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Why Did Our Watchdog Fail? A Counter Perspective on the Media Coverage of the 2007 Financial Crisis

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ABSTRACT

This research proposes an *information theoretic approach* espoused by Joseph Stiglitz (2011) to explaining the lack of scepticism and critical warning of systemic risks of business news coverage on the eve of the 2007 US financial crisis. Referring to the asymmetric nature of information in the financial market, as well as the symbiotic partnership between business journalists and financial institutions, this dissertation seeks to offer in-depth explications of an enlarging gap between theoretical journalistic duties and the reality of business reporting. The researcher further applied Manning's Instrumental Rationality (2001) to discuss the implication of this overlapping reporter-source nexus for the performance of the business media in weeks and months leading up the most devastating financial crisis in history.

To capture the full impact of the information asymmetry on financial news reporting, this research adopts quantitative and qualitative content analysis of selected news articles and elite comments in order to determine the extent to which the US business press was dependent on *access reporting* to obtain insider stories and expert interpretations of market shocks. Finally, with the help of secondary data collected by Dean Starkman, this paper sheds greater light on journalists' underrated professional constraints as they struggled to make sense of the events playing out in Wall Street against the backdrop of uncertainty and ambiguity.

INTRODUCTION

One of the most prominent explanations for the trigger of the US financial crisis is subprime lending which refers to the provision of loans to middle- to low-income borrowers with tarnished credit histories (*subprime borrowers*). Subprime lending had been innovated as part of the US's light-touch financial regulation, instituted through relaxing lending standards so that middle- and low income Americans who could not afford to buy a new

house without a down-payment could have easy access to a larger pool of capital. However, subprime lending has a shadow darkening an otherwise good idea. Because of the high delinquency risk of the borrowers, the issuer of subprime loans pass their risks onto other parties through a process called *'securitisation'* where subprime mortgages are bundled into a financial instrument called 'mortgage-backed security' (MBS). The structure of MBS is designed in a way that makes it hard for MBS investors to accurately evaluate the risk that MBS originators passed onto them. Many MBS investors were duped by the triple-A credit rating assigned to hundreds of billions of MBSs by rating agencies which guaranteed that the likelihood of borrower default nearly approached zero (0.18%). In the wake of plunging home prices leaving millions of American households deeply indebted, investment banks and hedge funds found it impossible to value MBS and its derivatives, Credit Default Swaps (CDSs) and Collaterized Debt Obligations (CDOs), leading credit rating agencies to downgrade 83% of $869 billion triple A mortgage securities to 'junks'. Global investors drastically reduced purchases of MBS as part of a decline in the capacity of the financial system to provide funding. Worries about the stability of credit and financial markets led to tightening credit and slowing economic growth in the US The US entered a deep recession, with nearly '9 million jobs lost during 2008 and 2009, roughly 6% of the workforce' (Johnson, 2013).

Eight years after the 2007 financial crisis that hit developed economies with the most devastating force, the global economy continues to deal with the aftermath of the crisis, involving a long wake from Wall Street to City, businesses to families, to unemployed job seekers. Having first imploded in the US, the crisis's global reach, the complex story behind the dubious lending practice of the subprime industry, the historic lapse in risk management causing institutions to run amok, and the sudden abdication of uncompromised state regulation seeking to hold Wall Street's subprime lenders to account, makes this crisis one of the most important debate topics nearly a decade later.

As the crisis started, a fight broke out over the role of the business press in reporting the looming dangers threatening to bring the economy to the verge of collapse. The practices of the business media were put under the spotlight and invoked many questions regarding its compromise with sources at Wall Street, as well as a lack of criticism and journalistic independence in the coverage of the financial crisis. After all, an entire generation of professional journalists, so familiar to Wall Street firms and so close to the body of knowledge used amongst investment bankers and traders, was struggling to keep up with the most important story since the US Great Depression. Sadly, as the biggest players in Wall Street collectively filed for bankruptcy-court protections and a series of mergers and

acquisitions amongst collapsed banks was engineered, the press was still fumbling in the dark trying to grasp the magnitude of the problem. Business reporters were criticised to 'have been asleep at the wheel' (Starkman, 2014), failing to investigate and hold accountable major mortgage lenders and investment banks in the years leading up the economic catastrophe. Many scholars (Starkman, 2014; Schiffrin, 2011; Schifferes, 2014; Chittum, 2014) argue that the business press's coverage of the financial crisis was 'pedestrian' (Starkman, 2014) with little critical analysis and investigations that took on the institutions in the epicentre of the crisis; and few debates were advanced to lay out a new agenda for further policy discussion. Understandably, in times of crisis, finger pointing is often in style. While these excoriations make some fair points, relying on normative perspectives of business journalism is insufficient to explain the phenomenon.

Before analysing what really went wrong in the coverage of the US financial crisis, I want to clarify that that no argument made in this dissertation suggests that the business was innocent, and vindicated from its failure to exercise scepticism towards widespread financial malfeasance. To be sure, the business press was neither so prescient nor sounded an alarm loud enough to warn the public of the looming dangers, as reflected in a lack of critical analyses and sensitivity towards corporate irregularities in the run-up to the financial meltdown. However, what current critiques did not address is that, to say that business journalism has an obligation to protect society from the ills of big corporates is to establish an argument that 'turns journalists and editors into all-powerful government with unlimited abilities in terms of issuing subpoenas and seizing documents' (Roush, 2011:55). These criticisms tend to exaggerate the role of financial reporters as society's watchdog without taking into account the structural and instrumental dimensions circumscribing the professional settings of financial reporters, a theme which will be discussed in more details in the theoretical section of this paper.

There has been little understanding about news organisations as embedded in an inter-organisational context, as well as the role such cultural and cognitive embeddedness plays in the enlarging gap between the theoretical responsibility of the business media to serve as checks and balances, and the reality of reporting. As news production is formulated by a multitude of market actors having vested interests in controlling the circulation of information, the reporter's ability to capture the severity of market shocks is profoundly influenced. Moreover, the increasing complexity of the financial market means that most business reporters are 'unlikely to have the specialist qualifications or experience of the analysts they use as sources' (Lenzner, 1997). Meanwhile, reporters, 'facing the challenge of explaining complex financial processes within the constraints of their respective media'

(Thompson, 2009:87), react to such limitation by running to their sources - the lifeblood of business reporting.

A study by Dean Starkman in 2011 shows that up to 2003-04, the business press was publishing its hardest-hitting investigations of Wall Street lenders when it suddenly lost it taste for investigating abusive lending and only returned to this practice after the incidence. How can we explain the media's collective renouncement of investigative journalism when it was close to reaching the holy grail of such practice? A common theme characterising early perspectives was the idea that the business press got swept up by the 'madding crowd', alloyed by greed, a signal of moral and professional failure where reporters became the mouthpiece and soothsayer of financial institutions. However, when stepping back and looking at the bigger picture, I realised that it is preposterous to only blame individual journalists for a problem brought about by the inner working of the entire financial and political system. As such, this research project has been inspired by the author's strong interest in answering the following research question:

Did access reporting and over-dependence on business sources contribute to financial media's failure to bring sufficient scepticism to the coverage of the 2007 housing bubble and warn the public about accompanying financial crisis?

The research question was subsequently broken down into two hypotheses presented below:

H1: Opinions of elite commentators were the predominant source of information on which business reporters relied to interpret market events.
H2: Journalists' interpretation and understanding about the scale and magnitude of the crisis were limited by the plurality of inaccurate/misleading source comments.

With these hypotheses in mind, my project is conducted to bring fresh insights to the discussion of the role of the business press in the crisis by situating financial journalism in political and historical perspectives.

LITERATURE REVIEW

A great deal of literature exploring the role of financial journalism during the crisis focused on criticising the press for acting as a cheerleader of financial institutions and failing in its mandate to present scepticism towards financial wreckages (Starkman, 2014; Davis, 2006;

Doyle, 2006; Chittum, 2011). Starkman (2014) contends that the press has limited capacity for analytic debates and willingness to take contrary positions against dominant market views. However, Tambini (2010) suggests there is no consensus amongst journalists in terms of how important it is for them to play a watchdog role in relating to market and corporate behaviour; whereas Roush (2011) defends business reporters on the premise that the media did issue countless critical stories that sounded an alarm about the weaknesses and dangers brewing inside Wall Street but these messages went unheeded among policy makers and the public. Stiglitz (2011) argues the fact that the media play a key role in transmitting information, and shape 'widely-held perceptions' about, say, whether or not the housing market prices would continue to rise, increases the incentive to frame the media as one of the biggest perpetrators in exacerbating the forces causing the crisis.

A more nuanced analysis by Tumber (1993) and Tracy (2011) of the professionalism of reporters criticises the abuse of elite narratives dominating a large number of financial coverage in the years leading to the crisis and into pessimism at the burst of the housing bubble. These scholars argue that such news is personalised, dramatized, and fragmented, leading to uneven distribution of truthful information. It often tells stories about the crisis and its development in intermittent thematic frames to direct the attention towards dramas because this kind of story captures the interest of the audience (Tumber, 1993; Tracy, 2011; Riaz et al., 2011).

Much of these excoriations have somewhat romanticised the theoretical responsibilities bestowed upon journalism, while missing an important dimension that influences the orientation of business news coverage: the overlapping, symbiotic and somewhat elusive relationship between reporters and their sources. Giles and Sussman (2011) challenge the conception of the role of the press as the fourth estate 'with power and prestige' (Giles & Sussman, 2011:182). They argue that the vision that the reporter as an agenda setter, honest broker and unbiased interpreter of events, is greatly exaggerated. The alleged subservience of the business press to financial institutions has been attributed to the difficulty it faces in reporting stories without the cooperation of businesses (Davis, 2006; Tambini, 2010), and the receipt of shared beliefs and wisdom reinforced by their close contacts (Barber, 2009). These studies express concerns at the rise of elite sources and investor relations personnel as strategic advisors setting the agenda and putting up barriers to information. They have become the access point, releasing information in a way that is carefully orchestrated. As such, information journalists obtain from sources can be sanitised, making it hard for them to get to the bottom of the story (Davis, 2000; Kitchener, 2005). The dependency of the business media on expert sources can be said to manifests a problematic structural

partnership between journalists and financial institutions (Stiglitz, 2011; O'Brien, 2015; Thompson, 2015)

In his research about the reflexivity of information in the financial market, Thompson reveals that information circulating through different power centres within the financial market is less about the actuality of economic facts, and more about the extent to which such information is anticipated or rumoured amongst financial actors, a view echoed by Hocking and Oberlechner (2004) and Shiller (2000). Based on this finding, reporting a piece of financial information will not be independent of the way it is perceived. In addition the difference between reporting financial news and that of an invasion in Iraq or a political demonstration in Syria is that financial news is not always readily accessible to the journalist pursuing the story. Before the information can be reported as news, it needs to be quantified, analysed and articulated - an issue further exacerbated if journalists are not confident about their own understanding of the intrinsic complexities of financial trading.

Resonating with Thompson, Joseph Stiglitz (2011) and Paul Manning (2001, 2012) also discuss the issue through the lens of information economics while deviating from the conventional approach to financial media, and navigating through much of the controversies relating to the responsibility of financial journalists. Stiglitz' Information Theoretic Approach and Manning's Concept of Rationality in News Production will be carefully examined within the scope and scale this study with an aim to offer fresh analyses about the performance of the business media on the eve of the US financial market collapse. These theoretical frameworks provide important insights into not only recent changes taking place in financial journalism that affect the outcome of business reporting but also the *power relation* between news sources and business reporters that is determined by the instrumental reasons of both parties, effectively adding to the complication of journalists' work. The heuristic potential of these theories has not gained much currency within the field of financial journalism, even though it possesses a significant explanatory capacity towards the alleged irresponsibility of the media to warn the public about the imminent collapse of the entire US financial system.

Stiglitz's Informational Theoretic Approach

Stiglitz' Information Theoretic Approach dictates that the financial sector has a vested interest in sustaining the bubble, and as such they formulate communication strategies to persuade the press and regulators to go along with the prevailing wisdom. This theme resonates with Tambini (2010), who suggests that powerful businesses increasingly employ

public relations (PR) agencies to shape coverage of their firms, and are increasingly successful in their ability to set the business agenda.

According to Stiglitz, one of the most distinguished characteristics of financial journalism is that reporters operate in an environment of *imperfect information*. Asymmetric information is associated with power operating along instrumental and structural dimensions, in which financial market actors intentionally ‘promote or restrict the flow of information to the media’ (Manning, 2001:36). Efforts to get to the bottom of stories are hindered by the conscious intention of financial actors to influence the coverage, and communicate from their own points of view, which represents a significant power struggle that makes the life of business journalists more amenable to the modification of powerful elites. The result is a blocking of access to truthful information that impedes journalists from gathering and pooling data in a way that allows a holistic picture to be formed. For evidence, in December 2nd 2010, an announcement was made by the UK’s banking regulator, the Financial Services Authority (FSA), that its investigation into the collapse of the Royal Bank of Scotland (RBS) had revealed no regulatory fault in the action of RBS’s board of directors. At that time, the announcement seemed innocuous, except for the fact that neither the reports regarding details of the investigation, nor the US Federal Reserve” $45 billion bailout injected into RBS to ensure the bank could move toxic mortgage-backed securities off its balance sheet, was made public. The truth that RBS had already gone bust when the announcement was issued, and that it was saved from sinking into oblivion by the £45 billion coming directly from tax-payers’ money, which was kept a secret until the US and UK governments chose to make it known to the public (Bloomberg News, 01/04/11)

Stiglitz (2011) points out that an inherent problem of business journalism is that the people journalists are purported to cover, have more information than they do, and little incentive to share this information. Journalists might want to push for a more diligent and aggressive investigative journalism, while financial elites may have certain inclinations towards shaping crisis news and regulatory practice that coincides with their interests. When access to information and sensitivity surrounding information becomes a major constraint of specialism (O’Brien, 2015), it would be difficult for business journalists to report market stories without reflecting the general prevailing consensus of the financial market. The business press then faces not only an institutional dependency on expert sources for definition of events, but also a dependency on the prevailing knowledge framework of the investment community (Thompson, 2015; O’Brien, 2015; Stiglitz, 2011; Manning, 2001).

Stiglitz investigates the roots of press's omission of investigative journalism through exploring the embeddedness of the media in an inter-organisational context. He brings a new approach highlighting the exchange relationship and power exerted through the flow of information and embedded in a particular ideological structure underpinning the received wisdom about the way things are. His approach to information from an economic perspective challenges the conventional assumption that the press should serve as part of society's checks and balances which bring market participants back to reality and help them step out of the herd mentality underlying bubbles. In reality, information in the financial market is imperfect, and thus the outcome is distorted relative to what would have been the case with full information.

Manning's Instrumental Rationality of Media Proprietors

An approach to the instrumental dimension of business reporting is further advanced by the debate about why the media need to establish a strategic partnership with expert sources. There are dominant social structures limiting choice and causing pressures on news production, of which media proprietorship and capital owning exert profound impacts on the media's ability to function normatively and produce effective journalism that the general public needs. As the traditional news businesses hit rock bottom in early 2000s in terms of shrinking ad revenues and the rise of digital media, it was imperative that news organisations respond to structural changes in the political and economic environment, without which their long-term survival chances would be jeopardised. In reacting to the increasing pressure of news commercialisation and to prevent news organisations from being absorbed by rival organisations, media proprietors take actions to shape processes through which news is produced. This is expressed through the softening of hard news with greater reliance on populism and sensationalism instead of coherence and radicalism in their messages (Manning, 2001; Rafter, 2014).

The instrumental rationality of media owners is also expressed through the strategic need to foster an organic relationship with elite organizations and address key segments of the news audience. For example, news discourse closer to capitalism than socialism usually finds more robust channels to circulate whereas discourse 'challenging systemic aspects of the market and interests of capital often struggles to survive' (Manning, 2001:103). The reality is that it is rare to find a newspaper proprietor willing to damage the commercial and political interests of their organisations in exchange for commitment to the values of public services. Of course, as business news adapts to sensational newsbeats such as mergers and acquisitions and investor-oriented stories, the public will struggle to form a holistic picture of

potential systemic failures and understand social structures producing problems for the citizens. Yet, the importance of economic revenues in sustaining a daily organisational operation, the political bond with other centres of power in the financial market, as well as the logic of the advertising market, can be more than enough to encourage media owners to compromise the public service requirement for independent and critical reporting.

Access reporting and the instrumental rationality of journalists

Drawing on Stiglitz' Information Theoretic Approach and Manning's Theory of Instrumental Rationality of Media Proprietors, it is argued that journalists will formulate strategies to react to the limitations imposed on them and opportunities afforded by the news market. There is one form of journalistic practice proving to be effective in helping business journalists achieve objectives and exercise power to secure their interests; it's the long-standing rival of investigative journalism – *access reporting*. This term has been coined by Dean Starkman (2014) explaining how the practice allows the reporter to quickly obtain information from their high-profile contacts at financial institutions. As one effective story follows another, access reporting becomes the star within the news hierarchy. It enables journalists to run brief, quick and management-friendly stories in harmony with the organisation's unending production needs. With the financial deregulation and the technological architecture of online news that wrecked news-industry finances in 1990s, business news tipped away from accountability reporting and towards insider, investor-focused newsbeats.

Investigative journalism, or accountability journalism, on the contrary, is a slow and long process relying on dissident sources and heterodox views. It is a 'management-unfriendly' approach that is risky, expensive and makes more enemies than friends along the way. Accountability reporting only arrived as a mainstream, professionalised practice in the 1960s and has to fight for its existence within news organisations ever since. Risky, stressful, and difficult, it perennially faces resistance within news organisations and defies the patience of bureaucrats and bean counters (Starkman, 2014:8). In addition, investigative journalism always has to resume from scratch once an investigation is completed. In our digital age, impatience with accountability reporting is only more pronounced. Digital news advocates tend to ignore it or dismiss it altogether; arguing that confrontational and accusatory journalism only serves to provoke the enmity of the rich and the powerful, and is not public-centred. (Starkman, 2014:9).

In an excerpt laying down the law that Wall Street Journals' then managing editor, Larry O'Donnell, imposed on his journalists, investigative journalism was accused of encouraging

financial reporters to indulge in bizarre and irrelevant stories, and it was imperative that WSJ's reporters learn to always stay on top of news.

> ...O'Donnell accused [reporters] of growing lazy, self-indulgent, and indifferent towards the newspaper's true mission. He charged them with pursuing [informative, memorable and entertaining stories] mainly for personal glorification. All that would have to stop, he insisted...In effect, what O'Donnell was telling them was to lower their own ambitions, precisely as he had done with his staff in Detroit [1]

A retreat to insider, investor-oriented business journalism might seem like the media wilfully renouncing its hard work as society's critical watchdog, and hitting the reset button to return to its early 20th century origin as an information intermediary, a messenger boy breaking and recounting market events from the inside out. Being on the inside enables beat reporters to gather information that lends itself to dramatic inside stories; yet depending on the insider, a granular approach focusing on incremental news development and relying on elites to analyse events, means that that the financial crisis would be viewed entirely from their perspectives (Rafter, 2014; Starkman, 2014).

This dissertation serves the purpose of offering a counter perspective on the recent performance of the media in the crisis by asking the question:

> Did access reporting and over-dependence on business sources contribute to the financial media's failure to bring sufficient scepticism to the coverage of the 2007 housing bubble, or to warn the public about accompanying financial crisis?

Finding answers to these questions is important since obtaining a thorough understanding of past failures can not only challenge the legitimacy of current critiques, but can also effect a reform of journalism practice and institutional approaches that could ameliorate future problems.

RESEARCH DESIGN

This research employs content analysis of 153 news articles published by four trusted specialist newspapers - New York Times (NYT), Financial Times (FT), and CNN-Money (CNNM), and The Kudlow Reports (TKR), a CNBC's hit specialist TV programme focusing on Wall Street and Washington politics - covering the events mainly in the US financial market

[1] Scharff, E. E. (1986). 'Worldly Power: The Making of Wall Street Journal'. Cited in Starkman, D. (2014) 'The Watchdog that Didn't Bark', Ch.5:142.

between October 15th 2006 and September 30th 2008. I selected this sample with the help of online news aggregating service Nexis-Lexis, to ensure sufficient variation in the quality of information environments and capturing a full impact of source commentaries on financial crisis reporting. Instead of focusing on a smaller time window, the 24 month period was selected to ensure no important story capturing the critical information exchange between journalists and sources on crisis-related issues was omitted, in turn resulting in an increased objectivity in judging the influence of expert opinions on journalists' understanding of the financial crash.

Newspapers were chosen based on reporting speciality, reputation, and circulation. Financial Times (FT), New York Times (NYT) are considered two of the most important business reads with 2.2 million daily readership and 1.86 million weekday readership, respectively. Influential professionals rated the FT and NYT the most credible publication devoted specifically to reporting financial and economic issues amongst investment communities. In addition to recognising changes in audience's habit in terms of seeking and understanding news, CNNM, an online news segment owned by CNN, was included. Both CNNM and TKR were selected to ensure an increased diversity of media forms in the sample. All four newspaper titles can be characterised as having a strong orientation towards serious reporting style and having established a widespread popularity amongst global investment societies. An investigation of these newspapers would be important to uncover to what extent the depth and breadth of business coverage are influenced by narratives promoted by elite commentators, and how such dependence limits the press's ability to advance critical debates reflecting radical changes taking place within Wall Street before the crisis happened.

OWNERSHIP GROUP	NEWSPAPERS	DISTTRIBUTION MEDIUM	DAILY READERSHIP/VIEWERSHIP (Millions of viewers/readers per day) (as of Jun 2013)
New York Times Company	New York Times	Print, Online	1.86
Pearson	Financial Times	Print, Online	2.20
Time Warner	CNN Money	Online	1.38
CNBC	The Kudlow Report	Cable TV	0.07

** Source: QuantCast, Wikipedia*

Since the research question requires the researcher to reveal the impact of source-reporter partnership on reporters' understanding of specific events leading to the crisis, quantitative and qualitative media analysis were incorporated to make valid inferences about the significance of such power relations. Specific dimensions of such unique interaction were systematically identified and measured, including (1) Source identities, (2) The prevalence of

articles relying on sources for expert interpretations, (3) Plausibility of the information provided by sources; (4) How did source's information skew the reporting on financial crisis?

The plausibility of information provided by sources was tested by comparing expert opinions about a series of market shocks against the real outcomes of such events. For example, on Feb 19th 2007, in a NYT article headlined *'Housing Market heats up in the City'* real estate experts and economists, including Frederick W. Peters, the president of the Warburg Realty Partnership, confirmed to the NYT that the housing market would not plummet, mortgage rate would remain stable and the economy was expected to continue moderate to strong growth. This is a claim we now know was inaccurate, for exactly one week later, following a sudden decline in house prices, Fannie Mae and Freddie Mac, the US State-Authorised Mortgage Issuers, collapsed in 2008, claiming they could not value existing MBS, and as such would not except any more subprime mortgage applications. Comparing source comments with the actual timeline of the financial crisis enabled the researcher to single out journalists' reaction to different representations of a particular systemic risk as constructed by sources and to see how well each event was understood and covered by the business media.

In order to make sure all article hits maintain a high degree of relevance, the population of articles in this research is sampled on two levels. The first level concerns the credibility of the issuing outlets, dates of publication, and especially mentions of specific key words. The search words selected are buzzwords constantly used by financial media during the observed time period. They includes *'financial crisis'*, *'mortgage crisis'*, *'housing bubble'*, *'subprime (mortgage) crisis', 'Fannie Mae & Freddie Mac',* and *'Lehman Brothers'*. The second sampling level requires the researcher to assemble a population of relevant source commentaries which particularly focused on the US subprime lending market. This process took place after a considerable amount of close reading had been conducted and highly-relevant articles were spotted by the researcher. This subset of data, which includes 340 elite opinions, was drawn up to uncover the association between the reliance on access reporting and a lack of scepticism and reporting independence. From a comparative perspective, although the data gathered for this research is relatively small with respect to the 461,000 financial news articles published in the US as of 2009[2], they still help tease out an under-researched interaction between financiers and journalists and the extent to which the orientation of the business story is primarily influenced by source opinions (source-influenced). The results obtained via this technique would allow the researcher to make a general conclusion concerning the degree of knowledge dependence of the business media on

[2] ProQuest's Database. In Starkman, D. (2014) 'The Watchdog that Didn't Bark', Ch.5:153.

sources for interpretations of market events, as well as how such dependence limits its ability to fully capture grave risks within the system and bring a sufficient dose of scepticism in their coverage of the financial market in the weeks and months leading up to the most devastating economic crisis in history.

For an inter-coder reliability test (ICR), a close reading was conducted between two coders on 153 articles. A list of six variables was also developed to which both coders had to answer 1 (YES) or 0 (NO). These variables asked the coders whether or not (1) the reporter was dependent on sources for an interpretation of events and did not suggest a different approach to the same matter; (2) the information provided by sources was plausible based on the real outcome of the event covered in the article; (3) the reporter's understanding of the enormity of the crisis was affected by sources' opinions. A full list of these variables can be found in the attached appendix. The variables are designed to enable coders to focus on particular characteristics and help to make sure both coders provided judgments on the same units of analysis, all represented consistently across the coding scheme.

Both coders examined the headlines, dates, source profiles, source quotes, the existence of reporters' critical analysis in response to source comments, and overall tone in which the analyses units were to be found. Since both of us coders have backgrounds in finance - the primary coder used to major in Business Management and the secondary coder is a recent postgraduate student in Financial Economics at LSE – we are highly familiar with business texts. One codebook was tested for ICR using ReCal2, an online facility that computes popular reliability coefficients for nominal data coded by two raters. The selective reading of 153 chosen articles reveals that agreement levels reached between two coders are slightly different; yet none of the ICR ratios is lower than 90%. A 100% agreement was reached for Variable 1 *(journalists' dependence on source for expert analyses)* and Variable 2 *(prevalence of high-ranking and elite sources);* 97.4% was reached for variable 4 *(a lack of warning about exposure to subprime crisis from business journalists)*. The ICR for Variable 5 *(a lack of source's early warnings or concerns of systemic risks)* and Variable 6 (*sources' comments did not provide coherent and plausible explanations)* were recorded at 92.2% and 92.8% respectively, whereas that of variable 3 *(journalists' willingness to take contrarian position)* was found to be the lowest of all ICR ratios (90.2%).

Quantitative and Qualitative content analysis

The analysis of written and spoken texts to uncover meanings communicated by business sources is a suitable method that can be used to examine media sensitivity to risks in the

financial market at the break of the crisis. A succinct encapsulation of the purpose of content analysis by Lasswell better describes it as: what is said on a given subject in a given place at a given time (McNamara, 2005:2). As content analysis was initially based on the quantification of words in texts, a quantitative approach was the early focus of content analysis. However, it would be too simplistic to just focus on the quantitative component of content analysis because size, number and frequency cannot be indicative of the intensity of meanings and their social impact. To fully understand how the topic of financial crisis was positioned and discussed or limited by specialist sources, a more rigorous methodology which focuses on both latent and manifest content would need to be established that focuses on factors[3] which have a major bearing on the journalists' interpretation of the events as they unfolded. Therefore qualitative analysis is an important systemic approach to understanding the deeper effect of source opinions and their meanings on the way journalists viewed and wrote about the crisis.

FINDINGS SUMMARY

To summarise the main findings of this research:

(1) The majority of business articles examined (n=153) relied heavily on high-profile sources as the primary voice interpreting the housing bubble, banking crisis, and government policies. These sources often consisted of executives, chief economists and senior analysts representing large wholesale banks, real-estate investment trusts (REITs), hedge funds, and business associations deeply engaging with the US subprime market.

(2) Scrutinising the sub-population comprised of 340 source comments on the US housing crisis, revealed a considerable variation in elite opinions and contestation of legitimacy regarding the magnitude and spill-over effect of the subprime meltdown. A coherent examination of the crisis was never established due to a large number of competing perspectives on the problem. On the one hand, many experts were found to provide misleading information fudging the debate on critical issues related to securitised mortgage lending, and framing the crisis as a natural disaster, rather than the consequence of human agency decision. On the other hand, a large number of commentators tried to insist on false optimism in terms of the performance of the subprime sector.

[3] As established in the previous paragraph

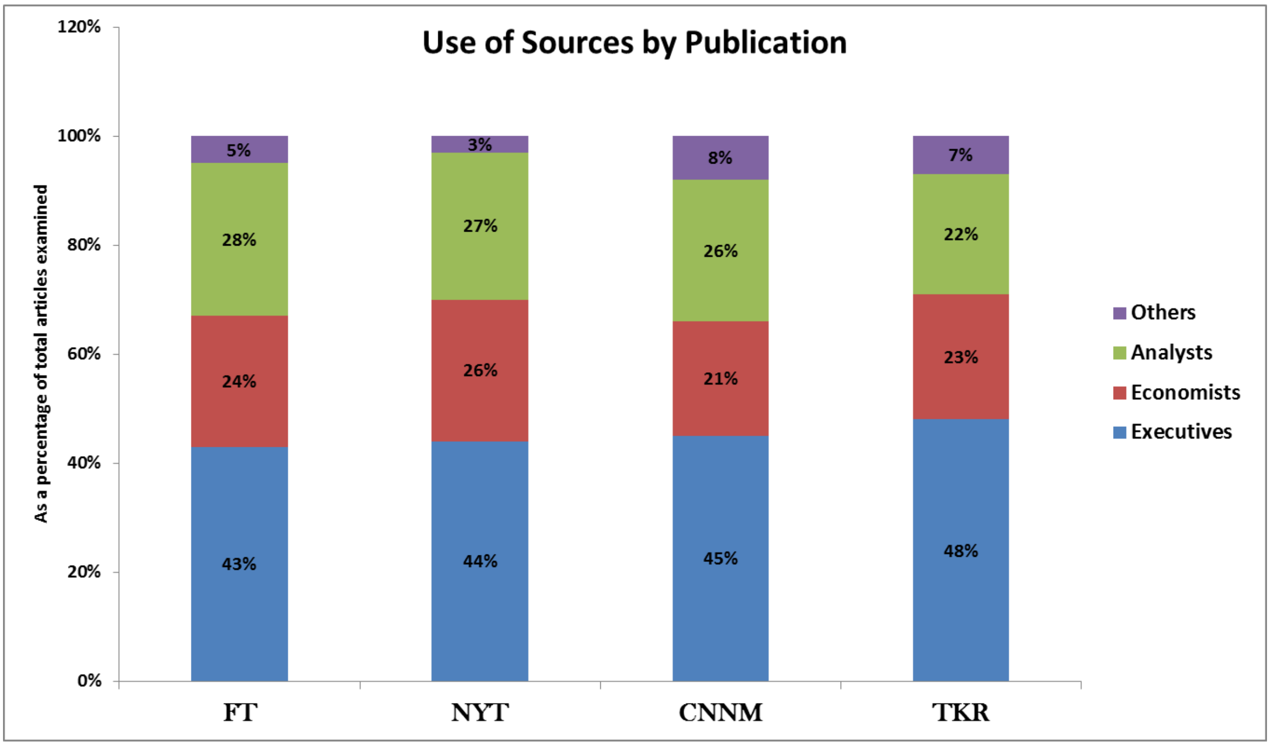
(3) Journalists were found to have difficulty in sorting out different positions in their efforts to find the potential message. Business journalists were often recorded to refer to the following phrases to reflect on the situation and their understanding of how the market trend might develop: ‘mixed opinions’, ‘an opaque situation’ and ‘left in the dark’.

(4) Up until the first half of 2007, the majority of articles were found to be merger and acquisition scoops focusing on the outbreak of deals in Wall Street than investigative stories. Newspapers were interested in celebrating an influx of capital to Wall Street and covered planned merger and acquisition transactions with little critical analysis. From July 2007 onwards, as the risks of a global financial crisis had become too obvious and too big to ignore, all four news platforms in the sample were seen to issue more critical articles and the use of expert sources in most business stories significantly reduced.

I will now present examples of journalists’ dependency on sources for event interpretation and assess the legitimacy of information provided by specialist sources. During this discussion I will critically analyse notable propositions sources engaged in when commenting on the nature and course of the financial crisis. These instances have confirmed my research hypotheses proposing that business reporters relied on elite commentators as their predominant source of information to make sense of the 2007 financial crisis; and that their understanding about the scale and magnitude of the incidence was hindered by a plurality of implausible source comments. The findings have also implicated the relevance of Stiglitz’ Information Theoretic Approach and Manning’s Analyses of Instrumental Rationality, in studying the performance of the media in the financial crisis by allowing for the construction of a more comprehensive view of business news reporting often going unheeded in recent debates.

Who are the sources?

The first finding reveals that financial journalists depended heavily on elite sources for opinions and interpretations of market shocks. Out of all featured sources, executive sources were quoted most frequently, followed by economists and analysts. The pattern of referring to executive sources is similar amongst the observed newspapers, averaging nearly half (45%) of the 153 articles. Forty eight per cent of 20 TKR programme scripts are executive quotes, followed by CNNM, whose use of executive sources accounts for approximately 45% of 30 selected stories. Executive quotes were found to make up 44% of all NYT articles (50 articles)



Graph 1: The use of sources by publication

and 43% of all FT articles (53 articles). Chief economists and senior analysts were also highly-regarded sources for expert analyses featured by all newspapers, making up an average of 24% and 26% respectively. The rest of the quotes appearing in the articles presented opinions of small associations' representatives, citizens, and government officials, mostly stated by Ben Bernanke, the then Chairman of the US Federal Reserve, and Henry Paulson, the 74th US Secretary of Treasury. This finding has not only confirmed my first hypothesis suggesting an automatic default of the business media is to elite sources highly skilled in finance and economics to help it make sense of unfolding market events, but also showed that the housing bubble and the subsequent financial crisis were viewed primarily from the perspectives of a small range of powerful voices representing large financial institutions and organisations.

A main theme running through the comments of these financial pundits was the implication of plummeting house prices on the performance of the US banking sector and the economy in general, while discussion regarding dubious lending practices remained largely undebated amongst all three main sources. These sources were observed to be particularly interested in framing mortgage woes as natural disasters ('It's Calamity for a very small segment of the mortgage markets. [...] and we're not seeing the contagion, makes me not worried about the macroeconomic crisis.', Michelle Girard, RBS Greenwich Capital Senior Economist,

23/02/2007) [4] [5] and at the same time putting the political pressure on the US government by criticising policy weaknesses for contributing to volatility in the US mortgage market ('Ben Bernanke is more standoffish. He's the guy sitting there watching the kids in the playground. And if there's a fight, he's going to stay out of it unless somebody's going to get hurt [...]', Drew Matus, Lehman Brothers' Economist, 08/08/2007)[6].

Economists' comments were found to downplay the risk of a crisis for the US market while framing the situation as a temporary downturn[7]. Some economist comments orientated towards an infeasible optimism, suggesting trends and ascertaining expectations completely opposite to the real outcomes of the events in question ('We still have a drag on the economy from housing and some parts of the manufacturing sector but we are making up for it in other areas. This is another sign of the vibrancy of the US economy and its ability to respond to new challenges', Lehman Brothers' Economist, 05/01/2008)[8]. One probable explanation for this is that confirming bad news and presenting a bleak picture of the economy's prospects might undermine market confidence, further leading consumers to freeze their spending and making the economy weaker (Stiglitz, 2011). However, those economists who were found to be rejecting news of the subprime industry's exposure to huge losses due to plunging property prices, and the possibility of a spill-over effect of the credit crunch to other economic sectors, were also seniors of financial institutions most exposed to the risk of collapse, namely Lehman Brothers and Fannie Mae. Therefore their opinions raised questions of objectivity and legitimacy. All in all, this pattern of dependence suggests a dominance of access reporting facilitated by a wealth of executive contacts financial journalists have cultivated over the years. It has also invoked concerns regarding the impact of the credibility of such expert commentaries on the reporters' understanding of problem.

[4] **Sample Observation:** 'Nouriel Roubini of Roubini Global Economics and Michelle Girard of RBS Greenwich Capital discuss the housing market and the economy', TKR, 23/02/2007.

[5] **Similar quotes were founded in sample**: 'More indications of turmoil for US subprime mortgages sector', FT, 13/06/2007; 'Does it all add up? Worries grow about the true value of repackaged debt', FT, 28/06/2007; 'Homeowner group slams Countrywide', CNNM, 28/08/2007; Tom Keene Interviews William Cohan on 'On the Economy' Bloomberg: On the Economy with Tom Keene', TKR, 04/06/2009.

[6] **Sample Observations**: **'**Fed's Focus And Rate Unchanged', NYT, 08/08/2007; 'More indications of turmoil for US subprime mortgages sector', FT, 13/06/2007

[7] **Sample Observations:** 'Mortgage Meltdown Contagion', CNNM, August 27th '07; 'Diane Swonk of Mesirow Financial, former Federal Reserve governor Wayne Angell, Jeffrey Kleintop of PNC Wealth Management and Michael Cuggino of Permanent Portfolio Family of Funds discuss Federal Reserve, bond market, dollar, stock market and economy', TKR, February 23rd '07.

[8] **Sample Observation:** 'Betting is on another good year', FT, 05/01/2007

Left in the dark as to the extent of exposure

The period between Feb to Aug 2007 might be the saddest historical moment of Wall Street when a squadron of financial institutions started running amok, with Fannie Mae and Freddie Mac being the first US bank to stop accepting mortgage applications and buying MBS, signalling a reduced capability of the financial sector to fund the subprime market (Feb 27th 2007). Next, on April 2nd 2007, the US subprime mortgage lender New Century Financial (NCF) files for bankruptcy following a series of financial difficulties and a State-led crime investigation in which three of its executives were barred from serving as directors of public companies for five years. Three months later, following the declining value of securitised assets, Bear Stearns (USA) became the next casualty forced to liquidate all of its MBS on July 31st. One week later, American Home Mortgage Investment (AHMI) also filed for bankruptcy court protection, making it the third subprime player to implode. But it wasn't all. IndyMac Bank, the American buyer of a western division of AHMI, also failed shortly afterwards and was placed under the US government's urgent treatment programme. Surprisingly as the economy was spiralling downwards, many elite sources exerted that the crisis remained a benign possibility:

> 'Most CDOs were well-insulated from the subprime problems'
> - Kevin Kendra, Head of CDO Group at Fitch Rating,
> -
> - 'Left in the dark on debt obligations Lack of transparency means investors and regulators alike do not know the extent of exposure to subprime problems', FT, Mar 27th 2007
>
> 'Factory orders are down. And jobs don't look great to me. I am thinking it's a 2% economy. Does it look worse to you?' –
> Well it could be worse than 2%. But I don't think we are going to see a recession. I am not as negative, in other words. I don't see a recession coming'
> Mark Skousen, CNBC's Forecasts & Strategies Editor, 'Barry Ritholtz of Ritholtz Research, Forecasts & Strategies editor Mark Skousen, Michael Cuggino of Permanent Portfolio and CNBC's Erin Burnett discuss the markets, the Fed and economy', TKR, Mar 7th 2007.

An examination of all 153 articles revealed that there was a question reiterated in various forms by business journalists: 'Are we coming close to a complete collapse of the financial system?' However, this question was met with a plethora of mixed elite opinions that added up to a total sum of absurdity. Any concern raised by journalists regarding the potential crash of the subprime mortgage sector was eventually suppressed by comments glazing the problem as simply a 'market correction' ('But the problems in the corporate debt market have

been triggered by an imbalance between supply and demand, rather than problems arising from credit fundamentals'; Tony James, Blackstone President and COO, 13/08/2007) [9], or one arising as the result of 'scaremongering' [10], or a decline that is 'shallow and temporary' which would soon bottom out [11]. When the same question was prompted again, financial actors directed the blame on government's tightening credit standard on the subprime market, lending the drama an air of natural disaster where banks and building societies are the victims of 'poor market conditions in the mortgage space' [12] rather than the creator of their own financial distress.

As Shoemaker and Reese (1996) argue, giving misinformation or implausible information to journalists is common because few liars would admit their falsehood. As shown in graph 2 below, a close reading of 340 comments found that 175 source comments (51%) delivered information that was either inaccurate or implausible when compared with the actual outcome of the event as it unfolded; only 13% of the total observed comments (45 comments) gave critical warnings of brewing systemic risks and urged for market caution, while approximately one-third of the utterances (35%) were primarily comments on short-term movements of the market and Federal policies, neither sounding an alarm about the subprime woes nor expressing an implausible optimism about the future. Examples of these comments are provided in the appendix of this paper. This understanding can partially explain why the conundrum of the US subprime crisis was not appropriately addressed by the press early, even though there were signs of deterioration in the fundamental basis of this market. Dealing with a flurry of competing opinions that never coalesced into a systemic explanation for the furore concerning the severity of subprime exposure means that the media would wobble through the crisis with distorted knowledge, and would struggle to identify where the risk really was:

> 'It is low long-term interest rates that are helping to provide the safety net for housing'
>
> Delores A. Conway, director of the Casden Real Estate Economics Forecast at the University of Southern California, 'Mortgage Applications Up as Home Buyers See a Break in Rates', NYT, Jan 09th 2007.

> 'We have one of the best diversified financial markets in the world. We have some incredible depth of liquidity and unbelievable capital levels. You can have a problem in one area of the market that

[9] 'Credit Crunch: Blackstone Smells Opportunity', CNNM, 13/08/2007. **Similar quotes were found in**: 'This Time, the Turbulence May Last Awhile', NYT, 11/03/2007; 'More indications of turmoil for US subprime mortgages sector', FT, 13/06/2007; 'Freddie Mac's Chief Blames Mortgage Crisis for $2BN Loss', FT, 27/11/2007

[10] **Sample Observation**: 'Fears mount of end to private equity-fuelled buy-out boom', FT, 28/07/2007

[11] **Sample Observations:** 'Little Evidence of Spill-Over from Subprime Crisis, Fed Believes Impact of Problems In Riskier Mortgage Market on Economy Might Not Be Large', NYT, 28/03/2007;

'Worries Grows About the Repackaged Debts', FT, 28/06/2007.

[12] 'Lehman Brothers Amputates Mortgage Arms', TheStreet, 22/08/2007.

doesn't spill over into the rest of the market, that doesn't take down other institutions. And that's why I'm not worried about the subprime lending problem.'

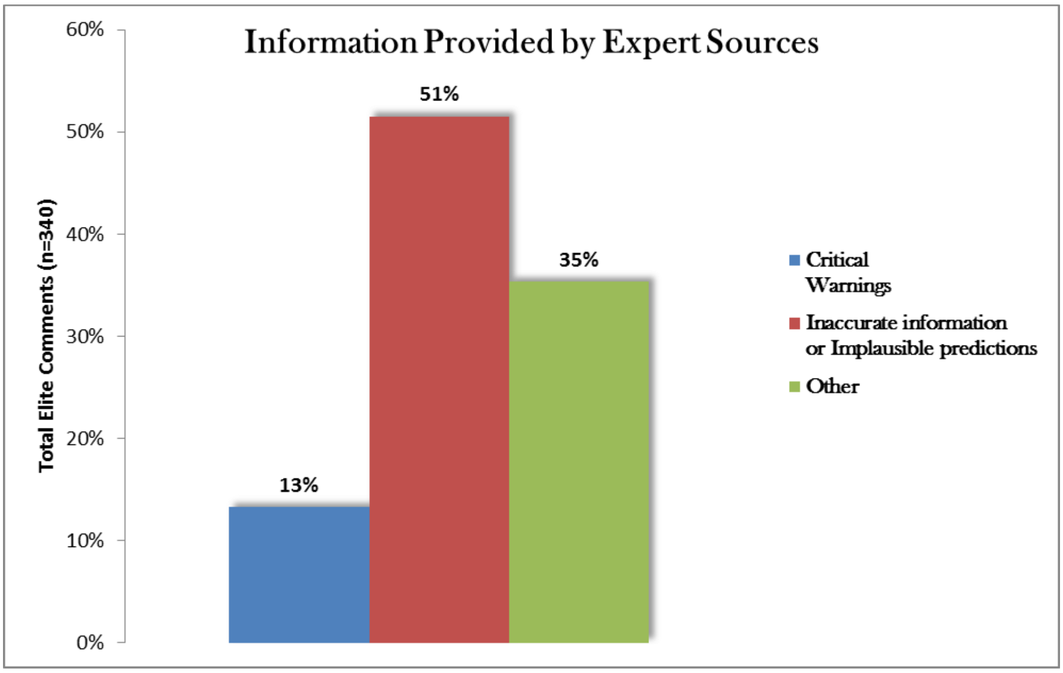
Mr. Brian Wesbury, First Trust Advisors Chief Economist, 'Nouriel Roubini of Roubini Global Economics and Brian Wesbury of First Trust Advisors discuss the possibility of recession', TKR, Mar 02nd 2007.

'I think there is risk out there, but I don't see it spreading right now. I think the real bubble, the thing to really be worried about is China. I think that stock market is a bubble like we saw in the dot-com era, only worse.'

Jeff Matthews, General Partner at Ram Partners, 'Don Luskin of Trend Macro, Jeff Matthews of Ram Partners, CNBC's Herb Greenberg and CNBC's Bob Pisani discuss today's downturn in the market', TKR, Mar 13rd 2007

'How do you get a recession when bank credit, which is about 25% of the total credit issued by American lenders today, how in the world do you get a recession? There's no credit crunch. There is no credit crunch.'

Lawrence Kudlow, CNBC journalist and anchor, 'Nouriel Roubini of Roubini Global Economics and Brian Wesbury of First Trust Advisors discuss the possibility of recession', TKR, March 2nd 2007



Graph 2: Information Provided by Expert Sources.

The tip of an iceberg

As early as 2006, it was clear that market risks were internally discussed amongst leading banks. But huge potential dangers of over-exposure in subprime mortgages remained sensitive information that was kept from the public until the underworld of structured assets

imploded. The bosses of bulge bracket[13] financial institutions already knew they needed to sell off a lot of worthless MBS and CDOs to investors before these securities 'went up in smoke'. Similar conversations occurred during that time: the exchange of secret bank notes advising traders and brokers to sell off all securitised assets was one of the strongest indications that the subprime crisis was neither a surprise to financial institutions[14], nor was it a 'teething problem that will fade away as structured finance becomes more matured' [15]. Sure, even so, you might charge that the business media should have exercised scepticism in relation to the information they had obtained and constantly challenge the status quo of the market. The reality, however, is that when powerful elites operate control mechanisms to restrict information from flowing to external parties, it is very difficult if not impossible for journalists to unearth these secrets just by asking a few critical questions. When Lloyds Bank (UK) announced its takeover of the fatally-stricken insurance company Halifax and Royal Bank of Scotland (HBOS), little did Lloyds' shareholders know that Lloyds' board of directors had agreed with the UK government to sacrifice parts of Lloyds' operation in order to rescue HBOS, breaking its 'principal of shareholder capitalism' (Mason, 2009). Like the aforementioned agreement between RBS and the US's Federal Reserve to supply a £45 billion additional credit line for RBS in secrecy, the information that HBOS came close of bankruptcy due so severe illiquidity which prompted the UK government to furtively unleash a £67B recapitalisation loan to save the failed bank was successfully kept from everyone, including members of the media.

As Manning (2009) writes, when the political interests of the government and financial institutions align, it creates a powerful lock of information preventing leaks from emerging. At best, rumours might be spread around the system; yet to substantiate the validity of such rumours requires strong editorial and even legal support for journalists to invest sufficient resource into investigating the story. For example, anyone looking at the record profits of Lehman Brothers in Jan 2007 would not know that in fact Lehman had regularly engaged in a sophisticated accounting gimmick dubbed *Repo105* at the end of each quarter to 'make its finances appear less shaky than they really were' (Trumbull, 2010). Similarly when a Bear Sterns' economist 'praised the bank's resilience and its solid turnaround'[7], it would take the skill and knowledge of a quantitative analyst highly experienced in financial derivatives to discover that only a few months after the bank claimed it was having the best year in history, one of Bear Sterns' hedge funds was worth only 9 cents per dollar traded while the other fund

[13] A term used to describe the world's largest and most profitable multi-national investment banks.

[14] **Sample Observations:** "I guess we are a bit surprised at how fast this has unravelled" (Tom Zimmerman, head of asset-backed securities research at UBS, 'Pop Psychology', NYT, 18/03/2007).

[15] **Sample Observation:** 'Does it all add up? Worries grow about the true value of repackaged debt', FT, 28/06/2007.

had completely lost all its value as of July 19th 2007, although at one point both funds were trading more than $20 billion in its CDO investment portfolio.

The result, as we can see, was the business media's ambivalence as they reflected on these comments in their reporting of the crisis. Journalists, whilst trying hard to make sense of the goings-on in the financial market, had difficulty sorting out competing positions, and ended up 'reflecting distorted perceptions and beliefs' of those in the financial sector who engineered the financial crisis (Stiglitz, 2011:36). As Gillian Tett, the then financial editor of the FT, commented in an article published in Jan 2007, that what [journalists] had understood was just 'the tip of an iceberg and the majority of that iceberg remained submerged'[16]. Tett argued that 'although many corners of the structured credit universe are becoming more transparent, almost as soon as one chink of light emerges, another shadowy wave of activity emerges that is far more opaque'[17].

DISCUSSION

Different levels of analyses adopted in this research shed a new perceptive light on the reality of reporting the financial crisis in 2007, in which business journalists were troubled by a plethora of slanted opinions that never coalesced into a coherent examination of the problem. Comment discrepancies and all kinds of implausible interpretations from senior financial pundits might partially explain why despite a large number of business stories issued during the crisis, the media remained baffled and uncertain about the length and depth of the downturn. However, the fact that financial journalism put aside investigative reporting, as well as the fact that it could not adopt a critical view about the functioning of the system and identify the cracks in the financial market, were driven by an even larger political force: the abdication of the state's uncompromised regulation on subprime lending which (1) encouraged a liberal turn of the financial press stressing a pro-market discourse and operating within the parameters of the business world, and (2) increased the opacity of asset finance that further impeded accountability reporting. In the next section I will return to these factors, placing them within historical and political contexts consisting of a multitude of actors participating in producing the news coverage.

[16] **Sample Observation:** 'Reality of the 'citizen investor' does not match the rhetoric', FT, 05/01/2007

[17] **Sample Observation:** 'Reality of the 'citizen investor' does not match the rhetoric', FT, 05/01/2007

The role of the state: the disappearance of strict financial regulation and the death of investigative reporting

Predatory lending was a particular concern of the US government coping with spiking foreclosure rates and fraudulent sales tactics related to subprime lending from mid 1990s to early 2000s. Between 1999 and 2004, more than two dozen US states, ranging from North Carolina to South Carolina, California to New York, passed various forms of anti-predatory lending laws stipulating a lower interest rate threshold requiring credit disclosure (Starkman, 2014:202), in an effort to respond ferociously to lawless lending practices at Wall Street, and to hold Wall Street originators of MBS to account. Critical, hardest-hitting investigative stories were prevalent during this time. When the US Federal Trade Commission (FTC) conducted cases against the most notorious names in the subprime lending industry, i.e. Citigroup, JP Morgan, Delta Funding Corp., etc., many business newspapers also considered abusive lending their central beat and published a wide range of delicately-told stories going into the dubious and execrable practice of Wall Street banks in impressive depth ('Easy Money: Subprime Lenders Make Killings Catering to Poorer Americans. Now Wall Street Is Getting in on the Act', BusinessWeek, 4/24/00; 'Along with a Lender, Is Citigroup Buying Trouble?' NYT, 23/10/00; 'Fed Assesses Citi Group Unit's $70m in Loan Abuse', NYT, 5/28/04; etc.)[18].

These articles put individual banks engaging in the foray of subprime lending under the spotlight, with real information about secret sources of money and the compensation culture that encouraged the sales of loans under abusive terms. However regulatory activism was swept out in the fight to block potential damage as the Bush administration demanded an abdication of regulation and cooperated with forces at Wall Street to lay down aggressive measures to disrupt the securitisation and rating of loans packaged in State that reinforced strong anti-predatory lending laws. Uncompromised lending regulation was shrinking and eventually repealed by the Federal Government in 2004 – a move indicating how the government decided to side with banking groups against ordinary people, and small businesses to be trampled over by the malpractice of large financial institutions.

It is important to recognise that great journalism shares a symbiotic relationship with robust state regulation at the federal level where the absence of one factor leads to the weakening function of the other. Accountability journalism provides targets for regulatory

[18] Obtained from: www.cjr.org/the_audit/power_problem_spreadsheet.php [Starkman, D. (2011). 'The Power Problem'. In Schiffrin, A. (ed.). 'Bad News: How America's Business Press Missed the Story of the Century. New York: New Press, 37-53].

investigations, whereas regulatory actions supply raw material for stories, including documents of indictments and settlement details. As the government repealed uncompromised State law holding subprime lenders to account, the business media also stopped churning out stories that kept bank abuses of subprime borrowers in the public eye, and only rediscovered investigative journalism in the aftermath of the crisis[19].

As regulation was rescinded, the world of structured assets became particularly difficult to report and analyse, for the market was tipping out of regulatory control and creeping towards a more opaque and complex trading environment that served well organisations thriving in the shadows such as hedge funds, investment banks, insurance companies, politicians, and even some members of the media. Much of the information about CDOs and MBS was only available to banks and their clients, who could peruse deal documents and performance reports, as well as details about how investment banks arranged billions of dollars of private CDOs, were never included in public figures[20]. As such, for the majority of business journalists, it was almost impossible to estimate the value of structured assets being traded unless they had been given permission to view the deal data, let alone understand how the hidden 'financial world was shifting under their feet' (Starkman, 2011:209). As a consequence, potential risks in growing securitised products were left largely unreported. At the time when 'a large proportion of riskiest credit assets were owned by financially weak institutions'[21] the obscure field of securitisation was 'not followed closely by many business journalists' (Schifferes, 2011:152). More troubling is the media's fear of being sued for issuing sensitive information because financial journalists work under strong legal constraints imposed by stock market regulations and libel laws concerning the public disclosure of information that affects share prices. Threats of litigation or injunction by well-funded financial organisations wanting to stifle the inquiry are often enough to have an investigative story pulled (Schifferes, 2015:78).

The rise of access reporting: elite contacts for the compressed news cycles and deviation from accountability reporting

[19] Research findings revealed a considerable number of investigative articles published across the observed mainstream newspapers only after the crisis had spread to every corner of Wall Street: 'Out of the shadows - How banking's hidden system broke down', FT, 17/12/2007; 'Reality of the 'citizen investor' does not match the rhetoric', FT, 05/01/2007; 'Is the storm over? Why credit market conditions look changeable at best' FT, 04/10/2007; 'Years of mortgage foreboding followed by years of pain', FT, 21/12/2007; Pop Psychology, NYT, 17/03/2007; 'Stopping the Subprime Crisis', NTY, 25/07/2007; 'In a Spiralling Credit Crisis, Large Mortgages Grow Costly'; NYT; 12/08/2007; 'Freezing and Rebuilding Bad Credit', CNNM, 21/12/2007, etc.

[20] **Sample Observations**: 'Reality of the 'citizen investor' does not match the rhetoric', FT, 05/01/07; 'Is the storm over? Why credit market conditions look changeable at best', FT, 04/10/07; 'Credit default swaps in treacherous waters', 06/12/07

[21] 'The unease bubbling in today's brave new financial world', FT, 19/01/2007

With the advent of financial deregulation, the rising prominence of the financial sector in the economy in the 1990s was becoming incredibly hard to miss. With the total value of merger deals creeping up to $1.5 trillion in 1994 and then soaring to $2.4 trillion in 1998, Wall Street was expanding and actively representing the interests of the financial sector. And business news would be transformed by the great expansion of the stock market that became an important generator of incremental news, matching the immediate needs of news organisations and requirements of the *compressed news cycles*. Scoops on mergers and acquisition deals and investor-oriented newsbeats, which offered sensational dramas and big players' scandals and huge fortunes being made every minute, were understandably more electrifying and worth pursuing. Facing the dramatic rise of such stories (shooting up from approximately 1,100 in 1989 to about 4,600 in 1999), and bureaucratic pressure at news outlets pushing for an emphasis on the functionality rather than morality of the financial market, business journalists were put in a position which they had to be on top of the news. The result is the need to keep the supply line of information open as part of the news gathering process which drew journalists into a complex relationship with their sources, where reporters shied away from endangering their relationships with sources. It consequentially bred a cosiness that naturally propelled reporters to refrain from being overly confrontational with sources in the financial market, and as such inhibiting critical, hard-hitting reporting.

This imbalanced power relation between source and business reporters was confirmed by six business reporters interviewed in research conducted by Mark O'Brien (2015) who confessed that the need for regular contact with financial sources had encouraged journalists to run soft stories. This was far better than having the contacts blocked and being marginalised from receiving 'off-the-record information. Of course, the incentive of market actors is not always easy to decipher. It is difficult to judge if the source reflecting a continued positive attitude of the market genuinely underestimated the enormity of the problem, or was deliberately manipulating the information. But in many cases, the information given to journalists is inherently slanted in some ways because sources have little incentive to share with journalists or comment publicly about what is exchanged privately and furtively within their organisations.

Meanwhile, the rise of real-time reporting and around-the-clock coverage, accelerate a phenomenon dubbed a 'compressed news cycle' that requires the journalist to file the story quickly and more comprehensively (Yates, 2001). With the acceleration of the compressed news cycle, the tenet of fact verification becomes less of a matter of concern of journalism practice, as information is transmitted instantaneously (Pallas & Grunberg, 2012; Hocking &

Oberlechner, 2004). This process allows reporters less time to identify topics and research stories, let alone for critical reflection and scepticism. Therefore, it increases 'the risk of 'capture' by sources who actively provide information subsidies in the time-frames newsrooms require' (Thompson, 2009). News accuracy is difficult to assess; but it is always possible to tell who is the first with a piece of information. Highly-regarded news outlets have been relying on speed to promote institutional prowess. CNBC is well-known for the slogan *'First in Business Worldwide',* while Bloomberg TV's takes pride in its *'First. Bloomberg'* theme. In the financial market, the ability to obtain the information quickly can matter more than the actuality of economic fact, for 'most of the economic returns simply relate to that' (Stiglitz, 2011:26). There might be no social return to acting on early information without cross-checking and verification; but the private returns can be high enough to make the business media respond (Stiglitz, 2011).

CONCLUDING REMARKS

The performance of the business media in the subprime crisis has sparked a great deal of speculation on the erosion of the traditional role of journalism, as reflected in the disappearance of investigative reporting and the failure of the media to spot the crisis coming. Observers and commentators have also strongly excoriated the business media for aggravating the severity of the situation and acting as cheerleaders for financial institutions. This paper contributes to the ongoing discussion about the role of the media in the recent crisis by offering a counter perspective on the topic. Specifically, it empirically examined the under-researched relationship between the business press and actors in the financial market in order to uncover the impact of this power relation on the orientation of business coverage during 2007. The paper gathered data on hundreds of English news publications and compiled a list of variables linking to a series of behaviours adopted by both journalists and elite players in the financial markets against the backdrop of critical events unfolding in Wall Street as the crisis imploded.

The result obtained based on this research design confirmed the business media's dependence on access reporting, characterised by imbalanced distribution of political power between financial correspondents and their high-ranking sources in the marketplace. The strength and directionality of such a power relation was found to exert an impact on the media's ability to fulfil their traditional role as the guardian of our democracy. Most financial reporters devote their entire careers to working within the subculture of financial markets,

sealed off by its language from the rest of journalism. The professional and social ties at Wall Streets that business reporters have cultivated with financial elites keep them tethered to the pronouncements of institutions, dependent on market pundits for sensational stories, and 'deprived of time to step back and dig deep, or to merely think' (Starkman, 2014:248)**.**

Confronting these findings, one should be inclined to argue that financial journalism ought to disentangle itself from the political, economic and cultural influence of Wall Street. However it should be acknowledged that with hindsight, it is easy to connect the dots and pinpoint what went wrong. During the time, colossal financial institutions had expanded vastly following unmeasured success in the securitisation market and continued immunity from the law and punishment, and cognitive capture and cultural embeddedness were sadly inevitable parts of business news production. The business press, existing within Wall Street and corporate subculture, and understandably relying on access to those institutions for its stories, and as such burning the bridge is hard (Starkman, 2014:53). When the state's policy aiming at tightening credit lending was scrapped to make room for financial innovations, the business press became the lone soldier 'trying to fight the battle of Tarawa with a Swiss Army Knife', to take Starkman's words. The combination of regulatory crackdowns and looming problems in the financial media's reporting model presented a real storm facing journalists and made the task of challenging the growing radicalisation of the financial sector harder to fulfil. The press cannot go alone in this battle without the critical support from the government to 'push back structural conflicts and cultural taboos fostered by the industry, to clear a space for business journalism to do a job it is clearly capable of' (Starkman, 2014:53). Too bad that at the time the state dropped financial regulations; the press became unilaterally disarmed too and lost its enthusiasm for the hard-nosed investigative reporting that was needed to take on the institutions creating the crisis.

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APPENDIX:

INTER-CODING RELIABILITY CODING FRAMEWORK FOR CONTENT ANALYSIS

VARIABLE 1: Did the journalist depend on his source for expert analysis and interpretation of market events?
(1): YES
(0): NO
VARIABLE 2: Was there a prevalence of senior and/or high-ranking source featured in the coverage of the financial crisis?
(1): YES
(0): NO
VARIABLE 3: Did the journalist take positions that contradict the dominant market view? i.e. did the article adopt the same view and stance of those covered without critically suggesting different perspectives on the same issue.
(1): YES
(0): NO
VARIABLE 4: Did the journalist in general sound an alarm of the possibility of a deepening housing crisis and an accompanying collapse in the stock market?
(1): YES
(0): NO
VARIABLE 5: Did source give early warning or raise concerns about risks of exposure to a subprime crisis in the banking sector?
(1): YES
(0): NO
VARIABLE 6: Did source comments offer a plausible explanation of the subprime market woes to the extent it elucidates the journalist as to the severity and magnitude of the problem?
(1): YES
(0): NO

INTERCODING RELIABILITY INDEX

	Percent Agreement	Scott's Pi	Cohen's Kappa	Krippendorff's Alpha	N Agreements	N Disagreements
Variable 1 (cols 1 & 2)	100.0	undefined*	undefined*	undefined*	153	0
Variable 2 (cols 3 & 4)	100.0	undefined*	undefined*	undefined*	153	0
Variable 3 (cols 5 & 6)	90.2	0.759093056	0.760613331	0.759880334	138	15
Variable 4 (cols 7 & 8)	97.4	-0.013245033	-0.013245033	-0.009933775	149	4
Variable 5 (cols 9 & 10)	92.2	0.7861137	0.787892791	0.786812675	141	12
Variable 6 (cols 11 & 12)	92.8	0.809107923	0.810408922	0.809731753	142	11

EXAMPLES OF COMMENTS USED IN QUALITATIVE CONTENT ANALYSIS

Newspapers	Misleading/Inaccurate Information	Critical Warnings	Other Comments
FT	*"It is estimated that the US mortgage market is worth some Dollars 10,000bn, approx. 10% of which is classified as subprime [...]. 90% of US mortgages were not subprime and the trend of this 90-plus per cent is more significant to US consumption than the sub-primers." (Tim Harris, markets strategist at JPMorgan Private Bank, 10/03/2007). " [...] Subprime accounts for only about 3% of the total value of US housing stock. Even a relatively sharp tightening of subprime credit standards and a dumping of foreclosed properties will, therefore, have a relatively small effect." (Michael Klawitter of Dresdner Kleinwort, 27/03/2007). * "Most CDOs were well-insulated from subprime problems" (Kevin Kendra, head of the CDO group at Fitch Ratings, 27/03/2007). *"The labour market is likely to deteriorate, but the impact of the housing slump should fade as 2007 progresses" (Nouriel Roubini, Professor at NY University, 24/01/2007)	* "This housing downturn is far from over and the full impact across the economy has not been felt . . . As with most bubbles, this one started with loosening credit guidelines, excessive price appreciation, classic performance-chasing (and) speculative fervour, and now ends in lawsuits." (David Rosenberg, North American economist at Merrill Lynch, 15/03/2007).	"[...]While the central bank remained focused on inflation, policymakers were awaiting more data on the fall-out from the housing slowdown, with a clear picture unlikely to form until the spring home-sales season has come and gone" (Drew Mathus, of Lehman Brothers, 01/02/2007). *"Late last year, a lot of people thought mezzanine was overvalued, but they had no tools to express this view easily and there remained a huge bid from CDOs driving spreads tighter" (Cyrus Korat, head of structured credit trading at Merrill Lynch, 07/06/2007). *"We don't know how many homes are going to be dumped back into the market by homeowners who default on sub-prime loans" (Ethan Harris, chief economist at Lehman Brothers, 02/03/2007)
NYT	* "I guess we are a bit surprised at how fast this has unraveled" (Tom Zimmerman, head of asset-backed securities research at UBS, 18/03/2007) *"We are close to the bottom, but I don't think we have hit bottom as far as construction news is concerned. Longer term, I do think the outlook is very positive for the housing sector as long as we continue to have economic growth and mortgage rates at the 6 to 7 % (Frank E. Nothaft, a vice president and chief economist at Freddie Mac, 09/01/2007). * "It's low long-term interest rates that are helping to provide the safety net for housing" (Delores A. Conway, director of the Casden Real Estate Economics Forecast at the University of Southern California, 09/01/2007) *"[Housing sector] is most likely to experience a gradual cooling rather than a sharp slowdown." (Ben Bernanke, Fed Reserve Chairman, 27/04/2006)	* "There is a higher probability that volatility will increase, leading to a greater likelihood for a real correction. [...] there is ample evidence that [...] the so-called subprime market [...] is in a real crisis." (David Kovacs, head of quantitative research at Turner Investment Partners, 11/03/2007) *"Despite the recent favourable price data, I believe it is still too early to relax our concerns about whether the run-up in price pressures in the spring and summer of last year is truly unwinding" (Donald L. Kohn,vice chairman of the Federal Reserve,09/01/2007)	*"The regulators are trying to figure out how to work around it, but the Hill is going to be in for one big surprise. This is far more dramatic than what led to Sarbanes-Oxley that followed the WorldCom and Enron scandals, both in conflicts and in terms of absolute economic impact." (Josh Rosner, a managing director at Graham-Fisher & Company, 11/03/2007)

*"[I]reasonably optimistic on the overall outlook for the sector. Credit markets should eventually return to normal, and these activities should recover along with them" (Patrick Lemmens, ABN AMRO Asset Management, 29/08/2007). *"But the problems in the corporate debt market have been triggered by an imbalance between supply and demand, rather than problems arising from credit fundamentals" (Blackstone President and Chief Operating Officer c, 13/08/2007). *"I don't think there will be a recession because of private equity or the credit markets alone. There are lots of other reasons it could happen - we're fighting a war and spending money." (Mark Sirinyan, broker, 10/08/2007). *"The larger financial firms are OK and the contagion seems to be contained" (Douglas Roberts, Managing Principal at Channel Capital Research Institute; 15/03/2007)	* "What [the optimists] don't realize is that consumer spending has been a function of easy credit and the high housing market. The idea that Americans will keep spending is wrong. With [lower home equity and less access to credit] where're they going to get the money?" (Peter Schiff, president of Euro Pacific Capital Inc. and author of "Crash Proof: How to Profit from the Coming, 10/08/2007) *"Lenders, policymakers, consumer organizations and borrowers are equally concerned about rising foreclosures and other issues facing the mortgage industry today. All of these parties should be at the same table to find workable approaches to these issues while preserving liquidity in the marketplace" (Bill Himpler, executive vice president, 23/08/2007)	*"The bad news is already in the stocks, but there's a question of whether they'll start to reveal how their balance sheets look. Such information will be crucial in terms of determining how badly the credit market will suffer going forward"(Georges Yared, chief investment strategist at Yared Investment Research, 31/08/2007). *"Things have changed since August 7, so the data we were looking at have changed" (Georges Yared, chief investment strategist at Yared Investment Research, 31/08/2007) *"What we need to do is require Countrywide, and all the other lenders, to offer a product that promotes long-term home ownership and stability. Stability comes from knowing what you can afford and what the mortgage payments will be." (NACA CEO Bruce Marks, 23/08/2007) *"Banks need to give better guidance on what their liquidity situation is like [to restore investor confidence]" (Patrick Lemmens, ABN AMRO Asset Management, 28/08/2007)
* "It's **Calamity** for a very small segment of the mortgage markets. [...] The subprime market is about 10 % of the $9 trillion mortgage market. So that is a small percentage, and we're not seeing the contagion, makes me not worried about the macroeconomic crisis." (Michelle Girard, RBS Greenwich Capital Senior Economist, 23/02/2007). * The subprime market really a very small slice of the pie. In most of those situations, the job market is so strong, that's what really drives reditworthiness. I still think that looks to be in fairly good shape. (Jeffrey Kleintop of PNC Wealth Management, 06/12/2006). *"You can have a problem in one area of the market that doesn't spill over into the rest of the market, that doesn't take down other institutions. And that's why I'm not worried about the subprime lending problem" (Brian Wesbury, First Trust Advisors Chief Economist, 02/03/2007) *"I think our economy is less recession-prone because the service sector insulates us from it" (Wayne Angell, Former Federal Reserve Governor, 09/01/2007)	*"[...]subprime meltdown might lead to a generalized credit crunch and maybe a recession. They spelled it 'R' dirty word It's not a niche problem for many reasons. First of all, it's not only 10%. Origination for last two years, subprime were 20%. Secondly, most of the even prime mortgages were essentially ERM, and they're the same monster practices of the subprime stuff, the same junk: no documentation, interest-rate only, negative amortization, teaser rates." (Nouriel Roubini of Roubini Global Economics, Roubini Global Economics Chairman) *My view is, first of all, there is a beginning of a credit crunch in the subprime market as the result of all kinds of lousy practice: no documentations, interest-only, negative amortization, and zero down payments. That subprime market has essentially totally shut down at this point. So everybody agrees there is a credit crunch there. The question is whether this credit crunch is going to spread to other parts of mortgage and consumer credit (Nouriel Roubini of	*"When I saw Bernanke's news story for his speech a couple days ago--and I actually read the testimony or read the speech--the thought came to me, Steve, that the market may not understand how market friendly that was. What he essentially said is that inflation is contained, inflation expectations are contained. It may not be perfect but they are contained." (Lawrence Kudlow, TKR, 12/07/2007) *"Bernanke's been saying for a long time that he didn't think the interest rate was the right instrument to deal with easy lending standards and mortgages. He said it's too blunt an instrument. And I think that [Bernanke's speech on 17/03/2007] just continues that." (Harvard professor & Economist Ken Rogoff, 18/03/2007)

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