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Fair but Unbalanced

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Not that it needed any help, but the already energized debate about journalistic bias was electrified when Rupert Murdoch, owner of the "fair and balanced" Fox News Channel struck a deal to buy The Wall Street Journal.

I have no desire to take sides in this debate, or question anyone's integrity, but my role as a business economist gives me a unique view of this subject. I talk frequently with members of the print media and I am a regular guest on business TV shows. Both venues stress debate and journalistic skepticism. In my view this tendency causes a great deal of confusion.

If one guest or expert is a "bull," then the other must be a "bear," to keep things fair. Or, if there is a single guest on air, the host often takes the other side of the issue in order to keep things balanced. Get some sparks between guests, a little argument here or there, and it's even better for the ratings. The bigger the audience, the better the show, that's the way the advertisers see it. It's basic supply and demand.

But this idea of presenting both sides of an issue, while entertaining, informative and seemingly balanced, may paradoxically create a warped perspective of the economy.

For example, the most recent Wall Street Journal economic forecasting survey, from July, shows that 49 out of 60 forecasters expect real GDP to grow at an average annual rate of 2%, or faster, in 2007. Of the remaining 11 forecasters, only two expect growth of less than 1%, and only one expects a recession. For 2008, the forecasters are even more optimistic, with none expecting recession.

There are at least a half-dozen other institutions publishing surveys, and all of them report very similar results among the 100 or so active professional forecasters. Except for two well-known economists (Nouriel Roubini at New York University, and Gary Shilling of A. Gary Shilling & Co.), who are not in many surveys, a super-duper majority of professional forecasting economists believe the economy will continue to expand during the next year and have believed so for the past four or five years.

Despite this, an NBC News/Wall Street Journal poll taken in late July found that 68% of Americans thought that the economy was either in recession already, or would experience a recession sometime during the next 12 months. Interestingly, this is not much of a change from the past. This same survey question has been polled at least five times since September 2002. Each time a robust majority of between 65% and 85% of respondents thought a recession was either underway or would occur within the year. Americans have been bearish on the economy for quite some time.

In short, over the past five years, forecasting economists from academia, consulting shops, financial services and industry have a perfect 5-0 record against a random sample of American citizens. It's important to understand that economists are not always right. Some even say that economists were put on earth to make weathermen look good.

In fact, some suggest that the experts don't know what they are talking about. They say that economists make the mistake of looking at aggregate data, for GDP or overall income, which hides serious dislocations for the middle class and those with lower incomes. Those who argue this point believe that unfair foreign competition and unfair distribution of income are leaving many Americans behind.

But this is hard to believe. The economy moderated last year, but the unemployment rate is still just 4.6%, almost a full percentage point below its 20-year average of 5.5%. Since the jobless rate first fell below 5% in December 2005, average hourly earnings have expanded at a 4.1% annualized rate -- as good as any year during the late 1990s. And recent research shows that incomes for the bottom fifth of wage earners have risen faster in the past few decades than incomes at the top, hard work is being rewarded more by performance pay, and income volatility is no worse today than it was in the 1980s and 1990s.

Stranger still is a July poll by the American Research Group (ARG) in which 68% of respondents rated their own personal financial situation as "good, very good or excellent." This is a huge improvement from March 2003, when another ARG poll found only 46% of Americans were either "hopeful or happy" about their personal financial situation, while 46% were "worried or angry."

This begs the question: If the actual economic data, the views of professional economists and the self-proclaimed personal financial situation of a majority of Americans have improved this much, why are people so worried about the economy? Why do people assume they are the exception rather than the rule?

One answer is that people gather knowledge about the rest of the economy, the part they cannot see, from watching news. As a result, it could be that the format behind most business journalism skews perceptions and creates pessimism. To be very clear, I am not arguing that business news is purposefully biased. But what seems clear is that in the name of producing an entertaining product, and in an attempt to provide contrasting views, the true consensus of experts is rarely reported.

A randomly selected pairing of economists from The Wall Street Journal forecasting panel would pit two rather optimistic forecasters against each other in debate. But having two economists debate about whether GDP will grow 2.1% this year or 2.4% is downright boring. As a result, the producers of business news spice things up. They arrange for debates between a bullish economist and a bearish economist. And since they can't have Messrs. Roubini and Shilling on every hour of every day, they find equity short-sellers who make a living when things turn down, or political economists who are trying to score points.

While this is entertaining, and may bring in eyeballs, which sell commercials, this idea of "fair and balanced" debates leaves an impression that the experts are split 50/50, when in reality it's more like 80/20, or 90/10.

After all, the economy is closing in on six straight years of growth and the stock market is up more than 80% since its bottom in October 2002. It is true that the number of shares sold short on the Nasdaq rose to a record of 9.3 billion last week, but this only equals the number of shares that change hands on the Nasdaq (on average) every 4.9 days. There are way more bulls than bears. It's not a 50/50 world.

But if all the public sees is an endless stream of 50/50 debates, then it is really not that much of a surprise that people think the future is basically a coin toss. And a coin toss, especially in a time of war and terrorism, is not very good odds.

And that's too bad. The global economy may never have been as strong as it is today. The pace of technological achievement has boosted living standards for billions of people, and promises to do even more in the years to come. It's sad, really, that so many people can't enjoy it because they fret so much about the future.

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