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Bad Press

How business journalism helped inflate the bubble.

By Phillip J. Longman

Pick up *The Wall Street Journal* today, and the business pages are full of stories about the men and women who built the stock market bubble. Months into the current downturn, the saga of Enron, WorldCom, Arthur Andersen, and other 1990s cheats has become the biggest running business story in decades--and business journalists are hot on the trail. Should we blame sticky-fingered CEOs? Self-dealing analysts and accountants? Board members asleep at the switch? Absolutely. But there's another sector of the economy, deeply implicated in the collapse, whose conflicts of interest, ethical lapses, and naïve enthusiasms have so far received little press attention: business journalism itself.

I was once proud of my profession and resentful of those who criticized it. For more than 20 years, I rode the great boom in business journalism that began in the early 1980s. I like to believe that at least some of my stories helped to enlighten readers and remedy wrongdoing. But today, I'm more likely to admit--at least on a bad day--that I spent my youth hustling Tyco shares to senior citizens. Just as Americans put far too much faith in the integrity and intellectual prowess of stock analysts and other supposedly disinterested financial watchdogs during the boom, they also put far too much stock in business journalism, and have a right to be disappointed and angry.

Like many of the industries we once covered, business journalists built their own bubble during the last decade. And now--as is appropriate for an industry that grew rich by dishing out so much bad advice and flabby reporting--business journalism is currently suffering the same financial fate as Wall Street and Silicon Valley. *The Industry Standard* --where reporters once took time off from chronicling the achievements of dot-com heroes to enjoy in-house massages and open-bar parties graced by belly dancers--is history, along with many other formerly high-riding business rags. And even the most venerable and established business publications are in trouble. *The Wall Street Journal* has suffered huge layoffs. *Forbes,* no longer profitable, is reducing staff and executive salaries, eliminating the 401(k) plan, and raising cash by auctioning off old man Forbes's various art collections. *Business Week* , which championed the "new economy" and in the late 1990s proclaimed an end to the business cycle, saw its advertising plunge from 6,000 pages in 2000 to 3,786 last year, and may finish 2002 with even fewer.

But it's not clear to me that the deeper lessons of what went wrong have been absorbed by either the public or business journalists themselves. Many of the biggest "rah-rah" boys in the business, like James Cramer and James Glassman (coauthor of the 1999 book *Dow 36,000*) continue to appear in print and on TV, while most surviving publications and newscasts have merely downsized and hoped for the best. The public is getting some brilliantly reported catch-up stories on the crooks we once celebrated or ignored, but there's little indication that the business press is ready to examine its own sins and failings. In my experience, there are three essential fallacies that pervade business journalism in all its forms, and correcting them is every bit as important as any of the other business reforms the nation is now so hotly debating.

Fallacy #1: We are dispassionate observers, free from conflicts of interest.

In November 1997, I wrote an article for *U.S. News & World Report* that raised questions about a recently published and much-discussed cover story in Wired called "The Long Boom." The editor of *U.S. News* then was James Fallows, who shared my doubts about the growing chorus of voices proclaiming that America stood on the threshold of a new age of superabundance. But to get my piece into print, Fallows had to work until 2 a.m. as the presses stood by to accommodate furious objections from the magazine's owner, real estate tycoon Mort Zuckerman. The resulting piece, entitled "Is Prosperity Permanent?," lacked the word "bubble," though it still managed to raise a few subtle questions about the case for the long boom. Fallows was fired shortly afterward, and I have no doubt that the fireworks that flew that night were a contributing factor. Later, after I proposed similar stories to the new regime and was shot down, "bubble" became notorious around the office as a word Zuckerman would not permit in his magazine anywhere near the word "economy." Instead, often against their better judgments, and sometimes in silent fury, the magazine's business writers concentrated on articles like the April 3, 2000, cover story--one that, even after the NASDAQ had begun to crash, explained how "new tools" for evaluating a company's worth (such as ignoring its lack of profits) could justify a continuing bull market.

Why did so many business journalists wind up hyping the bubble? There are both innocent and not-so-innocent reasons. Many reporters, editors, and even a few media moguls were sincerely caught up in the same irrational exuberance that affected even Alan Greenspan in the end. Moreover, the boom did produce compelling yarns about flashy dot-com millionaires on the make and imminent technological wonders. And many business reporters simply didn't know what they didn't know about business. The old hands came up in an era when business journalism was a backwater where the best and brightest rarely ventured. And many journalists who poured into the field during the boom were lured more by inflated salaries than any deep curiosity about how business works. As media columnist Michael Wolff wrote at the peak of the boom in March 2000: "Not only is every self-respecting ambitious journalist becoming a business journalist, but the great sucking sound is the sound of people being pulled away from newsrooms everywhere by the persistence of business-press headhunters and the doubling and tripling of general-news salaries."

Even among us doubters, few wanted to be bearers of news no one wanted to hear. There was the danger of coming off as some unreconstructed Naderite relic of the 1970s--or worse, of being blamed for causing the very crash one wanted to warn was coming. And though some journalists, such as Robert Samuelson, were able to make early and persuasive arguments in print that America had entered a bubble economy, neither he nor anyone else could say when exactly the bubble would burst.

Less innocently, business publications, especially those celebrating the boom, were growing fat from dot-com ads. The new media couldn't get enough eyeballs to their sites, so they advertised lavishly in the old media. General-interest publications, such as *U.S. News* , started beefing up their business and technology sections (at the expense of foreign and political news) to lap up this money gusher, while scores of hot new print publications made fantastic profits selling dot-com ads placed against fawning editorial content. Zuckerman, in addition to owning *U.S. News* , then owned *Fast Company* --a hymnal for the new economy that was so swollen with dot-com and telecom ads that it became a problem to figure out how to bind it. In 2000, *The Industry Standard* faced a similar conundrum, having sold 7,558 advertising pages--an industry record. The point is that large parts of the media came to have a huge stake in promoting and flattering the boom's most flamboyant figures, as well as the products and ideas they were selling.

If that sounds like conflict of interest, it was. At any publication, there is, of course, a tension between the need to please advertisers and the need to please readers, just as there's a tension at financial firms between the need to please corporate clients in search of investors and investor clients seeking advice on where to put their money. How that tension gets resolved is the big issue, and more often than not, at business publications in the 1990s, it was resolved in a manner that favored advertisers--and worse, advertisers, who, it has turned out, were selling shoddy products.

Fallacy #2:We can give readers useful advice about which stocks to pick.

Few business journalists spend much time analyzing balance sheets. But even if they did, they wouldn't be of much help to folks trying to figure out how to invest their 401(k)s. This truth was forced on me when I set out to learn high finance (after years of writing about it) at Columbia Business School. Here I was, a 40-something guy on a fellowship for mid-career business journalists, surrounded by 20-something whiz kids who would shortly go off with their newly minted MBAs to dazzle Wall Street. And what was the first lesson our finance professor drove home? That even after spending two years and $60,000 at Columbia Business School, none of them would be able to outperform the markets except by sheer luck or inside information.

This is orthodox academic theory, but it's also empirically true. After all, the mutual fund industry is consistently unable to outperform the stock market as a whole, despite all the money it spends on sophisticated research. The most compelling explanation for this collective failure is that however good or bad a company may be, its stock price reflects all known information about its prospects. Any breaking news about the company may drive its stock up or down, but it won't help investors find a bargain, because everyone else gets the same news at the same time. The big winners on Wall Street, our professor concluded, are either very lucky--or crooks.

I enjoyed the sight of my fellow students, many of them aspiring Masters of the Universe, squirming in their chairs. But before long I was sharing in their cognitive dissonance. I had come to Columbia to make myself a better financial reporter. What I was learning only reinforced my growing doubts about the intellectual legitimacy of the whole enterprise. If the smartest minds on Wall Street can't consistently beat the market, how does it help readers to pass along their stock tips?

Providing "News You Can Use" about which stocks to pick is worse than a disservice to readers. As I gradually came to see, it distracts ordinary Americans from the two big truths about investing they do need to know. First, that widely diversifying their investments is a far better strategy than chasing hot stocks. Second, that for most people, old-fashioned thrift, not shrewd investing, is the largest determinant of how much wealth they'll accumulate.

Ever hear that last one before? From the ads and articles in personal finance sections, one can easily get the impression that the most important financial decision investors face is picking the right stock or mutual-fund manager and earning the highest possible return on your investment. But that's an illusion, created by ads and advertising-driven story selection. Over time, most people won't beat the market averages, almost by definition. But while they have very little control over what rate of return they can make, most can control how much they save in the first place, and that makes a huge difference. A little arithmetic makes the point. Suppose, for example, you make $50,000 a year, save 10 percent of your income and receive a 10-percent return on your savings. In 30 years, your nest egg will accumulate to $803,402. But if you can boost your savings rate by just five percentage points, you'll wind up with $1,245,602, or almost 50 percent more.

Now imagine what personal finance sections would look like if they reflected these sober truths. The preponderance of articles about financing college or planning for retirement would offer "News You Can Use" about how to stretch a dollar and avoid credit-card debt, not breathless profiles of last quarter's luckiest mutual-fund manager. Articles would warn about putting all your eggs in one basket, and offer practical ways to manage a diverse portfolio, rather than hyping high-flying tech stocks and day-trader strategies. Yet publishers will tell you that they can't sell ads against that kind of copy. The financial services industry does not want to support a publication that touts the message: "Embrace thrift, reduce your debt, and spread your savings around because all successful money managers are either just lucky or crooks." So instead we publish the copy that advertisers want, and that readers believe at their peril.

Fallacy #3: We're sleuths who work hard to ferret out business corruption.

As the bubble reached its fullest in 2000, *Fortune* celebrated Enron as one of the "100 Best Companies to Work for in America" because of the flexible career paths it offered to employees, approvingly citing the claim of the company's V.P. of human relations that, at Enron, "entrepreneurs can build something of their own with the luxury of a stable organization."

When Enron declared bankruptcy on Dec. 2, 2001, the largest corporate insolvency in U.S. history merited only brief mentions in the media that night and was not front-page news in most of the next morning's papers. To *Fortune* 's credit, and *U.S. News* 's as well, they had begun waving a few red flags about Enron shortly before its collapse. But only after the Bush administration's links to the company became known did the Enron story acquire "legs" (as reporters like to say). And we now know that in 1999, enterprising reporters who penetrated Enron's balance sheet had trouble getting much play for the story because it was a company most Americans had never heard of, its products were hard to describe, its sins were highly technical, its victims were diffuse, and its management was very aggressive with any critics.

This failure of business journalism is more the rule than the exception. Twelve years ago, when investigative reporters and editors gathered, the talk was about how we had all failed to see the S&L crisis coming. Since then, the obstacles to serious investigative reporting on American business have only grown more severe. Media conglomeration means that many of the biggest business stories involve media companies themselves. (How would you like a shot at covering AOL Time Warner's accounting irregularities from a desk at *Time, Fortune, Money, Business 2.0,* CNN, or any of its other vast media holdings?) The entrenchment of public-relations managers in business--abetted by schools of journalism that now offer degrees in flackery--means that press access to workers and hands-on executives becomes ever more limited and controlled. And layoffs in the newsroom and shrinking budgets leave few resources available for enterprise reporting.

Movin' On Up

But there are reasons for optimism. One of the benefits of hard times is that they create a market for serious analysis of economic conditions and corporate culture, and reduce tolerance for hype. The golden age of business journalism began during the Great Depression, when the first issue of *Fortune* magazine hit the stands in February of 1930. Though it might seem that founder Henry Luce's timing couldn't have been worse, he was actually quite savvy in realizing that the crash on Wall Street would only increase the market for a very smart and exhaustive journal of corporate culture, even if it cost a whopping $1 per issue. The times demanded that corporate managers understand the big picture, including the huge economic decisions being made in Washington and other foreign capitals. Luce satisfied that need by hiring bright young writers of the likes of Archibald MacLeish, John Kenneth Galbraith, and Alfred Kazin, who offered far more than an M.B.A.'s view of the world, with features running up to 8,000 words. From its beginning, *Fortune* earned consistent and respectable profits, and in 1937, the magazine netted close to half a million dollars with a circulation of 460,000, making it one of the crown jewels of Luce's media empire.

What will it take to fix business journalism? Not advertising-driven features on celebrity CEOs and flash-in-the-pan start-ups, or financial advice based on conflicted sources. As *Fortune* writers did in the '30s and '40s, today's business journalists will have to rebuild their credibility the old-fashioned way, by talking to sources at all levels, including customers, competitors, and loading-dock hands, and by paying far less attention to stock analysts and CFOs. If such investigations uncover malfeasance, then that's a story. But even if a company like Enron had been squeaky clean, a talented writer--given enough time and access--could have written a fascinating account of its corporate culture and business methods. *Fortune* once published detailed profiles of stodgy companies like the Southern Pacific Railroad just because they played a key role in the American economy and reflected many larger trends, not because they had a flashy CEO, a rising stock price, or some other kind of "news energy."

Even 60 years later, these stories are a joy to read, not only because they are so well written and reported, but because of the insights they give into larger changes in labor relations, production methods, consumption patterns, and much else that was occurring in America at the time. Only that kind of serious, sober, independent reporting can give the public the insights into American business it now knows it needs to learn. Let's hope the business press learns the hard way what happens when journalism never dares to be dull.

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