CAUGHT IN A BLAMESTORM

by Reg Rumney

The outpouring of negativity towards financial journalists has been surprising, symbolised by TV satirist Jon Stewart’s eulogisation of CNBC financial commentator Jim Cramer on the Daily Show. Journalists were no more to blame for the crisis than anyone else involved in the markets. In the subsequent “blamestorm”, however, fingers have also been pointed at economists, analysts, bankers, quants, credit rating agencies, regulators, governments, and Alan Greenspan, to name a few.

The bubble credibility of economics itself has been somewhat deflated. Yet journalists, particularly financial journalists, stand accused of helping bubbles develop by not being critical enough of their sources, and of not knowing enough to ask the right questions.

My journalist friends are prickly about negative assessments. As a former business journalist, I understand this. When you are in the trenches you tend to resent anyone pointing out you might not be following strict military procedure in hand-to-hand combat.

Yet surely criticism should prompt some self-examination? Perhaps popular dissatisfaction points to some deeper malaise. Could that discontent give us a clue about why audiences are deserting traditional news outlets in the developed world?

The unfolding of the global credit crisis and attendant recession has been accompanied in the West by job losses in the industry as newspapers close or shrink, and TV broadcasting may also be vulnerable.

So while journalists cannot be held entirely or even substantially responsible for the crisis, it should serve to show up weaknesses in the profession. The sage of Omaha, Warren Buffett, once remarked – albeit in relation to business risk: “It’s only when the tide goes out that you learn who’s been swimming naked.”

There is some evidence in the developed world that traditional news outlets are losing audience because of the disruptive technology of the internet, offering free content.

But why have newspapers, magazines and broadcasters not better armoured themselves through their brands?

A clue lies, for instance, in the relative success of the Economist magazine, which is thriving where other global news magazines fail, despite the explosion of digital media. Michael Hirschhorn, writing in the Atlantic, in a sometimes sarcastic evaluation of the Economist, notes: “True, the Economist virtually never gets scoops, and the information it provides is available elsewhere... if you care to spend 20 hours Googling. But now that information is infinitely replicable and pervasive, original reporting will never again receive its due. The real value of the Economist lies in its smart analysis of everything it deems worth knowing – and smart packaging, which may be the last truly unique attribute in the digital age.”

THE RAPID UNRAVELLING

A timeline of how what seemed to be a very clever scheme in the US to provide housing for those who really couldn’t afford credit, became a gathering storm that brought down banks across the world, provoked governments into unprecedented bailouts to bail out major industries, dented trade, affected employment rates and decimated confidence in the global financial system.

2004 – 2006

Between 2004 and 2006 US interest rates rose from 1% to 5.35%, triggering a slowdown in the US housing market. Homeowners, many of whom could only barely afford their mortgage payments when interest rates were low, began to default on their mortgages. Default rates on sub-prime loans – high risk loans to clients with poor or no credit histories – rose to record levels. The impact of these defaults were felt across the financial system as many of the mortgages had been bundled up and sold on to banks and investors.

April 2007

New Century Financial, which specialises in sub-prime mortgages, files for Chapter 11 bankruptcy protection and cuts half of its workforce. As it sells on many of its debts to other banks, the collapse in the sub-prime market begins to have an impact at banks around the world.

July 2007

9 August 2007

Investment bank BNP Paribas tells investors they will not be able to take money out of two of its funds because it cannot value the assets in them, owing to a “complete evaporation of liquidity” in the market. It is the clearest sign yet that banks are refusing to do business with each other. The European Central Bank pumps £63bn into the banking market to try to improve liquidity. It adds a further £108.7bn over the next few days. The US Federal Reserve, the Bank of Canada and the Bank of

THE LESSON THAT JOURNALISTS, ESPECIALLY BUSINESS JOURNALISTS, CAN TAKE AWAY FROM THE CREDIT CRISIS IS THAT THEY HAVE TO UP THEIR GAME

Surely this is what is missing from financial journalism? Reporters cannot be expected to be experts. Experts, in any case, write for other experts.

And there is a point in doing a beat where, I can attest from experience, one passes over a line from simply reporting to pontificating.

Yet journalists can be experts in journalism. And they can have expertise in certain areas. Those who had educated themselves in the purpose of journalism might not be seduced into being so uncritical.

Journalists who had some deeper understanding of finance might have been better able to sniff out clues to the impending disaster.

Andrew Palmer, a US correspondent for the Economist put it succinctly on the Listening Post, a programme on the Al Jazeera channel: “If the media did anything wrong and it’s a fault that lies with regulators, with bankers, with investors themselves, it is in not being sceptical enough during the boom, so at the time when these risks were building, banks were writing cheap credit, when we were all getting drunk on debt, no one was asking really difficult questions about the dangers that that posed.”

At the least journalists could have exposed some of the crooks swimming naked before the tide went out.

It’s not that few journalists had ever heard of CDOs and CDSs, it is that too few took on the obvious excesses of the increasingly financialised economy, or probed in ways that might begin to puncture the bubble mentality of the firms and people doing so well for so long.

In South Africa, we take our cues from overseas. If overseas news media believe glorifying chief executives, or anodyne chatter about where the market is headed, or stock-picking, is financial journalism, why shouldn’t we?

The global credit crisis underlines then why we should have journalism education, and why we should have such education specifically designed for business journalists.

The Centre for Economics Journalism in Africa (CEJA) was set up for that very purpose, before the crisis broke, but elements of the crisis vindicate the decision of Rhodes University’s School of Journalism and Media Studies to initiate the process of creating it.

Importantly, CEJA is located within a university, and its activities are designed to create effective and thoughtful business journalists, not merely praise-singers of industry, or regurgitators of indices and financial jargon. CEJA runs intensive short courses in various business journalism subject areas, but more importantly it has created a post-graduate diploma in economics journalism, the aim of which is to educate working journalists who do not have a financial or commercial education or business journalism experience to become business journalists.

If the crisis has underlined one thing it is that journalists had better equip themselves to better understand the complexities of the 21st century as well as age-old human fallibility. CEJA hopes to contribute to that education.