Reflections on Economic Reporting: Seven Years of the Economic Reporting Review

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Over the last seven years I have been writing a weekly on-line commentary of the economic reporting in the New York Times and Washington Post called the Economic Reporting Review (ERR). This has required that I devote considerable attention to the way in which two of the nation's best papers report on economic issues. ERR examines both the direct coverage of the economy, such as reporting on new data on GDP growth , wage growth, and other economic trends, and the also the treatment of economic issues in the context of political debates, such as the debate over President Bush's tax cuts.

I began writing ERR because I think reporters have a very great responsibility in accurately informing the public on the issues that affect them. The general public cannot possibly take the time to independently learn about the various issues that arise in policy debates. They have to rely on the information that they can get from a quick reading of their newspaper, or more typically a brief sound bite on the evening news. Reporters have to make the information they are presenting in these brief segments as accurate as possible and try to ensure that it highlights the most important factors. At the same time, they typically must do this under short deadlines and sometimes deal with conflicts with editors. In starting ERR, I hoped that my expertise as a professional economist could provide some guide both to readers who use the news, and to the reporters who write it.

Over this seven year period, many of the reporters and issues have changed, but there are a number of themes that recur in the reporting, which I often find occasion to mention in ERR. In the discussion below, I have cited eight issues with economic reporting that I frequently raise in ERR.

1) **Numbers Out of Context**

The *Times* and *Post* both give extensive coverage to debates over the federal budget. While this coverage is often quite detailed, it is not clear that it is always very informative to readers. The main reason is that few readers have enough background on the budget to put the numbers mentioned in new articles in any sort of context.

For example, when a reader sees that President Bush is proposing a tax cut worth $750 billion over the next ten years, it is unlikely that he or she has much sense of how large this tax cut actually is. This number, like most of the numbers in budget debates, is huge and beyond the comprehension of people who do not spend their days buried in economic data. If a zero was added or subtracted to this number, the impression left on readers probably would not change much. To make matters worse, news articles are often not even clear about the time frame for a particular tax or spending proposal - it makes a big difference if the government is going to spend $15 billion to combat AIDS in Africa over five years, as compared to spending the same amount in one year.

It would be far more informative for readers if numbers were always put into some context. For example, instead of, or in addition to, the dollar amount of the tax cut, articles could report that the tax cut is equal to approximately 2.8 percent of projected spending over this period. Alternatively, the tax cut could be expressed in per capita terms - approximately $2,700 per person over the ten year period, or $270 per person per year.

The same logic would apply to all budget data. Polls regularly show that large numbers of Americans think that welfare and foreign aid are the largest items in the budget. It is unlikely that this would be the case if spending on TANF and foreign aid were regularly reported as approximately 1.0 percent and 0.6 percent of the total budget, respectively. Alternatively, spending programs can be expressed relative to the size of the population being served. For example, the projected $3 billion in annual spending to combat AIDS in Africa comes to approximately $100 for each of the estimated 30 million HIV positive people in Sub-Saharan Africa. (The biggest items are Social Security --22 percent, defense - 18 percent, Medicare -13 percent, and Medicaid -8 percent.)

Similarly, the reported size of budget deficits would be more meaningful if they were expressed as a percentage of the GDP. The $207.8 billion deficit of 1983 had far more economic significance than the $400 plus billion deficit of 2003, because the 1983 deficit was equal to 6.0 percent of GDP, while the 2003 deficit is likely to end up close to 4.0 percent of GDP.

Some of the worst confusion has stemmed from using numbers outside of any context in the Social Security debate. It is very frightening to hear that the program faces a shortfall of $7 trillion. It would be considerably less scary to hear that the program faces a shortfall equal to 0.72 percent of GDP over the next seventy five years, or that the projected shortfall is of approximately the same magnitude as the shortfalls dealt with in the fifties, sixties, seventies, and eighties.

It is not just in reference to the budget that numbers often appear without any context. The projected impact of policies such as increases in the minimum wage or steps to restrain global warming need also to be placed in some context. For example, suppose that increases in the minimum wage actually do lead to some loss of jobs (this conclusion is contradicted by a series of recent studies), it is important to give readers a sense of the importance of the projected job loss. If one percent of minimum wage workers lost their job due to a fifteen percent increase in the minimum wage, most people might still consider this a good policy, especially since most unemployment spells are relatively short. Similarly, if policies designed to stop global warming would slow growth by 0.5 percentage points for a couple of years (a plausible figure), this would not be obvious grounds for their rejection.

With these policies, as with numerous other policies that could involve tradeoffs, it is essential that readers be informed of the size of the tradeoffs. Otherwise, they have no basis for seriously evaluating the merits of the policy.

2) **Politicians Don't Always Tell the Truth**

It is common for news articles to report on the motives of politicians for their actions. For example, much of the reporting on President Bush's tax cut included assertions that the President was motivated by a desire to spur growth or that he believes that the economy works best with less government involvement. While this may be an accurate description of President Bush's world view, it is also possible that the tax cuts were intended simply to redistribute income to the wealthy investors who were its primary beneficiaries, the bulk of whom support President Bush politically.

Unless a reporter had a very close personal relationship with President Bush, it is unlikely that he or she knows what the President's motives were in pushing the tax cut. Speculation on motives is simply that. Reporting should inform readers about the structure of the tax cut, and about what its proponents and opponents claim concerning its merits. There is no reason to try to separately tell readers politicians' real motives.

This issue did not just come up with the tax cuts. Articles on privatizing Social Security and Medicare have frequently included assertions that proponents of privatization favor a larger role for the market. While this could be true, it may also be the case that they simply want to steer more business to the insurance and/or financial industries, which could earn enormous profits as a result of the privatization of these programs. Again, there is no need to speculate on politicians' motives - it is only necessary to report the substance of the proposals and what proponents and opponents claim about their merits.

3) **The Stock Market is Not the Economy**

A rise in the stock market is often reported as good news that readers should be happy about. In fact, a rise in the stock market is not generally good news for everyone, and may actually be bad news for the economy as a whole.

In principle, the stock market represents the value of the future earnings of the corporations listed on the exchanges. If the market rises, this should mean that future earnings are now expected to be higher. This can be viewed as being generally good, if it means that profits are rising in step with overall growth. In this case, higher profits would mean that most people would be better off in the future.

However, the stock market could be rising because of a redistribution from wages or taxes to profits. In this case, the rise in stock prices represents the gains of some segments of society (large shareholders) at the expense of other segments (workers or taxpayers). In this situation the rise in stock prices is not good news for most people.

It could also be the case that the stock market is rising for irrational reasons, unrelated to future profits, as was the case in the late nineties boom. This situation is clearly not good for the economy. An overpriced stock market distorts investment decisions and consumption choices (people spend based on their stock bubble wealth). There is no reason to be happy about a stock bubble that grows ever larger. This is bad news for everyone, except those who are clever or lucky enough to get out before the bubble bursts.

It is also important to remember that more than 40 percent of the population still does not own any stock at all, even through a mutual fund in a retirement account. Even among the group of people who do own stock, most have relatively little wealth in the market, with the median shareholder having less than $25,000 in stock.

4) **Loaded Terms Do Not Belong in News Stories**

Proponents of specific policies will naturally try to develop a vocabulary that advances their position. For example, opponents of the estate tax began referring to it as the "death tax." Opponents of abortion call themselves "pro-life." In a grand public relations gesture, President Reagan dubbed the MX missile, which was the subject of a heated political debate at the time, the "Peacekeeper." While we can appreciate the creativity involved in developing these terms, this language obviously should not be used in news articles, except in quotes.

However, I have found numerous instances in which many similarly loaded terms appeared in economic reporting in the Times and Post. Starting with President Bush's tax bill, there were many occasions where the dividend tax cut was described as an effort to eliminate "double taxation." While proponents of the tax cut were anxious to have the tax on dividends viewed as double taxation, it is not clear that this is an accurate characterization. It is an important legal principle in the United States that a corporation is a distinct legal entity from the individuals who own its stock.

Furthermore, this is not simply a legal nicety. Shareholders own their stock knowing that the profits of the corporation will be subject to the corporate income tax. If they did not believe that the privileges bestowed on corporations were of greater value than the tax, then they would reform the corporation as a partnership, which is not subject to a separate tax. In short, the fact that corporations exist indicates that investors believe that the government is giving them something of great value when it allows them to form a corporation. The claim that the corporate tax combined with an individual tax on dividends amounts to "double taxation" effectively means that the government should grant the privileges of corporate status at zero cost to its beneficiaries.

A second place where a loaded term routinely appears is in the description of trade agreements/negotiations as "free trade" agreements/negotiations. It is understandable that proponents of these agreements would like them to be characterized as being about "free trade" and not just trade, but it is not accurate. Most recent agreements, such as NAFTA or the pacts recently signed with Chile and Singapore have focused on a wide range of issues. Not all of these issues were directly related to trade - for example the Chile agreement limited Chile's ability to use capital controls. Another major concern was the treatment of intellectual property claims, such as patents and copyrights. In this area, the agreements led to considerably tighter patent and copyright restrictions. These restrictions make it more difficult for producers to compete in the market - for example for generic producers to compete with patented drugs or for CD manufacturers to produce recorded music. While it is possible to defend the tightening of patent and copyright rules, it is not clear that this can be called a step towards "free trade."

In the same vein, it is common to refer to unauthorized reproductions of copyrighted material as "pirating." This expression is often inappropriate in reference to the issues being discussed. For example, it is impossible to "pirate" a CD in a country where the copyright does not apply. Similarly, copying often has an ambiguous legal status. A person wishing to make a copy of a CD for use in travel is not obviously violating a copyright. News stories should avoid using a pejorative term to describe such behavior.

Along the same lines, it is important to be careful about the use of adjectives. For example, the use of terms like "massive" or "crushing" to describe the cost of the baby boomers retirement can hardly be viewed as neutral. It would be more informative to compare the costs in question to other costs with which readers may be more familiar (for example, the projected shortfall in Social Security, measured as a share of GDP, is approximately half as large as the Carter-Reagan military build-up).

5) **Letting False Claims Go Unanswered**

It is reasonable to let politicians or other key actors in policy debates express their opinions in their own words. However, it is not fair to readers to let blatantly wrong statements go unchallenged. In principle, reporters have the time to check whether a statement is true, readers almost certainly do not.

For example, many politicians (and some economists) have pointed to Mexico's growth since NAFTA as a testament to the benefits of increased trade. It would be appropriate to point out that per capita GDP growth in Mexico has averaged less than 1.0 percent annually since NAFTA took effect. This is an extremely poor growth record for a developing country. Successful developing countries, such as South Korea and Taiwan have managed to sustain per capita GDP growth rates that have averaged more than 4.0 percent since the sixties. In fact, Mexico managed to sustain a per capita GDP growth rate of more than 4.0 percent in the period from 1960 to 1980, when it was following a path of import substitution.

Another example where false statements have often gone unchallenged is in reference to the budget deficit. Some Republicans have sought to blame the deficit on excessive spending. From 2000 to 2003, the budget shifted from a surplus equal to 2.4 percent of GDP to a deficit of approximately 4.0 percent of GDP, a shift equal to 6.4 percentage points of GDP. The increase in spending over this period was just 1.3 percentage points of GDP. This information should be presented to readers when a politician blames the deficit on higher spending.

Similarly, when Democrats have charged that President Bush is spending the Social Security surplus, it is appropriate to note that this has no effect whatsoever on the status of the program. Under the current law, the Social Security trust fund holds the exact same amount of money in government bonds regardless of whether the government spends or saves the money it borrows. (In this way, Social Security is just like any other bondholder. They are entitled to redeem their bonds when they become due, regardless of what the money did with the money it borrowed.)

On this topic, it is important to note that the budget surplus can be reported either with the Social Security surplus (the unified budget deficit) or without the Social Security surplus (the "on-budget" deficit). If reporters believe that the on-budget deficit is a more accurate measure of the nation's fiscal position, then they should report it. This figure is readily available in virtually every budget document the government prints. While politicians can say whatever they want about Social Security and the budget, reporters (or their editors) decide what gets into print. For this reason, politicians are not the ones who use the Social Security surplus to hide the deficit. Rather, it is the budget reporters who must be held accountable.

It is important for the political system that reporters recognize their responsibility to challenge public statements that are not true. If a politician believes that he or she can say things that are clearly untrue - and see them printed without challenge - then there is a very strong incentive to simply make things up. Alternatively, if they knew that their inaccuracies would be highlighted in news stories - showing readers that they are either poorly informed or dishonest - then politicians would likely be more careful in their public statements.

6) **The Use of an Imbalanced Set of Sources**

It is common to see an article about the actions of the Fed or the European Central Bank in which all the sources cited work for the financial industry. Other articles on the macro economy, such as new GDP data or the monthly jobs and price reports, are also heavily tilted toward the financial industry in their choice of sources.

The perspectives of experts is shaped by where they work -- economists may either bend their views to be more acceptable to their employers, or alternatively, employers may only hire economists who they believe already think along the same lines as they do. In either case, economists working for the financial industry are likely to have concerns -- such as an excessive focus on combating inflation -- that reflect this narrow portion of the economy.

The policies pursued by the central banks have a huge impact on the whole economy and the whole society. Their interest rate policy effectively determines how fast the economy is allowed to grow. The financial industry has relatively little interest in ensuring a high rate of growth and none in securing the lowest possible unemployment rate.

By contrast, other segments of society may be less concerned about inflation and enormously concerned about the rate of growth of the economy and jobs. Therefore, it is important that these articles should include experts from a more diverse set of sources. Reporters should seek to include the views of experts in academia, government, labor unions, or at least non-financial businesses.

It would also be helpful to at least occasionally provide more background on what the Fed is. There is considerable mystery around the Federal Reserve Board, with most people having little or no knowledge of what it is and what it does.

7) **Presenting political choices as acts of nature**

News articles often refer to policy makers as being "forced" to adopt a certain policy or set of policies, when in fact the policy was one of their choosing. This issue comes up most often in the context of central bank policy, with articles reporting that central banks were "forced to raise interest rates." Of course, central banks are never literally forced to raise rates - they opt to do when they decide that the alternative would be worse. However as a result of the use of the term "forced," readers will be less likely to realize that the central bank made a policy choice, opting to contain inflation at the cost of higher unemployment. They are also less likely to appreciate the factors that led the central bank to the decision to raise rates.

The expression "forced" also appears sometimes in the context of governments cutting spending in order to bring down their deficits. Here also "forced" is an inappropriate term. There may be pressure from financial markets and/or international financial institutions like the IMF to reduce deficits. While deficit reduction may be viewed as "forced" under such circumstances, there are always alternative methods for reducing deficits. Notably, governments can try raising taxes as an alternative to cutting spending. So, it is incorrect to view spending cuts as being forced on countries.

8) **Track Records Should Matter**

Sources often make statements about the economy which are subsequently proven to be either correct or incorrect. It would be appropriate to take this track record into account in determining the appropriate sources for news articles and the credibility that their comments should be given.

For example, it would be reasonable to question the assessment of an economist who projected that the "new economy" would sail along at a rapid pace for the indefinite future back in 2000. Alternatively, it would be appropriate to try to seek out the views of the skeptics who saw problems ahead.

This applies to government agencies and international institutions as well. For example, it is appropriate to note where past forecasts by the Congressional Budget Office (CBO) or the Federal Reserve Board have proved inaccurate. Readers should be reminded that the CBO vastly over-estimated capital gains tax revenues in its projections of 2000, 2001, and 2002, effectively assuming that the stock market would continue to rise even from the peaks of the bubble. The shortfall of capital gains revenue due to crash explains close to $100 billion of the shift from budget surpluses to deficits.

The same reasoning applies to international organizations such as the International Monetary Fund (IMF) or the Organization for Economic Cooperation and Development (OECD). When reporting on the IMF's policies for a particular country - for example Russia -- it would be appropriate to mention the past track record of these policies. In the case of Russia, IMF policies were associated with a 50 percent decline in output over the period from 1990 to 1998. In the case of the OECD, recommendations to pare back welfare states and weaken worker protections have not led to the predicted growth and reductions in unemployment in most cases. Readers should have this information.

The Good Side of the Picture

These comments have focused on problems that I have observed in the economic reporting in the New York Times and Washington Post over the last seven years, but it would not be right to ignore the positive aspects of this reporting. There are some outstanding reporters at these papers who regularly write articles that draw attention to important issues. For example, David Cay Johnston at the New York Times has exposed numerous tax scams over the last decade, often forcing congressional action or I.R.S. investigations. Gretchen Morgensen was one of the leaders in exposing phony accounting and conflicts of interest on Wall Street. Melody Peterson has reported on many of the questionable schemes that the pharmaceutical industry has invented to inflate its profits. And Louis Uchitelle regularly produces penetrating analyses of important economic trends. Such pieces are an important contribution to the public debate on a wide range of policy issues.

Every issue of the Economic Reporting Review begins with a list of outstanding stories. This is done to call attention to the important information in these articles, but also to point to them as examples of good journalism. Reporters obviously face serious time and space pressures and other constraints that limit their ability to write articles that are accurate and informative. But, it can be done, and it is important that is done.

It really is true that we cannot have a meaningful democracy without a well-informed public. The public must take responsibility for devoting the time needed to become informed on the issues that concern it. However, when people do take the time, it should be possible for them to get the necessary information. When it comes to major economic issues, I do not feel that someone who took the time to read two of the country's leading newspapers would be well-informed. That is a serious problem.

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