after paper, you see terrific stand-alone business sections. Even in Washington, which treats every story as a political story, the *Washington Post* has liberated its business section. It means local companies like mine can be covered as business stories with perhaps a political component, rather than political stories with perhaps a business component. Business news finally is being treated as news in its own right.

Another welcome attribute of the financial press is its willingness to go against mainstream journalism's tendency to personalize events and parse the psychology of people who lead institutions. Far from turning every business into an extension of its leaders, the business press seems to recognize that not every company is the living embodiment of its president or CEO. Harry Truman was right that people make history and not the other way around. But in fact business leaders may have less impact on day-to-day operations of their company than many other factors, from a company's culture to its business model. While leaders do lead, we seem to be in an era of financial media coverage that thankfully does not oscillate between demonizing and deifying executives. If only political journalism was the same way—although I did like the way some of the media credited the balanced budget to the President and OMB Director.

Now onto the constructive criticism. From the consumer's perspective, the financial press needs to avoid oversimplifying important stories. There remains a tendency to cast certain stories—especially bad-news stories—as morality tales. The early coverage of the collapse of Long Term Capital Management offered a catalogue of deadly sins, beginning with greed and pride, when the real culprits, of course, were more complicated. In some of these stories, you sense ambivalence about our economic system, perhaps even a jaundiced eye toward free markets in general—in spite of broad scale recognition that a well-functioning market economy on the whole is a better system.

Financial news does need to be made relevant to consumers—not just to Wall Street, investors, and policy makers. For instance, the *New York Times* recently did a tremendous job on a four-part series, "Global Contagion," about the financial crisis in Asia. It not only informed readers about what happened and why, but also about the impact of the crisis on families in Illinois and Thailand. It also had context and an analysis of trends—not simply leaders. This is commendable.

But you don't need four-part spreads and ten thousand words to make the case. Contrary to conventional wisdom, *USA Today* and the networks provide excellent business coverage because they put market movements, economic statistics and other business events in a context that shows people what it means.

Context is crucial today, given the constant stream of business reports coming from radio, cable TV, Internet business sites and wire services. With all these voices, it becomes essential for thoughtful ones to rise above the babble, make sense of the news and give it some perspective.

Historical context is important in business coverage. When a business fails, shareholders, analysts and various audiences may forgive it, but they will never forget it. It becomes a case study on what not to do. The financial press also needs to take the long view. Certainly journalism is the first draft of history. But when the first draft can shape events, the press needs perspective.

For example, even the greenest reporters know about Black Friday and Black Monday, the market collapses of 1929 and 1987. They know about the flash points of financial history. But how many understand what happened, say, in

1974, the beginning of the protracted bear market that lasted about eight years? With historical perspective, you know that not every market movement is a correction. Not every change is a crash. And not every company stumble is terminal.

Failure to get it right is one thing. Failing to take responsibility is more dangerous, particularly for the financial press. Simple mistakes can damage a company, distort the market and destroy trust. Financial reporters have to know what they write matters.

Why is getting it wrong so egregious in the financial press? In many business stories—particularly about financial services companies—the impact can be quick and devastating. The damage is done before you can run a correction. It can affect not only the buying and selling of stock, but also whether a company can borrow on the credit markets. A simple, honest mistake on deadline can ripple out to harm a company before the reporter even gets home.

It's always important to get it right. But it's even more critical in the financial press than in general, non-business news. General news tends to be an accretion of information over time. Take political coverage. You can get it wrong on Tuesday and correct it on Wednesday, and the only impact may be a temporary blip in tracking polls. But every political reporter knows that extra care must be taken in the days just before an election because a last-minute bombshell can affect the final result.

Financial reporters need to take the same care every day as political reporters do leading up to Election Day. The risks are the same. Short sellers have the same incentive to spread disinformation as political dirty trick artists. Information moves markets and on Wall Street, every day is Election Day.

Particular care is needed these days, when the sun never sets on the financial markets or the financial news. Getting it wrong was less risky when you just had the *Wall Street Journal,* two business wires and a few business magazines. But with all-business cable, satellite broadcasting and the World Wide Web, we've given new meaning to Mark Twain's observation that a lie travels around the world while the truth is still putting on its shoes. Today, a stock can tank and a bank can close before the truth can even put on its socks.

Business is held accountable all the time by shareholders, the government, and the press. Smart businesses also hold themselves accountable. We know that some entities try to have it both ways—get the press, but avoid the accountability. But if the news is good enough to announce, it's good enough to follow up on. That's what we decided when Fannie Mae announced our Trillion Dollar Commitment five years ago. We pledged to invest one trillion dollars in mortgage financing for low-income and other underserved families, and do it by the end of the year 2000. We also pledged to give a status report every year, on or about the March 15th anniversary of the commitment.

Accountability is not always fun. When we made the announcement, and every year since, most reporters were skeptical. Somebody would ask, "How in the world are you going to actually deliver a trillion dollars in mortgage finance—and to low- and moderate-income people?" We'd explain it, but the skepticism remained. Until this year. Four days ago when I met with reporters for the annual update, I said we had already reached the $700 billion mark. We're ahead of schedule and we're going to make it on time.

We welcome and expect accountability. The financial press should welcome it as well. Accountability means more than just running a little corrections box. It often requires giving the corrected story a prominence similar to the incorrect one. *Forbes* magazine deserves a lot of credit for revisiting stories that it got wrong and updating them, anywhere from six months to ten years out.

For instance, I'd have to applaud *Forbes* for the way it ultimately handled a story about my company. Being purely objective, let me just say the original story—predicting Fannie Mae's demise—simply got it wrong. When the story came out, we had almost $380 billion in assets. Now we have about $500 billion. Our market cap was $49 billion. Now it's $72 billion. Naturally we complained to Forbes. You might expect them to run a correction. But they did much better than that. A year after the original story, in its "Follow Through" section, Forbes ran a piece that began, "Looks as if we were wrong about Fannie Mae."

Persuasive criticism must ultimately rest on facts. Again, one of the greatest strengths of financial journalism is that, by its very nature, it rests on data. It gives business news a serious flavor—a purity—and a unique objectivity. The best tip Woodward and Bernstein ever got was, "follow the money." That's the best tip I can offer when you cover any business story, including my company. Follow the money.

For example, no enterprising reporter who followed the money would continue to perpetuate a most persistent myth about my company—that we're some kind of government agency.

The numbers tell the different—and more interesting—story. Fannie Mae has been a private, shareholder-owned company for the past 30 years, trading on the New York Stock Exchange. We do more than $1 billion in business every day. We are one of the nation's largest corporate taxpayers. Our shareholders hold equity worth more than $70 billion. We do have a government charter, but so do Chase Manhattan, Bank of America and thousands of national banks and thrifts.

Another myth that refuses to die is that Fannie Mae is profitable because an implied federal guarantee keeps our cost of funds low. Again, the money tells a different story. Every one of our debt securities clearly states, in plain English, it is not backed by the full faith and credit of the government. Our investors know it. And our cost of funds is significantly higher than the US Treasury's. Any advantage we may have in the market pales in comparison to the financial advantages of some of our customers. National banks earn far more from the funds they lend than we do. Their net interest margin—the spread between cost of funds and interest and fees earned—is 411 basis points. Ours is only 117 basis points.

We make a healthy profit from those 117 points because we operate in the secondary mortgage market, with relatively low overhead and only 4,000 employees. Last year we were number-one in the country in terms of profits, assets and sales per employee, which made us the most productive company in America. That's a far cry from the early eighties, when we were operating under the same structure and losing $1 million a day. Only by reengineering our business were we able to turn a profit again.

If our case is taken as an example, it illustrates the dangers of pack journalism. Certainly no reporter is determined to get it wrong. But sometimes the myths refuse to die because crucial details get lost in the crush of deadline. Or half-truths are repeated by pack journalism or by the use of Nexus to gather background. In a genre so rooted in the facts, a bad fact can make the whole story wrong. It is a classic case where God—or the devil—is in the details.

Again, let me use the coverage of my company as an example, since I know it best. We prefer to be called Fannie Mae. Not to be cutesy; it's the name under which we do business, and we're always correcting reporters. But if you do a Nexus search, you'll find 1,000 stories last year—10 percent of them—that still mentioned our formal original name, the Federal National Mortgage Association.

Now we can understand the occasional lapse or stubborn stylistic anachronism, like when IBM is called International Business Machines. What is harder to accept is why, after 30 years as a private company, some stories still refer to us as a government agency. Last year, there were 274 stories on Nexus that mentioned "government agency" in stories about us. Again, you might think we're just being picky. But the simple misuse of a term can give people the wrong impression of your company, which can affect the way you do business.

Good journalism is all about exploding myths and telling the real story. Enterprising reporters are not just skeptical of institutions. They also are skeptical of other business reporters and the myths they might be perpetuating.

Don't get me wrong. The financial press is doing a good job. I just hope you keep on doing what you do best. Give people the news and the context they need. Follow the money and the facts. Hold yourself accountable. Shatter—do not perpetuate—the myths. Above all, continue to avoid the sins and excesses that have diverted the mainstream media from its important role in society. Your standards could be the media's saving grace. If journalism has a choice, let the mainstream press be more like the financial press—and never vice versa.

Thank you.

The Revolution in America's Financial Industry: How Well Is the Press Covering the Story?

Dr. Richard Parker

Over the past quarter century, America's financial institutions have been living through a revolution. That revolution, composed of several distinct but intermingled parts, is producing an epochal restructuring not only of the industry itself, but of the American economy, and how Americans live and work. As such, it is a central story about our country's economy at the dawn of the 21st century-one which, by any measure, should feature prominently in the news.

First, the largest financial firms-through mergers and acquisitions-are growing larger and larger, as is the measurable size of the financial world itself, at what sometimes seems a geometric pace. Second, through relaxed regulation, firms are "cross-integrating" across what were once prohibited borders: banks are selling mutual funds, money markets compete openly with banks for interest-bearing deposits, commercial banks and investment banks are merging, etc. Third, advances in computers and, simultaneously, in sophisticated finance theories have together spawned not only new round-the-world 24-hour-a-day trading markets but also complex new "hybrid" financial commodities (such as derivatives) that were unimaginable even a generation ago.

These changes are more than "technical" or esoteric changes, of interest only to financial specialists; to the contrary, they are already remaking the visible landscape of finance's role in modern economies at all levels. They bring with them enormous advantages to individual and corporate customers alike, but also bear dangers related to concentration, volatility, and even economic collapse that are only slightly understood by even the most sophisticated specialists.

But how well is the press telling us this central story? If news at its best is a first draft of history (and not just, as some cynics would have it, a disposable catalogue of car crashes, hold-ups, scandals, political contests, weddings, and weather reports), is the draft being written so that readers and viewers can make sense of this revolution?

Perhaps more important, is that draft being fitted into a larger sense of America's public purposes and democratic ideals, so that readers and viewers as citizens—not just as workers, savers, investors, and consumers—can relate those revolutionary changes to the nation's progress as well as their own?

For a preliminary assessment of these questions, the Shorenstein Center undertook an analysis of a major sampling of general-circulation daily newspapers, news weeklies, and TV news, and their reporting on financial industry changes today. By examining more than 6,000 articles and broadcast transcripts from over a dozen different print and broadcast outlets during the past decade, this study attempts to document what, how, and how well the press is covering the dramatic changes that are sweeping the country's financial services sector.

The study raises a core set of questions: How much news about financial industry change is being delivered to the general public through these news outlets? How is such news being "framed"—that is, in what forms is it being presented? Are some segments of the general news audience better served than others, and if so why—and why is this important? Do the trends we identify in both the volume and framing of coverage represent specific weaknesses as well as strengths—for the industry itself, for journalism, and most important for the public, not merely as consumers of financial services, but as citizens of a democratic polity?

The conclusions we reach—developed over the following pages—should be the cause of concern, we believe, for financial industry members, public regulators, and most important, the press and the American public.

STUDY DESIGN

"The press"—despite Americans' common usage of the term—is hardly a homogeneous body about which we can make single and simple definitive claims. Yet, as our research will show, there *are* discernable patterns within press coverage of America's financial institution change, patterns which we can identify as "structural" or "recurrent."

First, though, we must qualify what this study here means by "the press." There is a significant "general business" press and a smaller and more targeted "financial industry" press, both of whose audiences are smaller numerically, as well as occupationally, demographically, and motivationally different from the audience for general-circulation newspapers or network TV news. To evaluate that general-audience market, we selected ten major newspapers including the *New York Times*, the *Washington Post, USA Today* and six major metro dailies reflecting principal regions of the country (*LA Times, Chicago Tribune, Boston Globe, Seattle Times, St. Petersburg Times* and the *St. Louis Post-Dispatch*). In addition, we looked at three major news weeklies (*Time, Newsweek*, and *U.S. News and World Report*), and six broadcast and cable sources (ABC, NBC, CBS, CNN, CNNfn, and CNBC).

The data for this study were collected through Lexis-Nexis. Newspaper, broadcast and cable television, and radio sources were searched with the web-based Lexis-Nexis Academic Universe. Lexis-Nexis Academic Universe identifies stories by searching the headline, lead paragraph and Nexis-added subject terms. (The exact search criteria are available in the full-length version of this paper on the Shorenstein Center web site.) For the newspapers and news weeklies, we analyzed coverage of topics in three years: 1989, 1993, and 1997. (Data for 1989 was not available for the Seattle Times, so 1990 was substituted.) We collected ABC, NBC, and CNN stories for 1993 and 1997. Data for CBS, CNNfn, and CNBC was only available for the last of our search years.

THE GROWTH OF FINANCIAL COVERAGE IN THE PRINT MEDIA

News coverage of the financial industry grew dramatically for most news outlets in our study. Figures 1 and 2 display the total number of business related news stories printed in newspapers and news weeklies in 1989, 1993, and 1997. Our data show that the amount of financial coverage varies a great deal from paper to paper and over time. The *New York Times* is the leader in the amount of financial coverage in every year. But by 1997, financial news in the *Los Angeles Times* nearly equaled the amount of coverage in the *New York Times*. The *Chicago Tribune* and the *Boston Globe* also produced more financial news stories by 1997. Other papers increased their coverage only slightly, or in the case of *USA Today,* actually printed fewer financial stories in 1997 than in 1989.

News magazines increased their coverage of business and finance even more than newspapers. From 1989 to 1997, *Time* and *Newsweek* more than doubled the number of financial stories printed. *U.S. News and World Report* (the leader

Figure 1
Number of Financial Stories in Newspapers

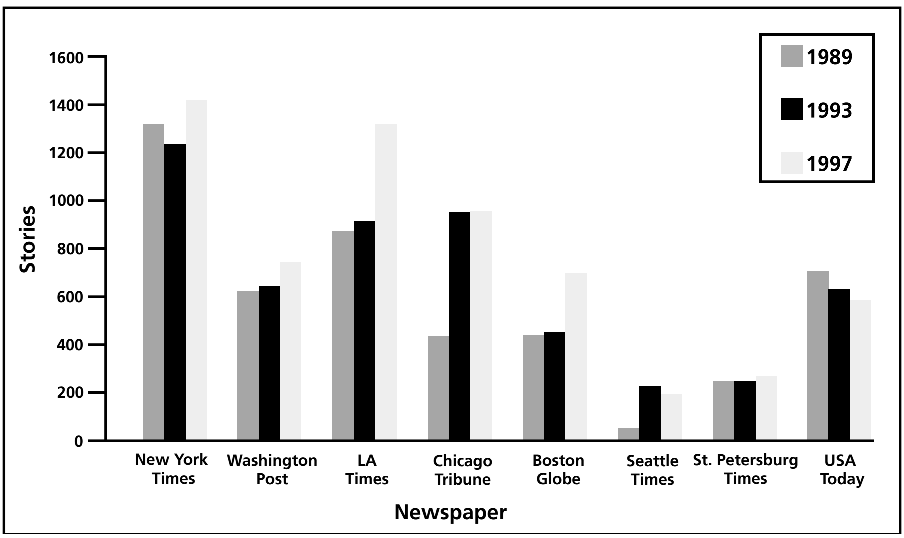
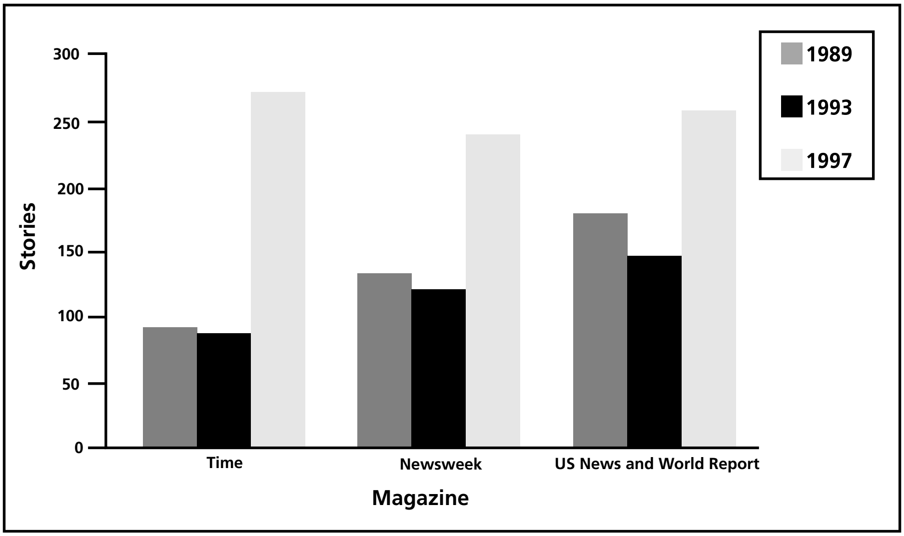


Figure 2
Number of Financial Stories in News Magazines



in the amount of financial coverage in 1989) also increased its coverage of financial issues though by less than the other two magazines. By 1997, the three magazines were producing a similar number of financial news stories.

At first glance, it seems safe to observe that there's been no simple shortage of news about many elements of the financial industry "revolution" in recent years. But if the *volume* of press coverage has grown enormously, we were also concerned whether the *analytic quality* of financial news, and its *assumptions about audience needs* for financial market information, has kept pace. The results reported in rest of the paper address these concerns.

THE PRESS'S FRAMING OF FINANCIAL INSTITUTION CHANGE

Our content analysis of financial news coverage revealed a "clustering" into five major story patterns or motifs:

A. Personal finance

B. Banks and Crises

C. Mergers and Consolidations

D. Financial Institution Reform and Regulation

E. Trend analysis

Figures 3 and 4 display results of our content analysis for newspapers and news magazines respectively, and show the number of news stories per cluster in each of the three years we analyzed. (Within trend analysis—the final cluster listed above—we followed coverage of three stories: the Glass-Steagall Act, ATMs, and redlining in inner-city communities.) The following sections describe each topic area in greater detail.

Personal Finance

Over the past 10 years, as Figures 3 and 4 show, American newspapers and news magazines have dramatically increased the volume of coverage devoted

Figure 3
Topics of Financial News Stories: Newspapers

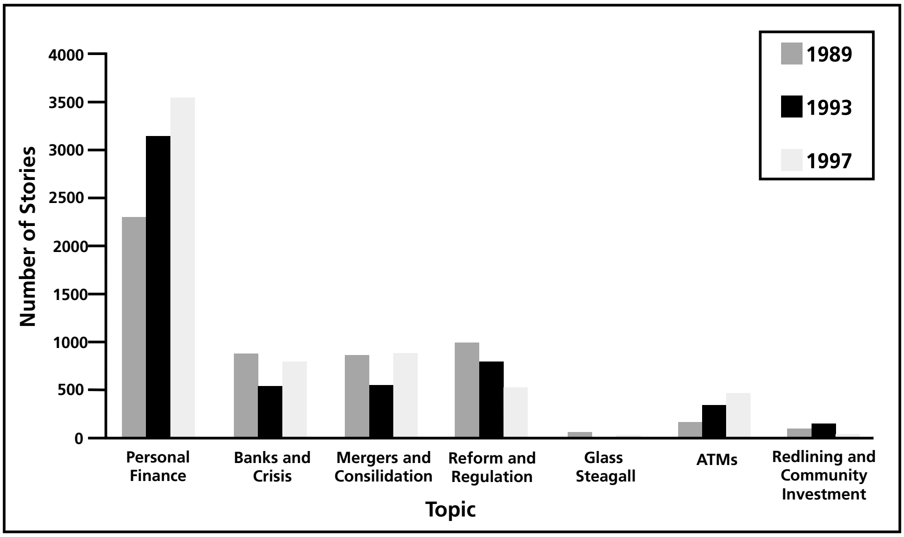
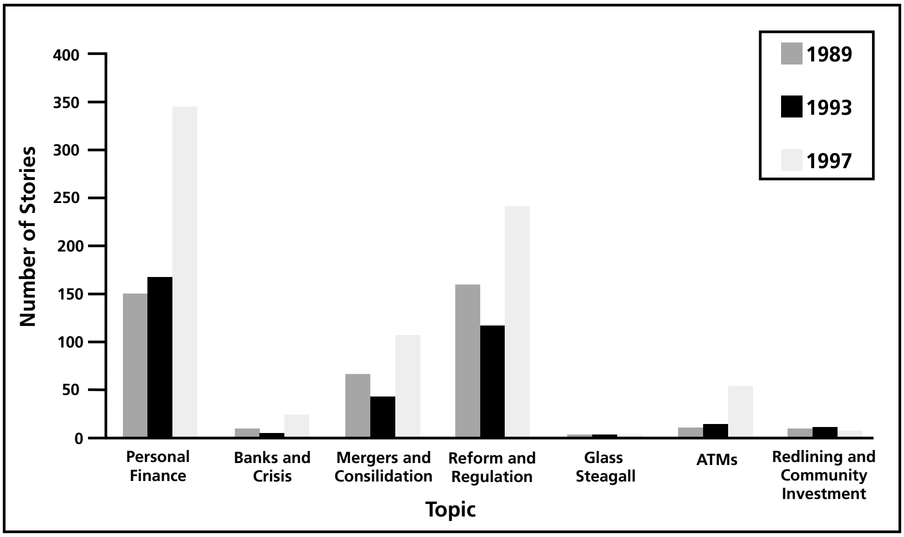


Figure 4
Topics of Financial News Stories: Magazines



to "personal finance." For newspapers, *the increase in personal finance stories alone* accounts for the overall increase in financial news shown in Figure 1.

Similarly, the expansion of financial coverage in news magazines was due in large part to an increase in coverage of personal finance issues. Figure 4 shows that news magazines more than doubled the number of personal finance stories from 1993 to 1997. But news magazines also increased their coverage of banking reform and regulation, which thanks to S&Ls, received news coverage equal to personal finance in 1989. By 1997, though, news magazines had shifted the main focus of their financial coverage to personal finance issues.

In striking ways, this growth of "personal finance" journalism has transformed business reporting and newspaper business sections, with several important implications for financial institution coverage. For one, it has brought in significant new advertising revenues to papers across the country. Along with computer-related advertising, financial services advertising has grown fastest among national business-section advertisers over the past 20 years—and now accounts for 30 percent of national newspaper ad revenues.[1]

Second, according to several studies, it has expanded readership of the business section among newspaper readers, as more and more Americans both invest and monitor stocks and mutual funds. Today over 40 percent of households report owning equities (either directly or indirectly, through 401(k) plans, mutual funds, pension plans, and the like), which is up from 20 percent just two decades ago.[2]

Third, and perhaps most important, it has dramatically altered the "mix" of financial news coverage—by creating an entire new domain, as well as "shaping" news stories to include "news you can use" elements in the traditional text.

Banks and Crises

"Crisis" has always been a venerable news "trigger"—crisis reporting not only mobilizes journalistic effort, but galvanizes audience attention in two distinct ways.[3] The first is simply by virtue of the claim of crisis, which the audience must then evaluate, but generally won't initially ignore. Second, a crisis claim increases the *density* of coverage on a topic, by multiplying the number of press outlets and stories per outlet.

As Figure 3 shows, crisis has been a constant of newspapers' reporting of the financial industry throughout the past decade. But note also that the volume of such reporting fluctuates year-to-year—interacting with each period's particular set of crises (though often in different ways). In the late 1980s, crisis framing was heavily and frequently invoked, reflecting the lingering effects of the savings and loan crisis, and—to a much smaller degree—a partly-related, but more complex, crisis that hit the banking industry.

Yet even within this period, there was substantial variation among papers in the amount of coverage devoted to crises. The *New York Times,* for example, reflecting its "paper of record" status (and its base in the nation's money center), consistently devoted a greater volume of coverage to financial industry crises than any other paper in our survey. By contrast, crisis coverage by the regional papers in our study (including the *Washington Post*) tended to fluctuate based on local, not national, market conditions.

Crisis reporting also appears to be influenced by the location of the crisis in a different way. *Foreign* economic crises—whether in Mexico, Russia, Japan or Southeast Asia—received more extensive coverage from the elite press with their own overseas correspondents. Regional papers (most without such correspondents) both printed a smaller number of stories on foreign crises, and also relied much more heavily on wire service (usually AP) or supplemental wire reporting.

As a consequence, readers in St. Petersburg, Seattle, Chicago, Boston, and St. Louis—cities whose combined population exceeds that of New York or Washington—collectively were provided with fewer than half as many stories on foreign economic crises in our three sample periods.

As Figure 4 indicates, the news weeklies used "crisis" framing much less frequently than did the papers and reserved it almost exclusively for international issues. Only *U.S. News* invoked the term in a domestic context with any regularity.

Mergers and Consolidation

As Figure 3 indicates, there has been a high volume of coverage of banking industry merger and consolidation throughout the past decade, befitting an industry that has radically reduced its number of players since the early 1980s.[4] When the story numbers are examined more closely, however, the overwhelming majority prove to be short pieces (under 200 words) that report an individual merger, acquisitions, or consolidation. At the larger-circulation papers (the *New York Times, Washington Post,* and *USA Today*) the mergers reported may have occurred anywhere in the country or overseas. At the regional papers, the number of reported mergers is both smaller, and much more likely to be about institutions in the paper's circulation area.

In 1989, none of the three news weeklies paid measurable attention to consolidation within the US financial services sector, apart from their ongoing coverage of the festering S&L crisis, as indicated in Figure 3. By 1993, the amount of coverage had dropped even further. In 1997, all three magazines used the Travelers-Salomon merger as a narrative frame to tell readers about the rising tide of merger activity in the financial sector. *Newsweek* and *Time*, though, both did "CEO profile" stories, focusing their report on Travelers boss Sanford Weill, and his rags-to-riches career, subordinating the issues and larger meaning underlying the integration of the two companies—one an insurance and lending giant, the other a powerhouse Wall Street bond and securities trading house—and their larger meaning to the margins of the stories.

Financial Institution Reform and Regulation

Because U.S. financial services have traditionally been more closely regulated since the 1930s, the two-decades-long transition to lighter regulation has been a singular focus of the industry-based press (such as *American Banker,* etc.) and the general business press (*Wall Street Journal, Business Week, Fortune*, etc.)—but has gotten comparatively little attention, we found, from the mainstream press.[5]

When we searched for "regulation" and "deregulation" stories in the newspapers, as shown in Figure 3, we found that most of the regional papers gave the topics relatively modest coverage. Both the *New York Times* and *Washington Post,* by comparison, gave the topic more significant play, though the weight of framing devices differed markedly between the two papers.

For the regional papers, "regulation" and "deregulation" most often appeared only when intermingled with "crisis" framing. This proved particularly so in 1989 during the S&L crisis, and again in the second half of 1997, when the Asian financial crisis broke.

Most aspects of financial system deregulation—whether in banking, insurance, or capital markets—rarely appeared in any of the regional papers without a "crisis" link. Readers of the *Chicago Tribune,* for example, would have found only eight stories in 1989 that dealt with systemic changes in the American financial industry that *weren't* directly linked to "crisis" reporting. Moreover, of those eight only five exceeded 350 words—and even these were elusively linked with deregulation.

Throughout 1989, the news weeklies (like the papers) kept their coverage focused on the S&L crisis and the clean-up aftermath, accounting for over half their articles on US topics. Two international issues involving financial institution regulation, however, garnered several articles: money-laundering related to drugs, and the plight of several Third World countries gripped by hyperinflation and collapsing economies.

Glass-Steagall

Passed at the height of the Great Depression, the Glass-Steagall Act has since served as the symbolic cornerstone for the regulatory and business boundaries of American financial services. For nearly two decades, powerful—often conflicting—forces within the financial services industry have sought the replacement of Glass-Steagall with newer legislation that would allow for substantial integration of many of the services Glass-Steagall prohibits. Congress, caught between those colliding forces, has repeatedly failed to act—ten times in the last 20 years, in fact. By turning a blind eye to the legislation's non-enforcement, however, it has meanwhile allowed regulatory agencies to effectively dismantle many of the act's key features.

Within the financial and business press, this ongoing debate over Glass Steagall's future—and the intricate maneuvering by industries and companies, lobbyists, and key legislators—has been regularly and closely followed. Indeed, among some financial reporters, the very idea that Glass-Steagall was up for replacement again now produces sly, knowing yawns. In 1998, for example, two *Business Week* reporters sardonically credit-lined their coverage of this year's battle over passage, "Gleckman and Foust have covered banking reform again, and again, and again."[6]

But what about the general press? Should we expect a non-business-press audience to know much about this ongoing, and monumental, battle, based on coverage it has been given? The results displayed in Figure 3 suggest the answer to this question would be no. Our search for "Glass-Steagall" articles produced a steady, but *quite minor*, flow of coverage, almost all of it located in the business sections, and generally chronicling briefly the latest flurry of legislative negotiations that seemed to wax and wane with inconclusive regularity.

In fact, in the three years we studied, many of the papers carried *no* articles making significant lead mention of Glass-Steagall. The numbers were so low in fact that we went back, and searched *all* years, 1989–1998. Even this expanded search revealed strikingly little reference to "Glass-Steagall"—the *New York Times,* which carried the most stories, averaged fewer than five per year.

Similarly Figure 4 shows that the news weeklies almost never bothered to explain Glass-Steagall to their readers. When they did, it was either in brief passing (*Time*, in 1989 for example, ran a 300-word piece on big banks winning permission to engage in various "Wall Street" type operations) or embedded in corporate profile stories, such as the 1997 Travelers-Salomon merger discussed earlier.

Explaining why so few stories mentioned this cornerstone piece of legislation is complex. Part of the explanation no doubt lies in the fact that despite the legislation's existence, federal regulatory authorities have been for over a decade now steadily permitting activities the legislation seeks to prohibit through a web of rulings, exemptions, and classifications. With Congress seemingly unable to find legislation acceptable to all the major industry parties and Congress itself, a *de facto* repeal of Glass-Steagall has occurred even while the legislation remains on the books.

But should the press—in its traditional "watchdog on power" role—have done more to bring this to the public's attention? Arguably, the press did by reporting various mergers over the years that exemplified the very kinds of limit-breaching that Glass-Steagall seeks to prohibit: banks' acquisition of securities firms, the selling of mutual funds, bonds, and stock through retail banks, the undertaking of various traditional banking functions by mutual funds and brokerage firms, the creation of national mega-banks, etc.

Throughout the coverage, however, reporters seemed to have accepted as fact three fundamental ideas: one, that "the times have changed"—i.e., the prohibitions Glass-Steagall exemplified were antiquated; two, that in finance (as in transportation, energy, and telecommunications) deregulation was preferable to regulation; three, at the macro-institutional level, that the "dynamism" of modern capitalist institutions could not actually be blunted by public policy to any significant degree.

ATMs

Since their introduction in the mid-1980s, ATMs have exploded in numbers-and are widely viewed today as a major convenience that technology has brought to retail banking. But ATM fees have proved a controversial topic-enough so that there have been repeated consumer protests, and recurring battles over legislative intervention.

Note in Figure 3 the steadily rising (though relatively low aggregate) number of newspaper stories on the topic. In 1989, there were on average between six and 20 stories in all the sources (except the *Los Angeles Times* which published

61 stories). Most of the stories sought to introduce the ATM to readers, outlining its features and convenience, as well as reporting on their rapid spread—and emerging ATM-related crimes. A few papers even in 1989 sought on occasion to explain ATMs as part of, as one *New York Times* story put it, "Banking's High-Tech Retail Chase," and the search for a single credit/debit/ATM card that "would do it all."

By 1993, the story numbers ranged from four to 77 (again excluding the *LA Times* which published 102 stories) with a median 25. Increasingly, the stories focused on novel criminal problems, the need for carefully guarding one's PIN code—and the rapid ATM expansion trend. Again, though, there were occasional articles explaining to readers the place of ATMs in a larger technological transformation of banking.

By 1997, the numbers were up, and with ATMs now presumed (and likely) widely familiar, articles highlighted innovations in their use alongside the rising number of crimes reported at ATMs. By far though, the biggest topic was now the debate over fees charged, and the actions of legislators and consumer groups to roll back the charges.

As Figure 4 indicates, the news weeklies showed almost no interest in ATMs in either 1989 or 1993, with no single story taking the ATMs' rise as a core narrative; the mention of ATMs was always peripheral to other topics. In 1997, attention seemed to rise dramatically (numerically, by five-fold); it turned out that in most cases, though, the rise reflected a burst of new interest in "personal finance" themes (or new computer technologies related to them). At *Time*, it was part of "Picking the Right Plastic" (a consumer look at credit, debit, and ATM cards); in *Newsweek*, it was "Insert Card, Lose Shirt" (on the importance of prudential money management); in *U.S. News,* it was on "Debit Card Dangers" (again, money management).

Obviously, the news weeklies ignored the local-crime stories that occupied the papers, for want of a national news hook. What's more interesting is why they chose not to cover the nationwide consumer outcry over ATM fees-we were able to locate only one *U.S. News* piece ("Paying the price of ATM convenience" in 1993) that even alluded to it, despite dense coverage of local debates in almost every paper we examined.

Redlining

The decay of America's inner cities, and racial and gender discrimination, have been high on the national (and press) agenda since the 1960s. Washington as well as numerous states have passed laws that now require banks and other lenders to monitor, and document for regulators, their lending, mortgage, and service practices to assure that older discriminatory practices based on race, gender, and geographic location no longer continue.

Within the banking community, the laws—most importantly, the Community Reinvestment Act of 1974—have been the topic of ongoing dense and controversial discussion.[7] Some of the controversy turns around questions of arguably marginal interest to the broader public (details of data collection, evaluation criteria, etc.) The larger question—whether lending institutions practice discrimination against women, minorities, and low-income communities—is of much broader public and public policy interest, and inherently recognizable as worthy of careful press coverage.[8]

As Figure 3 shows, however, although stories on these "community responsibility" topics have been recurrent, such stories have appeared infrequently in the newspapers—and rarely as a result of independent investigation. When they have appeared, they've been as reports on government or nonprofit agency studies of publicly-available data.

By itself, this is mildly surprising, given the increased emphasis on "computer-assisted reporting" that is in vogue in newsrooms around the nation nowadays.[9] Because the documentation on lending and mortgage practices is public, it would seem to provide ideal opportunities for papers to exploit their new computer-based reporting capacities. From the evidence, they have not.

We also noticed that the papers rarely did follow-up pieces, to investigate whether alleged discriminatory financial institution practices had changed—unless a new study was issued.

When, in a few instances, the story remained "alive," it was most often because political leaders chose to make the subject an issue. In Boston in 1993, for example, the state's Attorney General used a study of Federal Reserve Bank data on local lending patterns to launch an investigation, which kept the issue alive and prominent. In most other instances, however, we found that—absent such engagement by a major political figure—the story died after initial coverage (and, usually, an editorial lamenting such evidence of discrimination).

Two features worth noting: first, when such stories did appear, editors often gave them relatively prominent attention, placing them in the front section (sometimes even on the front page) of their papers. Second, there was a precipitous drop in all discrimination-related financial industry coverage in 1997, for reasons that weren't apparent to us-and that deserve further research. Whether the rising backlash against affirmative action in some way has played a part in this, or it can be explained by some extraordinary drop in reported redlining and discrimination, remains unclear.

At the news weeklies, the subject seems to receive a regular, once-a-year visit. Figure 4 shows the tiny number of magazine stories devoted to financial discrimination. In 1989, *Time* discussed the issues in a cover piece on the rising black middle class, entitled "Between Two Worlds." In 1993, its "Gospel of Equity" explained how "a new generation of black leaders is preaching a monetary message: get capital and build wealth."

(In 1997, *Time* limited itself to a piece on a Kansas City Pizza Hut that refused to deliver pizza in certain low-income neighborhoods because of dangers to its drivers, and a lengthy review of *Throwing the Book at Race,* one of several recent books that have helped form a "revisionist" school on race that sharply critiques claims to significant ongoing racial discrimination in America.)

Newsweek turned out to be uncannily silent on the issue in all three time periods, our search producing stories that only marginally discussed ongoing redlining and community investment issues. *U.S. News*, in 1993, however, did a 750-word look at "Inner-city Lending: Hits and Misses," that portrayed the subject as full of both promise and failure. Yet in 1997, we found the magazine making no serious attempt to follow-up its coverage, especially interesting in the wake of both welfare reform and massive cuts in federal subsidies to inner-city communities that arguably left private-sector lending more important than ever before.

THE QUESTION OF TELEVISION

Our study also examined coverage of the financial industry by television news despite the tradition in attention of television news to such matters. Our reason was fairly simple: any study of news in the late 20th century recognizes the centrality of television for the general news audience. Repeated studies over the years have shown that more Americans rely on TV news as their "primary news source" than they do print.

We also know that TV network news carries modest amounts of economic news of all kinds, that it relies heavily on "data bites" ("the GNP rose X percent last year," "the Dow fell Y points today," "US unemployment fell/rose Z percent in the third quarter"), and that very few TV news watchers are able to recall such information correctly even shortly after the broadcast.[10]

Within the television industry, though, there have been three trends in recent years: 1) the growth of *cable-based news channels and programs*; 2) the sharp *decline of network news viewing relative to local TV news*; and 3) the rapid rise of *prime-time network news "magazine" shows,* produced by the network news departments, that offer new sites for the presentation of news.

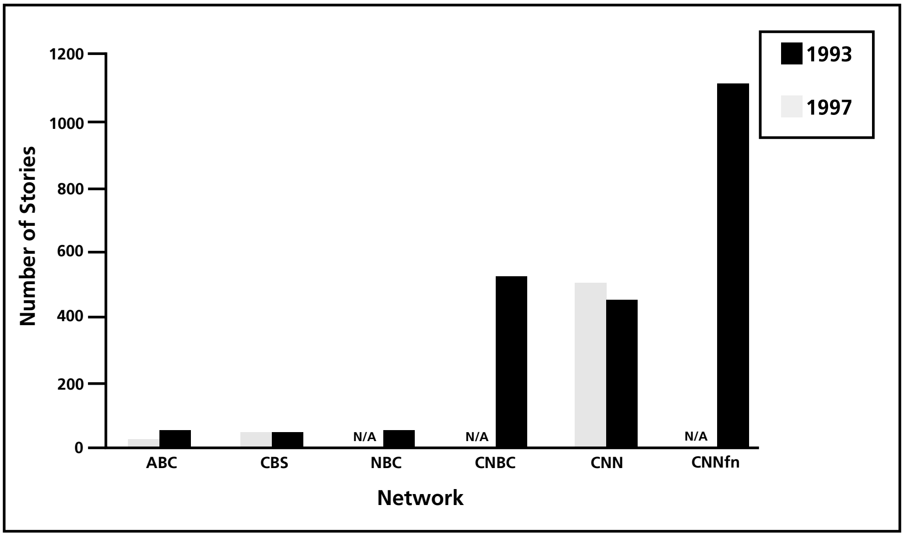
For researchers, this means additional news outlets to examine—but also severe limits. For this study, for example, because no detailed data set exists for local TV news content, and because transcript services for network news, cable, and newsmagazines are either recent or often incompletely indexed (or both), we limited our television research to 1993 and 1997, and to a smaller number of topic categories than we used for print analysis.

Personal Financial News

First, we were curious to discover whether the "personal finance" focus and frame-that we had seen grow so rapidly in our print sources-was also present in television news coverage. What we learned was that, at the very least, it is a clearly rising trend-though the story numbers for TV are predictably much lower than in newspapers given the respective size of news holes, as shown in Figure 5.

At the three major networks, we found that almost no personal finance news appears in prime evening news broadcasts, but rather on the morning shows and (very occasionally) on the evening news magazines. At CBS, for example, out of 43 business stories in 1997, only three stories loosely related to "personal finance" appeared on the evening news. By contrast, the network's "CBS This

Figure 5
Coverage of Personal Finance on Television News



Morning" ran 3–4 minute features on personal finance topics on an almost weekly basis. Typical among them were "Tips on getting your finances in shape for '98," "What to do if you have to file a claim with your property insurance," "Teaching your children about money at all ages," "How to correct mistakes on your credit report," and "Things a car buyer should know before facing a car dealer." Similar patterns prevailed on both ABC and NBC.

Two things are noteworthy here: first, almost none of television's personal finance stories were exclusively investment or mutual fund oriented. Like much of the 1989 personal finance coverage at regional papers, the topics on TV were much more often about simple personal finance management and planning, and made no presumption that viewers were financially sophisticated or heavily invested in Wall Street.

It's on cable, of course, that we expected to find a much larger volume of financial industry stories of all types. Several cable networks (CNN, CNN Headline News, CNNfn, CNBC, and MSNBC) broadcast news—some dedicated exclusively to business—round-the-clock, and thus have much more airtime available than the entertainment-oriented networks. It is not surprising then that both CNN and CNBC both broadcast ten times the number of personal finance stories than appear on network news-about ten per week. (This figure accounts only for their original broadcast, not repeats on a daily "news wheel.")

At CNN, moreover, the stories appeared on several different programs, although three programs—"Business Day," "Moneyline with Lou Dobbs," and "Your Money"in particular—accounted for over 80 percent of those identified.

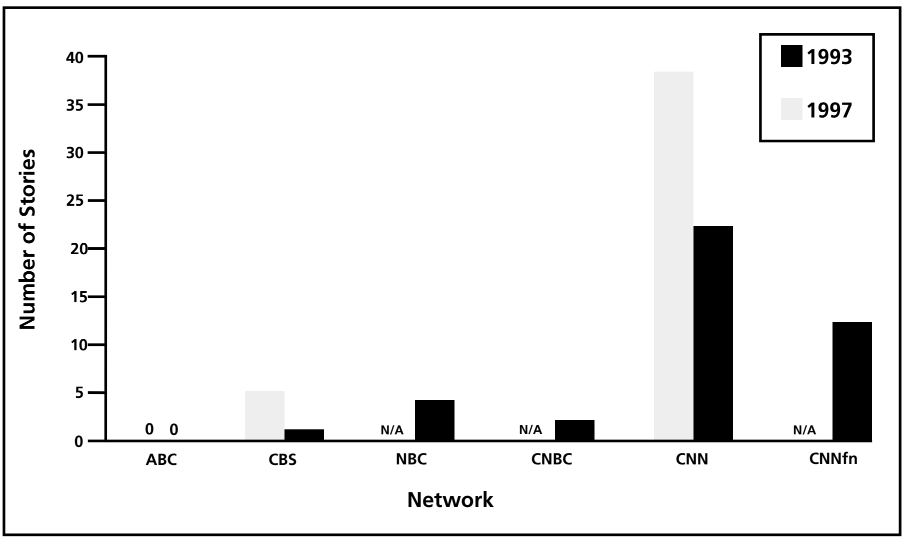
Much of the news, of course—given that a large portion of CNN's audience is business-based—is market-framed. During 1997, the Asian financial crisis spurred more than 100 stories on market risks and opportunities arising from the crisis. But CNN also provides a steady diet of financial planning or management stories, such as "Navigating the Shifting Landscape of Home Buying," "Holding Legal Fees in Check," and "Year-end Tax Tips." Leisure-time consumption advice for its affluent (yet apparently still bargain-hunting) audience also abounded.

CNBC largely repeated patterns found at CNN: Three programs—"The Money Club," "Steals & Deals," and "The Business Center"—broadcast the overwhelming majority of the station's personal financial news, while much of that news turned around markets and mutual funds.

Financial Institution Reform

To measure television's focus on financial institution change, we chose the "regulation-deregulation" issue. Not surprisingly (not least because of the widely-documented shift toward "light" vs. "hard" news in recent years),[11] we found the networks provided almost no coverage at all; what did surprise us was how little appeared on the cable channels, as Figure 6 indicates.[12]

Figure 6
Coverage of Bank Regulation and Deregulation on Television News



CNN in both 1993 and 1997, at first glance, seemed to produce about two stories a month on financial institution regulation and deregulation issues. However, almost a third of them tended to be reports on regulatory violations. That is, they covered individual lawsuits or administrative actions against individual firms—a suit against Prudential by the SEC for marketing practices, the BCCI trials, etc.

Among the rest, less than half—or about a third of the total stories—actually focused on institutional reform issues, reducing CNN's story frequency on the topic to about one every other month. Among these few stories, most were interviews with newsmakers, not news reports-and were reacting to an Administration proposal or action of one kind or another. In 1993, for example, the Treasury Secretary appeared to push an Administration plan to consolidate banking regulatory authorities, the new SEC Chairman came on to discuss his plans for the agency, etc.Actual news reports on financial institution regulation or deregulation—other than interviews—totaled *fewer than ten in the two years combined.* If the number of stories seems small for a 24-hour-a-day TV news operation, consider that CNBC meanwhile produced *no stories* we could identify that focused directly on financial institution regulation or deregulation in the same period.

THE IMPACT OF FINANCIAL NEWS COVERAGE ON NEWS AUDIENCES

An inevitable question hanging over this study of general-audience news media is what that audience in fact *wants* to know about financial industry change. That is, although there have been substantial shifts in the framing and subject matter of financial industry news-with traditional community and consumer issues decidedly undercovered compared to personal finance, and much of what the public is told about structural and systemic change conveyed through "crisis" reporting—is the audience more or less content with what it's receiving. The question, it turns out, is not an easy one to answer.

First, fewer and fewer Americans seem to care about the news, financial or otherwise. Over the past two decades surveys of Americans, for example, show steady declines in the percentage who either regularly read a newspaper or watch network TV news. Second, there is evidence that within this declining audience, the amount of financial coverage produced by newspapers, TV, and news weeklies is—though dramatically lower than information levels in the "specialty" press—in fact "about right."

Important for this study, Americans as a whole express low interest levels in business and stock market news generally: while 13 percent of US adults said they were "very" interested in such news, 37 percent said "somewhat," and 50 percent said "not very."[13] Even when the stock market plunges dramatically—as it did by more than 550 points in October, 1997—the same levels of interest seem to hold. Despite unusually extensive and repetitive news coverage of the drop, just 16 percent of Americans said they followed the market news "very closely," whereas once again more than half said they followed it little or not at all.[14]

But does this alone indicate low public interest levels in economic news? Academic research also produces intriguing findings that bear on the question of the press, public interest, and economic information. Political scientists Brandon Haller and Helmut Norpoth, in a similar vein, by carefully examining the University of Michigan's Consumer Survey data, conclude that in a number of ways people who say they have no interest in "business and economic reporting" nonetheless share surprisingly similar evaluations of America's overall economic performance with those who say they carefully follow such news.[15]

That doesn't mean, however, that these individuals are well-informed about *specific* economic issues, terms, or trends. Repeated research shows how little most Americans—whether heavy or light news consumers—can recall for interviewers about current GNP, unemployment, or inflation numbers, for example, when asked.[16] But it does suggest that crucial economic information does actually reach a broad public—certainly broader than those who say they follow such news "carefully"—on a routine basis, though not *directly* from the press. And that in turn raises an important question about how the press is currently delivering such information to the public.[17]

If in fact the public is constantly absorbing and evaluating economic information through complex channels, are journalists in turn *structuring* economic news in ways that are most useful—and assimilable—by that public, whether directly or indirectly? For example, is the immense increase in "personal finance" coverage in recent years a significant contribution to broad-based public knowledge of the immense changes financial institutions are undergoing, as it is presented by journalism?

The percent of US households directly or indirectly owning stocks has increased dramatically in recent years—from about 20 percent a quarter century ago to over 40 percent by the mid-1990s. The jump alone, on the one hand, would seem to validate the increased "personal finance" coverage. And indeed "personal finance" journalism has gone to great lengths to stress (even celebrate) this new populist, or "democratic," character to stock ownership—an image that regularly now spills over onto newspapers' non-business pages as well.

But how well informed are most small American investors about the stock market despite the dramatic doubling of such investors and literally hundreds of thousands of personal finance stories that have appeared in newspapers and magazines over the past two decades? Several studies suggest not very. One study of mutual-fund owners, for example, found that 85 percent could not accurately describe the difference between a "load" and "no-load" fund, and 62 percent didn't know the funds charged annual management fees.[18] (This, to underscore, is a survey of mutual-fund investors who presumably should know something so elemental, *not* the population at large, most of whom own no mutual funds.)

Based on the stories we reviewed, though, personal finance journalism for the most part has done at best an uneven job of describing precautionary dimensions associated with the rise of the stock market. We searched almost literally in vain for stories about small investors who had been wiped out, or suffered substantial losses through their investment choices; by contrast, "winners' tales" abounded. Even allowing that *on average* stock market investors have done exceedingly well in the long bull market of the last fifteen years, something so elemental as standard deviation predicts that not everyone's been a winner. Yet the fact that losers were almost entirely absent from the thousands of stories we examined seemed utterly peculiar.

CONCLUSION

The performance of American financial journalism, in the midst of profound and diverse change in America's financial structure and institutions, has been the subject of this study. Analyzing both the quantity and content of news produced by a major sampling of this "general press" during three separate years over the past decade, we sought to assess how—and how well—that press informs and educates its audiences about several dimensions of the ongoing revolution in modern finance.

Several features of that coverage dramatically stood out:

First was the immense growth of so-called "personal finance" news, or "news-you-can-use." Amidst the overall growth of financial coverage generally (measured both by the number of news outlets, and by the percentage of financial news in existing news outlets), the dramatic increase in personal finance news was the most striking shift over the period. Coverage of mutual funds, personal financial planning, and a constant stream of market investment advice and analysis have fundamentally "re-conceptualized" traditional news about finance. Political communications theory refers to this shift as one from "sociotropic" or institution-oriented coverage to "ego-centric" reporting that presumes to describe the complex world of economic relations in terms of "what's in it for me."

There are, many argue, deeply positive features to such a shift in coverage—not least that it gives the news audience a greater sense of direct control and involvement in one's own personal financial destiny. And clearly, as measured by the increase over the same period in the proportion of American households which invest in the stock market, there is a steadily-rising audience for such news.

But even those most involved in production of such news nowadays have drawn attention to its limits—the "oversupply" of such news relative to traditional "sociotropic" coverage, the unsupported assumption that "everyone wants to know" about such issues (when in fact survey work indicates that barely a fifth of the news audience closely follows such market-oriented news), and the often uncritical celebration of individual investment opportunities and strategies (given the compelling evidence of minimal sophistication at best among new investors), are among the most prominent issues cited.

The second striking feature of contemporary "general press" reporting is its reliance on "crisis" as the other predominant framing structure of financial news. Crisis coverage, this paper argues, also carries costs with it—not least the de-sensitization of news audiences not only to the phenomenon reported, but what can arguably be called underlying structural, political, and policy issues with which, in a democracy, the public audience as well as leaders need to be concerned.

We explored to offer a comparative evaluation of several topics, coverage of industry "deregulation" and "consumer and community" issues, and found there to be decidedly less detailed and systematic press attention to these issues than those framed either by "personal finance" or "crisis." On the vital issue of financial industry deregulation, we conclude that much of the coverage is dominated by either "crisis response" or "political horserace" framing, and that the volume of coverage itself is decidedly smaller. In the coverage of "consumer and community" issues, we found that the press has done remarkably little to play an aggressive "watchdog" role, confining itself heavily to discussion of either ATM fee debates or redlining issues, and in neither case systematically initiating in-depth coverage rather than relying on studies generated either by government agencies or public-interest non-profits.

Additionally, we found that there is wide variation across news outlets-from elite to regional metro papers, and between print and television, for example. This variation also suggests the broad range in depth and quality of news available to different news audiences, based on their geographic location in the country, and the media forms on which they rely.

The questions raised by this study are exactly that-questions-rather than definitive conclusions. It is, however, apparent that broad segments of the American public are not being served as well as they could by the general news industry. The issue of what must change to improve that knowledge level remains an open challenge, but one which we believe cannot be ignored.

ENDNOTES

1. Advertising spending by investment companies, brokers, and by banks offering non-FDIC-covered products alone has risen from $359 million in 1992 to $869 million in 1997, according to New York-based Competitrack, Inc. (This doesn't count traditional bank advertising.) Interview with author.
2. Data from Lawrence Mishel et al., *The State of Working America, 1996097* (Armonk, NY: M.E.Sharpe), Chapter 5.
3. For a discussion of media's effect on public economic knowledge and confidence, cf. Lawrence Jacobs et al., "Media Coverage and Public Views of Social Security," *The Public Perspective*, April/May, 1995, pp. 9–49.
4. Data on declining bank and S&L numbers can be found in Allen Berger et al., "The Transformation of the U.S. Banking Industry," *Brookings Papers on Economic Activity,* v. 2, 1995, pp. 65–68.
5. Several useful academic articles on banking deregulation include Jayanratne and Strahan, "The Finance-Growth Nexus: Evidence From Branch Banking Deregulation," *Quarterly Journal of Economics,* August 1996, pp. 639–670; Benston and Kaufman, "The Appropriate Role of Bank Regulation," *Economic Journal,* May, 1996, pp. 688–697; Sheila Dow, "Why Banks Should Be Regulated," *Economic Journal,* May, 1996, pp. 698–707; and David Humphrey and Lawrence Pulley, "Banks' Responses to Deregulation: Profits, Technology, and Efficiency," *Journal of Money, Credit, and Banking,* February, 1997, pp. 73–93; George Selgin and Lawrence White, "How would the invisible hand handle money?," *Journal of Economic Literature,* v. 22,1994, pp. 1718–1749.
6. Howard Gleckman and Dean Foust, "Why Congress Can't Afford to Shatter Glass-Steagall," *Business Week,* March 30, 1998, p. 38.
7. When we refer to community reinvestment and redlining, in fact a number of federal laws cover this area: the Community Reinvestment Act, the Fair Housing Act, the Equal Credit Opportunity Act, and the Home Mortgage Disclosure Act are commonly considered the core legislation.

8. For an excellent summary and useful bibliography, see Douglas Evanoff and Lewis Segal, "The CRA and fair lending regulations: resulting trends in mortgage lending," *Economic Perspectives* (Chicago: Federal Reserve Bank of Chicago, v. 20, n. 6, November 21, 1996), pp. 19–49. For a detailed outlining of concerns CRA supporters have about deregulation (in particular, HR10), see John Taylor, "Testimony before the US House Banking Committee" (Washington, DC: Federal News Service), May 21, 1997.
9. Cf. Bruce Garrison, "Computer-Assisted Reporting," *Editor & Publisher,* June 21, 1997, pp. 40ff; also Rose Ciotta, "Baby You Should Drive this CAR," *American Journalism Review,* March, 1996, pp. 34ff.
10. For a slightly dated, but informative analysis, cf. Stephen Reese et al., "Economic News on Network Television," *Journalism Quarterly,* Spring, 1987, pp. 137–144; for a more theoretical approach, Hanna Adoni et al., "Television Economic News and the Social Construction of Economic Reality," *Journal of Communication,* Fall, 1978, pp. 61–70. More recent is Lee Huskey et al., "Economic Illiteracy and the Content of Television Network News," *Social Education,* March, 1991, pp. 182–187. On information retention of "sound bite" economic data, see Robert Sahr, "What People Understand from Television Inflation and Unemployment Reports," unpublished conference paper at International Society of Political Psychology, July, 1988.
11. Cf. Andie Tucher, "'You News," *Columbia Journalism Review,* May, 1997, pp. 26–38.
12. For discussion of TV's impact on viewers' perceptions of US economic performance, cf. Robert Goidel and Ronald Langley, "Media coverage of the economy and aggregate economic evaluations: uncovering evidence of indirect media effects," *Political Research Quarterly,* v. 48, 1995, pp. 313–328. See also David Harrington, "Economic News on Television: the Determinants of Coverage," *Public Opinion Quarterly,* v. 53, 1989, pp. 17–40. Av Westin, *Newswatch: How TV Decides the News* (New York: Simon & Schuster, 1985), Herbert Gans, *Deciding What's News* (New York: Vintage, 1979), and Donald Kinder and Shanto Iyengar, *News That Matters* (Chicago: U. of Chicago, 1987) are the standard books in the field.
13. *Profile of the American News Consumer,* p. 109.
14. Pew Research Center, "Stock Market Down, New Media Up," xeroxed report, November 9, 1997.
15. H. Brandon Haller and Helmut Norpoth, "Reality Bites," *Public Opinion Quarterly,* Winter, 1997, pp. 555–575. See also Roy Behr and Shanto Iyengar, "Television News, Real-World Cues, and Changes in the Public Agenda," *Public Opinion Quarterly,* v. 49, pp. 38–57.
16. Cf., for example, Richard Morin and John Berry, "A Nation that Poor-Mouths Its Good Times," *Washington Post,* October 13, 1996, p. 1.
17. Cf. Jeff Dominitz and Charles Manski, "Perceptions of Economic Insecurity," *Public Opinion Quarterly,* v. 61, 1997, pp. 261–287 for discussion of analytic issues about how such perceptions are formed.
18. Cf. Jonathan Harris, "Investing in the Dark," *Maclean's,* January 27, 1997, p. 50.

Summary of Comments Given in Response to Richard Parker's Paper

Alan Murray, Wall Street Journal

After more than twenty years in financial journalism, Murray noted that press coverage of business and financial matters has improved. It is important to ". . . understand how far the press coverage of these issues has traveled in the last two decades. It really is a remarkable thing." Two decades ago, Murray contended, the best reporters were not interested in covering economic news and those who did had little background in economics. "The remarkable increase in the sophistication of economics and financial news is really notable." Financial issues now attract some of the best reporters.

At the same time, Murray agreed with Parker that there is a lot of coverage of personal finance and some is "pretty poor," but a lot of it is very good, particularly in the news magazines and on television. "The kind of people who are doing this work at the networks are much more sophisticated, much smarter, much better about how they are doing it than they were just a couple of years ago." But, Murray conceded, this better and more sophisticated coverage does little good if no one reads it or sees it. The media need to do a better job of attracting readers and viewers to financial news.

Murray addressed an additional problem with personal finance coverage. Financial journalists have not done a good job of bringing larger societal and personal economic issues together. They are not separate areas although they are often covered as such. "You can have a broader interest in the state of the national economy or the world economy . . . or what goes on in Asia and at the same time think about what it means to your personal finances. We have not done as good a job as we could do in explaining where the two come together. I see some signs that coverage is moving in the direction of recognizing that."

Finally, Murray commented on the future of financial news with the growth of the Internet. He worries about the effects of the ability of people to customize their news on the Internet. The placement of stories within a newspaper and order within a news broadcast provides readers and viewers with an indicator of the issue's importance. With the Internet, people will only hear about those issues that interest them and can avoid all other issues. In the past, people might not have read a story that did not interest them, but they at least had to flip past its headline. As the Internet grows as an information source, journalists will lose their ability to prioritize issues for the public. Also lost is a sense of community in which the public as a whole is informed about the same issues.

Louis Uchitelle, New York Times

Uchitelle agreed with Parker that financial journalism has become too focused on personal finance stories to the neglect of larger economic stories. A few years ago, Uchitelle noted, the Sunday *New York Times* business section was filled almost entirely with personal finance stories, but the section is changing so that it consists of 50 percent personal finance and 50 percent other business stories. Uchitelle concurred with the paper's charge that coverage of financial crises is too formulaic, which can desensitize people to crises in general. Not enough news coverage explores the causes and consequences of crises. Uchitelle also agreed with Parker that the news media does not give enough attention to key public issues such as ATM charges and redlining in inner city communities.

Uchitelle disagreed with Parker that restricting financial stories to the business section is necessarily a problem. Business sections place fewer restrictions on story content and allow longer stories. The real issue, according to Uchitelle, is the format of the business section and whether the newspaper is committed to attracting readers to it. Uchitelle would have liked to have seen Parker explore the impact of the format of the business section on the quality of coverage and compare the papers' efforts to make the business section attractive to its readers.

In response to Parker's content analysis, Uchitelle wanted a more detailed examination of the differences between papers in the quality of their coverage, particularly the coverage of crises. Do papers that devote more space to business news and thus more resources in terms of reporters and editors produce better stories? Do these papers produce more reporter initiated stories? How does the financial coverage in chain papers compare to that in family-owned papers? Uchitelle urged Parker to examine wire services in addition to the media analyzed in the paper. "The wire services, particularly the AP, but Reuters and others, are the great equalizers," Uchitelle claimed, but a remaining question is how papers utilize what the wire services produce.

Although Uchitelle found Parker's content analysis informative, he urged Parker to add interviews or focus groups with reporters and editors to discover the factors that produce bad versus good coverage. These interviews would provide an opportunity to dig further into the findings of the content analysis. As an example, Uchitelle cited the tendency for reporters to focus on the local angle of an economics story and ignore the larger national context. He noted that readers are interested in the bigger picture. "I find personally that whenever I go out to communities to try to report economics or to apply local situations to general news, I find that the people I interview . . . are interested in the national context of what they themselves are experiencing." News stories, on the other hand, tend to report on individuals or the performance of a single institution ignoring readers' desire for information about how their local situation compares to others. People want to know whether other people are experiencing similar problems. Interviews would help uncover why reporters fail to place their stories into a larger context but instead focus mainly on the local angle when there is a demand for the big picture among readers. Uchitelle wonders whether reporters and editors are simply unaware of this demand for news about the scope of the problem, or whether they are so accustomed to their standard style of reporting that they cannot break out of their usual routine. In order to change the system, Uchitelle recommends that researchers talk to reporters and editors to find out why they produce their current coverage.

Press Coverage of America's Changing Financial Institutions: A Veteran Journalist's View

Jeffrey Madrick

INTRODUCTION

Only ten years ago, the wave of mergers that swept the banking industry in 1998 would probably have been met by the press with overt criticism and a high level of suspicion. Today, America's financial media generally greet these large mergers—and the prospect of effective deregulation of financial services in America—with equanimity and even approbation. "We've had mild grumbling about ATM fees but no outcry about dangerous financial power," as *Washington Post* economics columnist Robert Samuelson recently commented, accurately summing up the press response.[1]

In that approving silence lies a story. The older American tradition that banks be kept relatively small as well as separate from securities brokers and insurance companies has been a long and venerated one for both press and public. The Glass-Steagall restrictions, adopted during the Great Depression, created a legal wall between commercial and investment banking and engendered the emotional attachment that many New Deal programs such as Social Security and unemployment insurance had. The $70 billion combination of the Travelers Group with Citibank, consummated last fall, now circumvents these restrictions by putting bankers, brokers, and insurance agents under one roof. Combinations of such enormous institutions as BankAmerica with NationsBank likewise challenge traditional concerns about concentration and reduced competition, prospects that many Americans have historically feared especially concerning banks. Surely, one might have thought, these were the sorts of issues on which the press, whose traditional role is to serve as a guardian of the readers' interests, would take a strong and skeptical stance.

What, then, has changed? Robert Samuelson attributed the calm reaction of the financial media to the recognition that traditional banks had lost their power.

Savers and borrowers in increasing numbers now go to many other places to invest their money and take out loans. Banks had 90 percent of household assets as recently as 1980, according to the Federal Reserve, and have only 55 percent today.[2] But there are additional factors. Despite the country's long-standing legal position, the Glass-Steagall restrictions have been informally circumvented for years, and many academic experts, insisting that the law is outdated, have been calling for its revision. As important, the press had also become accustomed to ever-larger corporate mergers in most major industries since the 1970s. "There's a general view out there that the antitrust laws are outdated and need to be overhauled," says the managing editor of the *Wall Street Journal,* Paul Steiger. "It is certainly fashionable in economic and business circles to support mergers."[3]

Such a view is partly justified. In the past, the financial media may well have been too suspicious of business in general and large size in particular. Because the banking industry has changed dramatically, most of the major financial media now concede (and I think often correctly) that nationwide banks can enhance competition in some respects rather than only reduce it. As one *New York Times* article had the respected banking analyst Bert Ely explain it, "Technology has taken local oligopolies and made a national marketplace. And in no line of business could the merged company by any means be considered a dominant player."[4]

But an extensive review of the media's coverage of financial deregulation and industry consolidation has disturbed this long-time reporter and editor. In my view, there are trends in financial journalism other than those cited above that account for the press's mild and, I think, seriously inadequate reaction to financial deregulation and industry consolidation. By focusing on the coverage of these areas, I shall argue that it is apparent that the pendulum of financial journalism has now swung too far towards over-simplification, complacency, and ready acceptance of the prevailing conventional wisdom of the business and financial communities. I believe financial journalism must take a close and critical look at itself. The financial services industry *and* its critics have justifiable grounds for complaint. Even the basic story about the evolving nature of banks and other financial institutions today is not being properly told.

What causes me—and, as I've discovered, other financial journalists—unease about our profession? The press has almost universally understated the risks inherent in reduced regulations and free-market solutions in an environment of seeming prosperity and rising stock prices. It has foregone its traditional role of cutting through the self-serving mythology offered by market analysts, business economists, and some mainstream academic economists as well. Now the press often seems to be among their most ardent admirers, too often forgetting that the 1990s is still the slowest-growing decade in the post-World War II period. "I think most reporters today believe that until very recently the 1990s expansion has been a prosperous one," says *New York Times* economics reporter Louis Uchitelle. "I think most believe deregulation is good. This has influenced reporting and where the emphasis goes in stories. Until the Asian crisis, those views were generally unchallenged."

Perhaps most disturbing in my reading is that no strong conviction has emerged in any publication I have read that financial deregulation and industry consolidation should be addressed with the same kind of vigor that is regularly devoted, say, to Washington scandals, welfare reform, or the stock market. Given Americans' enormous concerns about their economic condition and prosperity, some greater degree of attention would seem natural. But judging by two dozen or so interviews with journalists, editors, and economists, financial deregulation and the evolution of banking are simply not high on the journalistic agenda unless there is a crisis. Is this because it is considered mundane? Or is it also because the deep skepticism that often results in the best journalism is no longer as highly rewarded in even the best journalistic enterprises? Only with the recent crises in East Asia and Russia did the financial press at last begin to pay serious attention to the risks of deregulated global markets. Only with the recent collapse of the hedge fund, Long-Term Capital Management, did the financial press analyze in depth the risks of investments in unregulated derivative markets and unregulated financial institutions. "Deregulation is just rolling along in a way that risks are ignored," warns Chris Welles, senior editor of *Business Week*. "The risk is not adequately explained." Adds Louis Uchitelle of the *Times*: "The risks are rarely in the second paragraph."

This is indefensible, I believe. My reading of recent coverage suggests that financial journalism has changed in ways that have undermined its coverage of many major issues. Here is a summary of my main concerns.

1. Financial journalism, like all other journalism, is increasingly crisis-oriented. Major issues, especially when technical and abstract, are rarely covered unless a scandal breaks, significant losses are incurred, or a government investigation is announced. Thus, coverage of major transformations—such as the deregulation of financial services—is generally episodic rather than regular and ongoing. Such coverage is usually of a broad-brush kind, in which editors take pride that they have covered all the bases, but which usually lacks focus on any single issue.
2. Financial journalism has become much more personality-oriented. Complex issues, editors have apparently decided, can best attract the reader's attention by working them into stories about the rich, famous, and powerful. But the inevitable result is that serious issues are often treated superficially or only briefly.

   Given the press's need to attract and retain the audience's attention, such constraints have left financial deregulation and banking consolidation in a journalistic limbo. "Entertainment value is so important these days," says Tim Metz, who was a reporter for the *Wall Street Journal* for 23 years. "Now breezy feature stories are on the front page. More serious stories are in the back." Few if any American publications will risk devoting space to the sort of long industry surveys *The Economist* does. One can quarrel with the sometimes academic and long-winded nature of these tomes, as well as with *The Economist's* often ideological perspective. But the magazine will take the time and the risk to explain a subject clearly, slowly, and at length, and thereby provides an invaluable service.

The consequences of such tendencies in the press, according to former Undersecretary of Commerce for Economic Affairs, Everett Ehrlich, are that financial journalism doesn't adequately address central business issues the way it once did. It is "less parochial " than it used to be, says Ehrlich, which is not good. He thinks the press is not providing the public with a clear explanation of the evolution of the banking and financial services industries.

In Ehrlich's view, for example, there are three kinds of bank mergers. The first is the merger of two different financial institutions such as the Travelers Group and Citicorp designed to create a full provider of services from insurance to equities to banking. The second kind is the merger of two regional banks such as BancOne and First Chicago meant to derive economies of scale out of the combination of the markets of two regional banks. The third is the merger of, say, Mellon Bank with Bank of New York, to become a leading trust company. "To read the financial press or watch the TV news, you would never know there are these kinds of distinctions," says Ehrlich. "They generally bunch them all together."

3. The coverage of business issues has been increasingly displaced by personal finance. Both the *New York Times* and the *Washington Post* now dedicate their Sunday business sections to personal finance, for example. Business news on television is almost entirely devoted to personal finance and even more narrowly to investments in stocks.

All the reporters and editors I spoke to agree that personal finance comprises a much higher proportion of what they cover today. But this tendency towards emphasizing personal finance to the neglect of other coverage is most pronounced on television financial news. This was not always the case.

The business news reported on television, for example, was far broader at the outset of the 1980s than it is today. Programs such as "Business Times on ESPN," where I was executive editor, reported in the mid-1980s on labor, management, government policy, social issues, and science and technology (apart from hot stocks). Today, television financial news is almost entirely weighted towards investment information served up in short interviews with the same time constraints as general network TV news. CNBC is virtually the Dow Jones newswire with live bodies and talking heads added. Rarely does one see a major—or even a modest-length—piece on a substantive business issue.

It is easy to shrug one's shoulders at this, given the lowest-common-denominator economics of television. But I think these habits have to a degree infected print journalism as well. Of course, publications are increasingly seeking to maximize profits and this requires them to seek the broadest audiences. But there is also little doubt that television has increased the appetite for personal finance, and a breezy non-demanding kind of reporting as well.

I also suspect that TV's slack standards for sources are invading print. Some TV commentators are highly knowledgeable. Many on the staff of CNBC are experienced and savvy, for example. But TV's rapid pace and breaking news formats don't make adequate room for serious analysis. The traders, analysts and economists who are interviewed are presented as equals—no matter what their training, experience and knowledge. Moreover, rarely are two or three sides of the question given full treatment. Nothing alarms me as much as watching stock analysts on Bloomberg news give their latest picks in short sound bites, with no interviewer there to interject even a "But what if?" When I started out in business journalism in the 1970s, we were extraordinarily careful about doing pieces in which individual stocks were recommended for investment. Nowadays, after a long market rise, those precautions have been thrown to the prevailing bullish winds. Needless to say, this is hardly journalism, at least as I learned the craft.

4. As noted, under the influence of a long economic expansion and rising financial markets, the financial media have become unjustifiably relaxed about the risks inherent in markets and business. While there is in many quarters an admirable degree of vigilance (and almost all publications can point proudly to individual scoops), in general, financial journalism has gradually (and maybe unwittingly) reduced its role as a consumer and investor watchdog. Financial television reporting is especially lax.

   There are several serious risks to which I believe the media can devote much more attention. Among the foremost is whether these new financial conglomerates can be managed successfully. Richard Herring, a Wharton School finance professor (and associate dean), is one of those observers who thinks the media have been too critical of the size of newly-merged financial institutions. Like many others, he points out that the market share of these new combinations remains relatively small. (In fact, as noted, in most publications I have read there is relatively little criticism of size.) But Herring also believes that the economies of scale these merged institutions claim are suspect. "It's hard to find a successful financial conglomerate," he says. "I worry about diseconomies of scale. This is not discussed very much."

   To be sure, most of the publications do consequently wonder aloud whether so-called one-stop financial shopping really makes sense. One or two of the stories I have read even correctly pointed out that the mix of investment banking, commercial banking and insurance in European banks has not produced high returns. But such points are rarely if ever central to these stories. Despite the strong historical case against the viability of these mergers (Sears and Dean Witter, Wells Fargo's troubled acquisition of First Interstate Bancorp), I never found a publication that strongly doubted whether these merged institutions would be effectively managed until enormous losses were reported in the wake of the near-collapse of Long-Term Capital Management. (A few years ago, *Business Week* did a major story about the myths of corporate synergy in general.)

More typically, banking analysts are sometimes quoted as insisting that this time around it is different. "Although these mergers are building on an old theory," writes James Peltz in the *Los Angeles Times* article mentioned above, "they have a better chance of working today, analysts said." What is the evidence for this? "The willingness of two companies as big as Citicorp and Travelers to wed illustrates the point," Peltz's analyst says, in a blatant example of circular reasoning that his editors nonetheless accepted without challenge.

5. My reading of recent financial journalism also suggests much less skepticism of sources. Wall Street analysts, business and academic economists, and business executives are treated with credulity. On television, sources are interviewed willy-nilly with the same degree of credibility accorded them all, regardless of their vested interests, expertise or experience. Even academic economists are now glamorized by some members of the financial media without attention to their biases. And little distinction is made between an independent expert and one who works for a Wall Street firm or business consulting firm. "The degree of promotion is more powerful than I've ever seen it," says *Business Week's* Welles. In their lack of critical distance, the financial press not so much helps to set but rather merely reflects the mood of a certain segment of the American population.

   For all the agreement among reporters and editors that Wall Street's analytical community is increasingly promotional and more conflicted, little appears in the press on the subject. "I think the press hesitates to criticize the analytical community because as a general rule they are their sources," says Zweig. Notable exceptions have been several stories done by the *Wall Street Journal* about analysts who have been censored by their firms. One such story focused on the long-time movie company analyst, David Londoner of Schroeder & Co., who found it difficult to make a low-earnings forecast for one of his firms' investment banking clients. The story went on to quote others in the financial industry about the inherent bias among analysts in the business. For example, one company that tracks stock analysts' recommendations found that only one percent of them were "sells."[5]

   The most credulous treatment of financial sources is inevitably on television news, of course. A full-time news channel such as CNBC requires a great deal of material, and consequently goes through interviewees by the dozens every day. Yet, these sources are all more or less treated as "authorities" of equal import.

6. In their attempt to become more sophisticated, financial journalists have increasingly come to accept the assumptions of mainstream economists. An increasing number of these journalists are, of course, economists themselves or have had serious economic training. But the strength of journalism is in its empiricism ("go out and find the facts"), not in its reliance on academic theories or models which at times may reflect the values and ideologies of their authors. Within the academic profession itself there is considerably

more dissension than is typically reported in the press. Yet, ironically, increasing technical sophistication in the media has led to *more acceptance* of ideological points of view rather than the *persistent challenge* of the status quo. The latter, I believe, is one of the requirements of good journalism.

Moreover, the consensus views of economists change. "Twenty years ago," says the *Times*' Uchitelle, "a survey of the American Economic Association would have found a lot fewer supporters of deregulation than there are today." A recent study by three economists, Victor Fuchs, Alan Kreuger and James Poterba, should be required reading for journalists.[6] The authors conducted a detailed, carefully constructed survey that finds economists have ideological points of view that affect their economic conclusions. Another more informal survey (done for the United Nations) by former Federal Reserve economist Christopher Rude finds that Wall Street economists, analysts and traders systematically tell the press one thing while they believe something else.[7]

CONCLUSION

I have generally chosen examples for this study from the best of America's financial publications. Because they are the best, the inadequacies in the coverage of financial deregulation and consolidation are all the more disturbing. As noted, some of these inadequacies are the inevitable results of intensifying competition for the reader's attention, not only with other departments within the publication—from politics to dining out—but with other media. In a time when celebrity journalism has grown faster than any other category, we should be grateful perhaps that serious financial journalism has retained as important a place in our publications as it has. But it has done so in part by focusing much of its attention and resources on personal finance at the expense of fundamental business and economic issues.

Competitive pressure aside, my greatest concern is about what I see as a slow, but increasingly rooted change in journalistic philosophy. Once, financial journalism went against the grain of the establishment, as noted earlier; now, all too often, it goes with the grain. Once, I believe, it was a leader in taking on the major issues of the day; now, too often it is a follower. Some say this is because journalists are much better compensated than they once were. Others say that ever since the glamorous days of Nixon and Watergate, journalism has attracted more of the sons and daughters of the prosperous to the profession. Still others say that the publications have become so profit-conscious in a relentlessly competitive economy that the skeptical, outsider culture that had always given journalism its edge has been replaced by a market and business culture.

All these factors may contribute. But the coverage of financial deregulation and bank consolidation provides a window on the evolution of financial journalism that in many regards is more deeply disturbing. For a short golden period, business issues that were once relegated to the dark side of the moon, and considered too complex for attention in the press, were being addressed in the nation's best publications. Now, the all-important basics of business are in the back pages, the breezy and entertaining up front. "A complicated story like Microsoft's antitrust situations only gets a lot of good coverage because it's sexier," says the Wall Street Journal's David Wessel.

When a crisis does develop, there is little doubt that the financial media will do an energetic and sincere job. More journalists have the skills to look through SEC filings than ever before, but fewer seem to be going beyond this. Former business journalist Tim Metz says, "It seem to me there is a lot less slogging for original stories about wrong-doing or bad management. Now the media often waits for a government investigation or a lawsuit."

As times become more complex, financial journalism must become still more sophisticated. No group of professionals is as self-critical as journalists. Many tell me they recognize the limitations of current coverage. But the pendulum has decidedly swung too far towards the acceptance of the status quo. The journalists themselves don't all seem to recognize this. Once more of them do, I have little doubt that many in this self-chastising profession will seek to correct the course. Whether the economic environment and the competitive battle for the reader's and viewer's attention will allow them to do so is another matter altogether.

ENDNOTES

1. Banking Revolution," *The Washington Post,* April 29, 1998.
2. Trillion Dollar Banks," *Business Week,* April, 1998
3. Citations of journalists are based on telephone interviews conducted in August and September, 1998.
4. Robert D. Hersey, Jr., "Shaping a Colossus," *New York Times,* April 7, 1998.
5. Michael Siconolfi, "Mr. Londoner's Daily Battle," *The Wall Street Journal,* May 18, 1998.
6. "Why Do Economists Disagree About Policy? The Roles of Beliefs About Parameters and Values," *Journal of Economic Literature,* December 1998.
7. Christopher Rude, "East Asian Financial Crisis: A New York Market-Informed View," A Report for the United Nations.

Summary of Comments Given in Response to Jeffrey Madrick's Paper

Diana Henriques, New York Times

Henriques disagreed with Madrick that "today's business journalism somehow reflects a fall from grace from an earlier day." Based on her examination of past news stories, Henriques concludes that "if there ever was a golden era, it is probably now." The papers and speakers evaluate media coverage of all financial institutions on the basis of coverage of the banking industry.

Henriques commented on the changing nature of the financial world. "The changes in the financial services industry are larger and more complicated than a revolution, which is how they are often characterized. What is going on is more like an earthquake. "Old institutions are cracking at the foundation, hastily built newer structures are crumbling, temporary shelters are springing up on the landscape, fires are breaking out, information is fragmentary, sometimes alarmist, often misleading." It is impossible to predict who will be the winners and losers in the end.

Henriques pointed out a disjuncture between the dominance of business in American society and the amount of attention most journalists pay to the subject. "Never before in this century has business, with a capital B, wielded so much unquestioned, unchallenged power in American society." This power is not balanced by reformers, labor unions, consumer advocacy groups, and government regulators as it was in the past. The only counter to the power of big business is the media in their role as the fourth estate. The "journalists who are passionately committed and familiar with our watchdog mission are also appallingly ignorant about business." Henriques asserts that journalists who would never admit ignorance about political issues have no qualms admitting ignorance about business issues. She assigns much of the blame to senior executives and editors of news organizations. "We rely on our editors to recognize the importance of the areas we cover, to take an avid interest in them, not just an obligatory interest, and to give us the space and the money that we need to cover them adequately. Business may dominate the American agenda at every corner, in every molecule, but [most reporters and editors] think business is boring. That, I think, is the root and branch of our problem. And until leadership of our profession wakes up to the real role and importance of business in American life, foot soldiers advocating better quality business journalism will be fighting a battle that I don't think we can win."

Chris Welles, Business Week

Welles agreed with Madrick that a sense of skepticism is missing from today's financial journalists. He attributes journalists' complacency to the growth of the stock market and the increasing prosperity of many investors. Welles explained why personal financial news has become so common and is driving out coverage of financial institutions. Welles argued that personal finance stories are easier to produce than investigating large corporations. As a result, the amount of investigative journalism and consumer reporting is on the decline.

Welles described some challenges confronting financial reporters today. First, the public relations people working for corporations have gotten much more sophisticated. Before granting an interview, it is common for a public relations person to do a Lexis-Nexis search on all a reporter has written. Next, Welles discussed the legal concerns for a publication like *Business Week.* Companies that feel they have been wronged in an article file a lawsuit rather than simply writing a letter to the editor. The lawsuits are not freedom of the press issues in which journalists enjoy a lot of protection. Companies will instead charge something like a trespassing violation. Welles says that the prospect of a law suit has had a chilling effect on journalists. Finally, Welles noted that many business issues require a level of sophistication that can only be gained by education or experience in the industry that the average journalist does not have. Journalism schools do not teach accounting or similar business topics that come up in financial reporting.

Welles criticized the "erosion of the wall between advertising and the news." He gives an issue of *Time* as an example. The issue, on the future of medicine, was sponsored by Pfizer and presents editors with a troubling conflict of interest.

Covering Financial Services: Advice to the Media from the Academy

Dr. Robert E. Litan[1]

The importance of good financial coverage cannot be underestimated. If there is any hope that individuals are to become better informed about financial matters than many currently are, it will be the job of newspapers to help them do it. Moreover, policy makers and their staffs learn about what happens in the financial world from coverage in newspapers and magazines. Stories that overplay the negatives about finance can lead to unwelcome or unproductive policy reactions (such as the introduction of circuit breakers after the 1987 stock market crash), just as stories that underplay financial developments or miss the real "story" can allow policy makers to duck responsibility for too long (a prime example being the S&L debacle, as I discuss below).

One of the key themes of the paper is that the part of the financial business that generates the most news—the uncomfortably too frequent crises—also creates the greatest dangers for misreporting and misdiagnosis. While my main aim in this paper is not to criticize the media coverage of financial news, I do believe that in the rush to focus on the details of the crises and the personalities involved, the media sometimes inadequately report on the deeper underlying causes and contributing factors that make these crises possible as well as on the limitations of direct regulatory intervention to prevent these crises in the future. In some cases, the causes are man-made—that is, failures by policy makers—and so can be fixed by altering policy. In such cases, more attention should be paid by the media to those failings. In other cases, the solutions lie in better disclosure and other policies that encourage better *market discipline* rather than in direct *government intervention,* which in a world of rapid technological change all too often is circumvented, with unpredictable results. Reporting that implies or gives heavy emphasis to those who urge that the government "do something" in the wake of a crisis can unwittingly contribute to policy mistakes by creating a false impression that "the government" can simply fix a problem by writing a rule or changing a statute.

In the end, the journalists who cover finance have a unique opportunity and a challenge. The opportunity is to cover a segment of the economy that is rapidly changing and thus is rarely boring; indeed, apart from sex, matters about money may be the items of most interest to readers of newspapers and magazines. The challenge, however, is that precisely because finance is changing so rapidly, driven largely by advances in technology, financial journalists must strive to be conversant with an ever widening set of issues and subjects. This will become evident as I browse in this paper through the forces that are reshaping the financial world and those of us who try to keep up with them.

TYPECASTING FINANCIAL NEWS AND TRENDS

As a broad generalization, there are two types of news stories about financial developments: those that show up on "page one" and the others that are left to the "business page." Chart 1 illustrates the distinction.

Chart 1
Types of Financial Stories

Page One

- Crises (Stock Crashes, S&L/Bank Failures, Global Crises)
- Big Mergers (Citigroup, Nations/BofA)

Business Section

- News You Can Use (Personal Finance)
  - Personal investing: general advice, individual companies
  - Shopping guides (credit cards, ATMs, insurance, finance over the Net)
  - Interest rates/credit crunches (sometimes page one)
- Human Interest (smaller mergers, business personalities)
- Legislation, Regulation

The most common Page One stories, in my experience, relate to financial crises: large stock market crashes (October 1987, October 1997), major bank failures or series of failures here at home (the S&L crisis), or financial/economic crises abroad that threaten to have significant impacts on the U.S. economy or markets (the recent Asian and Russian crises). To the degree that these events make the front page, they are no different than other types of stories: bad news tends to dominate. Rarely will reports of continued healthy profits earned by financial institutions or the steady upward climb of the stock market hit page one. The key exception is a byproduct of financial good news: mergers of large financial institutions—such as the Citibank/Travelers and Nations Bank/Bank of America marriages—which tend to happen when stock prices are rising and which often show up on the front page when they do.

A variety of other financial stories show up in the business section, where the "bad news bias" tends not to be as much in evidence. For simplicity, I have grouped in Chart 1 the business section stories in three broad sub-categories. "News you can use"items are designed to help readers with their own finances, often in their personal investments; in purchasing various financial services, such as mortgages, credit cards, and insurance; and most recently, in assisting readers to conduct their financial transactions on the Internet. Human interest segments include the smaller mergers that don't make it to the front page and personality profiles of leaders of financial service firms. A third category consists of stories about legislative and regulatory developments affecting the financial services industry and its consumers.

The financial sector has been and will continue to be strongly influenced by four broad trends: technological advance, demographic change, globalization, and consolidation. In addition, finance has been—and will continue to be—subject to a series of periodic crises, in the markets and among financial institutions. In the rest of the paper, I describe each of these trends or developments in greater detail and the reactions they have triggered from policy makers; explain which types of stories these developments and their reactions have most affected and are likely to affect in the future; and briefly summarize when and how academic research has influenced the policy responses and how such research can help journalists in the future.

TECHNOLOGICAL CHANGE

It is difficult to identify any other industry that has been more affected by the continuing changes in the information revolution—save the computer and telecommunications industries that have been driving that revolution—than the financial services industry. At bottom, this is because financial services are all about information: banks store your deposit and loan balances; insurance companies keep track of when they owe you money; securities firms, mutual fund companies record and move asset holdings from one owner to another; and the markets exist to help make all of this possible.

How does all this activity get into the news? Much of it shows up in the business section of daily papers or popular magazines as "news you can use." There seems to be no end of articles written about the Internet, for example, guiding consumers through the maze of Websites devoted to finance. The less techie stuff shows up, too, of course: stories about ATM fees have been common fare in many newspapers over the past several years (although this may die down now that Senator D'Amato is no longer chairman of the Senate Banking Committee and, in any event, in the long run will become less relevant for reasons discussed shortly). On balance, the "news you can use" coverage of technological developments in finance is generally informative.

Financial technology becomes front page news seemingly only when things go wrong, which is understandable: bad news sells newspapers and magazines. There is a strong tendency in reporting such disasters, however, to focus on the symptoms and personalities rather than underlying causes or problems in need of repair.

Take the heavy media reporting of the near failure (so far) of Long-Term Capital Management as an example. Several different aspects of this story were heavily covered: how the financial luminaries who ran the firm made their mistakes, the details of how the Federal Reserve helped orchestrate the firm's rescue by its creditors, the dangers lurking in other hedge funds, how the commercial and investment banks that loaned the funds money didn't look closely enough at what they were supporting, and how the regulators (the Federal Reserve in particular) failed to monitor the banks. All these were perfectly valid aspects of the story to cover. And predictably they led to calls in Congress for more regulation of hedge funds, as well as some heavy criticism both in Congress and in the media about the nature of the involvement of the Federal Reserve and the potential "moral hazard" it created (notwithstanding the fact that no federal money was used in the rescue).

But lost in all this reporting were two larger points. One is that the media can miss the self-correcting features of the financial system. There always will be losses in finance: that is the nature of the game. The job of policy makers is to ensure that the losses don't turn into calamities, which was the reason the Fed (rightly or wrongly) encouraged the creditors of LTCM to come to the firm's rescue (at great cost, however, to the founders of that firm). But in playing the "blame game"on LTCM, the media ignored the fact that, having got burned by their own mistakes, the creditors of LTCM and of other hedge funds had very strong incentives after the events of September 1998 to improve their monitoring and lending procedures, demonstrating that the fastest-moving "regulators" of the hedge funds almost surely were the creditors themselves. Nonetheless, I saw no stories or attempts by the media to cover how commercial and investment banks changed their behavior after the crisis.

A second broad aspect of the LTCM story was that in reporting on those who called for more regulation and/or mandated disclosure by the hedge funds, the media missed what I believe was the *larger* story: the inadequacy of the disclosures by financial institutions generally of their derivatives exposures. As it is now, banks and other financial institutions typically report their derivatives activity in a very aggregated fashion, without providing a lot of detail about the countries of their counterparties or how their counterparty risks are distributed (are they concentrated among a few or spread out among many?). Stories that inquired of institutional investors what additional, desegregated disclosures they would like to see would have put a spotlight on this problem and could have helped trigger a productive debate among policy makers about how to encourage more such disclosure (and exactly what types of disclosure would be most useful—as this can be a quite technical subject).

What do academics have to say about the continuing trends in financial technology? Two broad themes emerge from the literature of which journalists should be aware.

First, public policies toward the financial sector play a significant role in financial innovation, which in turn often has feedbacks on policy itself (leading to new challenges). Some policies have actively, if unwittingly, promoted financial technology: a good example is the federal government's decision to provide guarantees to mortgage-backed securities, which not only led to the huge growth of the main government-sponsored enterprises in this market (Fannie Mae and Freddie Mac), but also encouraged the development and growth of securitization of a wide variety of purely private credits, including auto loans, credit card receivables, and commercial real estate loans. Ironically, however, by enabling banks to sell their best credits—those that are most easily standardized so that they can be assessed by the credit rating agencies—securitization is leaving banks with the riskier loans in their loan portfolios, which causes (or should cause) regulators to be especially vigilant in enforcing standards requiring banks to back their assets with specified amounts of shareholders' money (capital standards).

More frequently, however, regulations themselves unwittingly have spawned efforts by financial actors to find ways around the rules. Ceilings on interest rates that banks could pay their depositors, for example, induced banks first to create the Eurodollar market in the 1960s (where rates were unregulated), and later encouraged the growth of money market mutual funds in the 1970s and 1980s. Ultimately, the innovations themselves forced policy makers to abandon the ceilings entirely.

Second, as in other parts of the economy, innovations in the financial sector are to be welcomed even as they cause disruption, and in some cases, failure of individual institutions. The automobile, after all, put buggy manufacturers out of business. The Internet is sure to do the same with many brokerages and perhaps even stock exchanges. The Net also will drive down margins on the bread-and-butter intermediation business in which banks are actively engaged, as well as underwriting fees garnered by investment banks (as increasing numbers of firms issue stock directly on the Net without going through underwriters). Furthermore, because it enables individuals and businesses to search for the lowest-cost financial services literally at the flick of a mouse, the Internet may also undercut the business rationale for creating "financial supermarkets" which offer only limited "house brands." It is important that the public understands from the media this inherent process of "creative destruction" (the memorable phrase coined by Joseph Schumpeter) and does not blame regulators or policy makers for innovation-induced business failures.

DEMOGRAPHIC CHANGE

A second powerful set of forces that will surely affect the financial services industry as well as the larger economy relates to demographic changes in our society.

The two most obvious trends are the increasing racial and ethnic diversity and aging of our population, both of which may have less-than-obvious implications for the media as they cover financial services.

Depositing institutions are more important as sources of credit for many individuals than they are as vehicles for investment (the spectacular rise of mutual funds, which now have more assets than banks, provides a powerful testament to this point). In a very real sense, depository lenders provide the key to economic advancement in America for the tens of millions of Americans who don't have family assets to fall back on to buy a house, to start a business or to purchase big-ticket items (such as automobiles, home furnishings and the like).

All of this is why policy makers have paid increasing attention to how depository institutions make their credit decisions. Existing anti-discrimination in lending legislation, such as the Community Reinvestment Act of 1977 (CRA) and the Home Mortgage Disclosure Act of 1989 (HMDA), all are aimed at ensuring that lenders not only refrain from discrimination in providing credit, but in the case of CRA, that banks and savings and loans take affirmative steps to ensure that credit is made available to the communities in which they are located. When financial institutions do not adhere to these laws—or are claimed not to be doing so—it often becomes front page news.

The mortgage lending data produced in response to HMDA in the 1990s provides one example. These data generally show that black families are turned down for mortgage credit with greater frequency than white families, a fact that periodically makes it to page one of many newspapers around the country. The controversy arises over the causes of this finding. One widely-publicized study by economists at the Federal Reserve Bank of Boston claimed that the differences in rejection rates reflect discrimination, while others have claimed that the results are consistent with differences in credit-worthiness of the applicants (which the Federal Reserve authors acknowledge, but nonetheless claim that discrimination still plays a role). I will not attempt to resolve that issue here, although my reading of the studies is that they do indeed strongly suggest some discrimination. The key point is that the way in which financial institutions extend credit—and specifically whether individuals are being treated as such, and are not being discriminated against because of their racial or ethnic background—is an issue that is likely to continue to be very much in the news in the future. This is the case not only because society itself is becoming increasingly diverse, but also because of three important trends in the financial services industry.

The first two factors relate to the operation of CRA as financial markets continue to evolve. As I discuss further below, the end of the interstate banking restrictions is ushering in a consolidation process that is likely to produce a handful of major nationwide banking organizations. What is the meaning of CRA in a nationwide context? Will regulators have to scrutinize lending by every branch of one of these banks, or perhaps by all its branches in every metropolitan area, to determine compliance with CRA? Perhaps more challenging is how the Act will be enforced as the banking system consolidates. It has become commonplace for community groups concerned about bank lending practices to seek commitments, pursuant to the CRA, from merging banks to devote certain sums to lending in particular communities (a practice which has been strongly criticized by the new chairman of the Senate Banking Committee, Senator Phil Gramm). But soon, a number of banks will not be able to merge because they will hold more than 10 percent of nationwide bank deposits, the point at which mergers are prohibited under the 1994 interstate banking law. At that point, community groups no longer will be able to exert leverage on precisely those institutions they have targeted in the past. What happens then?

Another factor that will trigger renewed attention to CRA is the continued shrinkage of the banking system, not in absolute terms, but *relative to other financial institutions.* Whereas banks held nearly 60 percent of the assets of all financial intermediaries after the end of World War II, their share now has fallen below 25 percent—and continues to head south. In parallel with this trend is the rising importance of the securities markets and non-bank finance companies in providing credit. The "CRA community" already has recognized this shift in financial power, and has thus begun to press for extending CRA requirements to non-bank institutions such as finance companies, insurance companies and mutual funds (a move with which many banks probably have some sympathy, as a way of "leveling the playing field," but which understandably is strongly opposed by the non-bank institutions).

In short, just as debates about diversity and affirmative action have become "hot button" issues in the academic arena, I believe they will spill over into the financial arena, and then manifest themselves in discussions about the future of CRA and the enforcement of legislation aimed at preventing discrimination in lending. These are questions that will show up not only on business pages, but potentially on page one.

The other notable demographic trend affecting finance—the aging of the Baby Boomers—also will make both page one and business page appearances. The page one story, of course, is how the Social Security program will be altered to address the threat to its solvency posed by this important demographic development. Because the financial services industry has a major stake in the outcome of this debate—it obviously will benefit if the program is reformed to allow individuals to invest some fraction of their wages in their own social security accounts—the role the industry plays in arguing and lobbying for particular outcomes is a natural news story (on both page one and the business pages).

There are much more practical financial implications of the aging of our society, however, that will be of interest to readers of business pages and magazines providing them with financial "news they can use." One implication of interest to adults of all ages (and even some financially astute kids!) is what the coming demographic shifts will do to expected returns in the stock market.

Since the early 1980s, the U.S. stock market has generated spectacular annualized returns, on the order of 16 percent above the historical 12–13 percent return on stocks, and well in excess of interest rates on long-term bonds, which have averaged roughly 7–8 percent during this period (and now hover in the 5–6 percent range). The simple math of the stock market's extraordinary performance strongly suggests it will not continue: roughly half of the 16 percent annual rise reflects the growth in earnings, while the other half is due to rising price/earnings ratios. P/E ratios have risen, in turn, primarily because interest rates have fallen. Looking ahead, the aging of our population should put further downward pressure on private savings rates (which at this writing, temporarily have already fallen to zero); the same is true in Japan and most of Western Europe, whose populations are aging even more rapidly than ours. At the same time, the countries where the majority of the world's population reside will be increasing their demand for capital goods. Over the long run, therefore, it is unlikely that "real" (i.e., inflation-adjusted) interest rates can drop much further, which suggests that P/E ratios are not likely to rise. This, in turn, means that investors should not expect stock prices to increase in the future much more rapidly, if at all, than corporate earnings—or at about 8 percent, rather than the 16 percent to which many have become accustomed.

There are two ways financial journalists can report this story. The wrong way is to suggest that stocks will suddenly crash in the future when baby boomers start pulling their money out of the market to fund their retirements. Sure, markets may crash, but not for this reason. The markets have a way of seeing the trends I've just described and price patterns should adjust gradually. The right way, therefore, is to alert investors not to expect continued soaring returns on their stocks, but at the same time point out that they can still earn an "equity premium" above the returns on bonds, but a much lower one than they have come to expect.

A second implication of changing demographics is that there is a real market for independent reporting that helps Boomers—as well as the retirees ahead of them—to make intelligent choices in choosing how they want the funds stashed away in their 401(k)s, IRAs, and other pension vehicles distributed to them when they do retire (all at once? in annuities? if so, what kind?). For millions of Americans, this will turn out to be most important financial decision of their lives—and the more guidance they can receive free from the media the better. To a significant and growing degree, of course, computer-savvy individuals will be able to get this information from the Internet. But knowing where to go, what things to watch for, and what firms to purchase investment vehicles from—especially in the case of annuities, which can be complicated and expensive—are items of information that newspapers and magazines can usefully supply.

GLOBALIZATION

A third engine of change in the financial arena, and indeed throughout entire economies, is the so-called process of "globalization"—the much touted increasing flows of trade and capital between countries. Globalization in the financial arena manifests itself in several ways: through rising volumes of international interbank lending (which now tops $6 trillion); through increased portfolio investments in equities and bonds issued by foreign firms and governments; and through the increasing international presence of "global" financial firms.

The "Asian crisis" and its aftermath has temporarily given "globalization" of financial capital a bad name, adding to criticisms voiced about increasing trade voiced by environmental organizations and labor unions. I will not dispel those concerns here, having co-authored an attempt to do so in book-length form.[2] Instead, I firmly believe that—notwithstanding the jitters produced by the Asian crisis, as well as the subsequent Russian devaluation and unilateral debt moratorium—the globalization of finance will continue, if not accelerate in the years ahead for at least three reasons.

- The Asian crisis has not interrupted flows of funds between industrialized countries. If anything, by triggering a "flight to quality," the crisis has induced investors from around the world (including the affected Asian economies), to put their money in our stock and bond markets.
- Wholly aside from the temporary influx of funds to safe-haven countries, fundamental forces will continue to drive financial flows among countries. Increasingly, trade in goods requires after-market servicing as well as before-market research, which induces exporting firms to locate facilities in other countries. As they do, they bring home-market financial firms, with whom they have had a prior relationship, to those foreign markets. (This pattern explains how Japanese banks in particular became active throughout the world.) Furthermore, institutional investors seek out investment opportunities in other countries to further diversify their portfolios, a process that will surely continue.
- Although the financial crisis in Asia halted the flows of short-term "portfolio" capital (bank loans and non-controlling equity investments), the flow of longer-term foreign direct investment has continued. It has been encouraged to a significant degree by governments in the countries themselves (often at the behest of the International Monetary Fund) seeking to minimize the cost of dealing with their insolvent banks and corporations. American financial institutions, in particular, will extend their reach in these markets as a result of the crisis, and should be positioned to gain significant business as these economies recover (a story waiting to be written).

With the flood of articles about the Asian crisis already in the public domain, it would be foolhardy for me to attempt even a short synopsis of the lessons various experts believe the crisis holds for the policy-making community. So I won't do that. Instead, I'll briefly identify the following four lessons I believe could be especially useful to journalists as they wrestle in both page one and business page coverage with the impacts of globalization on finance (especially on U.S. institutions and the investing public) in the years ahead.

First, is important for journalists and their readers to make important distinctions among different types of cross-border capital flows. One distinction is between capital inflows and outflows. While the Asian financial crisis seemingly was characterized by heavy outflows of capital, Asian countries found them susceptible to the outflows because of excessive inflows in the first place. Accordingly, most of the attention in the policy-making community since the Asian crisis first appeared has been on discouraging excessive inflows.

Within the category of inflows, a second distinction is between foreign direct investment (FDI)—which is long-term in nature (and which even countries such as China, that restrict currency conversions) still want—and short-term or "portfolio capital" flows, which have been the target of attacks in some quarters. But even among short-term inflows, a further distinction is warranted: between purchases of equity on open stock markets—which again most countries want in order to enhance liquidity—and *short-term borrowing in foreign currencies,* which at the end of the day, was the real villain of the Asian crisis.

To date, when the subject has been excessive movements of "hot money" and efforts by individual countries to control them, most informed speakers and writers have pointed to short-term foreign currency borrowing in particular, and when they've advocated "capital controls," it is this type of capital they have in mind. To be sure, some countries (such as Malaysia) have attempted to limit *both* inflows and outflows of foreign capital, of *all* types. But the dominant concern has been about short-term foreign currency borrowing, about which a consensus now seems to have emerged: if countries want to take steps to limit such borrowing, they should be permitted to do so (although many economists would urge that the restraints take the form of "pricing disincentives," such as the reserve requirement that Chile imposed for some time, rather than arbitrary limits).

Second, it may be a cliche by now, but the Asian crisis has demonstrated the virtues of financial systems such as America's that are highly transparent. It is no accident that when the crisis hit, a lot of the world's money flowed to this country—and not just to government bonds, but also to equities, where disclosure matters. Thus, when the United States and the IMF preach the importance of improved accounting systems and transparency for countries that have been affected by the crisis, they have much positive experience to build upon. At the same time, it is important for policy-makers here to apply those lessons to addressing financial disturbances in this country—and for the media to monitor how well those lessons have been learned. As previously discussed, the "solution" to the problems created by hedge funds like LTCM lies in more disclosure, rather than in *blunt regulation.* And even then, the improvements that are most needed are those relating to financial institutions (especially the commercial banks) and their activities in derivatives markets.

Third, notwithstanding the trend toward greater global portfolio diversification by investors, it is still very much the case that investors here have what economists call a "home country bias." While the share of Americans' stock portfolios invested abroad increased from about 6 percent to 10 percent over the 1987–1996 period, it remains well below levels of international stock holdings in other industrialized countries (apart from Japan), and certainly well below the nearly 60 percent share of world equity market capitalization accounted for by stock markets outside the United States.[3] Here, American investors appear to have displayed better insight than academics may give them credit for. As the recent Asian crisis demonstrated, the U.S. equity markets are still very much the "safe havens" of the world. As long as the rest of the world continues to be susceptible to periodic crises, investors in this country can be forgiven if they seem to exercise a degree of prudence in how internationally diversified they want their investment portfolios to be.

Finally, I can't leave the subject of globalization and finance without mentioning a confusion about the role of the IMF that repeatedly has found its way into the media, one to which I myself have contributed at times (until I realized my error!). The IMF, of course, has been on the hot seat throughout much of the Asian crisis, and for a time Congress appeared unwilling to provide additional resources for the Fund to deal with future financial crises. Throughout much of this debate about the Fund, many of those who were defending it referred to its important role as the world's "lender of last resort," much as the Federal Reserve in this country has supplied liquidity when crises, such as the stock market crash of October, 1987, have threatened the stability of our financial markets and the wider economy.

The analogy of the Fund to a domestic LLR is clearly wrong, however, and because words matter, it is important that the true role of the Fund be described accurately by the media. Unlike the Fed, (or central banks, generally) the IMF cannot print money. Indeed, there really isn't an "international money" (The IMF's Special Drawing Rights for governments don't really count, because they are not used to complete transactions between private parties). Instead, the Fund's resources consist of foreign currencies that its members contribute, and only if they do so does the Fund have "money" to lend. Second, unlike the Fed and domestic banking supervisors, the IMF does not have the authority to regulate its client countries in *advance* of a crisis, although the conditions it has been imposing on the loans it extends to countries already in a crisis are far-reaching.[4]

In light of these key differences between the IMF and domestic central banks, it is more accurate to speak of the Fund as a "crisis prevention and management agency" than as an LLR. I am fully aware that changing the language used to describe IMF will not change the nature of the debate over the Fund. Its critics will still attack it for failing to respond correctly to the recent Asian crisis, or for laying the foundations for future crises by rescuing countries from their policy mistakes. Similarly, the IMF's defenders will continue to assert that the Fund plays an important role in containing the damage from currency crises. But at least policy-makers and the public will be arguing over what the Fund actually is, rather than what it has been inaccurately described to be.

CONSOLIDATION

The fourth major trend in financial services—increasing consolidation—is the product of two of the three forces already discussed, technology and globalization, plus (in the case of banking) deregulation of longstanding restrictions against interstate expansion. The consolidation has been of two types: mergers within the same line of business, such as banks buying other banks, or insurers buying other insurers; and true "conglomerate" mergers of firms in different parts of the financial services industry.

There is not much new about intra-industry mergers, especially in banking and insurance, where the number of players has dropped by about one-third during the past decade. To some extent bank mergers have been arranged to exploit economies of scale. For a relatively long time, scholars could not find economies of scale at banks larger than $1 billion in assets, but more recent studies suggest that economies may be realized at substantially larger asset sizes, perhaps as high as $50 billion, which explains many mergers of banks within the same market in the 1980s. I suspect, but cannot prove, that the search for scale economies has been a significant force behind many mergers in the insurance and securities industries as well.

The other type of financial mega-merger, of course, has involved financial institutions from different parts of the industry, all seeking in one fashion or another, to become "one-stop" sources of financial services to a broad range of clients. More precisely, these conglomerate mergers so far have been of two types.

The conglomerates being built by *banking organizations* have taken advantage of the gradual relaxation by Federal Reserve, beginning in 1989, of the Glass-Steagall restrictions against bank holding company participation in the securities business. This explains the purchases by a number of bank holding companies of second-tier securities houses. The recently approved Citigroup merger, combining Citibank with Travelers and Salomon Smith Barney, pushes the envelope of what is permissible, but that deal will not be truly "final" until Congress changes the Bank Holding Company Act to permit bank holding companies to own insurance underwriters.

Various *non-banks* also have played the conglomerate game, seeking to marry insurance, securities and non-bank lending businesses, or some combination of the three. Well-known examples include GE Capital's purchase of Kidder Peabody and FGIC; Prudential's purchase of Bache Securities; and even Morgan Stanley's combination with Dean Witter, which married the former firm's expertise in the "wholesale" or underwriting part of the business and the latter firm's expertise in the "retail" side, as well as its major presence in credit card lending (through its ownership of Discover). These mergers differ from the bank-driven conglomerates in two key respects. They never faced statutory or regulatory hurdles. And some of them—such as the one-stop business models attempted in the 1980s by American Express and Sears—have since been abandoned.

What is rather remarkable about all of the mega-mergers is how little opposition they have aroused. If these deals had been broached a decade or two ago, many if not most of them would have stimulated a large outcry that banks or other financial institutions were getting too large, controlling too much, and so on. The criticism of a leading foreign bank buying a major American bank such as Bankers Trust (as Deutsche Bank announced in November, 1998) would have been especially intense.

If anti-bank or anti-financial populism seems then to be dead (or at least not very healthy), what are the implications of all this merger activity for the journalists who cover financial services? I believe there are several. Consider the "page one" implications first:

- There will be MORE *conglomerate mergers* in the future, whether or not Congress passes some form of the "financial modernization" legislation that it has been debating for nearly two decades. During the last Congress, lawmakers came as close as they ever have before to allowing bank holding companies to own any type of financial enterprise (but not to permit commercial companies to own banks). But no final bill emerged largely because of the continuing disagreement between the Treasury and the Federal Reserve over the corporate form the new conglomerates must take and which agency will regulate them. Nonetheless, even if no modernization bill is enacted, firms from both inside and outside the financial industry will continue to exploit a loophole in the Savings and Loan Holding Company Act that permits any organization (financial or non-financial) to own a *single* thrift institution. In just the past year, such household names as State Farm, Allstate, and Nordstrom's have applied for or received a federal thrift charter, which looks very much like a bank charter and offers nationwide branching. Bank holding companies could do the same thing by trading their bank charter for a thrift charter and then affiliating with any other type of enterprise. Whether many of these attempts build "financial supermarkets" is another matter, and is likely to show on up business pages (as discussed below).
- Purely domestic mega-bank mergers may be close to running their course, for a simple reason: as already noted, the Riegle-Neal Act prohibits mergers that result in a single bank having more than 10 percent of nationwide deposits. This prohibition represents the last vestiges of a populist distrust of banks, which has its origins in the beginning of the Republic. To be sure, a few domestic mega-mergers remain to be done that will build national powerhouses to contest the new Bank of America/Nations Bank or Citigroup. But once American banks have reached the 10 percent limit in this country, I expect a few (and perhaps all) to look abroad to build global alliances, if not to make major acquisitions of banks in other markets. Similarly, as the EU becomes comfortable with a single currency and consumers find it much easier to compare prices of providers in different countries, I expect to see many mergers in the financial (and non-financial) sectors in Europe as the strong gobble up the weak. Some of the resulting behemoths may then be in the market to buy American institutions (Deutsche Bank's acquisition of Bankers Trust could thus be the first of many other transnational alliances to come).
- Contrary to the belief in some quarters that antitrust enforcement agencies should stand in the way of some of these mergers, the reality is that few, if any, of the large combinations pose serious competitive concerns, and when they do, the problems are generally easily fixed by divestitures. Mergers of firms in different geographic or service markets are rarely challenged

because there are so many other competitors in the global marketplace to discipline even the largest conglomerates.

Those who fear growing concentration of banking at the national level generated by the wave of mega-mergers overlook the fact that, at the local level where financial institutions really compete, concentration generally has not budged over several decades. This is not to say that local communities are unaffected by some of the larger mergers, because in fact they are. When a Nations Bank effectively takes over a Bank of America, there is a real prospect that the resulting institution will show less interest in supporting civic ventures in San Francisco and elsewhere in California. This is front page news in California, but not across the country. And it isn't a policy concern that is relevant to antitrust analysis.

- Arguably, the more serious public policy concern posed by the wave of financial mega-mergers is whether the country is gaining too many firms that will be deemed "too big to fail," or more precisely, too big for federal regulators and the monetary authorities to permit creditors of these institutions to lose money. To the extent this occurs, then public policy will have artificially tilted the competitive playing field toward larger institutions.

To some degree, this problem is overstated: certain of the institutions involved in the recent mergers—Citibank, Bank of America, and perhaps some others—already may have been too big to fail before the deals. In addition, there is a good case to be made that large, nationwide banks will be less susceptible to failure in the future than they are now because they will have diversified their risks throughout the country rather than being held hostage to the fortunes of the local economies in which they used to do business. Nonetheless, in the event one of these very large banks does run into trouble, the magnitude of its potential losses could be considerably greater than those associated with bank failures in the past.

The policy challenge is to find ways of ensuring that at least some creditors can take it on the chin if these institutions should run into trouble in the future, without threatening the stability of the overall financial system. One such measure that I (and other financial scholars) have recommended, and which at this writing reportedly is being seriously considered in the regulatory community, is to require large banks in particular to back a certain portion of their assets with uninsured, long-term subordinated debt—in effect, bonds that cannot be redeemed at will like deposits (and thus are not susceptible to "runs"), but instead can only be repaid when they mature.

A subordinated debt requirement would regularly subject large institutions to the test of the market. If the market could not absorb the debt at reasonable rates of interest, this would effectively prevent those institutions from growing and subjecting taxpayers and the financial system to the risk of greater losses down the road. Argentina adopted a subordinated debt requirement for its large banks in 1996 and, while it may sound a bit technical for an American audience, such a requirement represents one of the more important financial policy reforms that could be adopted in the near future.

Meanwhile, the business pages will become the right place to look for what I suspect will be a large number of critiques of the financial powerhouses that are being assembled. Some of these new giants will look good, and the leaders of those institutions will find themselves the subjects of much-welcome "puff" pieces. But other creations surely will sour. Cross-border marriages of financial institutions from different countries may founder over cultural differences (just as they often do for individuals from very different backgrounds). In addition, big bureaucracies are inherently slow to react to rapidly changing market developments, especially in the age of the Internet.

Indeed, I suspect some of the financial supermarkets being built today may find themselves victims of the Internet in another respect. As everyone who has a PC and a modem knows, the Internet allows consumers to comparison-shop with ease. This is not good news for financial supermarkets seeking to offer house brands to their customers. Their best hope is that consumers take to the Net much more slowly than many forecasters are projecting. But even then, many non-wired customers may not want to put all their financial eggs in a single basket.

Finally, however many mega-mergers take place and remain successful, there will always be a role for smaller, niche players, even in the Age of the Net. Throughout the 1990s, for example, there have been hundreds of new, small banks formed even as many more small and large banks merge. This is happening in large part because technology makes it easier for newer entrants that are not chained to "legacy" systems of information technology and management more generally. There will be always be many consumers, and especially small businesses, who want the hands-on, personalized treatment that only smaller institutions can provide. Indeed, every time one of these mega-mergers is announced, I suspect that the champagne is flowing at many local competitors who expect to take some of the customers who become disenchanted with their new, much bigger bank. Journalists looking for interesting, human interest business stories featuring these financial Davids in a world of Goliaths should have plenty of subjects.

CONCLUSION

Finance can be—and often is—every bit as exciting for the business media to cover as the fast-changing computer and technology industry. This is because everyone has money or would like to get some. It is the job of the media to help the public understand the markets and institutions that make the "money go 'round," hopefully safely and productively. In turn, the media can and should draw upon the collective wisdom of scholars who specialize in this area and, on occasion, have helped push policy making in a constructive direction.

ENDNOTES

1. Director, Economic Studies and Cabot Family Chair in Economics, The Brookings Institution
2. Burtless, Gary, Robert Lawrence, Robert E. Litan, and Robert Shapiro, *Globaphobia: Confronting Fears of Open Trade* (The Brookings Institution Press, The Progressive Policy Institute and The Century Fund, 1998).
3. Tesar, Linda L. and Ingrid M. Werner, "The Internationalization of Securities Markets since the 1987 Crash," *Brookings-Wharton Papers on Financial Services, 1998,* pp. 281–349.
4. This has changed recently with the Fund's decision (at the urging of the United States) to grant lines of credit to selected countries in advance of a crisis in return for commitments for reform by those countries. The first test case of this policy is Brazil. At this writing, it is unclear whether this new "early money" policy will work.

Summary of Comments Given in Response to Robert Litan's Paper

Kathleen Day, Washington Post

Day commented on some of the specific issues raised in Litan's paper. Day agreed with Litan that the print media is the source of information for many other news organizations though she noted that this is beginning to change with reporters watching the 24 hour news channels throughout the day. If newspapers can get a story right, it helps everyone get it right.

Day defended the media's practice of focusing on the human side of business stories. "It is not banks that fail. It is the bankers who screwed up. And it is not the long-term capital management that failed [in the Asian financial crisis]. It is the people who should have known not to leverage so much. People are an integral part of the story."

Day spoke about improving the relationship between business and the press. Journalists often find it difficult to get straight information from big banks and big financial institutions. Business needs to establish a better relationship with the press by being more accessible. Hiring a PR firm is insufficient because they lack the necessary information. "Business really needs to incorporate into its culture some education of the top people on how the press works, what we are about. You just cannot go and buy that knowledge from a fancy-dancy PR firm or from having an army of PR people." Day stressed that it is important for business leaders to establish a good rapport with the press. "Business has to educate itself better about how we do our job, because you cannot sit there on the one hand and not give access, and then on the other hand complain."

Day noted that the Treasury Department under the Clinton administration suffers from a similar problem and complained that journalists have difficulty getting information from the Treasury. A reporter has to go through too many people. You do not get the chance to talk to someone "who knows you professionally and who can cut to the chase . . . and make sure that they can transmit information with some amount of trust because they know you and you know them."

William Niskanen, CATO Institute

Niskanen agreed with Litan and others at the conference that "the quality of economic and financial journalism has improved enormously." "The bad news," according to Niskanen, "is almost inherent in what makes news. The characteristics of an economic, or fiscal story, or financial story that makes the front page have not changed very much, and these characteristics often do not contribute much to understanding the issue." The two characteristics are people and crises. Niskanen feels that journalists are too quick to make people either heroes or villains.

Niskanen also faults financial journalism for the way crises are covered. "There is too much focus on crisis management, not on why the crisis exists at all." In citing the Mexican bailout in 1995 and the recent Asian financial crisis, Niskanen argued that "there is a pattern of crises that is in some sense very much more important to address than whether the management of the individual crisis was adequate or not."

Niskanen urged financial journalists to pay more attention to events that do not happen or actions that are not taken. As an example, Niskanen discusses the financial crises that occurred recently in some countries but failed to spread to the extent many had predicted. "Why is it that crises in other economies [Asia, Brazil, and Russia] had little or no effect on the United States and other industrial countries?" Niskanen wants journalists to examine why the predicted contagion effect did not take place and be aware of similar new stories.

In looking at the future, Niskanen sees three future news stories "in which there are serious internal inherent structural tensions in the nature of financial arrangements." First, the EMU will cause enormous tensions in Europe because of many Europeans' unrealistic expectations for the union. Second, Niskanen questions whether "government sponsored enterprises are a threat to American tax-payers. The total debt of government sponsored enterprises is now higher than the explicit debt of the federal government." Third, the changing role of banks in society.

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