

INVESTOR PUBLICATIONS' REPORTING ON THE GREAT RECESSION OF  
2007-2009

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Master of Arts

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by  
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INVESTOR PUBLICATIONS' REPORTING ON THE GREAT RECESSION OF  
2007-2009

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## DEDICATION

This thesis is dedicated to my family—Loren Hart, Jasmine and Evan Stapleton-Hart, Beverly Stapleton and John Stapleton—for all their love and encouragement throughout my long years of study. I would also like to extend thanks to Professor Richard Craig and to Mack Lundstrom, both of San Jose State University, who inspired me to continue my education in journalism for the sheer love of it.

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# INVESTOR PUBLICATIONS' REPORTING ON THE GREAT RECESSION OF 2007-2009

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## ABSTRACT

Did investor publications—which brag that they give their readers the timely, accurate information they need to make the right decisions—accurately portray the beginning of the Great Recession of 2007-2009? To answer this question, this study analyzed a total of 921 articles about the economy or significant topics affecting it that appeared in *Fortune*, *BusinessWeek*, *Barron's* and *The Economist* from August 2007 through July 2008 and found that the coverage in these magazines generally did not on average accurately predict or characterize the recession in a timely manner.

Rather, worsening economic trends were often characterized as an unpleasant part of the business cycle, attributed to causes other than recession or as temporary problems that could be remedied by quick, temporary Fed action. Articles specifically about the recession, unemployment and its consequences, consumer impacts and possible fixes for a worsening crisis were rare, while articles advocating no solution or that market forces would resolve the situation were common. At no time did any magazine on average predict that the country was in a recession, even once the country had actually entered a very serious one, as judged by NBER data.

Keywords: frames, framing, agenda setting, reverse agenda setting, financial reporting, business reporting, business magazines, Great Recession coverage, second-level agenda setting

## CHAPTER 1: STUDY AIMS

It has been alleged that investor publications—such as *BusinessWeek*, *Fortune*, and similar business publications—dislike discussing scandals, mismanagement, business-cycle contractions or other economic problems that could have a negative impact either upon particular companies or business in general.

For example, Diana Henriques, former *New York Times* business investigative reporter and now a contributing writer, argued that business journalists often ally themselves more with business than with journalism (2000), which, contends Henriques, makes them less skeptical about those they cover on business beats, than political journalists are in covering their subjects.

Similarly, Majia H. Nadesan (2001), now a professor at Arizona State University, analyzed the framing and agenda-setting power of *Fortune* on the way that business elites, such as managers, view globalization. She writes that such periodicals perform important interpretive and agenda-setting functions; they “disseminate the managerial gospels and practices of financially successful business executives, entrepreneurs, and authors” (p. 498). Such publications, she argues, often ignore or suppress narratives that do not fit optimistic, business-oriented frames.

And Jeffrey Madrick (2002) showed that during the late 1990s, business journalists, particularly those at *BusinessWeek*, created and promulgated the myth of infallibility of “the new economy.” As he pointed out, rarely did business journalists anywhere question this premise until the collapse of 2000-2001.

The purpose of this research is to contribute to answering the question: Do magazines aimed at investors overlook or withhold bad news about economic trends? If this is true in specialty publications read by sophisticated audiences, there is potential for harm to independent investors who could potentially make bad investments based on an incomplete picture of the economy. In addition, if even sophisticated professional investors—who manage pension and other institutional funds—have an unjustifiably rosy picture of economic trends, they are likely to make less successful investments as well. If these readers are presented with an inaccurate picture of economic trends, the potential for economic damage to society could be quite high. Sadly, as society has found in a variety of scandals that involved investment in unsound vehicles—such as Enron, Long-Term Capital Management, and financial companies invested in derivatives—such damage can be devastating, both to investors and to society in general.

Furthermore, if business magazines are not alerting their readers to potential hazards, the argument can be made that they are not fulfilling the promises made in their marketing literature to deliver actionable, accurate investment information. Therefore, editors at such specialty magazines should actually be much more willing to invest in wide-view investigative pieces that look at looming threats to their investing audience, since that is part of their value-added for their relatively smarter, more sophisticated audiences.

### **Research Questions**

This research therefore asked: Do investor publications publish stories that accurately reflect economic declines, signaling coming recessions quickly, either before or as such upheavals occur? An answer to this question helps either to validate the idea,

alleged in the preceding discussion, that business publications are slow to report bad news—or “clear” them of inaccurate reporting. Unfortunately for those affected by it, the recent slide into what has been almost universally acknowledged as the worst economic decline since the Great Depression of the 1930s represents the quintessential story of economic decline following good times, and therefore serves as a near-perfect case study for analysis. The decline was severe, and took place over many months, giving editors and reporters time to detect and react to the worsening economy. Did they do so in a timely manner?

To explore these questions, national business magazines’ coverage of rapid economic decline were analyzed during a one-year period from August 2007 through July 2008, and a content analysis was performed to determine when the framing of stories about the economy shifted, as the United States was approaching and entering the Great Recession of 2008-2010. The publications chosen for analysis included four publications: *Fortune*, *BusinessWeek*, *The Economist*, and *Barron’s*.

One would expect the framing of economic stories to change either slightly ahead of the economic decline, or perhaps to mirror it. If, however, a significant lag is found between the time that the framing of economic stories becomes increasingly negative, and the actual decline of the economy—as measured both by economic indicators and by the events leading into the recession—then the research will suggest that coverage overlooked a long and increasingly worrying slide into recession.

In addition to helping to answer the larger question of the accuracy of “money” magazines, this research sheds light on the following related questions:

- 1) Were some of these magazines better than others in their presentation of the true economic picture?
- 2) How did framing change over time, if at all, as the crisis grew into the Great Recession?

This research used a content analysis of all articles in the printed editions of these magazines and relating to the state of the economy, from August 2007 through August 2008, to perform an analysis modeled on the techniques of Matthes and Kohring (2008). The purpose of the analysis was to compile monthly framing statistics from each publication to detect when the frames used in economic stories changed. These changes in framing were then compared to a timeline of key economic and business events, to help to understand how the recession was discussed and covered at the time.

### **Framing Theory and Concepts**

To understand the methodology of the study, it is necessary to understand theories of framing and agenda setting. For example, there are many similar definitions of the term “frame,” but Pan & Kosicki (1993) captured the essence of the term when they defined a frame as “a schema of interpretations that enable individuals to perceive, organize, and make sense of incoming information.” Entman (1993, p. 52), made this definition more specific and operational by writing that “to frame is to select some aspects of a perceived reality and make them more salient in a communicating context, in such a way as to promote a particular problem definition, causal interpretation, moral evaluation, and/or treatment recommendation for the item described.”

Closely related to frames is the area of agenda setting, an area of research that dates back to Maxwell McCombs’ ground-breaking research on the 1968 American

presidential campaign. It holds that what the media publicizes—its coverage and themes—has an effect upon what the public cares about, talks about, and thinks about, in other words, its “agenda” (McCombs, Shaw & Weaver, 1997; Larson, 1994; Salwen, 1988). As Scheufele (1999) points out, the term “agenda setting” is not only inseparable from framing, but it has also been used in so many different contexts—both to describe how the media presents stories and how audiences perceive them—that there is sometimes confusion as to the term’s precise meaning, and therefore, some researchers such as McCombs *et al* have used the term “second level agenda setting” to describe “the impact of the salience of characteristics of media coverage on audiences’ interpretation of news events.” For this study, the former meaning will be used unless second-level agenda setting is explicitly called out.

And although agenda setting is often thought of as applying mostly to political agendas, it has also been generalized to apply to how the public perceives other topics, such as economic ones. For example, Blood and Phillips (1995), showed that public opinion about recession—as recorded in an index of consumer confidence—was not correlated with the state of the economy as described by economic indicators.

### **Reverse Agenda Setting**

Also relevant to this study is the concept of “reverse agenda setting,” which can be defined as underemphasizing or remaining silent about important stories in an effort to keep negative economic issues off of the public agenda (Haarsager, 1991). Haarsager used this definition in research on a similar topic—how Great Depression themes and issues were represented in local newspaper coverage.

## **Economic Indicators and Recession: Objective Frames from Economics**

As mentioned before, similar analysis (Gill, 2005) has already found that the AP and the “NBC Nightly News” were, in fact, accurate in their reporting of the bursting of the tech bubble and the ensuing recession in 2000-2001 and fairly represented the economy as the leading economic indicators indicated that it was performing. (However, Gill’s thesis left unstudied the question of whether specialty publications, such as those aimed at investors, often resort to booster-ism when it suits their interests.)

Gill’s research aimed to decide whether the economic coverage of the recession was accurate. To make such a decision, she needed to first establish what the true economic picture was during each month of her study. Such an objective picture could then be used to decide whether coverage was accurately depicting that objective reality. She chose as her standard the very economic indicators that economists use to determine economic health and to define such terms as “recession,” “depression,” and “recovery.”

The term “recession” has several definitions. Perhaps the one most commonly used in the media is “two consecutive quarters of negative GDP growth.” However, such a definition is only useful in hindsight; by the time there have been two quarters of negative GDP growth, it is possible that a recession is well underway or possibly even over.

However, there are often other warning signs, and many of these are captured in key economic indicators and, sometimes, in key events themselves, such as stock-market plunges, credit defaults, bank failures, and foreclosures. The National Bureau of Economic Research (2008) defines recession as "a period of falling economic activity spread across the economy, lasting more than a few months, normally visible in real

GDP, real income, employment, industrial production, and wholesale-retail sales" (p. 1). As the NBER points out (NBER, 2012, para. 2), determining when an economy is in a recession is complicated enough to require a subcommittee of experts, the Business Cycle Dating Committee. The NBER therefore often does not announce recessions until the economy either has been in one for a long time, or for some short recessions, until the recession is actually over and recovery is underway. It would therefore be unfair to claim that a publication erred when it failed to anticipate the exact dates of a recession.

It does, however, seem reasonable to hold an investor publication responsible for monitoring the events and trends captured in the NBER economic indicators and to change the framing and content of stories as indicators start to slow or decline and the economic situation becomes more worrying. In fact, this is how Gill found her objective frame against which to compare newspaper coverage.

However, because Gill's analysis involved daily newspapers, rather than weekly or bi-weekly magazines, one might expect to detect a more immediate shift in framing for business magazines. If, in fact, these investor publications really deliver on their promises to help their readers anticipate trends with thoughtful analysis, one could argue that business publications really should have "seen it coming" even sooner than general circulation publications. Did they, in fact, become increasingly negative in their coverage as the economic indicators became more negative? In other words, publications that focus exclusively on markets and the economy advertise claims of special expertise and advice and should therefore perform to even higher standards.

As will be discussed later, a more detailed, multi-faceted technique—hierarchical cluster analysis—can detect shifts in frames other than "positive," "negative," or

“neutral,” and are therefore better suited for the complexity and the time frames normally used to complete stories in business magazines. This research uses such cluster analysis to analyze how well investor publications covered the Great Recession.

## CHAPTER 2: LITERATURE REVIEW

Several bodies of theory converge to inform the discussion of how stories about the economy are presented, notably the literature on framing and agenda setting. In addition, there is extensive literature that uses and documents content and frame analysis to explore economic and other topics.

### **Agenda Setting**

As mentioned already, agenda setting, an area of research that dates back to Maxwell McCombs' ground-breaking work on the 1968 presidential campaign, holds that what the media publicizes has an effect upon what the public cares about, talks about, and thinks about (McCombs, Shaw & Weaver, 1997; Larson, 1994; Salwen, 1988). The importance of the implications of this effect is often expressed in political terms; in other words, this effect is considered an important one because agenda setting can affect the political climates and governments of countries (Tumber, 1993; Greenfield and Williams, 2007; Gittins, 2001; Mutz, 1992; and Blood & Phillips, 1995). These researchers have shown that often, public perception appears to be more influenced by the quantity or character of coverage than objective reality. Blood and Phillips, in particular, showed that public opinion about recession—as recorded in an index of consumer confidence—was not correlated with the state of the economy as described in economic indicators, but did seem to track the number of recession headlines in newspapers.

In other words, for many researchers working on agenda setting, the topic is important because the media set agendas, which can influence the general public, who

form or change their opinions and in turn collectively influence their governments and societies.

### **Frames**

To define what type of agenda is being set, some researchers have used analysis of frames to describe what media communicate. For example, when Valkenburg, Semetko, and De Vreese (1999), explored how journalistic news frames affect readers' thoughts and recall about issues, they borrowed Pan & Kosicki's (1993) definition that an audience frame is "a schema of interpretations that enable individuals to perceive, organize, and make sense of incoming information" (p. 55). In their experiments, they defined several frames—including a "conflict frame," an "economic consequences frame," and a "human interest" frame—and used different headlines and different opening and closing paragraphs on otherwise identical stories to see how the use of different frames affected subjects' recall. The frame used was significant in readers' later recall of stories and their themes.

Such evidence indicates that framing is quite significant in the way that people perceive and selectively remember (or fail to remember) economic events. And as business and economic themes began to be perceived as having political effects and therefore began to get substantial coverage in newspapers and TV, researchers began to explore whether and how the frames present in economic coverage influenced the public's perception of the business climate and other economic events. So, for example, Lasorsa & Wanta (1990) and Haarsager (1991) examined the relative importance of media experience, interpersonal experience, and personal experience with different issues in determining the extent to which members of the general public would accept the

agenda set by media. The study found that the strongest predictor of media conformity surrounding an issue—the degree of acceptance of the agenda—was media exposure and attention, and that personal experience also had a significant effect in creating media acceptance, showing that at least for general audiences, personal experience might affect how receptive people were to different issues, as well.

More recently, Jaemin Jung (2002) analyzed how ownership and content type affected business media coverage of mergers using (among other variables) seven categories of frame—economic, social, technological, industrial, legal, personal, and a general “other” category. Jung showed that media ownership and the type of magazine did affect how much emphasis was placed on the company, the amount of coverage, and whether coverage tended to be positive, negative, or neutral. Davidson (2006) analyzed the framing of media mergers in France and the United States to show that the media in both countries tend to frame mergers as economic events, with little or no emphasis on merger effects on the society or the political arena of either country. And Deepa Kumar’s 2005 study analyzed the frames present in television news coverage of the 1997 UPS strike to show that the major networks framed the strike in a nationalist way, and “projected the interests of business onto the nation by constructing a harmonious national community with shared goals” (p. 131).

### **Reverse Agenda Setting**

Haarsager’s 1991 study, on the other hand, showed that sometimes, publications de-emphasize coverage of certain aspects of issues that are ubiquitous and obvious, and this results in disconnects between readers’ experience and the reality described in media. She demonstrated this by analyzing the extent to which Great Depression themes and

issues were actually represented in local newspaper coverage at the time. She found that even during the lowest point in the Great Depression, the local newspapers analyzed almost never mentioned unemployment, depression, or recession, even if the story was about such Depression-related events as labor protests, bank closings, or unemployment-related problems. This led Haarsager to conclude that the publications analyzed engaged in “reverse agenda setting,” which can be defined as underemphasizing or remaining silent about important stories (or aspects of stories), which keeps these topics off of the public agenda. She concludes that “those newspapers abrogated a fundamental ethical responsibility to provide vital information to their readers about their community and the forces affecting it (p. 43).” She also argues that “there are serious and unexamined ethical dimensions to ‘strategic silence’ where the media withhold information from communities trying to cope with the forces the media have refused to recognize exist (p.43).”

### **Theories of Agenda Setting Beyond the General Public Audience**

Only recently have communications researchers begun to apply these methods of analyzing agenda setting—so well-understood in the context of a general public audience—to explore the effects of media reporting upon elites, a definition that applies to many of the investment-oriented readers.

Indeed, *BusinessWeek*'s then publisher William Kupper told *Advertising Age*'s David Kaplan (1999) that so many of its readers were professional institutional investors that the magazine's management decided to create a special financial section called “BusinessWeek Investor” to better compete against magazines oriented at individuals, indicating that at least much of the audience for the magazine is a highly educated,

affluent, knowledgeable audience that might differ in key ways from the definition of “the public” or “the general audience” that is often used in work on agenda setting.

Davis (2006) argues that this situation—wherein “elites are simultaneously the main sources, main targets, and some of the most influenced recipients of news” (p. 60) is a distinct, important one and needs to be explored further to understand the extent to which findings gleaned from studying general audiences can be applied to elite ones. Elite audiences—such as those that read investor publications—are important because evidence suggests that “elites are simultaneously the main sources, main targets and some of the most influenced recipients of news” (p. 60). If this is so, Davis writes, “it could be concluded that a major function of the news media is to act as a communications channel for the regular negotiations and decision-making that take place between different elite groups, to the exclusion of the mass of consumer-citizens” (p.61). More recently, Doyle (2006) wrote that such publications are highly distinct in reporters and editors’ reliance upon people who are also consumers of their work:

Whilst reliance on experts is not peculiar to this sector of journalism, the nature of the expertise being called upon is distinctive in various respects. The opinions of equities analysts, for example, are frequently drawn on for assistance with evaluation of corporate investment prospects. The presence of analysts denotes a realm in which specialist knowledge is highly valued. ...Driven and supported by the needs of the professional investment community, it is analysts—not journalists—who predominate as the main repositories of expert knowledge about the true underlying state of financial health of listed companies and about the significance of unfolding events in the realms of economics and finance (p. 439).

Indeed, a *Financial Times* journalist told him that “we’re very conscious of who we are writing for. We’re writing for investors such as city fund managers. Our role is to inform educated, professional investors” (p. 436).

In addition, Doyle argues, financial news sections aimed at elites differ in their content selections from the mainstream media in several important ways. First, he argues, editors at general circulation publications work hard to keep their audiences by focusing on well-known brands and companies and on a handful of important concepts. Second, there is more of an emphasis on business personalities and their daily dramas in the mainstream media than there is in publications aimed at elites.

Even the way that specialty financial journalists see themselves is different from the self-perceptions of mainstream reporters, argued Doyle, who used interviews with financial journalists to supplement Davis’s work by describing how the processes of financial news creation could cause financial reporters and editors to favor frames common to current conceptions of free-market capitalism. Most of the *Financial Times*’ reporters and editors with whom Doyle spoke did not feel an obligation to the general public. “Most,” wrote Doyle, “would not immediately recognize their role as embodying any public responsibilities” (p. 450).

Thus, because in the world of investor publications, the sources, the creators of agendas, and the consumers of information are different in some ways from those in the general-circulation world, it would be premature to conclude that all previous work on agenda setting by general-interest publications on public audiences is transferable.

Kepplinger (2007) sketches a framework for analysis that includes both source and content analysis, which he contends can be used to explore (reciprocal) media effects

upon decision-makers. Unlike many researchers, Kepplinger explicitly allows for direct *economic* effects upon *economic* decision-makers. Kepplinger does not seem primarily interested in the effect of the source upon the general public but focuses instead on the effect of coverage upon the actions of people likely to serve as sources for stories and the effects of their reactions upon the writers and editors of such coverage.

As an example of an effect of business reporting upon business-savvy readers, Kepplinger writes that “media reports indicating the danger to a product’s supply may increase demands, resulting in a shortage that otherwise would not have happened (p. 15).” Such a situation is quite similar to, say, a run on a stock or a CEO’s bidding on a rising company in that these are all actions performed by people likely to be primary sources in business reporting, such as executives, analysts, and institutional buyers. But Kepplinger points out that these effects are not one-way; they are better characterized as “a feedback loop” (p.7). “The personality or behavior of media subjects stimulates media reports, which in turn directly influence cognitions, appraisals, emotions, and behavior of those subjects,” Kepplinger writes (p. 7). Thus, concludes Kepplinger, “when considering reciprocal effects, there is no distinction between cause and effect because every element can be seen both as a cause and as an effect” (p. 9). Still, Kepplinger argues, for a variety of reasons, it is useful to regard media coverage as a primary variable in many discussions of reciprocal effects.

Interestingly, although communication literature has only recently begun to explore agenda setting’s effects upon these expert sources, financial literature *has* done so, in what might be thought of as the financial community’s “effects literature.” For example, Liu, Smith, and Syed (1990) analyzed stock price reactions to *The Wall Street Journal’s*

stock recommendations, measuring very quantifiable effects of positively framed news upon stock price, volatility, and other measures of stock performance, and found significant short-term effects on patterns of trading. Because this trading involved economic decisions, often of great magnitude in the case of institutional investors, the study presents evidence of direct, measurable economic effects of the framing of financial topics upon readers. And while these framing effects clearly differ from those frames used in political editorial content upon a voting electorate, they could have a significant impact upon the economy in the long run, and are, therefore, worthy of further study.

### **Study Aims and Framing Theory**

If, in fact, negative and investigative stories about the economy are underplayed, slanted, or ignored by investor publications, one would expect that these publications' content editors would have waited until after the economy had undeniably started its slide, or they might have continued to use the same framing in their stories that they had been using during the mortgage-backed-security-fueled boom that preceded the bust. Thus, an examination of how popular investor publications handled the stock meltdown and ensuing economic downturn of 2007-2009 will shed light on how long it takes to shift from the frames most appropriate to good times to frames that describe economic decline or stagnation. Did the editors and writers of these publications ignore or underplay negative trends captured by the economic indicators in their stories, or did they slant the news in any way to minimize it? Or did they act as sentries, warning investors of incoming changes, as their branding and marketing literature often implies? Coverage

of this important story could serve as a data point in the debate over whether the business press provides timely, accurate coverage of major economic stories.

As mentioned before, similar analysis (Gill, 2005) has already found that several popular news sources aimed at the general public were, in fact, responsible in their reporting and fairly represented the economy as the leading economic indicators indicated that it was performing. However, Gill's thesis left unstudied the question of whether specialty publications (such as those aimed at investors) fail to predict or to cover the negative aspects of a declining economy, a matter that this research investigates.

### **How Agenda Setting and Framing Interact**

Analysis of the framing used in articles and broadcasts has been used often to discern whether economic news has been adequate. As discussed before, the concept of framing, as it is often used in media analysis, has been described as “the ways particular issues are cast by political elites...[implying that] the way in which choices are framed will affect the likelihood that particular actions will be selected” (Price and Tewksbury, 1997, p. 182). (This definition could be modified, in this case, to describe casting by economic elites, which could even include the reporters and editors of investment publications themselves.) Warner and Molotch (1993) used a definition similar to this modified one to analyze reporting of coverage of the 1987 stock market crash (known as “Black Monday”) in the *Wall Street Journal* and two other newspapers. The authors wrote that their intent in analyzing the frames used was ‘to uncover the...framework of reference/ underlying the ‘manifest content’ of the newspaper coverage” (Hall, 1975, as cited in Warner and Molotch, p. 170).

In another content analysis of economic coverage, Iyengar (1991) used frame analysis to conclude that poverty was often framed either episodically or thematically in business coverage of welfare-related issues. In the former case, the focus was typically on poor individuals, and in the latter, the focus was on poverty as a social ill. Hester and Gibson (2003) used content analysis of the frames used in *The New York Times* and in *ABC World News Tonight* to perform a time-series analysis that linked public opinion several months later to earlier negative economic coverage in these publications. The authors concluded that economic coverage in these general-circulation publications could have serious near-term consequences, as consumer opinion about the economy becomes increasingly negative and consumers choose to act on those worries. And in a rhetorical analysis that looked at metaphors, but defined them in a way similar to Hall's definition of frames, Rae and Drury (1993) used an analysis of metaphors used in British newspaper coverage of the 1990 recession to establish that several different characterizations of the economy were used repeatedly to characterize the economy as either controllable or uncontrollable, in order to deflect blame for the recession.

More recent work has also combined source and frame analysis to explore the coverage of economic themes. For instance, Davidson (2006) used frame-based content analysis to compare coverage of the Vivendi Universal merger in France with American coverage of Time Warner and AOL. The analysis concluded that the frames used were primarily commercial rather than political, and that at least in part because of this framing, the issues arising from the mergers were never considered matters worthy of general political discourse.

## **Framing and Reverse Agenda Setting, and Their Relationship**

This research looks for reverse agenda setting—ignoring or de-emphasizing a trend, resulting in either keeping a trend or issue off of an agenda or keeping it lower on the agenda—by analyzing the framing and some of the second-level attributes of stories that appeared in the specified publications. In the absence of reverse agenda setting, one would expect to see framing that either closely tracks the objective economic frame, or, even better, fulfills the implied promise of these publications to help their readers understand trends as they are just starting, in which case one would expect story framing to anticipate trends weeks or months in advance.

## CHAPTER 3: RESEARCH DESIGN AND METHODS

This study employs a content analysis technique to examine the framing and tone of coverage of the economy as it began its decline into the Great Recession. Specifically, it evaluates whether business and finance magazines began to take notice of the decline either before or as economic indicators were sliding, as demonstrated by a shift in the frames used in articles about the economy. This content analysis was designed to answer the question: Were prominent business magazines slow to predict and describe the declining business climate before or as the economy worsened, between August 2007 and August 2008?

The publications chosen for analysis include the print editions of: *Fortune*, *BusinessWeek*, *The Economist* and *Barron's*. These publications are weekly or bi-weekly—and were chosen because they are aimed at investors, which are an elite group that are in a position to influence the economy through their investing activities. These publications were chosen because they are aimed at investors. All four were listed in BtoB's Media Power 50 (BtoB 2008), which reported combined readership for them of approximately 3 million, including many high-level executives and investors. Thus, their influence in this period was substantial.

### **Study Objectives**

As mentioned before, similar analysis (Gill, 2005) has already found that several popular news sources aimed at the general public were, in fact, responsible in their

reporting and fairly represented the economy as the leading economic indicators indicated that it was performing. However, Gill's thesis left unstudied the question of whether specialty publications (such as those aimed at investors) often resort to boosterism when it suits their interests. This research will employ similar methods to answer related questions about business magazines aimed at investors.

### **Hypothesis**

The research question can be rephrased as: "Did popular publications aimed at investors cover the Great Recession by providing timely, accurate coverage that explained what was happening in the economy at the time of or in advance of declining economic conditions." To operationalize the question, the testable hypothesis, then, is:

**H1:** *There was a noticeable shift in the frames used by business magazines—specifically Fortune, BusinessWeek, The Economist, and Barron's—as the economy worsened from August 2007 through August 2008.*

**H1A:** *This shift painted accurately an increasingly negative picture of the economy.*

**H2:** A secondary question is when this shift takes place, resulting in a related hypothesis:

*The shift in frames used occurred at least six months before the recession actually began in December 2007.*

In addition to helping to answer the larger question of the accuracy of investor-oriented magazines, this research might also shed light on the following related question: Were some of these publications better than others in their presentation of the economic picture? If so, which publications did the most accurate job, as tracked via the Matthes and Kohring method?

## **Content Analysis in Research Design**

Often, as in Gill's thesis, a content analysis is used to detect changes in framing. Indeed, Warner and Molotch used this combined approach in their analysis (1993), as well, in order to understand the relationship between the type of source quoted and the frames used. And as mentioned in the preceding literature review, other recent work has also applied frame analysis to explore the coverage of economic themes.

Content analysis is therefore theoretically justified in addressing the question at hand. As Kassiarjian (1977) pointed out, Budd, Thorpe, and Donahue (1967) argued that "content analysis is a systematic technique for analyzing message content and message handling—it is a tool for observing and analyzing the overt communication behavior of selected communicators" (p. 2). Here, we are interested in the behavior of the communicators, who are the writers and editors of these publications, and therefore can be expected to be cognizant of the frames they are using.

In addition, argued Kassiarjian, "some form of content analysis is necessary when the subject's own language and mode of expression is crucial to the investigation." In this case, we have objective data—in the form of NBER economic indicators and a timeline of unfolding events that indicated that a decline was imminent or in progress—about how the economy actually performed. We are interested in how the editorial personnel at these publications characterized the economy over an important period of a year roughly centered on the beginning of the Great Recession, and we want to know whether these publications adequately predicted and conveyed the reality underlying that information. Thus, there is much theoretical justification for using frame-based content analysis to perform this research.

## **Detecting Reverse Agenda Setting in Research Design**

This research looked for reverse agenda setting—ignoring or de-emphasizing a trend, resulting in either keeping a trend or issue off of an agenda or keeping it lower on the agenda—by analyzing the framing and some of the second-level attributes of stories that appeared in the specified publications. A method for teasing out the frames used in content was employed—along with an operationalized definition of frames advocated by Entman and described in detail by Matthes and Kohring—to examine month-by-month when these magazines began to change the framing of their stories on the economy.

### **What Is a Reasonable Time Frame for a Great Recession Content Analysis?**

The time frame—August 2007 through August 2008—covers both the lead-up to the recession and the first seven months of the recession itself. In December 2008, the NBER announced that the country’s economy had peaked in December 2007 and that it had been contracting since then:

The Business Cycle Dating Committee of the National Bureau of Economic Research met by conference call on Friday, November 28. The committee maintains a chronology of the beginning and ending dates (months and quarters) of U.S. recessions. The committee determined that a peak in economic activity occurred in the U.S. economy in December 2007. The peak marks the end of the expansion that began in November 2001 and the beginning of a recession. (NBER 2008)

The one-year study period is a longer time frame than in Gill’s study, but the extension of the time frame is an adaptation to the weekly, bi-weekly and even monthly nature of these publications, which in their branding and promotional materials frequently

claim that their editorial content will allow readers to anticipate and understand trends earlier than non-readers and to learn the right strategies to react successfully and appropriately to these trends.

For example, *BusinessWeek* (2007) tells its advertisers that:

*BusinessWeek* is a global source of actionable insight for 4.9 million success-minded professionals. Senior decision makers have always trusted *BusinessWeek* for deeper understanding of the trends that drive growth, how technology creates opportunities, and what best practices keep them ahead of the competition...Smarter, faster, richer.

To pass the implied accuracy test, the frames used to talk about the economy should have shifted, either before or as the economy worsened. Indeed, to live up to these magazines' own promotion of their reach and influence, one would expect the shift to lead economic events, not follow them. Certainly, once the economy had deteriorated enough to be in a true recession, one would expect that the coverage would generally discuss recession as being likely or perhaps already in process in the vast majority of articles.

### **The Great Recession Timeline**

Unlike the onset of the Great Depression of the 1930s, where the stock plunge of 1929 was swift, impossible to ignore, and generally acknowledged at the time as having wiped out even wealthy families, the stock turmoil leading up to the Great Recession of 2007-2009 was characterized by series of “warning signs” over approximately many months that initially alternated with positive news—sometimes even wildly, record-

setting positive news—and a stock market that reacted with increasing volatility but did not start its definitive plunge until more than a year after the first alarming events.

In other words, there were plenty of signals that were readable by editors and reporters of the country's elite financial publications; editors did not simply wake up one morning to find everything changed, without extensive worsening economic signals. For example, in July 2007, two of Bear Stearns' largest hedge funds collapsed (Morgenson, 2007). Shortly thereafter, on August 7, 2007, the Federal Reserve decided to respond to a 387-point drop in the Dow Jones Industrials by pumping \$24 billion into the economy in an effort to inject liquidity and keep the short-term interest rate at 5.25 percent (Federal Reserve, August 10, 2007, p. 3). For those in finance or with advanced training in business, these events should have been a wake-up call that the Fed was trying to make up for a growing perceived risk of credit default.

However, such news was far from universally perceived as the harbinger of the worst economic contraction since the Great Depression of the 1930s. Indeed, *USA Today* quoted Jack Malvey, chief global fixed income strategist at Lehman Bros., in a now unintentionally ironic comment:

When you look into the history of these corrections, from 1973 to 2002, we've had about 14 of them, and they tend to burn themselves out over one to three months. We moved from pricing credit to perfection in May, to pricing to reality by mid-July, and we're pricing to high anxiety now. This is a clean out of some excesses. It's absolutely therapeutic. (Farrell, para. 7)

Barely two months later, on October 9, 2007 the Dow Jones Industrial Average reached its then all-time high of 14,164.53 points (Twin, 2007). About a year later, in

October 2008, Lehman stockholders would receive pennies on the dollar and the company would shutter its doors forever (Farndale, 2008).

According to the NBER (2008), job growth started to slow in October 2007, while unemployment started to increase in November 2007, rising from 4.7 to 5 percent. Then, in March 2008, it rose to 5.1 percent, putting it at over the previous twelve-month high. Also in March 2008, Bear Stearns, the fifth largest investment bank in the United States, collapsed.

In September 2008, according to a timeline published by the US Department of the Treasury (2011) it became apparent that the financial system was nearing collapse, and in early October, the Trouble Assets Relief program, or TARP, was passed. Lehman collapsed; the U.S. government took over housing finance giants Freddie Mac and Fannie Mae because they had become insolvent; the stock market suffered its largest ever one-day drop of 773 points; and unemployment hit 6 percent, its highest rate since 2003. The NBER now says that the economy passed into recession in December 2007 (NBER 2008) and did not climb back out until June 2009.

In other words, before approximately August 2007, it was not clear that the economy was starting to change; after July 2008, the coming economic decline was almost literally yesterday's news, since many people were beginning to feel the effects of the by-then obvious and rapidly worsening recession that had started in December 2007. For these reasons, a study time frame of a year, then, from August 2007 through July, 2008, was broken up into monthly increments for each publication and totaled monthly for all publications. This period encompasses the time frame in which economic indicators and unfolding events worsened, and therefore serves as a fair test of the

hypothesis that the business magazines sampled began to shift the frames used in their coverage to reflect the reality of a worsening economy. Four of the months of coverage studied were pre-recession (August through November), and seven of them occurred after December 2007. A total of twelve months of coverage are included in the study.

### **Selection and Unit of Analysis**

The unit of study is the article, which in this case is an analysis of an entire item. To exclude fillers and snippets, to qualify as an article worthy of examination, it must be a standalone unit of content at least 150 words long. As Kassirjian put it (1977), “the item is the whole natural unit employed by producers of symbolic material. It may be the entire speech, radio program, letter to the editor, editorial, or news story” (p. 12). As Kassirjian explained, even in the early days of content analysis, there were by 1952 already more than two dozen credible studies that used the item as the unit of analysis, and two decades later, “most behavior studies previously mentioned as using content analysis have used the item as the unit of analysis.” However, in an adaptation of the method for magazines, which often try to balance coverage by discussing elements of the main frame in the first part of the story and then include counterbalancing arguments and analysis in the latter half to provide balance, if there is a stark change in content and framing from the beginning to the end of the article, the first half of each article prevailed in the examination.

To select relevant articles, magazines were searched for articles in the selected publications that were substantially about the following terms: economy, investing, personal finance, economic outlook, consumer outlook, consumer confidence, consumer sentiment, recession, depression, downturn, markets, retail sales, personal income,

industrial production, wholesale sales, gross domestic product, GDP, retail sales, job loss, layoffs, unemployment, employment, jobless claims, job seekers, and job cuts. These terms were selected to include key economic indicators, as well as other words related to recession, and were designed to focus the study only on articles that are primarily concerned with the state of the economy, weeding out personality profiles, product reviews, and other stories outside of the scope of this research. All qualifying articles were examined.

### **Frame-detecting Techniques Used: Hierarchical Cluster Analysis of Frames**

The method employed to identify changes in framing and second-level attributes, or tone, relies on a hierarchical cluster technique described in detail by Matthes and Kohring (2008).

This study required a method to characterize the frame used in each article to describe the U.S. economy. Recall that a frame is defined as “the ways particular issues are cast,” and second-level attributes, such as tone, provide a way to characterize the frame.

Although many researchers have described and quantified how different collections of content exhibit various kinds of framing, as Matthes and Kohring have pointed out, many analyses do not describe how the frames they detect are actually defined or detected. The authors argue that in many frame-based content analyses, frame definition and detection is essentially a “black box,” leaving readers and future researchers to guess about what examination or processes happen within the box, with authors frequently saying that the frames “were detected,” without rigorously describing what elements, phrases, or words make up those frames. It is not always clear in these

analyses, they argue, the extent to which the researchers' own preconceptions and ability to detect frames—or their propensity to ignore less obvious frames, particularly those that occur infrequently—unduly influences the analysis. Inter-coder reliability can also be an issue, if instructions are not extremely precise as to when the coders can be sure that they've detected a frame in any given piece of content. Thus, reliability and validity can be compromised.

To remedy this methodological shortcoming, as the authors point out, some frame analyses rely upon computer-assisted methods to pick out clusters of words to detect frames, often in an initial random sampling of the content under analysis. While these methods help to impart numerical objectivity, the lack of human interpretation leaves them vulnerable to possibly missing frames that don't use words already being sought, even if they would be easily understood and detected by human readers or coders. Also, frames can emerge during analysis that were not originally perceived or anticipated based on a more limited initial reading or sampling used to decide which frames will be used.

Framing can also change over time, as events change and people react to developing ideas and new information. This is particularly true for long-event analysis, such as the approach of the impending Great Recession.

Matthes and Kohring therefore proposed a “hybrid method” designed to address these problems and add rigor, validity and reliability to frame analysis. First, they start with the already cited Entman decision longstanding definition of “frame,” provided by Entman (1993) more than two decades ago:

To frame is to select some aspects of a perceived reality and make them more salient in a communicating context, in such a way as to promote a particular

problem definition, causal interpretation, moral evaluation, and a treatment recommendation (p. 52).

Each of these four frame elements, the authors argue, is a variable, and each variable can have several categories; for example, a problem definition is composed of an issue and relevant actors that debate the problem within a text. Many problems with validity and reliability, they argue, can be addressed if researchers look for these elements and ask their coders to record their presence or absence, instead of predefining what frames they will look at in advance. Coders, then, are not asked to decide whether an entire frame is present in the text; rather, they answer a list of simpler questions that can be answered much more precisely, definitively and objectively. As the authors put it:

... Several frame elements constitute a frame: a problem definition, a causal interpretation, a moral evaluation, and a treatment recommendation. If these elements are understood as variables, each of them can have several categories in a content analysis. A problem definition can consist of an issue and relevant actors that discuss the problem. A causal interpretation is an attribution of failure or success regarding a specific outcome. An evaluation can be positive, negative, or neutral and can refer to different objects. Finally, a treatment recommendation can include a call for or against a certain action.

In other words, Matthes and Kohring advocate analyzing content and coding it for the variables described above, in essence operationalizing the frames presence by translating them into a set of empirical questions that can be more easily and reliably answered by coders. As they put it, “The problem reliability in frame analysis is not completely resolved but is shifted to the content analytical assessment of single frame

elements.” But, as they point out, the more “manifest” a variable is—in other words, the more clearly defined and concrete it is—the more reliable it is, as well.

In addition, the impact of biases that stem from what coders or researchers expect to see in frames—or have neglected—is lessened by this technique. Inter-coder reliability was at or above 80 percent for each variable in the Matthes and Kohring study, which is understandable, because readers are neither asked to detect nor to discern a frame in its entirety. It is relatively much easier to answer short, objective questions, such as “Who is the main actor in the article?” or “Who is the actor mentioned or implied to be the most likely to improve or worsen the topic in question?”

To complete the analysis using this method, the authors then group clusters of elements to discern frames using the Ward technique (Breckenridge 2000) and arrive at a set of frames that have been discerned from their elements detected in text, rather than predefined heuristically and coded for presence or absence in the text, based on human judgment.

The authors then use their technique to analyze coverage of biotechnology in *The New York Times*, and they were able to detect a significant shift in the frames used to describe biotechnology over time (1992-2001). The percentage of articles using a particular frame in a given time frame was calculated for each time period, and means and standard deviation were also derived. Using this information, shifts in frames used were detected more objectively and reliably as the coverage evolved over a period of time—not to mention in a more defensible manner—than in an analysis where the frames are heuristically predetermined before the analysis starts.

Since Matthes and Kohring first published their method, several researchers have evaluated their method, finding it useful, valid and reliable. For example, David *et al* (2011) used both the hierarchical cluster analysis technique and a heuristic assessment of frames to analyze a body of content dealing with population growth in the Philippines. Both methods were found to be valid, but where their results differed was in finding frames not initially sought, and in their ability to tease frames out of complex material. Here, the Matthes and Kohring technique provided more accurate results. David and her team concluded that “the Matthes and Kohring approach provides the advantage of finding frames where they are not clearly evident. It requires a more tedious coding task but can be used to derive the optimal number of frames and a clear idea of which elements of a frame is present in each” (p.346).

### **Methods and Techniques Used in the Analysis**

An analysis similar to that of Matthes and Kohring was applied to the content of business magazines during the unfolding Great Recession during the year commencing August 2007 through July 2008. The coding instrument (Appendix) is based on theirs (Matthes and Kohring, 2008, p.267), and follows their technique of including variables for each category analyzed: problem definition, causal attribution, moral evaluation, and treatment. A sample copy of the instrument used is included in Appendix A.

In addition to searches on key terms as previously described, the tables of contents for the print issues in the study period, August 2007 through July 2008, were also examined to ensure that relevant articles were not missed. To qualify for analysis, an article had to be substantially about the economy or some aspect, cause, or impact of the economy. For this reason, articles that were merely portraits of an executive or company

were generally excluded unless the article was substantially about how the executive was handling some aspect of the economic turmoil that was occurring. For example, an article that was about a banking executive's moves to stem huge banking losses or problems caused by derivative bets gone bad would qualify for this study. However, an article that was merely a "day in the life" portrait of an executive would probably not qualify, unless it was clear that the author was attempting to draw conclusions or make connections with the larger industry, market trends or the economy in general.

Short news articles were excluded, since such articles—typically short blurbs of under 250 words in a weekly news wrap-up—usually were strictly factual and not conceived to be analytical or predictive in nature. An article that stated that stocks started off weak at the beginning of a given week and ended strong, for example, does not usually have all of the elements of a frame, nor does it usually make predictions or discuss underlying reasons for that performance, and thus would not qualify for the study. Therefore, such short items of less than about 250 words were typically excluded. So were strictly graphical elements such as "chart of the week." In addition, articles that appeared only in an online version, such as slide shows, were also excluded.

## CHAPTER 4: RESULTS AND DISCUSSION

A total of 921 articles fit the criteria detailed previously. The data set therefore consisted of the following numbers of articles:

- 247 from *BusinessWeek* (an average of 4.75 per week)
- 304 from *Barron's* (5.85 per week)
- 275 from *The Economist* (5.29 per week)
- 95 from *Fortune* (*Fortune* was the only bi-weekly examined; the rest were all weeklies during the study period, 1.83 per week for a 52-week average)

The date, title and publication date were recorded for each article. Each selected article was analyzed for the framing elements discussed by Matthes and Kohring. These elements correspond to the framing elements as Matthes and Kohring describe them: problem definition, which includes the central topic and the main actor in the story; the causal attribution, which is operationalized by noting who or what is or could be responsible for the topic described, and who profits from the state of the economy or the part of it described, and who suffers. Then, the treatment regime was described by noting the actor who is most likely to improve the economic situation or make it worse, and the implied or described treatment regime.

In addition, to assess the level of pessimism or optimism about the economy, a question was included to ascertain the general impression each article gave about the condition of the overall economy over the next six months. Thus, since the economy did, in fact, slip into recession in December 2007, according to NBER, and the study period

starts in August, accurate pictures of the economy should show that there is risk of recession in the near term (six months) or should reflect that the recession was already ongoing.

An instrument containing all of these elements was filled out for each article fitting the criteria described, and the results for each article were stored in a separate file. Usually, the text of the article was also included in the “additional notes” section of each article. Later, these items were transferred to a spreadsheet that included the answers to the questions for each article, allowing the numerical rating for the economy to be averaged for each month.

To create an objective scale by which each article’s view on the near-term health of the economy could be rated, a scale ranging from negative five to positive five was created. Indications at the most negative extreme include plunged stock markets, locked-up credit markets and/or a devastating recession or depression imminent or in process. At the most positive extreme, which in this study period was rarely detected, raging bull markets are seen continuing, unemployment is low, the economy is growing and consumers are perceived as prospering, as in Table 1. (In the table, the first sentence is always the state of the economy, and several indications are presented that would tell the reviewer that he or she should code the article as describing the author’s view of that state. Not all of the indications need to be present, but the presence of at least one is evidence that the article should receive a particular rating.)

Table 1

*The economic rating scale used for coding articles*

| <b>Rating</b> | <b>Criteria for Ratings</b>   |
|---------------|---|
| <b>5</b>      | Continuing prosperity long-term or for the foreseeable future. Markets could be hitting short-term or long-term records. Credit markets generally functioning well. Banks and financial institutions thriving. Consumers are employed and optimistic. |
| <b>4</b>      | Bull markets. All important parts of the economy are functioning abnormally or extremely well for an extended period and for the foreseeable future.  |
| <b>3</b>      | Decidedly, unabashedly positive. All or most important aspects of the economy are functioning correctly and well, in the short term or long term.   |
| <b>2</b>      | Moderately positive. Credit markets working normally or even well. Immediate or long-term prospects are good.   |
| <b>1</b>      | Slightly positive or "normal" outlook on the economy. Credit markets fluctuating normally. Risk is priced adequately. Stock and housing markets fluctuating, but normally. Immediate or long-term prospects for the economy are normal to good.       |
| <b>0</b>      | Indicates a totally balanced or impossible-to-determine state of the economy.   |
| <b>-1</b>     | Some to high uncertainty in the economy or temporary correction. Medium or long-term prospects argue for a quick return to normalcy, if the market is allowed to either work itself out or if minimal temporary intervention is carried out.          |
| <b>-2</b>     | Risk of recession. A serious but temporary correction underway or imminent. Credit markets might be tight, but probably only temporarily. Temporary and/or light intervention might be indicated or advocated.  |
| <b>-3</b>     | Recession looks probable. Risk high and/or fluctuating wildly, high volatility in the markets. Credit markets tight for the foreseeable future. At least temporary intervention might be discussed as likely/or recommended.                          |
| <b>-4</b>     | Recession almost or totally certain, or ongoing. Credit and new housing markets devastated, extremely high foreclosures, little lending. Intervention might be discussed as almost certainly necessary.   |
| <b>-5</b>     | Devastating recession or depression occurring or believed imminent. Credit and new housing markets non-existent or wildly disrupted. 1930s-level depression or worse could be predicted or implied.   |

## Results

The results of a linear plot of the average of all of the articles analyzed for any given month are shown in Fig. 2.

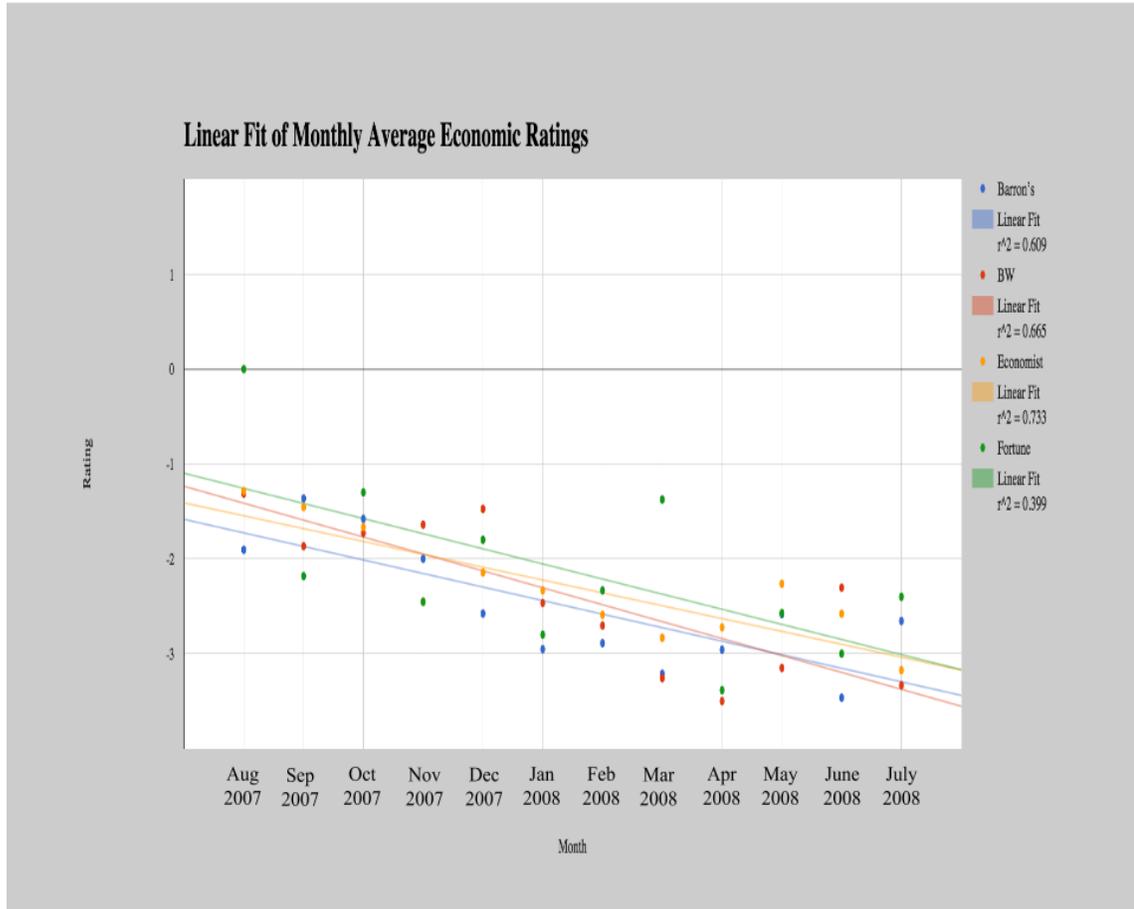


Figure 1. A linear plot of economic ratings from articles in four investor publications.

Clearly, for all publications studied, the descriptions of the economy from the point of publication to six months in the future, trended downward through March. This indicates that each publication's articles became more negative than at the start of the period, as the recession approached. Then, perhaps believing that the fall of Bear Stearns—as well as other ongoing bad news—represented a low point, some of these

publications (*Barron's* and *BusinessWeek*) actually trended *upward* slightly in their economic ratings of the economy in the last months of the study, as shown in Figure 3.

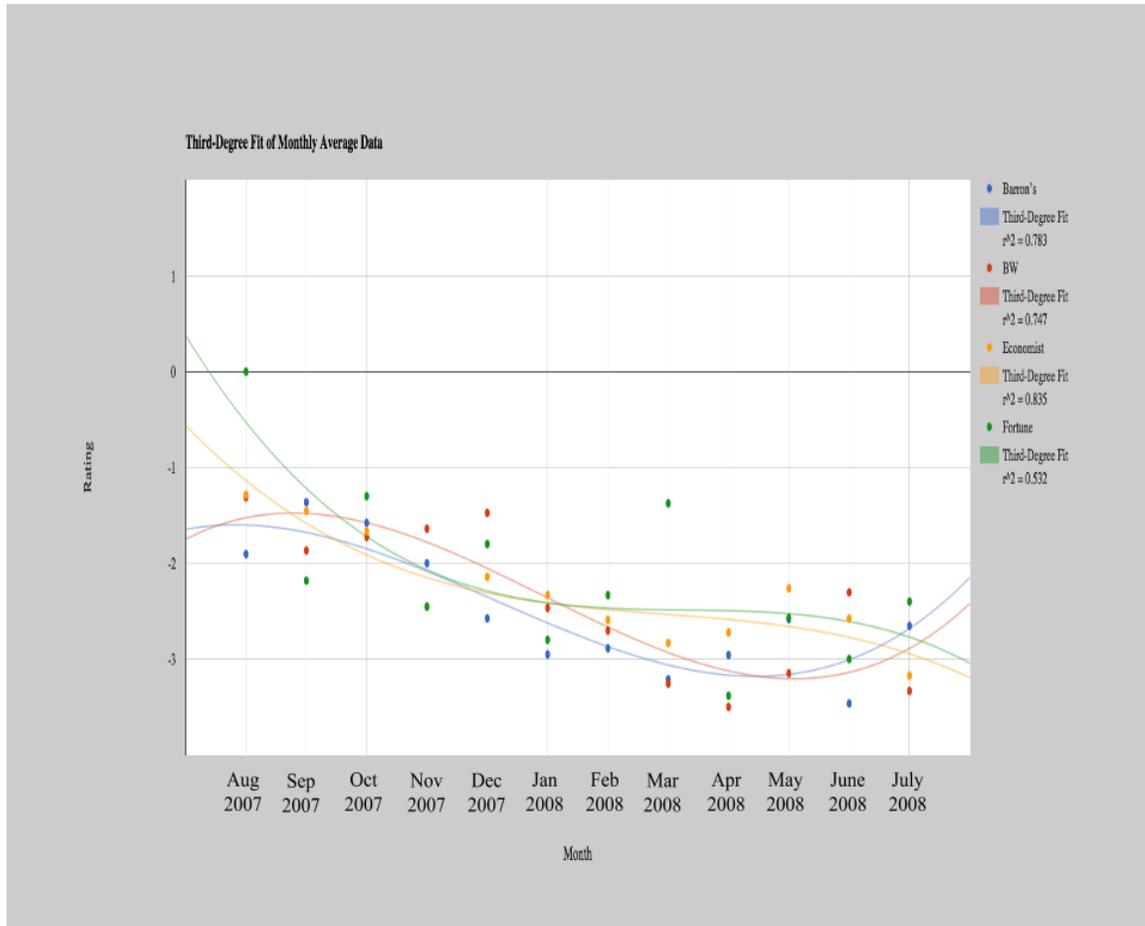


Figure 2. A third-degree plot of the economic ratings over time.

Thus, in July 2008, seven to eight months after the recession had begun, two of the publications, *Fortune* and *Barron's*, were not even consistently saying that a recession was “probably” ongoing or would occur during the next six months, which corresponds to a rating of -3 on the scale used. Two of the publications, *BusinessWeek* and *The Economist*, were just slightly more negative than -3, at -3.3 and -3.2 respectively, but no publication ever approached an average of -4, which is the rating that an economy already in a serious recession should have received. (The rating of -4 corresponds to

“serious, possibly long-lasting recession almost or totally certain [within the next six months].”) *Barron’s* and *Fortune* weighed in at -2.7 and -2.4, respectively. A third-degree curve plot of monthly averages is shown in Figure 3. From this third-degree plot, it is apparent that there has been an uptick in article ratings of the economy that is not as evident as when one assumes a linear fit. In other words, after March, as the then-ongoing recession deepened, articles actually became *less* negative. There was a general trend upward, so that by the end of the study period, in July 2008, many writers used a frame indicating that perhaps the worst was over, believing that the American stock exchanges had bottomed out. Many of the articles from this later period of the study argued or explored the idea that the bear market had bottomed, and it was time to start looking for bargains to put into one’s portfolio. In reality, the recession would not actually end until June 2009.

However, during the entire study period, no publication averaged a rating of -4 for any month, which would have represented an average prediction that in the near term—defined as between the moment the article is published to within six months of the article’s publication—a serious, possibly long-lasting recession was underway or imminent in the next six months. Rather, in the month of each publication’s lowest economic rating, the average never went more negative than -3.5, which on average corresponds to half of the articles indicating that recession is probable, and to half of them indicating that a recession is either underway or imminent. Only 162 of 921 articles (less than 18 percent) ever reached a -4 rating of “a serious recession almost or totally certain,” and as can be seen from these graphs, these ratings did not occur in such a concentration that they weighted down the averages for any one month to below -4.

This finding is interesting and at odds with reality; the NBER (2008, para 1) and the Bureau of Labor Statistics indicate that the economy actually slipped into recession in December 2007 (April 2011, p. 4). Yet for no month during the study period did any publication's articles consistently signal a recession in the next six months was "almost or totally certain." This result is even more surprising when one considers that it was a mere seven weeks after the end of the study period—September 15, 2008, almost three full quarters after the economy slipped into the recession—that Lehman filed for bankruptcy and the Fed backed up AIG with financial assistance commonly referred to as a "bailout" and only two months past the end of the study that President Bush signed the legislation authorizing Troubled Asset Relief Program (TARP) payments.

Thus, even for the last seven months of the study period, when America was actually in a recession, these publications generally did not consistently herald the Great Recession, so-called because it was the most serious since the Great Depression. In other words, on average, they were not agreed that a recession was imminent or ongoing, even when economic conditions would soon deteriorate to deep recessionary levels.

It should be mentioned that it is not contended here that the writers of the articles in these publications should have been able to call the exact moment or even the exact month in which the economy met all of the criteria for a recession. Even the NBER doesn't attempt to do that; it was not until December of 2008 that the NBER gave its estimate of the month in which the economy fell into recession (December of 2007, continuing until June of 2009), and the estimate was a full year before the pronouncement.

However, it is fair to hold that these publications should have held true to their marketing claims of quick, actionable, and even prescient intelligence and given their readers some advance warning of deteriorating economic conditions, with acknowledgement of the probability of the recession and urgency of the situation. Furthermore, since the recession actually started in December 2007, about halfway through the study period, it can be argued that they should have at least noticed the recession that was already underway and should have consistently viewed the possibility of recession as probable or imminent.

The technique used was instrumental in detecting several interesting changes in the elements of the framing. One of the purported benefits of the analytical method chosen here—which breaks down a frame into its constituent elements to analyze framing—is that its chief proponents, including Matthes and Kohring, argue that by not going into the study with preconceived frames, one is less likely to miss changing frames or new and unexpected ones. Decomposing the frames into smaller elements is an advantage of this technique. Rather than looking for wholesale shifts in framing, one might detect a change in one element of the frame that might otherwise be missed.

For example, when one looks at the actor given as the most likely to improve the economy, emerging or foreign investment or economies are given in 33 articles, or about 3.4 percent of the cases. While it is definitely a minority in that framing element, it is important to understand that during the developing crisis, sovereign wealth funds and foreign investment were seen as a possible way to avoid recession in America and around the world.

Conversely, one might not find many stories framed as expected. This was certainly the case when it came to stories about consumers and recession. One might have thought that since one of the causes of the Great Recession was subprime contagion—caused by consumers who either couldn't pay their mortgages or who walked away from “underwater” mortgages—that more focus would have been placed on the state of consumers and their ability to buy houses or to meet their mortgage obligations. However, this was not the case, with very few stories focusing on the consumer at all, and almost none of them quoting actual consumers or their advocates. Of the 921 articles analyzed, only 20 of them could be said to have been primarily about the consumer's economic health or financial capacity, as evidenced by the term “consumer” appearing in the “Central Topic” framing element.

An important consumer-related topic is unemployment, and surprisingly, it, too, rarely appeared as a central topic in these publications. In the entire study period, it was the major topic under discussion in only 19 of the more than 900 articles, or approximately 2 percent.

The most common subjects, or central topics, were “market turmoil,” with 260 distinct entries; “subprime” or “credit” problems, with 241 entries; monetary policy, with 37 entries; 48 on bank health and regulation; 18 on unemployment; 18 on consumers; 16 on recessions but not mentioning any of the preceding terms in the central topic field; 5 on bubbles but not mentioning any of the preceding terms; 10 on mortgages but not containing other terms such as “subprime” in the topic field; 15 on financial markets; 60 on general economic health exclusive of the previous terms (such as the health of banks, already mentioned); and 6 on manufacturing.

Also, throughout the study period, even in articles that described quite unpleasant consequences of market turmoil and the economic downturn, belief that the markets should be left alone remained high, as evidenced by how many of the articles had no entity listed under “actor who stands the best chance of improving the economy” or no action given under “action that stands the best chance of improving the economy,” except perhaps to allow the markets to right themselves. This was coded as “none given” and/or “invisible hand,” shorthand for a *laissez-faire* attitude toward the market that held that interference in the market was futile or counterproductive, and that what Adam Smith had called “the invisible hand” of normal market functioning would reconcile the desires of buyers and sellers in the best possible way. This finding was surprising, since all of these publications advertise the depth of their analysis, and one would expect that at least some discussion of possible fixes to major economic problems to be part of any in-depth analysis. This finding is summarized in Table 2.

Table 2

*Number of articles with no solution or “invisible hand” in the treatment element*

| Publication          | Articles giving no actor likely to improve the economy or advocating letting markets work themselves out |
|----------------------|--|
| <i>Barron's</i>      | 219  |
| <i>BusinessWeek</i>  | 63   |
| <i>The Economist</i> | 84   |
| <i>Fortune</i>       | 38   |
| Total                | 404  |

An additional 48 articles, or 5.2 percent, looked to “investors” or “smart investors” as the actors most likely to improve the economy. Thus, throughout the study period, approximately 49.2 percent of the articles took the position that the market would right itself with no further intervention, letting Smith’s “invisible hand” work its own magic to repair the situation, consistent with a frame in which the problem is not serious enough to warrant intervention or reform.

### **A Month-to-Month Analysis of Article Framing**

The study period began in August 2007, and it is important to understand what had happened shortly before the start of the period. In March, 2007, New Century Financial Corporation—which had been one of America’s leading mortgage originators—had filed for bankruptcy. On June 1, 2007, the Standard & Poors corporate credit rating agency downgraded 100 mortgage-backed bonds, and less than a week later, Bear Stearns announced that one of its hedge funds, the High-Grade Structured Credit Strategies Enhanced Leverage Fund, was suspending redemptions (Pittman, 2007). By mid-July, Bear had announced that two of its funds were threatened (Morgenson, 2008).

This set off a reaction in American stock markets. Between July 13, 2007 and August 3, 2007, the S&P dropped from 1552.20 to 1433.06, more than 119 points, or more than a 7.6 percent drop, prompting Jim Cramer, host of “Mad Money,” to make his famous “They know *nothing*” rant (Carney, 2013) complaining of a lack of Fed understanding of the impact that defaults and the resulting lack of new credit and lending were having on markets.

Against that backdrop, the study period began. In the following narrative, each month's articles are examined with an eye toward uncovering changes in article framing that played out over time, and supplementing the overall findings with important details and examples of coverage.

### **August 2007**

By the beginning of the study period, credit had become very tight, as financial institutions tried to understand the severity of the losses that were being incurred, and which of their peer financial institutions would be able to make good on their obligations. Because this was the first time that such huge quantities of complex derivatives had been sold—many of them depending on whether subprime borrowers could continue to make payment on resetting, variable-rate mortgages—it was not clear what would happen if a large percentage of those borrowers quit paying or paid late. Coupled with bankruptcies, hedge-fund insolvency and struggling financial institutions, many financiers wondered whether corporate borrowers or even other banks could be trusted to pay back even short-term loans. Credit began to dry up, as financial institutions became less willing to lend money, either to consumers or even to each other.

In early August, the Federal Reserve (also referred to as “The Fed”) responded by using its open market operations to pump approximately \$24 billion of liquidity into the system to help make up for the liquidity problems banks were experiencing, keep the Federal Funds rate at or near 5.25%, and allay fears of massive defaults (Federal Reserve, 2007, p. 3).

The four publications studied produced 66 articles altogether in their August issues, and 26 of these articles had either the word “credit” or “subprime” in their central topic field, indicating that already, the pivotal role that credit derivatives and subprime mortgages were playing in the liquidity crisis was becoming understood. An additional 19 listed financial market turmoil as the central topic, in recognition of the ensuing volatility.

Amidst the chaos, there was initially much disagreement among these publications and even within each issue of each single publication about how severe the crisis might become. For example, *Barron's* Gene Epstein, in his August 6 article “Goldilocks Lives”—an allusion to an economy that is “just right”—pointed to flat unemployment statistics and GDP numbers to conclude that “growth could easily run in excess of 3% for the next 2 quarters.” The article’s subhead read “The job trend—along with the economy—still looks healthy. Historically, real growth in GDP of 3% or more has been considered healthy and it compares favorably with growth of only .6% in the first quarter of this year” (p. 38).

In the same issue, colleague Alan Abelson, writing in the much more urgently titled article “The Roof Falls In,” disagreed, describing the subprime market as a “highly infectious” contagion:

The melancholy truth is that, far from subsiding or even being content demolishing the subprime market, the dark woes that have been savaging mortgage credit are proving highly infectious... What this foreshadows is a much,

much tighter supply of housing credit and, as night follows day, a big drop in the demand for houses. (2007b, August 6, p. 98).

*Fortune* ignored the coming subprime mess and the credit lockup almost entirely in August, choosing to focus its coverage on “Two-for-One Vacations” (Gimbel, August 6, 2007, p. 98) or on Sue Zesiger Callaway’s “Joy Ride with a Genius,” a piece in the same issue on her ride with an auto racing celebrity, neither of which qualified for this study because they were not primarily about economic or market themes. They are mentioned here, however, to show what was covered *instead* of the gathering economic storm.

The two lone exceptions in *Fortune*’s coverage include Shawn Tully’s article, “Why the Private Equity Bubble is Bursting,” whose lede graph featured a famous private equity legend and discussed the recent huge drop in stock prices as a predictable, almost inevitable result of earlier Fed intervention in the tech and telecomm bubbles:

The private equity saga follows the timeless template of financial frenzies. Its roots go back to the bursting of the tech and telecom bubble in 2000, which saw stock prices decline 40% and threatened to pull the economy into recession. In response, the Federal Reserve pushed interest rates to rock-bottom lows to keep the economy humming. And hum it did. While stocks stagnated, the economy and corporate profits kept chugging along... banks drank the Kool-Aid, too. (August 6, 2007, para. 8)

In the other August *Fortune* article on the downturn, famous financier Leon Cooper also bemoaned Fed intervention as undesirable, but shrugged off recent market turmoil as being nothing more than a temporary blip:

In defense of my notion that the equity market is unlikely to fall sharply from current levels, I would note the following: First, bull markets do not die of old age, they die of excesses such as accelerating and above-trend economic growth, rapidly rising inflation, and interest-rate hikes from a hostile Federal Reserve. (August 20, 2007, p. 95)

In contrast, *The Economist* was quick to focus in on America's role in the crisis, to frame it as the product of (mostly American) recklessness and to discuss the possibility of an American recession that could drag other countries' economies down with it. "The Mortgage Flu," *The Economist's* first article of the study period to argue strongly that this was a credible possibility, led with the statement that "If the speed with which financial-market turmoil has spread around the world has been unnerving, fears of an even more alarming form of contagion are surfacing: it may undermine America's economy" (p.62).

In *The Economist*, American financiers and sometimes even the American public came to be seen as brash, reckless, spoiled by markets that had been too good far too long, and who perhaps needed a correction to bring them back to a safer reality. In the same August 25 issue, *The Economist* ran an article (p. 76) with the self-explanatory title, "Does America Need a Recession?" The answer seemed to be yes, especially since *The Economist* concluded in "Hazardous Times" that Federal Reserve intervention resulted in

even easier money, higher inflation, and the moral hazard of encouraging profligate spending and reckless lending:

This time, it is too soon to tell how deeply the financial crisis has affected the American economy. Some argue that it could benefit from some pain too. In fact, plenty of the normal mechanisms markets have for correcting themselves have yet to swing into action: there is plenty of cash still hoping to pour into financial markets when they become cheap enough, whether from oil-rich governments, vulture funds, canny investors such as Warren Buffett or cash-rich companies still churning out profits. Already, Bank of America has snapped up a \$2 billion stake in Countrywide [Financial], a troubled mortgage lender. To cut rates too soon would imply that the financial system cannot work without bail-outs. That would be the worst legacy of all. (p. 12)

Indeed, by August 25, *The Economist* was holding up Brazil (“A Shrug, Not a Shudder,” p. 75) and China (“Full of Eastern Promise,” p. 74) as examples where central banks and governments had not caved in to popular sentiment and calls for looser money and were still prospering, while American investors were starting to feel some pain, the implication being that holding the line on inflation and money supply was a superior course of action. Also in the same issue, “Paper Losses” described the idea of the “decoupling” of the American economy from emerging markets, raising the possibility that perhaps other stock markets and economies could offer an alternative haven for investors.

This was an example of one of the early “Who will save the US economy?” frames, which indicated that someone or something outside of the American economy would save it, or more importantly for these financial magazines, would offer a safe haven for investment. In this case, emerging economies that had never been part of the American-British financial complex, and were therefore, the thinking went, not subject to it.

*The Economist* was also the first of the publications examined to emphasize the impact on consumers, in “A Good Time for a Squeeze,” which argued that perhaps the world could survive a beleaguered American consumer, even in the unlikely event of an American recession:

The biggest risk to the global economy probably lies with debt-laden American consumers. They have been battered by falling house prices and expensive petrol, and their spending growth has already slowed sharply. A credit squeeze will aggravate the housing bust and falling house prices could drag spending down further. But the rest of the world is growing strongly and unemployment in America remains low, so a recession there is by no means inevitable. What's more, if the economy were to head downhill fast, the Fed, despite its public worries about inflation, has plenty of scope for cutting interest rates (August 4, 2007, p. 9).

Barron's followed mid-month with its August 20 article “At Last, the Market Gets Its Correction,” which framed any lag in consumer confidence as a possible harbinger of worse things to come, but balanced this possibility with then-current polls of fund

managers:

An early August Merrill Lynch survey of global fund managers showed that just 7% believed that a global recession is likely in the next 12 months, with most regarding the current turmoil as a buying opportunity. Not surprisingly, Street economists expect tightening credit to hurt consumer spending—but they're still penciling in economic growth near 2%. That could begin to seem optimistic if two sets of data fail to hold up in the coming weeks. Because consumers drive 70% of the U.S. economy and 20% of global growth, any sign of consumer cutbacks would rattle a stock market sniffing for the onset of recession. So would a sustained uptick in the unemployment rate and evidence of sub-par job growth. (p. M3)

In one of the few August articles that mention consumers at length, “Taking Responsibility: A Plea for Corporate Responsibility,” guest writer and private equity fund owner Leo Hindery Jr. makes the case (Hindery, August 13, 2007) that while companies have profited from a good market for many years, workers and consumers have fallen behind. It was the only article in the entire study period that framed the downturn as largely the result of a declining middle class that had suffered even during record high markets and economic growth.

*BusinessWeek* mentioned the consumer five times in the sample for August, and in only two did it consider seriously the possibility that consumers could even pull back their spending if they were squeezed, much less suffer. However, the magazine was the only one to quote any consumers or their advocates in all of the articles examined for August. This was a general finding applicable to the entire one-year study period;

consumers were not even mentioned in approximately 61 percent of the articles examined. (They were mentioned, even if only briefly, in 362 of 923 articles). It was rarer still that they were discussed at length, and they were quoted in copy so rarely that it was almost a jarring event when it occurred. In August, only 13 articles of the 66 analyzed mentioned the word “consumer” or “consumers” at all, according to a computer search of all of them.

Table 3 shows the average economic ratings of the economy in articles appearing in August, rated on the scale previously discussed.

Table 3

*Average Economic Ratings for Four Financial Magazines: August 2007*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -1.9            | -1.3                | -1.3                 | 0.0            |

These ratings indicate that *Fortune* was largely ignoring the crisis. *BusinessWeek* and *The Economist* were still not particularly alarmed. All but *Barron's* had average economic ratings that indicate that the credit crisis was on average thought to be temporary and/or minor glitches in an otherwise functional economy. Only the rating of the articles in *Barron's* approaches an indication that the publication's authors believe that a recession is possible, which was defined as a -2 on the scale used.

It is also instructive to look at how the Fed and other central banks are viewed in August. Across the four publications, 16 articles viewed the Federal Reserve as being the actor most likely to improve the situation, with only six saying that the Federal Reserve (or a more general attribution to “central banks”) was likely to be the actor most likely to

worsen the situation. Those that said that the Federal Reserve was the most likely actor to help the situation generally qualified this position, usually specifying the type of interaction they wanted to see with words like “moderate,” “quick,” or “temporary.”

In contrast, those articles that took the position that the Fed was the actor most likely to worsen the situation were either concerned about the “moral hazard” of helping irresponsible banks, or argued that the Fed could cause another bubble or even inflation by injecting liquidity into the banking system. Writers criticized the previous head of the Fed, Alan Greenspan, for taking monetary action to minimize market losses during his administration. Because a “put option” can help protect investors from losses when markets go down and assets become worth less, such monetary action came to be known as “the Greenspan put,” and some writers derisively railed against the new Fed chairman, Ben Bernanke, using such action to stabilize markets. For example, Alan Abelson (2007, Aug. 16) wrote:

And just as the contempt for risk that made possible the gross extravagances in housing and the financial markets was sustained by confidence that Mr. G would always bail out the participants—the so-called Greenspan put—so the current collapse in housing and the financial markets merits a special designation, one that similarly recognizes his critical role. How about the Greenspan Kaput? (p. 7)

It is also instructive to look at the framing elements that ask who or what is most likely to improve or worsen the situation to see how many either gave no entity as likely to improve the situation, or which said or implied that the markets should be left alone to right themselves. In August, 29 articles—almost twice the 16 that thought the Fed was

the actor most likely to improve the situation—either named no actor who could improve the situation, or held that the best course of action was doing nothing or trusting the markets (or Adam Smith’s “invisible hand”) to right the markets. As *BusinessWeek*’s James C. Cooper put it:

The bottom-line message from the subprime debacle is that investing is always riskier business than you think. People often forget that, especially in an extended business cycle like this one, in which the party lasts a long time. The credit markets are now telling us that investors are becoming more cautious, and that may well turn out to be a good thing. (2003, August 6, p. 24)

There was no need, many articles held, for intervention, because markets adjust, the business cycle runs its course, and in any case, either the price of doing nothing is not particularly high, or the people who are affected knew or should have known the risks they were taking, and these are the natural consequences of free markets.

### **September 2007**

The financial situation in September seemed as if it might be markedly different from that in August. It began with the S&P in the mid-1,400s, but ended well above 1,500. Thus, some writers began to frame the huge August dip as a necessary, welcome correction that might signal the end of profligate lending and investing, but probably would not lead to serious, long-lasting consequences. Still the number of articles about market turmoil and the economy shot up to 97 in September.

Some authors wrote that perhaps these were isolated American problems.

*BusinessWeek*’s Stanley Reed, for example, wrote in “Overseas, Few Shocks,” that it was

likely that the rest of the world's economy wouldn't suffer from the economic blows hitting America:

Is the U.S. housing blowout going to hurt the rest of the world? Certainly, a major slowdown in the planet's biggest economy would cause some countries pain. But much of the globe will likely shrug off the worst effects of any American slump. (September 24, 2007, p. 34)

All of the magazines did, however, turn more negative in their framing during September, as shown in Table 4.

Table 4.

*Economic ratings for four financial magazines: September 2007*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -1.5            | -1.9                | -1.5                 | -2.2           |

Because an average of -1.5 corresponds to roughly half of the articles in any given publication predicting that the troubles are mostly temporary problems (indicated by a -1 rating) and half saying that the problems are serious enough that there is a chance that the economy will slip into a recession (indicated by a -2), it is clear that in many of the articles, these publications are beginning to predict that something worse than a temporary correction could be in the making.

Consumers were again a neglected topic. Only 14 of the 97 articles qualifying for inclusion in September mentioned "consumers" at all. When consumers were discussed, it was often to place blame, as *BusinessWeek's* Steve Hamm did on September 3, 2007, in

his article, "Main Street is Fed Up," where he ascribed much of the turmoil to profligate consumer spending, combined with banking and financial excess:

Yet just as in the dot-com bubble and other booms, the Joneses haven't been innocent bystanders. Consumers also gorged on cheap credit. Buyers eagerly signed on the dotted line for houses they knew, or should have known, they couldn't afford. Owners mortgaged themselves to the hilt to pay for a new car or to remodel the kitchen. The personal-savings rate has fallen from an average of 9.1% in the 1980s to 1.7% during this decade. Meanwhile, average household debt now equals personal income; it was 60% of income, on average, two decades ago. (p. 42)

The most sympathetic observers pointed out that there was a limit to how much consumers could spend if, as was reported the week after Labor Day, employment was declining for the first time in four years. For example, Randall W. Forsyth's *Barron's* article, "No Home, and Now No Job" pointed out:

American homeowners are finding themselves hostage to what's happening in London because their adjustable-rate mortgages are tied to Libor, just one more thing they didn't know they were getting into with these loans. The Mortgage Bankers Association reported that, in the second quarter, 5.12% of mortgages were delinquent and 0.65% of homes entered foreclosure. Both figures were records. (September 10, 2007, p. 16)

Still, concern for consumers—even their ability to drive sales and keep struggling businesses afloat through their dwindling purchasing power—was expressed in less than 20 percent of the examined September articles.

Only four articles—three from *Barron's*, one from *BusinessWeek*—had unemployment as their central topic, and this was the largest number of times that this ever happened in a single month during the study period.

Some authors even made light of the impending crisis. For example, in *Fortune*, Ben Stein wrote a bizarrely flippant article about a high-end realtor whose business had crashed, and a trophy wife who was looking for a new rich husband, not one whose fortunes could fall in a downturn, as she had wearied of how her husband was no longer “fun.” Stein began the article with, “It doesn’t look to me as if there will be a recession—at least not a major recession—from the subprime problems or the credit crunch or any of that panic on Wall Street,” and later in the article writes, “She has a killer sense of humor so I am praying she's kidding” (2007, September 17, p. 208). Clearly, the article was poking fun of upper-crust people who Stein felt had been living well on the easy money to be had in real estate, but to say that it was “unhelpful” is an understatement.

Also common in this period was the “repricing of risk” frame—the argument that financial institutions had been overdue for a correction. Risk had been taken far too lightly for so long, they reasoned, that exotic new financial instruments such as SIVs and CDOs had complicated financial markets, and it was necessary for markets to change the way they viewed risk.

In a *Fortune* article, Shawn Tully led with the following paragraph in his aptly titled article, “Risk Returns with a Vengeance”:

For the past five years risk has been the invisible man on Wall Street. Banks, hedge funds, and lenders behaved as if home prices always rise, borrowers never miss a payment, and companies never blunder into bankruptcy.

Now a crisis of confidence that began with subprime mortgage defaults is sweeping the Street, and risk is invisible no more. Banks are wobbling, markets are quaking, and ordinary investors are wondering how badly they'll be hurt. Risk, as always, will exact its revenge. (Sept. 3, 2007, p. 50)

It is clear that many writers saw the subprime credit crisis as a natural correction in a market that they viewed as having become overheated, especially when one looks at the sharp rise in the ratio of those who saw centralized intervention—from the Fed, central banks, and government—as the thing most likely to either worsen or improve the situation.

Of the 30 articles that mention the Fed, central banks, or the federal government, 12 of the 30, or 40 percent, mention these actors as the entity that is most likely to worsen the economy, up from 27 percent in August; 18 of the 30, or 60 percent, mention these actors as the most likely to improve it, down from 73 percent.

It is also instructive to look at the number who either gave no entity as being able to improve the situation, or who said that the markets should just be allowed to work the situation out, without intervention. Of the 97 records, 27/97, or about 30 percent, either

said or implied that no action should be taken, and/or that the market should be allowed to let prices and risk “correct.”

By the end of September, after the market had recovered much of its value, the market turmoil frame, “The worst is over,” became more popular. Thus, the prospect that the Federal Reserve might continue or accelerate easy-money policies and further injection of liquidity became more objectionable.

In other words, while a slight majority saw the Fed as being a positive force, an almost equal number were alarmed that by increasing liquidity and opening of the discount window, a moral hazard was being created, as in Alan Abelson’s “Debasing Bernanke” article in *Barron’s*:

It's easy to see what got us into this bloody bind: a breathtaking binge of mindless borrowing accommodated by legions of lenders uninhibited by scruple of any sort, mightily aided and abetted by Wall Street's ingenuity in discovering new ways to create and peddle leverage. And, of course, by snoozing watchdogs, like the Fed. (2007, September 24, p. 6)

Still, the majority view was still that the Fed had done what was necessary to avoid a liquidity crisis, and as long as the Fed took quick-but-temporary action, any chance of inflation was subordinated to the need to avoid a liquidity trap.

### **October 2007**

October, like September, was a transitional month. By October, all four of the magazines were acknowledging a downturn in their 79 articles, but not necessarily a prolonged problem outside of the banking and housing sectors. October was also the last

month in which all magazines averages a rating less negative than -2. As can be seen Table 5, all four were not even generally consistently predicting that a recession was possible, with the following ratings corresponding to most articles falling somewhere between -1, a temporary correction or high uncertainty in the economy, and -2, a risk of a recession, about two months before the economy did, in hindsight, slip into a recession. Table 5 summarizes this information.

Table 5

*Economic Ratings for Four Financial Publications: October 2007*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -1.6            | -1.7                | -1.7                 | -1.3           |

Of 79 articles in October, only 11 mentioned consumers, continuing these magazines' emphasis on trends other than consumers and borrowers. In contrast, the actions of the Fed and other central banks continued to be important topics. In October, 25 articles expressed the idea that the Fed and other central banks were the actors most likely to improve the economy, compared with 28 that either gave no actor who either could improve it, or expressed the idea that the markets would eventually right the situation or recover (the invisible hand viewpoint), and only seven that said that the Fed or central banks were the actors most likely to worsen the situation.

And, because it was October and 20 years to the month since the Black Monday crash on October 19, 1987, comparisons with the earlier crash abounded, evidence that writers still believed that the current market turmoil, while dramatic, might not have long-lasting effects on the economy, as had the stock market crash of 1929. (In

comparison, searching for articles that contain the words “Depression” and “1929” during September and October yields only the same articles on the crash of 1987, indicating that coverage was not jumping to compare the 2007 market turmoil to the most serious crash ever experienced and the subsequent Great Depression.)

The *Economist's* Buttonwood financial column, for example, explicitly wrote of lessons learned from the 1987 Black Monday crash, specifically mentioning the “Greenspan put” and framing market intervention as creating a moral hazard. (The column is named after the tree on Wall Street under which the agreement establishing the New York Stock Exchange was signed in 1792.)

The argument went that because investors and financial professionals had come to believe that the Fed would always step in to stem large stock market losses, traders and banks would be more willing to take on greater risks, since the Fed would always step in to help:

Twenty years ago, the Fed feared a repeat of 1929: after that year's crash came the Depression. In fact, the economy shrugged off the meltdown with the help of a loosening of monetary policy and recession was postponed until the early 1990s. Indeed, Black Monday now looks like a blip on the long-term stock market graph.

Many investors came to believe that central banks would underwrite the markets (the so-called “Greenspan Put,” now the “Bernanke Put”). Although central banks did not prevent the equity bear market of 2000-02, the current strength of the stock market suggests investors' faith in this put has not been eliminated.

But this could be the most dangerous lesson of all. In Japan in the 1990s, neither near-zero interest rates nor fiscal stimulus saved the market. One day, investors will realise central bankers are not magicians. That might be another Black Monday (*The Economist*, October 20, 2007, p. 102).

Andrew Bary, writing for *Barron's*, also drew comparisons to the 1987 crash, concluding that serious declines were unlikely, in part because remote, emerging economies provided diversity, and therefore stability, for developed economies:

The U.S. economy is stronger now than it was in 1987, and Wall Street matters less globally, making stock markets abroad less vulnerable to shocks in the U.S. Globalization was still years away in 1987. Russia then was part of the communist Soviet Union, and much of Eastern Europe was under Moscow's thumb. China was emerging from the economic instability that lingered well after Mao's death, while India was captive to socialist policies that had prevailed since its independence in 1947.

"I don't think there's a chance that the market can go down 22.6% in one day" now, says Byron Wien, the chief investment strategist at Pequot Capital Management in New York. "There is too much liquidity and too many buyers to cause a cascade like that." (Bary, October 8, 2007, p. 30).

Indeed, some writers, such as *BusinessWeek*'s Michael Mandel and Peter Coy, even argued that the impact so far had not been particularly bad compared to past market turmoil such as 1987's, that this was a normal part of the business cycle, and therefore there was probably no long-term harm to letting the cycle play out:

The latest financial crisis—and what likely will be the biggest nationwide home-price decline since the Great Depression—could cut U.S. growth to 2% or less, with some chance of a mild downturn. But the stock market hit new highs on Oct. 9, employment is still rising, and the subprime mess seems more like a bump than a disaster for the rest of the world...At least so far, the periodic bouts of volatility have scared investors and borrowers out of excess exuberance without causing any lasting major damage to growth. The implication: If the global markets are functioning well, we should expect a financial crisis every few years. Indeed, the bigger danger may be that the gap between crises gets too wide, so the excesses have a chance to build up. (October 15, 2007, p. 34-35)

*Fortune* also remembered Black Monday, but a few weeks earlier, in mid-September, by interviewing people who had been prominent in the financial community at the time of the 1987 crash. John Phelan, who had been the head of the New York Stock Exchange (NYSE) at the time, was quoted as espousing the belief that such crashes cannot be prevented and are a natural part of capitalism and financial innovation:

I'm not sure what I learned from it, other than there will always be excesses in the market. This could not have been prevented. When new products develop, like index arbitrage and portfolio insurance, I call it a mental oligopoly. There are a

small number of people and firms doing it, and they had a monopoly on it for a certain period of time, and they certainly weren't going to tell the regulators. The market has to get some light and transparency, and it's very difficult with new products—like the whole subprime problem we see today. (Hadjim and Yang, September 17, 2007, p. 127)

*Fortune* was generally still mostly downplaying the risk of recession, as in this article in its October 15 issue, “Recession Chatter Gets Louder,” indicating that the author believes that recessions are primarily caused by imprudent Federal Reserve action to contract the money supply:

Typically recessions follow aggressive hikes in interest rates, a deliberate slamming on the brakes by the Federal Reserve designed to halt consumer price inflation. This time the Fed has raised rates gradually, from a very low level. But because of consumers' big debt binges in recent years, the slightest tightening of the money supply may simply have been too much.

To be sure, not everyone is saying a recession is coming. After all, the S&P 500, driven by tech stocks, is trading close to its all-time high. Dean Maki, chief economist for Barclays Capital, says a surprisingly large proportion of overall personal spending comes from the wealthy, who are not likely to dial back their conspicuous consumption. (Eavis and Demos, p. 38).

*Fortune* also seemed to blame the consumer, when it mentioned consumers at all, for the recession, though Geoff Colvin also spread some blame on financial institutions

for counting on continued consumer borrowing and profligate spending:

Here I go. I am about to walk into one of the biggest sucker's games in the whole world of economics: declaring that the U.S. consumer is tapped out, so desperately in hock and troubled about the future that he finally just can't spend like it's 1999 anymore. And to be clear, that is what I'm declaring. Unless I can talk myself out of it by the end of the column.

I must be nuts. One of the most reliable ways to look like a business dope over the past several years has been to announce that the consumer spending party is finally over. Every year, usually in the fourth quarter, assorted boffins prove beyond doubt that U.S. consumers cannot possibly keep spending as they have been. Consumers then ignore those reports and keep right on spending anyway.

(2007, October 29, p. 66)

The Economist pointed out the irony of tables turned, as the Chinese were suddenly being looked at as possible saviors of capitalist institutions in the United States:

If anyone had suggested a year ago that one of America's top investment banks would soon be relying on a firm whose parent was founded by Deng Xiaoping to pull it back on track, they would have been laughed off the trading floor. But that is precisely where Bear Stearns finds itself. Beset by bad news since two of its hedge funds blew up in June, sparking the subprime-mortgage crisis, Bear came under pressure to find a partner with deep pockets. Its response, unveiled on October 22nd, is a strategic alliance with China's largest listed brokerage firm, Citic Securities. Born of necessity, the deal nevertheless is shrewd for both sides.

(*The Economist*, October 27, p. 63).

*The Economist* also chided “quants,” or high-powered financial modeling talent at large institutions, for not understanding that their actions had made the financial markets less stable, not more:

Quants will adjust their models and clients will become more discerning; AQR's Mr Asness says his firm will look harder for "unique" factors, that is, not used by other fund managers. But regulators should also reflect that markets are less stable than they assumed. The presence of leveraged traders such as quants at their heart means conditions can now turn, at the flick of a switch, from stability to panic. (*The Economist*, October 27, p. 98).

The minority view came from *Barron's*, where an incredulous Alan Abelson wrote a picturesque description dripping in sarcasm and striking imagery (“warty toads”) directed at financiers who had thought themselves too smart to fail:

What turned the market from a swamp of warty toads into a pristine lake filled with wondrous creatures was the sweeping application of the new calculus. That the banks chose to make public confession of the horrendous errors of their ways, Wall Street reckoned with eyes agleam, meant they were confident that the worst of the subprime fiasco and the credit crunch were over, the formidable pile of leveraged-buyout loans gone sour was no big deal, and, from here on, it was all blue skies. (2007d, p. 5)

## November 2007

In November, coverage turned decidedly more negative, with the coverage of three of the four publications registering averages indicating that the chances of recession were somewhere between possible and probable, as shown in Table 6.

Table 6

*Economic Ratings for Four Financial Publications: November 2007*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -2.0            | -1.6                | -2.5                 | -2.5           |

The idea that the Fed should intervene was less popular in November, when only six of the total of 81 articles saw the Fed as the entity most likely to improve the economy, and only two saw it as the actor most likely to worsen it. Also, 24 articles, or approximately 30 percent, either gave no actor that could improve the economic situation, or presumed that the markets would eventually stabilize themselves. An additional five articles looked to foreign investment or emerging economies to stabilize the economies of the developed world.

David Beckworth, writing in *Barron's*, blamed the ups and downs of the economy on earlier stimulations the Fed had done to help the economy in 2003 when it had failed to recover quickly after the technology stock crash of 2000-2002, and argued that the last thing that the economy needed was more Fed meddling with interest rates:

This move by the Federal Reserve appears to have been overly accommodative and is now considered by many to be a key reason for the boom and bust in housing and related imbalances in financial markets.” (November 19, 2007, p. 56)

A little deflation, Beckworth argued, was not necessarily a bad thing.

*BusinessWeek*'s James Cooper explained the opposing view—that the Fed might have to lower interest rates even more if there were further indications of recession:

Are the upside risks of inflation and the downside risks of slower economic growth roughly in balance? Federal Reserve policymakers said they were when they trimmed a quarter-point from their target interest rate on Oct. 31. Only time—and more economic reports over the next few weeks—will tell, but right now, despite the Fed's considered judgment, labor-market trends make a strong argument that the scales are still tipped toward recession worries and away from concerns about inflation. (November 19, 2007, p. 16)

*Barron's* and *The Economist* both advanced the idea that perhaps there had been a “decoupling” of emerging economies and developed ones, indicating that emerging markets might offer a safe haven for growth as developed countries experienced a “pullback”:

WHAT'S DIFFERENT ABOUT this pullback? For a start, emerging markets have turned the tables on developed nations. Once perceived as the riskiest bets and, as such, the hardest hit in any global sell offs, emerging markets have emerged as the new darlings of the global boom. Thanks to the growing consensus about “decoupling”—essentially their detachment from slowing

developed economies—emerging markets have become a trendy refuge. (Tan, November 5, 2007, p. M4)

*Barron's* Gene Epstein also argued that the rest of the American economy was “decoupled” from housing, and was therefore unlikely to suffer big losses:

NOTHING, IT SEEMS, WILL convince the markets that the economy outside the housing sector is stable, if not solid. Economic news can always be dismissed as yesterday's news, irrelevant to the setbacks of tomorrow. What is seen in the rear-view mirror is often out-of-focus anyway, always subject to revision. (November 5, 2007, p. 51)

*The Economist*, for its part, argued that the “decoupling” with Asia was an illusion brought on by American monetary policy:

In particular, investors have focused on the concept of “decoupling,” the idea that Asian economies have developed a self-sustaining momentum that leaves them no longer dependent on the American superpower. Although this theory has yet to be tested by a full-blown American recession, the subprime crisis has not had much impact on Asian growth so far.

A more cynical explanation is that many emerging countries “import” American monetary policy via a dollar link. The Fed's interest-rate cuts in response to August's turmoil thus represented an easing of policy at a time when many emerging economies were already booming. The result, say some, is another bubble, which is showing up everywhere from China's stock market to the

price of gold, now approaching \$800 an ounce. (*The Economist*, November 3, 2007, p. 9)

The consumer got more coverage, as well as more sympathy, than in previous months—39 of the 81 articles in November mentioned the consumer—with *The Economist* describing the effects spreading to the rest of the economy in ghoulish terms:

NAMING yourself after the three-headed dog that guards the gates to hell was, perhaps, asking for trouble. Cerberus, the private-equity beast in question, now finds itself at the centre of a fierce debate about whether corporate America is in for a hellish time, as the credit crisis spreads from financial services to the rest of the economy. (November 26, 2007, p. 96)

Indeed, November was notable for having five of the 18 articles during the study that were tagged as being primarily about consumers (in other words, mentioned in the “Central Topic” field of the framing elements coded) and the effect of the downturn upon their lives and spending power. The portrayals of consumers generally painted them as more “strapped” by unexpected circumstances than as deadbeats who had racked up debt and reneged on it, as in this passage in “Prisoners of Debt” from *BusinessWeek*:

In a financial version of Night of the Living Dead, debts forgiven by bankruptcy courts are springing back to life to haunt consumers. Fueling these miniature horror stories is an unlikely market in which seemingly extinguished debts are avidly bought and sold. (Berner & Grow, November 12, 2007, p. 44)

*BusinessWeek* described the consumer's plight in better terms than earlier in the year, as well:

The long-awaited, long-feared consumer crunch may finally be here. That might not mean an economy-wide recession, but the pain for American households will be deep. (Manel & Coy, November 26, 2007, p. 57)

*The Economist* also worried that perhaps the downturn was entering a new phase, one where consumers simply could not spend enough to cancel out other economic factors:

The housing downturn has entered a second, more dangerous, phase: one in which the construction rout deepens, price declines accelerate and the wealth effect of falling prices begins to change consumers' behaviour. The pain will be intensified by a sharp credit crunch, the scale of which is only just becoming clear. And, in the short term, it will be exacerbated by a spike in oil prices—up by 25% since August—that is extreme, even by the standards of recent years. The result is likely to be America's first consumer-led downturn in close to two decades. (*The Economist*, November 17, 2007, p. 81)

November was also notable for its mentions of executives and their heretofore bad management of risk. Nine articles, or approximately 11 percent, said that the entity most likely to improve the economy was better management, an indication that many writers saw the crisis as having been caused by a few individuals at the top of financial firms. This viewpoint was lent credence by the departures of several high-level CEOs who had been seen as, at the very least, leading their companies to make big subprime derivative

bets that were turning out to be disastrous. The departures of both Charles Prince, CEO of Citi, and Stanley O'Neal, CEO of Merrill Lynch, were both announced within about a week of each other, and some writers argued that perhaps new management would improve the huge losses, which had already reached billions. Some, like *Fortune's* Allan Sloan, were outraged:

You can't expect Citi's and Merrill's bosses or boards to get collateralized debt obligations and other toxic esoterica right when their risk managers, who specialize in this stuff, got it so wrong. But you can expect them to assume some responsibility, share the sacrifice, and give back some of what they earned because of the (unintentionally) overstated profits. It's not the legal system's job to handle this, it's the leaders' job. But they won't do it. (November 26, p. 78)

In its cover story on November 26, *Fortune* also asked how so many smart people could have acted so irresponsibly. The tone of exasperation and horror was apparent even to casual readers, as writers wondered how well-healed investors with all the latest innovations of computer modeling literally at their fingertips, could possibly have found themselves in such a situation.

Wall Street should have known the risks, it was argued:

How did the Wall Street firms manage to pile mountains of high-risk mortgage debt, bonds that most investors and analysts thought the firms were selling to their customers, onto their own books?

Their gambit amounted to massive speculation in subprime mortgages. Investors are justly aghast that Wall Street ignored the obvious pitfalls. We'll

explain how it happened by examining one of the firms deepest in the subprime swamp, Merrill Lynch. Presumably, many other banks followed similar paths—although Citigroup added a few twists of its own, as we explain in the Robert Rubin story. Hence, Merrill's story may shed light on the misadventures of its rivals, from Morgan Stanley to UBS. (Tully et al, p. 67)

Only in November did so many articles list better management or executive staff as the actors most likely to improve the economic situation.

### **December 2007**

In December, a total of 64 articles fit the criteria for inclusion. But interestingly, *The Economist* and *Fortune* became notably less pessimistic about the economy than in the previous month, though the other two remained approximately the same in their average assessments of the downturn. Furthermore, rather than worrying about recession, these publications ran very few articles specifically *about* the recession or the chance of recession during the month of December, as can be seen in Table 7.

Table 7

*Economic Ratings for Four Financial Publications: December 2007*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -2.6            | -1.5                | -2.1                 | -1.8           |

Part of the reason was doubtless the increasing volatility in the market, as well as the Fed's efforts to inject liquidity and subsequent market reactions, something that was

remarked upon by *Barron's* Randall Forsyth:

So, in a matter of a few days, the market's mood swung from fears of a profound credit crisis to worries about worsening inflation. Both views have adherents among those sampled here; our group was selected to illustrate the range of opinions rather to provide an exhaustive survey of forecasts. (p. M16)

*BusinessWeek's* James Cooper (December 31, 2007), argued in "The 'R' Word? Try 'Resilient'" that "If a recession were imminent, there would be clearer signs by now. Instead, consumers are still spending, and companies are expanding production" (p. 14).

For its part, *Fortune* gave itself a "gentleman's B-" for how well it had done in predicting the economy and the markets, making a feeble defense for not having seen it coming:

Some strategies stopped working in the face of this summer's credit crunch. When we wrote "Smart Ways to Play the M&A Boom" (May 14), there seemed to be no end in sight to the acquisition spree. Then subprime mortgages and the securities used to trade them began to unravel. It became nearly impossible to float mortgage-backed bonds and almost as hard to sell bonds made up of leveraged-buyout debt.

And *The Economist* nimbly summarized what was becoming the best hope for those who believed that a recession could be avoided:

The hope is that the credit markets unblock themselves and that buoyant emerging markets buy rich-world exports and recapitalize rich-world banks. The fear is that

this crisis will assume yet more guises before it takes its leave—especially if politicians try to seize control. Bankruptcies, recession, litigation, protectionism: sadly, all are possible in 2008. (p. 9)

Only 9 of the 64 articles, or about 12 percent, held that the Fed or another central bank was the entity most likely to improve the situation, compared to 8 of 81, or approximately 10 percent, in November, while seven of the articles held that the Fed was the entity most likely to worsen the situation. Approximately 40 percent, or 26 articles, advocated letting the markets work themselves out or gave no plausible actor that stood the best chance of improving the situation.

Even though the Bureau of Labor Statistics (January 4, 2008, p. 1) announced that December had seen the unemployment rise to 5.0—up from 4.6 just a year before—neither consumers nor unemployment featured prominently as the central topic of discussion. *Barron's* ran one article with unemployment as its central focus; *Barron's* and *BusinessWeek* each ran one article where consumers were the main subject; only a single *Barron's* article made unemployment its central focus.

The main subjects of the majority of the articles were market turmoil (12), subprime mortgages (18) and the credit crisis (11, with two categorized as credit crisis/subprime), and banking (an additional 7 that did not include the terms “market turmoil,” “subprime,” or “credit”).

### **January 2008**

In January, the coverage became more negative, as shown in the following table, perhaps fueled by news of multi-billion dollar losses at most of the largest financial

institutions, such as Citi and later Countrywide Financial, which had been the leading American mortgage originator and which Bank of America acquired at bargain-basement prices. But there was still no consensus in the month's 60 articles—or even a majority opinion—that the economy was approaching a recession. Only the ratings for *Barron's* articles actually averaged out to a rating that corresponded to “recession probable.” The average economic ratings of articles found in *Fortune* and *Barron's*, -3.0 and -2.8 respectively, corresponded roughly to the rating one would expect if almost every article said that a recession was probable. The ratings for *Businessweek* and *The Economist*, on the other hand, were those corresponding to most articles predicting the odds of a recession as somewhere between possible and probable, as Table 8 shows.

Table 8

*Economic Ratings for Four Financial Publications: January 2008*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -3.0            | -2.5                | -2.3                 | -2.8           |

When it came to Fed policies, there were no notable major changes in the calls either for intervention or for the Fed and central banks staying out of the fray. Ten articles during January saw the Fed or other central banks as the actor with the most potential to improve the situation, seven saw the Fed as the most likely actor to worsen the situation, and 23 articles, or about 36 percent of the monthly total, advocated letting the market work itself out, with no intervention from others. In particular, five articles, or 8.4 percent, worried about the possibility of inflation or stagflation (the combination of inflation and economic stagnation).

An additional five articles discussed possible investment that might help save different parts of the economy, and when these are taken into account, for a total of 28 articles of the entire monthly total of 59, or about 49 percent, that thought that the economy's best chance was to let the market right itself using free-market forces.

Some articles appeared to describe a financial community grasping at straws. For example, two articles discussed the possibility that a new company set up by Warren Buffett could help to save monoline bond insurers, because it was becoming clear that these insurers could not continue to pay out on the huge defaults that were mounting:

Mr. Buffett's move will be seen as a vote of confidence in a worryingly fragile market. The unspoken hope is that it will encourage other investors to overcome their fears. Few are as well-placed as Mr Buffett to do so, however. Reckless greed got the bond-insurance market into trouble; Mr Buffett's more refined gluttony can only do so much to get the industry out of it. (*The Economist*, January 26, 2008, p. 82)

Twelve articles had the recession or the health of the American economy as their central topic, while nine had subprime or credit topics as their central topic. In January, much of the talk about recession focused on whether or not the previous few months' events had been "priced into" the markets, making it a good time to start shopping for "bargains"; if, on the other hand, prices were ready to fall further, investors should wait longer for a bottom in the markets. Typical of such articles was *Barron's* article "OK, This Is Serious" (Michael Santoli, January 7, 2008), which discussed a poor employment

report that put the unemployment rate at 5 percent:

The report whipped up the level of recession chatter to a numbing din— or hadn't you noticed? Finally, the data and market response lent further support to those heralding doom, while challenging those of us who have been trying to take the contrary view that much despair already has been banked into stock prices. (p. 9)

As the economy approached February, the tone of some coverage got notably gloomier. As *BusinessWeek's* Roben Farzad put it:

Don't look now, but we're putting the final touches on the market's Lost Decade, the worst showing for U.S. stocks since the Great Depression. That's right. Call off the dogs. Send in the clowns. Color me presumptuous, arrogant, and ignorant of history. But the facts have my back. (January 21, 2008, p. 71)

Farzad's gloom is evidence that at least some writers were beginning to realize that the country was not only headed for a recession, but that it might be a long, serious one. Still, for the most part, writers expected that the downturn was a temporary chance to buy bargains and wait for a chance to sell at a profit when the economy and the markets eventually picked up. But February would not bring particularly good news.

## **February 2008**

February's 76 articles saw all of the publications except *Fortune* stay roughly about the same in their assessment in February as in January. *Fortune's* writers and editors appear to have become somewhat less pessimistic, moving from -2.8 to -2.3. None of them averaged out to a consensus that recession was probable, though *Barron's* approached it.

Some argued that perhaps the worst was over. *BusinessWeek's* Peter Coy said as much, explaining the bounce in homebuilder stocks in the second half of January:

Some experts have begun to suggest that a bottom is in sight. Pali Research analyst Stephen East wrote in a research note to his firm's clients on Jan. 25 that "the sun is not shining very brightly, but at least the worst of the storm has likely passed." With optimism budding, Standard & Poor's beaten-down index of homebuilder stocks soared 49% from Jan. 15 through Jan. 29. (p. 40)

Fed and central banks' action was again an important item, with 12 articles advocating action by these entities as the best chance for improving the economy, seven saying that these entities stood the greatest chance of worsening the economy, and 30 giving no entity that could improve it or advocated just letting the market right itself.

Only two articles listed consumers as a main topic. Seven articles said that investors who were looking for bargains stood the best chance of rescuing the economy, and three discussed whether the bottom had been reached or whether recession had been "priced in," indicating that at least some writers were counseling readers that the worst could be over, and they should be looking for bargains to buy.

Table 9

*Economic Ratings for Four Financial Publications: February 2008*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -2.9            | -2.7                | -2.6                 | -2.3           |

## March 2008

March saw the demise of Bear Stearns, which was framed in different ways by the different publications. Thus, there was a near-schizophrenic disparity in the numerical ratings of the economy's prospects. March article ratings are presented in Table 10.

Table 10

*Economic Ratings for Four Financial Publications: March 2008*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -3.2            | -3.3                | -2.8                 | -1.4           |

The fall of Bear Stearns loomed large in the coverage for the month, with 36 of the month's 110 articles discussing Bear Stearns and the immediate fallout of what was dubbed the "\$2 bailout," because shareholders were to get about that much per share. (Famously someone, presumably one of the laid-off employee investors in the firm, had left a \$2 bill on the exit door at Bear Stearns.)

It would be understatement bordering on irony to say that JP Morgan's acquisition of Bear Stearns at what amounted to a fire sale price was a shock to the financial community and to investors. Such a thing had been previously been considered unthinkable; its 52-week high at the time had reached more than \$133 per share, and many longtime investors and employees therefore saw their investments slashed to less than two percent of the value they'd held before.

The fall of the company seemed to elicit two distinct reactions. Some adopted a frame perhaps best described as "The worst is over," since the most unthinkable thing they could think of—a huge financial institution that had survived for about 85 years—

had just happened. How could things get any worse? Besides, perhaps now that this particular source of subprime derivative contagion was gone, perhaps the financial “infection rate” would go down. Recovery could now begin, they reasoned.

*BusinessWeek*'s Kopin Tan summarized this position in his March 17 article “The Smell of Fear: Is a Bottom Near?”:

That the New York Federal Reserve and JPMorgan Chase were devising ways to bail out Bear Stearns raises the specter of a bank too big to be allowed to fail, and the prospect of such a failure—and others that could still come—frightened investors in markets across the globe.

That distinctive smell of fear also egged on traders who counted off increasing signs that a stock-market bottom, if not yet here, might at least be near: a venerable Wall Street giant teetering on the brink of collapse, frantic government intervention, the whiff of panic everywhere you turn. The bargain hunting that ensued lifted the Dow Jones Industrial Average 118 points off its intraday low Friday afternoon, providing a wee bit of reprieve heading into the weekend. (p. M3)

Other writers saw the situation differently. If such a venerable, trusted entity as Bear Stearns—which had attracted top financial talent the world over—could go under, then other financial giants could also go under, as *BusinessWeek* pointed out in its aptly titled article, “Street of Fear”:

There's no telling when the fog will lift for good. For one thing, the original Bear deal is far from certain... When Bear does hook up with JPMorgan or maybe

another suitor, that won't unfreeze the credit markets. The Fed is still the only buyer of risky mortgage securities in town. A Bear Stearns spokesman declined to comment.

What's more, there are no more giant banks able to step in should another major firm find itself on the precipice. JPMorgan has its hands full with Bear, while Citigroup (C), Bank of America (BAC), and Merrill Lynch (MER) don't have the deep pockets to make a big deal. Meanwhile, vulture investors with billions in cash are still largely waiting on the sidelines for the elusive market bottom—a sign the group thinks there's more room to fall. (Goldstein et al, March 31, 2008, p. 35)

*The Economist* didn't say that the worst was over, but it did say that the financial excesses that had caused Bear Stearns to fall were the product of financiers passing off high risks to others, knowing that someone else would pay the price. The publication predicted hard times ahead, but an eventual recovery for the industry, if only it weren't re-saddled with new regulations:

The financial industry is likely to stagnate or shrink in the next few years. That is partly because the last phase of its growth was founded on unsustainable leverage, and partly because the value of the underlying equities and bonds is unlikely to grow as it did in the 1980s and 1990s. If finance is foolishly reregulated, it will fare even worse.

And what of all the clever and misused wizardry of modern finance? Mr. Greenspan was half right. Financial engineering can indeed spread risk and help

the system work better. Like junk bonds, reviled at the end of 1980s, securitisation will rebound, tamed and better understood—and smaller. That is financial progress. It is a pity that it comes at such a cost. (*The Economist*, March 22, 2008, paras. 21-22)

For its part, *Fortune* still seemed to be writing as if good times might be ahead. For example, in the March 17, 2008 issue, Jon Birger wrote about ING “dodging subprime” and “Beach-house Bargains,” about how to pick up a beach bungalow on the cheap, while real estate was still underpriced. In the same issue, it also ran Allan Sloan’s “Don’t Expect Another Bull Market,” which argued that the markets would return to a more normal nine to ten percent rate of return, once all the losses from the now-deflating housing loan bubble had run their course.

When it came to Fed action, 21 articles said that the Fed or other central banks were the actors most likely to improve the economy, more than a 100 percent jump over February’s comparable number of 10. In contrast, 10 saw these same entities as the most likely to worsen the situation, and an additional 38 held that either no entity could improve the situation or that the markets should be allowed to work themselves out without intervention. Thus, more than 48 of the 110 articles, or about 44 percent, advocated no Fed or central banking action, while less than 20 percent felt that these actors stood the best chance of improving the economy.

Michael Santoli’s March 17, 2008 article, “Whistling Past the Graveyard—Higher

Quality Stocks Beckon to Investors,” summarized the mood of investors:

Are stock investors whistling past the graveyard? Maybe so, but it's likely more than that. Stock investors haven't been geared for happy news for months, their fear overtaking greed. With all their flinching and ducking, they've been stung less by the violent headlines.

By no means does this suggest stocks have priced in all the nastiness and it's only green ticks from here. For one thing, it would be too cute even for this synchronous market to return precisely to its intraday lows and then be done with the losses. For another, in this kind of bear phase, the overshoots occur to the downside. And the supply-demand setup for stocks remains a headwind, with fund outflows and risk aversion on one hand and financial-stock issuance and the enormous Visa IPO this week on the other. (p. 15)

Only three articles featured consumers as their central topic, again indicating that while an occasional article acknowledged consumers' importance, it was very uncommon to find them featured as an important element of the economy.

### **April 2008**

In April, 71 articles qualified for study and were examined. *Barron's*, *BusinessWeek* and *The Economist* all wrote about the economy much as they had in March, but *Fortune* seemed to have awakened to the gravity of the situation, going from a publication that virtually ignored the crisis in March to writing about the economy in a way that corresponds on an average of almost half of the articles holding that recession

was ongoing or almost certain, and the other half predicting that it was probable. The results are shown in Table 11.

Table 11

*Economic Ratings for Four Financial Magazines: April 2008*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -3.0            | -3.5                | -2.7                 | -3.4           |

*Fortune* seemed to have come out of its daydream in April, and once awakened, its coverage became exceedingly bleak, such as in the following excerpt from Allan Sloan's mid-April piece, "The Incredible Shrinking Bull," which was judged a -4 on the economic rating scale used.

Finally, I'll tell you why I fear that the Wall Street enablers of the biggest financial mess of my lifetime will escape with relatively light damage, leaving the rest of us—and our children and grandchildren—to pay for their misdeeds.

We're suffering the aftereffects of the collapse of a Tinker Bell financial market, one that depended heavily on borrowed money that has now vanished like pixie dust. Like Tink, the famous fairy from Peter Pan, this market could exist only as long as everyone agreed to believe in it. (April 14, 2008, paras. 3 and 4)

Naseem Taleb sat for an interview that was equally gloomy, explaining how what everyone called a "black swan" event, or one that was so rare as to be virtually unimaginable, was almost preordained by the financial system, which placed

unquestioning faith in worthless financial models:

It is the "science" of risk management that effectively turned everyone involved into a turkey. If the Food and Drug Administration monitored the business of risk management as rigorously as it monitored drugs, many of these "scientists" would be arrested for endangering us. We replaced so much experience and common sense with 'models' that work worse than astrology, because they assume that the Black Swan does not exist. (Gellman, April 14, 2008, p. 90)

Other *Fortune* article topics for the month included investing in gold in case of total financial breakdown and a mid-April piece on the demise of Bear Stearns that concluded with a paragraph blaming Bear Stearns executives for not restoring confidence in their firm more quickly and describing dejected long-term Bear employees as dazed and bewildered, bemoaning the fact that their stock isn't enough to send their kids to private schools, and how maybe they'll just have to go work for the Fed or for a regulator.

All of the publications emphasized uncertainty and risk, pointing out that even some of the best financial minds in the world had been horribly wrong, and the rest were left looking for answers, including the famous ones such as George Soros, interviewed in an article by *Fortune's* John Birger:

Even some great investing minds are confused. But don't run scared. We found a few intriguing opportunities.

[George] Soros isn't the only investor struggling for answers. *Fortune* interviewed a dozen or so leading money managers and market gurus about where

to invest now, and the only thing they agreed on is how unpredictable the financial markets have become. ‘The avoidance of risk and the search for safety is more intense now than I've ever seen in my career,’ says Bob Doll, chief investment officer for equities at Wall Street money. (Birger, J., April 28, 2008c, paras. 1 and 3)

Eleven articles expressed the idea that the Fed or central banks stood the best chance of improving the economy, while three said that they would worsen the situation. An additional 26 that either gave no actor who could improve the economy, or held that the markets and the economy would work themselves out if allowed to do so.

*BusinessWeek's* April 7 article, “Where No Fed Has Gone Before,” conceded that it was possible that things would get so bad that the Fed’s highly unusual business arrangement in the bailout of Bear Stearns could stand up to scrutiny:

If this case proves anything, it's that the Fed is ready to press the limits of its charter to keep the financial system afloat. Effectively acquiring the Bear assets at a bargain price and then liquidating them is similar to what Resolution Trust Corp. did when it shut down savings and loans and auctioned off their loan portfolios in the 1990s. The difference is that Congress set up the RTC but had nothing to do with the Fed's moves. Are the Fed's emergency actions justified? Probably. Are they going to come in for extremely close scrutiny? Bet on it. (Coy, P., Berfield S., Silver-Greenberg, J, and Lehman, P, April 7, 2008, p. 32)

By early April, *The Economist* was beginning to argue that whether the recession

had been officially called or not, perhaps it was best to acknowledge the truth:

IT MAY not be official but it is increasingly obvious: America's economy has slipped into recession. The latest labour-market figures—a jump in the unemployment rate to 5.1% and the loss of 98,000 private-sector jobs in March, the fourth consecutive month of decline—point to a shrinking economy. So do surveys of manufacturing and services. So does Ben Bernanke, chairman of the Federal Reserve. On April 2nd he told a congressional committee that output was unlikely to “grow much, if at all, over the first half of 2008 and could even contract slightly.” (The Economist, April 10, para. 1)

However, *The Economist* was not entirely consistent in acknowledging the recession:

First, the odds of financial disaster have receded. Although important parts of the credit plumbing, notably the interbank market, are still surprisingly gummed up (see [article](#)), spreads on riskier bonds have narrowed. Steep rate cuts were partly meant as a (blunt) tool to forestall financial calamity. More of that insurance now seems unnecessary. Second, America's economy is not deteriorating any faster than the central bankers had expected. (*The Economist*, 2008, April 24, para. 3)

As usual, consumers took short shrift, with no articles in April focusing on them as a main topic.

## **May 2008**

There were 70 articles in May. Of these articles, 25 either listed no entity as the most likely to improve the economy or held that the market would eventually work itself out. Only five said that the Fed and central banks showed the most promise for

improving the economy, and six said that they were the most likely actors to make the situation worse. This might have been attributable to the general feeling that the Fed had been making rate cuts since the previous summer—raising fears of inflation—yet the liquidity crisis persisted, as described by *BusinessWeek* in “Now the Navigating Gets Really Tough,” in the following paragraph:

The Federal Reserve's efforts to balance growth and inflation are reaching a critical juncture. The worst fears about U.S. economic growth in 2008 are subsiding. The financial markets are still fragile but functioning better, and chances of a serious recession, or any recession, are diminishing. Now the Fed is setting its sights on inflation, which could play a big role in the outlook for growth in 2009. Lifting interest rates later this year to fight inflation would risk extending the housing slump and the credit crunch, and it would lessen the chances for a solid recovery. (Cooper, June 30, 2008, p. 12)

In May, some of the gloom seemed to have lifted, with improvement in the economic outlook expressed in the articles of all four magazines, despite the fact that George W. Bush was only five months away from signing the \$700 billion Troubled Asset Relief Program into law. Clearly, these four publications were on average not generally predicting a serious recession, and were certainly not predicting the worst one since the Great Depression, as can be seen in the following table. Only *BusinessWeek* seemed to be framing the downturn consistently as more than somewhere between “possible” (a rating of -2) and “probable” (a rating of -3).

Table 12

*Economic Ratings for Four Financial Magazines: May 2008*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -2.6            | -3.2                | -2.3                 | -2.6           |

In Geoff Colvin's May 5, 2008 *Fortune* article "Why the Party's Over," which served as the introduction to its Fortune 500 list, it is clear that the publication's writers are starting to come to terms with the financial crisis that Colvin says started when investors "rediscovered risk" and started taking money out of junk bonds and putting it into Treasuries and high-grade investment bonds:

When the credit crisis hit home in 2007, everyone felt the pain—including America's largest companies. For the first time in five years, corporate profits dropped.

On June 13, 2007, the world changed for the *Fortune* 500. Why? Because on that day, the financial markets finally woke up from a dream. As a result, the companies of the 500 are still coping with the trauma of their abrupt return to reality, which included the group's first profit decline in five years. And, no, the trouble isn't over. Nor is it strictly a U.S. problem. The shock to the U.S. financial system created aftershocks around the globe. The IMF has lowered its estimates of world growth for 2008, and the higher cost of capital is hurting businesses that need to borrow—which means everyone. (p. 22)

*The Economist* encapsulated the huge swings in the mood of investors when it

recounted recent history in a May 1, 2008 article titled “Too Soon to Relax”:

Is it really over? In the middle of March investors were worried that the financial system was going to hell in a handcart. Analysts competed to produce the highest possible forecast for losses from the credit crunch. Just six weeks later, everything seems a lot calmer. Stockmarkets have stabilised and corporate credit spreads (the excess interest rates paid by risky borrowers) have come down sharply. Gold is cheaper. Bankers talk about having put the worst behind them. This week the Bank of England's twice-yearly *Financial Stability Report* was cautiously optimistic and America's Federal Reserve was relaxed enough to cut the pace of its monetary easing. Rates may even have reached the bottom. (*The Economist*, 2008, May 3, p. 15)

However, the article remonstrated against assuming that the crisis was over. It pointed out that if one had fallen asleep in July (just before the start of the study period) and had just awakened in May, one would be struck by some economic improvements, but “you would still be alarmed at the state of housing markets, the prospects for consumer spending and the trend in forecasts of economic growth. You would not assume that the worst was over. Nor should investors, just because they have had to live through it all.” And, *The Economist* cautioned in its May 3, 2008 article “Ben’s Bind,” the Fed’s more recent interest rate cutting “plainly packs less punch than hitherto. Lending standards are tightening across the board” (p. 80). Perhaps, then, the Economist argued, the bottom had been reached and all pertinent information had been priced into stocks.

For its part, even while *BusinessWeek* became more negative than in the previous month, the framing of many of its articles suggested opportunities for the smart, bold investor willing to buck the trend, as in this paean to venture, or “vulture,” investors:

Vulture investors are a changing breed. The new opportunists, with Harbinger's Phil Falcone in the vanguard, have more clout and more imagination. And they just might kick-start the economy. (p. 34)

Some *Barron's* articles actually started to assume a recession, and began to speculate as to how severe it might become, agreeing with Greenspan that while there probably was going to be a recession, it would probably be mild:

The persistent evidence of resilience in the U.S. economy has finally convinced some forecasters that the recession is far milder than they originally thought. As a case in point, former Federal Reserve Chairman Alan Greenspan recently called the recession ‘awfully pale,’ a marked upgrade from his warning early last month that we were in for the “most wrenching” downturn since World War II... Most economic numbers are subject to revision, sometimes large enough to revise away the main message. But last week's battery of numbers continued to look pale-but-not-wrenching. (Epstein, May19, 2008, M14)

## **June 2008**

In June, the framing of *The Economist* and *Fortune* got more negative, while *Barron's* dethroned *BusinessWeek* as the most pessimistic among the four publications. Lehman's September 15 filing for bankruptcy was about three-and-a-half months away at the beginning of June, but only two of these publications are consistently framing their

coverage in a way that indicates that a recession is even probable. Five articles had as their central topic either recession or the health of the American economy.

Only six articles named the Fed or central banks as the actors most likely to improve the economy, while five said that they were the actors most likely to make it worse. A full 25 articles either named no actor as likely to improve the economy or advocated that the market would work itself out, if given the chance. Part of this declining confidence in the Fed might have been the idea that the Fed would find it increasingly difficult to effect economic change through monetary policy, as James Cooper explained in his June 18, 2008 *BusinessWeek* article, “The Fed: Now the Navigating Gets Really Tough”:

The Federal Reserve's efforts to balance growth and inflation are reaching a critical juncture. The worst fears about U.S. economic growth in 2008 are subsiding. The financial markets are still fragile but functioning better, and chances of a serious recession, or any recession, are diminishing. Now the Fed is setting its sights on inflation, which could play a big role in the outlook for growth in 2009. Lifting interest rates later this year to fight inflation would risk extending the housing slump and the credit crunch, and it would lessen the chances for a solid recovery. (Epstein, May 19, 2008, M14)

To be fair, the economic indicators had become slightly less negative in May, so one would expect the possibility that people might grasp at such straws. The Conference Board explained the tiny improvement in the leading economic indicators as follows:

The Conference Board announced today that the U.S. leading index increased 0.1 percent, the coincident index increased 0.1 percent and the lagging index increased 0.2 percent in May.

The leading index increased slightly in May, following a small increase in April. The interest rate spread and stock prices continued to make large positive contributions to the index, more than offsetting May's declines in real money supply, consumer expectations, and building permits. In May, the six-month rate of decline in the leading index slowed to -0.7 percent (a -1.4 percent annual rate), from -2.4 percent (a -4.7 percent annual rate) in the six-month period through January. However, the weaknesses among the leading indicators have remained fairly widespread in recent months. (The Conference Board, 2008, paras 1 and 2)

Still, the economic ratings apparent in article framing in *BusinessWeek* and *The Economist* do not even represent what one would expect if a recession were probable, but did not materialize. *Fortune* and *Barron's*, on the other hand, are still not reflecting a consensus that a recession is imminent or ongoing, though *Fortune's* ratings are consistent with a probable recession, and *Barron's* are consistent with exactly half of the articles reflecting an imminent or ongoing recession, and half predicting a probable one, as shown in Table 13.

Table 13

*Economic Ratings for Four Financial Publications: June 2008*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -3.5            | -2.3                | -2.6                 | -3.0           |

**July 2008**

By July, story framing in *Barron's* and *Fortune* had become less pessimistic again, bouncing back up in the average economic rating apparent in their article framing, while *BusinessWeek* and *The Economist* had revised downward their appraisal of the economy, getting noticeably more gloomy.

Table 14

*Economic Ratings for Four Financial Publications: July 2008*

|                                    | <i>Barron's</i> | <i>BusinessWeek</i> | <i>The Economist</i> | <i>Fortune</i> |
|------------------------------------|-----------------|---------------------|----------------------|----------------|
| Economic Rating<br>(-5 through +5) | -2.7            | -3.3                | -3.2                 | -2.4           |

*Fortune*, on the other hand, ran coverage that could only be described as schizophrenic, with a bit of manic depression thrown in. For example, Stanley Bing's July 21, 2008 editorial, "The Confidence Game," urged readers to somehow manufacture more consumer confidence from somewhere deep down in their psyches.

Comparing the economy to a "vortex" and consumer confidence first to a damaged machine and then to fruit rotting in the sun, Bing sounds as if he's desperate to revive the economy, but can't think of anything more inspiring to say than that we can

think our way out of a terrible situation. Metaphors of broken things, of doom, and of hope slipping away abounded in this description:

YOU CAN FEEL IT. Like air hissing out of a tire. Like a banana shrinking and turning black as it goes bad. The shiny, can-do engine of consumer confidence is running down. We're losing it. And with it goes the last shred of hope that the spiral to the center of this vortex is not inexorable...

We've got to keep what confidence we have left, no doubt about it. And even regain the stuff we've lost... Three-quarters of our economy is built upon our willingness to part with our money in exchange for goods and services. We can affect that metric. But only if we have the confidence to do so.

So get some. Now, I think, would be a good time to start. (p. 208)

In other words, argued Bing, consumers should quit being so afraid of economic collapse and just *will* themselves into spending the economy back to health.

Furthermore, in the same issue, *Fortune* ran an article titled "Power Shift," which explained how so many of the American Fortune Global 500 companies had been replaced, "A major shakeup in the world markets is evident in this year's rankings. Companies from emerging economies proved their worth, while the number of U.S. firms declined sharply," the article proclaimed, perhaps shaking the consumer confidence that a few pages away it had said was essential to economic recovery (Mero, 2008, p. 161).

*The Economist* ran a multi-part series discussing various aspects of the decline, generally arguing that America was out of options. For example, in "End of Illusions," it

argued that the Fed might be too hamstrung to rescue Fannie Mae and Freddie Mac, which had been instrumental since Depression times in helping Americans buy homes:

With the credit crunch, Fannie and Freddie have become more important than ever, financing some 80% of mortgages in January. So they will need to keep lending. Nor is there scope to offload their portfolios of mortgage-backed securities, given that there are scarcely any buyers of such debt. And if the Fed has to worry about safeguarding Fannie and Freddie, can it afford to raise interest rates to combat inflation? American monetary policy may be constrained. (July 19, 2008, p. 79)

*BusinessWeek's* coverage, while still not predicting an imminent recession, seemed to be losing its confidence in a recovery. In "Wall Street Faces the Bears of Summer," the authors opined:

The first six months of 2008 ended with U.S. stock markets in the dumps. Now, with the major indexes in or near bear market territory after touching highs in October, hopes for a happier second half are fading fast. (Goldstein, Levisohn & Steverman, p. 26)

Finally, *Barron's* seemed of two minds when it came to the near-term predictions for the economy. Sometimes, they seemed to poke fun at the plight of those involved, a mere sentence away from descriptions of the consequences of the deflating economy:

Being the messenger who delivers the bad news is just part of the job, the dark and dirty part, you might say. But after all these years, it still hurts to see grown men cry (women, being the stronger sex, tend to make do with a grimace).

So when, as they finally did last week, the clouds that have enshrouded the investment landscape for months suddenly seem to be lifting, we'd normally seize the opportunity to start chirping instead of carping. But no sooner had we begun to sound the first joyous note than we found ourselves confronted by a devil of a dilemma. To wit:

Is the recovery for real? Or is it merely the result of one of those fabricated rumors that the SEC sternly has warned will be prosecuted to the full extent of the law? And, if it should prove the latter, do we risk jail time for perpetuating a false rumor by giving it currency in this sacred space?

*The Economist*, while generally dreary in its coverage, was not always so in July. In its July 26 article “Naked Fear,” it argued that the situation was not so dire as to require SEC regulations against rumor-mongering and naked short selling—selling shares before one has borrowed them, without “covering” the position:

Some may say that the rules should still be bent to prop up bank shares, because banks rely on confidence and their failure causes systemic damage. But lenders now have generous privileges to borrow from central banks; these should prevent runs on solvent banks. Fannie and Freddie now have near-explicit state guarantees. Shareholders neither need nor deserve any more privileges. Attempting to distort share prices away from their market level is not a legitimate activity for traders. It is no business of regulators either. (2008, July 26, para. 7)

Thus, almost seven months after the country had slipped into recession, even relatively small measures, such as regulating reckless or malicious behavior by traders, were not justified, in the view of *The Economist*.

## CHAPTER 5: CONCLUSIONS AND DIRECTIONS FOR NEW RESEARCH

Throughout the time period studied, from August 2007 through July 2008, it can be argued that these four publications—*Barron's*, *The Economist*, *Fortune* and *BusinessWeek*—failed in their editorial content to fully anticipate or appreciate the severity of deteriorating economic conditions that started as a liquidity crisis caused by failing confidence in subprime mortgage assets, and in December 2007 turned into a full recession generally acknowledged to be the worst since the Great Depression. Even once the country was in a recession, coverage did not generally reflect that a serious recession was occurring or imminent, and most of the articles in these publications did not even consistently reflect the probability of a recession, much less the fact that one was underway.

Also, topics that are inextricably linked to recession coverage, such as consumer confidence and average consumer economic health; possible actions to improve the situation; and the unemployment rate were underrepresented in the coverage. Indeed, even recession itself rarely appeared as the central topic of coverage.

More sophisticated techniques were used to rate the economy than in Gill's previous thesis, which merely rated the economic coverage as presenting the economy in a positive, negative or neutral light. Since almost all of the more than 900 articles rated were negative, this would not have added significant information to this analysis. By evaluating the severity of the downturn on a numerical scale—a more numerically accurate and defensible way of judging the coverage than trying to judge the “tone” of an article—these numerical techniques detected changes in what Matthes and Kohring consider important components of any frame, and this is important evidence that allows

the argument to be made that these publications did not on average, generally do an accurate or anticipatory job in framing the severity of the economic crisis. Even during a time frame when the complete and final data would later show that the economy was actually *in* a recession, these publications did not consistently predict that the economy was or would be in a serious recession within the following six months, and therefore did not generally give their readers a fully accurate description of present and near-term economic conditions. (Recall that the instrument asked for the author's apparent view of the economy in the near term, defined as the next six months, there was an underreporting of the likelihood of a recession, *even once the recession was actually underway*.) Therefore, throughout the study period, authors should have more consistently acknowledged and increasingly emphasized the possibility of a recession, yet none of these publications ever reached an average rating of -4 on the scale established, which corresponded to a recession actually in progress or clearly imminent during the following six months.) Thus, there appears to have been some degree of reverse agenda setting in the tone and impression given about the authors' view of the near-term state of the economy.

Also, based on an analysis that included an examination of the actors mentioned in each article as being the most likely to either improve or to worsen the economy—one of the framing elements described by Matthes and Kohring—it was found that all four publications generally advocated letting the markets correct themselves, and rarely wrote articles expressly about the possibility of recession, the plight of consumers, or unemployment. Interestingly, though, the second most-mentioned actor listed as improving the economy was the Fed or other central banks, indicating that a sizable

minority advocated taking at least some quick monetary action to inject liquidity into the economy. This finding is consistent with an underreporting of the likelihood and the severity of the approaching recession and the mistaken belief that a few quick actions by the Fed had the power to ward off the widespread credit crisis, the subprime defaults, and their ramifications.

### **Implications for Frame Study Methodology and Future Research**

In addition, analyzing the different elements described by Matthes and Kohring allowed even the complex economic coverage and equally complex framing of economic topics to be decomposed and numerically examined. This decomposition allowed for discoveries about absent, underrepresented or unexpected framing that might not have been detectable had whole predetermined frames been used and their mere presence or absence noted. It is hoped that this research stands as an example that shows that there is value in looking at discrete framing elements themselves, rather than merely analyzing complete frames cut of whole cloth at the beginning of the study. Analyzing, for example, shifts in who the major actor is, or elements of the possible solution suggested in an article—or the equally revealing finding that no solution or action is advocated at all—can be just as important as looking for instances of an entire frame. The method used here might also deliver a more solid numerical grounding for many framing studies, as well.

In this research, for example, the idea that the most commonly detected actor that stood a chance of improving the economy was “none”—or letting the markets work themselves out—is a finding that might have been missed if the exercise had been merely to detect one of perhaps half a dozen full frames that were thought relevant going into the

analysis. Frames which might have seemed promising for detection and analysis—such as those having consumer, recession and unemployment as their focus—were not nearly as commonly detected as expected at the beginning of the analysis.

Similarly, changes in the rate at which the Fed is mentioned as either the actor most likely to improve the situation or the actor most likely to make it worse is an interesting subject in and of itself, and might even be seen as a harbinger of today's slavish following of the Fed's view of the economy and when an interest rate hike might or might not be approaching. The Matthes and Kohring approach also made it easier to deal with what is, for a framing study, a fairly large dataset, where it is difficult for researchers to view and easily grasp the entirety of the data.

Therefore, a possible avenue for future research might be to test to see how well frame detection done using the method of Matthes and Kohring compares to the “traditional” way of defining frames at the onset of the coding phase and then asking coders to detect these entire, predetermined frames. It might be that the finding of this research—that the Matthes and Kohring technique used here is superior and more precise, especially for detecting unexpected frames—is generally true, but more examples are necessary before this finding is generalizable.

In addition, to explain such things as the underreporting of consumer issues and unemployment, an analysis of the sources quoted might be instructive. It could be that the fact that very few actual consumers or unemployed people were used as sources is correlated with the view taken in many of the articles that blamed consumers for the subprime defaults that started occurring at the beginning of the study period.

Also, this research focused only on print sources, and while Gill's thesis did focus on coverage of the Tech Bubble that collapsed around the turn of the century, it would be interesting to apply the Matthes and Kohring method to see if television broadcasts aimed at investors did a more accurate job than the print sources discussed here in covering the Great Recession.

It is hoped that in further research, more numerically based techniques can be used to explore and dissect the framing of other complex topics, and that they will be as helpful as they were here.

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## APPENDIX A: THE INSTRUMENT FOR ANALYZING FRAMING

The following instrument was used to code and analyze framing elements in the coverage of *Fortune*, *BusinessWeek*, *Barron's* and *The Economist*.

### Frames For Analysis

Article Title:

Date:

Publication:

Author if given:

**Problem Definition** (topics and actors)--The MAIN actor and topic of the article, the central issue under investigation

Central topic:

Main Actor:

**Causal Attribution 1** (Benefit Attribution and Risk Attribution—Who or what is or could be responsible for the topic described (benefit if a benefit is predominant in the story, risk if risk is predominant, and who is or could be responsible for improving it?)

Benefit?

Risk Attribution?

**Causal Attribution 2** (Who profits from the state of the economy or the part of it described? Who suffers? It is not necessary to code both of these if the story only focuses on who benefits OR who suffers, not both. If you can code both from what's written in the article, please do.

Who benefits most?

Who suffers most?

## **Economic Rating**

How does the author describe the economy now and in the near future (next six months)? (See the attached sheet for a description of the ratings)

Negative (-1 to -5)—

Positive (1 to 5)—

## **Treatment Recommendation**

**Actor who stands best chance of improving the economy?**

**Actor most likely to worsen the situation?**

**Treatment regime most likely to improve the economy?**

## **Notes**

Criteria for positive and negative ratings (Treatment recommendation)

The following are descriptions of the point of view of the author(s) on the state of the economy. To code the way that the authors represent the economy, look for the description that the authors would most likely agree with, if one takes the article at face value. Not all of the elements for any numerical descriptor have to be present, but at least one element should fit the article's outlook. For example, if the article focuses almost exclusively on credit and the pricing of risk, it is acceptable to just focus on the credit element as a criterion for assigning a number. Here are the criteria:

-5-Devastating recession or depression occurring or believed imminent. Credit and new housing markets non-existent or wildly disrupted. 1930s-level depression or worse.

-4-Recession almost or totally certain. Credit and new housing markets devastated, extremely high foreclosures, little lending. Intervention might be discussed as almost certainly necessary.

-3-Recession looks probable. Risk high and/or fluctuating wildly, high volatility in the markets. Credit markets tight for the foreseeable future. At least temporary intervention might be discussed as likely/or recommended.

-2-Risk of recession. Serious but temporary correction underway or imminent. Credit markets tight, but probably only temporarily. Temporary and/or light intervention might indicated or advocated.

-1- Some to high uncertainty in the economy or temporary correction. Medium or long-term prospects argue for a return to normalcy, if the market is allowed to either work itself out or if minimal temporary intervention or might be carried out.

0 indicates a balanced view, or that it is impossible to determine the author's view state of the state of the economy.

Criteria for positive economies

1-Slightly positive or "normal" outlook on the economy. Credit markets fluctuating normally. Risk is priced adequately. Stock and housing markets fluctuating, but normally. Immediate or longterm prospects for the economy are normal to good.

2-Moderately positive. Credit markets working normally or even well. Immediate or longterm prospects are good.

3-Decidedly, unabashedly positive. All or most important aspects of the economy are functioning correctly and well, in the short term or long term.

4-Bull market. All important parts of the economy are functioning abnormally or extremely well for an extended period and for the foreseeable future.

5-Bull market, possibly or certainly a record, with all important parts of the economy firing on all cylinders, doing extremely well now and into the foreseeable future.