SHOOTING THE MESSENGER

ASSUMING THE MESSENGER UNDERSTOOD THE MESSAGE IN THE FIRST PLACE

By Bruce Whitfield

Blaming the media for the global financial crisis is rather like blaming the iceberg for sinking *Titanic*. It ignores the role of Captain Edward Smith and the decisions he took ahead of the collision, the management of the Whitestar line and the arrogance of the ship's designers who decreed it unsinkable.

The behaviour of the financial sector and its ancillary industries in the run up to the crisis was akin to Captain Smith shouting something like: "Full speed ahead and damn the iceberg!" He was a salty seadog who should have known better. The leaders of some of the world's most venerable financial institutions should also have known better but they let it happen anyway. Their shareholders lost perspective, and critical thought went out the window. None wanted to question too hard for fear that the bubble would burst and the party would end.

Outgoing Reserve Bank governor Tito Mboweni tells how he and his esteemed global peers were at one of their regular get-togethers at a posh resort in the early part of the decade where they were berated by former Federal Reserve chairman Alan Greenspan's predecessor Paul Volcker on their lack of knowledge of complex financial instruments. Mboweni recalls how they sniggered behind Volcker's back and suggested privately that his views were antiquated and not rooted in the world of progress and innovation. "We told ourselves that the old man should go off into retirement," quipped Mboweni.

Regulators too did not want to be seen to be impeding progress and certainly did not want to be exposed as not understanding the system that was developing under their noses. It turns out that many chairs and chief executives of the financial institutions themselves were also too embarrassed to question too closely what was happening for fear of being revealed as ignorant of new ideas. Most were ignorant of the consequences of unfettered financial innovation that very nearly derailed the global financial system.

Popular targets have been vilified in the media: overpaid executives, ratings agencies that continued to give AAA ratings to bits of paper that were technically worthless and, of course, the global financial services industry that stopped thinking for itself and simply accepted whatever was coming its way. Few wanted to draw attention to the fallacy that money could be made from money in perpetuity and without consequence.

Why did the media not wave a red flag? To be fair, many did. But few, if any, comprehended the extent of the problem. They simply were not technically equipped to do so. Pointing out the risk of asset bubble is one thing; joining the dots that would have pointed to a global financial calamity is quite another.

US house prices (and domestically too) were rising at an unsustainable rate, consumers were using their properties as ATMs to fund their increasingly lavish lifestyles. It could not have continued. Those doing the borrowing were led to believe that their property values would continue to rise and in the unlikely event of finding themselves in a tight spot, they had an asset against which they could offset their liabilities.

However, the complex financial engineering in the background of the crisis was not something that mere mortals could comprehend. Financial institutions wanted to get the debt their customers owed them off their own balance sheets. They decided to spread the risk. They securitised the debt and sold bits of paper promising generous returns around the globe and, suddenly, disparate entities such as Scandanavian pension funds were buying things called "mortgage-backed securities" that had AAA ratings and were thus top-quality investments.

The bubble burst when borrowers failed to pay their mortgages and the apparent security underlying the piece of paper was shown to be worthless.

Should journalists have been able to map the connection between a mortgage bond granted to a person incapable of making interest payments once the honeymoon of low fixed rates wore off and understand how when they defaulted that its consequences would be felt on the other side of the world?

Ideally, yes. Regrettably however, the vast majority are not equipped to comprehend the complexities of financial markets and their numerous permutations. Journalists are storytellers, not sages. We are trained to report and, on rare occasions, comment on the possible outcome of events. We rely, often too heavily, on the views of others and their understanding of the environment to inform our own opinions.

A couple of economists warned calamity was coming. Nouriel Roubini at New York University and Robert Shiller at Yale are rare examples in a discipline where most either missed or ignored the concepts of counterparty risk and illiquidity in markets. It simply didn't fit into their narrow way of thinking about macro-economics.

Should the prophets of doom have been given greater coverage? In retrospect, their messages should have been shouted from the rooftops, because they were right. However, in the context of the time, the media might then have been accused of being complicit in the collapse of the financial system through ignorance. It would have been a call few editors would have been bold enough to make.

Did the media's coverage of the financial crisis once it was in full swing exacerbate its impact? Invariably, critics will argue that it did. But once financial institutions began failing and the media began their serious coverage of the crisis, the damage had been done. No amount of coverage or lack thereof would have changed the outcome of a crisis whose seeds had been sown for years preceding the crunch.

Not that the media should be let off scot-free.

Journalists have to be on their guard constantly. In an era of spin, no journalist can afford to take the first answer they are given as gospel. In the search of truth and the pursuit of excellence all versions of the truth need to be constantly interrogated. There is much at stake. Journalists need to be constantly aware of the agendas presented to them. That takes courage and reporters run the risk of exposed as being ignorant to the complexities of many of the issues they are expected to interpret on a daily basis.

Did the media fail to critically analyse the brewing storm? Yes, it did. Did it cause the storm? No, it did not. Should it have more vigorously questioned the status quo? Absolutely.

October 2008

into them. The takeover of troubled US bank Wachovia by Wells Fargo is approved by regulators. Banking giant Citigroup had tried to block the move after it launched rival bid.

14 October
The US government unveils a $250bn (£143bn) plan to purchase stakes in a wide variety of banks in an effort to restore confidence in the sector.

15 October
Figures for US retail sales in September show a fall of 1.2%, the biggest monthly decline in more than three years, as hard-up consumers avoid the shops. The figures underscore fears that the wider US economy is now being hit by the financial crisis. The Dow Jones index falls 733 points or 7.87% – its biggest percentage fall since 26 October 1987.

30 October

The Federal Reserve cuts its key interest rate from 1.5% to 1%. The Commerce Department issues figures showing the US economy shrank at an annualised rate of 0.3% between July and September.

November 2008

6 November
The International Monetary Fund (IMF) approves a $16.4bn loan to Ukraine to bolster its economy, shaken by global financial turmoil. The Bank of England slashes interest rates from 4.5% to 3% – the lowest level since 1955. The European Central Bank lowers eurozone rates to 3.25% from 3.75%.

9 November
China sets out a two-year $586bn economic stimulus package to help boost the economy by investing in infrastructure and social projects,

and by cutting corporate taxes.

12 November
US Treasury Secretary Henry Paulson says the government has abandoned