The Sky Is Always Falling: Why All Economic News Is Bad

Better sit down and brace yourself. There's an economic trend in progress. It's bad, real bad. What trend? Makes no difference.

Let's take employment. US. ECONOMY ADDS 400,000 JOBS IN MONTH: REPORT SPURS FEARS, declaimed the *Washington Post* last February. Some economic naif might consider job growth to be good news. To the cognoscenti, though, it was a frightening omen: high employment might inspire the Federal Reserve to raise interest rates, the *Post* worried. In March, as unemployment fell to its lowest level since the early 1970s, the *Post* grumped that the Fed would surely have to raise rates now, "since its efforts so far have done little to slow the economy." Talk about a record of shame-failure to slow the economy! CBS, reporting the record employment, warned, "Things may not be as rosy as they seem because low joblessness might inspire workers to expect higher wages. You probably thought higher wages for workers was a good thing. Novice! Of course, later when employment expansion slowed somewhat, that was bad too: APRIL JOB GROWTH EASED DECISIVELY, STIRRING CONCERN, the *New York Times* warned.

Let's take the trade deficit. Last year it declined by $43 billion, the first drop since 1980. Remember how really, really bad a growing trade deficit was supposed to be? Well, a shrinking deficit is bad too. "Analysts said [improved] exports … would be likely to intensify pressure at the Federal Reserve to continue measures to curb rising inflation," the *Times* groaned. Let's take the dollar. Remember all those stories of the early 1980s about how really, really, really bad it was that the dollar was so high? Well, more recently, until the past few months, the dollar sank. That also was really, really, really bad. STOCKS, BONDS AND DOLLAR SLUMP, the *Wall Street Journal* moaned in February, "Investors fear of a shaky dollar [is] clearly evident," the story said. "Growing doubts that the Bush administration can solve the nation's budget deficit … threatens the dollar's stability, which in turn drives foreign investors away from US. financial markets." If you'd been reading all those stories about how really, really bad it is that foreigners are investing so heavily in America, perhaps your consciousness will be raised by the revelation that it's really, really bad that they may stop.

Then through 1989 the dollar rebounded nicely, rising 19 percent against the yen. At long last, good news? Amateur! CONCERN OVER STRONG DOLLAR HELPS INDUSTRIALS TO 15-POINT DECLINE, the *Journal* headlined. "Investors are worried about the harmful effects of the stronger dollar" because it would depress the earnings of multinational companies with overseas operations generating profits in other currencies. The *Times* echoed this apprehension with a front-page story, STRONG DOLLAR MAY CUT PRICES BUT LOWERS PROFITS AS WELL. "Surprisingly rapid [dollar gains] raise concerns about the ability of the U. S. and its economic allies to maintain stability in the $400 billion foreign exchange markets," the article said. It's bad that a government that can't drive down the value of its own currency? Should we envy those Eastern bloc nations that have never had this problem?

Remember when the papers were full of laments that high housing prices were freezing out first-time buyers? Now that the housing market is stalling, there are woeful tales of young homeowners unable to trade up because they can't realize the big profits they were "counting on." Remember when it was really, truly, incredibly bad that Japan's Ministry of International Trade and Industry was so potent? PROBLEMS OF THE MINISTRY THAT

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MASTERMINDED JAPAN'S RISE MAY BE BAD NEWS FOR AMERICA, a recent *Times* headline disclosed. Seems that Japanese companies are growing sufficiently confident to act independent of government hand-holding, which according to the story will make them even more awesome competitors — though this is how U.S. companies already behave, and the bad-news line is that it puts our guys at a disadvantage against MITI-supervised outfits.

You may recall that during the 1970s high oil prices were considered less than optimal. Now that prices are down, that's a crisis too. This February the *Times* lamented in a banner story that the price of oil has "slumped" bad, because it makes domestic oil exploration unprofitable compared with buying petroleum from foreign suppliers with lower costs. Though when oil prices poked up after the Exxon Valdez, that was bad too. COFFEE PRICES AT 8-YEAR LOW AFTER BRAZIL IS SPARED FROST, the *Times* recently noted. Should we raise our mugs in a toast? Not at all. The *Times* sympathized with "a battered market" upset because "an expected freeze in the Brazilian coffee fields had not materialized."

Throughout 1989 a furious contest of doom has swirled around whether the economy should be interpreted as heading toward a recession, runaway inflation, or a "soft landing" combining moderate reductions in growth with moderate inflation. The soft landing is what everyone wants, but rooting for it involves cheering signs of a slump, leading to some bizarre analysis. "Investors, worried by the prospect of continued strong growth … reacted negatively" to a batch of favorable numbers, the *Post* reported in March. "[The] report did little to confirm widespread speculations that the economy is slowing," the *Journal* complained in April about some employment statistics. By June the *Journal* was warning, SOFT LANDING MAY BE THREATENED BY CONSUMERS, who mischievously continued to make and spend money against economists' wishes.

STOCKS FALL SHARPLY AS INFLATION FEARS RISE, the *Post* headline declared on March 18. Four days later the same paper reported that "inflation fears that had gripped the nation's financial markets subsided yesterday." The very next day they were back, embodied in a March 23 *Times* article, FEAR MOUNTS THAT INFLATION THREATENS WORLD ECONOMY. That was on page one of the business section. On page 16 a different article stated, "The fact that the Federal Reserve has for the time being seemed to dampen inflation fears came as a surprise to some analysts." Possibly the ones 'who read the story on page one.

By April another front-page *Times* article on menacing inflation began by quoting an economist as saying, "It's clear that we have escalated to a higher inflation plane." In early July the *Times* shifted ground: RECESSION FEARS GROWING. "With every day bringing new evidence of economic slowdown, the danger of recession has abruptly replaced inflation as the chief threat to the economy in the minds of many economists and even at the Federal Reserve," a story warned. On the day this story was published the annualized inflation rate remained approximately where it had been during the winter inflation-scare stories, and most statistics indicated the economy continued to grow. STOCK NOSE DIVE ON RECESSION FEARS, the *Journal* chimed in: "Analysts said they are detecting a fundamental shift in attitude among stock investors who since late last year had greeted signs of a slowing economy with big stock market rallies." The *Post* was having none of it ECONOMISTS SEE LITTLE CHANCE OF SEVERE RECESSION, the paper declared two days after the *Times* had drawn the opposite conclusion, by the presumably ore rigorous technique of looking directly into economists' minds.

Then the impossible happened: June economic indicators seemed to announce precisely what everybody had been calling for, a soft landing. Released on July 14, the figures showed the Producer Price Index declining for the first time in 18 months, suggesting moderation of inflation-with GNP growth remaining positive but slowing, suggesting a controlled cooling off. Good tidings at last? PRODUCER PRICES FELL LAST MONTH BUT NEWS NOT AS GOOD AS IT SEEMS, ECONOMISTS SAY, the Times pouted. "On the surface," the Post joined in, "the price news was even better than most analysts expected. But … June data may be read as less reassuring." This report followed up with some blather about "an unusual 8 percent jump in ship prices" and laments that though mere energy and food costs had fallen, cigarette prices had gone up.

The Journal went furthest JUNE STATISTICS HAVE AN UGLY SIDE, BRINGING INDICATORS OF STAGFLATION. Exactly what the *Journal* had been pleading for all winter slowed growth was suddenly bad because it might be combined with higher inflation after all. It happens that the June statistics did not show increasing inflation. But torture numbers and they'll confess to anything. "The data, looked at from a slightly different angle," the *Journal* reproved — that is, from upside down — "display an ominous side. The core rate of inflation, the Producer Price Index minus its volatile food and energy components, is accelerating." In other words, if you subtract whatever numbers are going down, the remainder are going up. During the winter, when energy prices were accelerating, no major news organization told its audience, "Well,' if you discount for these volatile energy prices, there's no inflation problem."

One force at play in these follies is, of course, the simple desire for bad news. The sentiment that disaster is a great story while normalcy is boring animates not just the media but Congress, where congressional hearings and members' statements enthusiastically embrace that day's sky-is-falling economic line.

The fact that such a line is always available reflects a central truth about economics: almost any economic development is both good and bad-good in some ways, bad in others. An expanding economy reduces unemployment, but at some point risks inflation. A strong dollar makes consumer goods cheaper (reducing inflation), but makes American products less competitive. Not only does a change in one direction in any economic variable-interest rates, commodity prices, etc. create its own pros and cons. It also creates the possibility that policy-makers will throw the machine into reverse, producing exactly the opposite pros and cons. (Too-vigorous growth, for example, will lead the Fed to tighten and risk recession.)

If you're determined to concentrate on the cons, there is always a full panoply to choose from. On the other hand, relentless emphasis on the good news in any set of economic statistics — the general approach of whoever happens to be in the White House — can be just as fatuous as relentless emphasis on the bad news, and somewhat more dangerous. It's true that perhaps 95 percent of economic doomsday edicts turn on constructions like "could lead to," "might cause," "analysts warned of possible" (after all, most of the hard economic news has been good for nigh on half a century now). But sometimes it makes sense to risk today's good news to avoid tomorrow's bad news. That unpleasant but necessary job is generally left to the Federal Reserve Board.

However, Fed worship is an additional factor that distinguishes economic coverage from the normal journalists' preference for bad news. The Fed is a big, impressive, mysterious organization with power and the freedom to act, increasingly rare in Washington. A large fraction of economic gloom stories turns on speculation that this trend or that may cause the Fed to move interest rates this way or the other.

For journalists the Fed provides that useful device, the narrative. Network editors like to imagine that Washington is a sort of master control room of the type found in James Bond movies, where awesomely powerful figures sit before huge panels and radar screens, turning dials that control the course of human events. Few Washington reporters, however sophisticated, can avoid resorting to that sort of imagery every now and then. Thus the president, for example, is sometimes made to appear in control of foreign affairs.

But when it comes to economics, who's the mad genius? Presidents from Truman to Bush have seemed perpetually baffled by the course of events: their predictions forever off the mark, their attempts at control summed up by Gerald Ford's WIN button. Officials of the Council of Economic Advisers and similar organizations continuously contradict themselves. A new economic breeze blows through the halls of Congress on an almost daily basis. Only the Fed can be made to seem "in charge" of the economy. Stories can focus endlessly on whether the Fed will "act," and if so, how. Fed actions also offer a simple, easy focus in public appearances by Chairman Alan Greenspan before congressional committees.

It is, however, the nature of the economy to frustrate those programmed to look for discrete connections of cause and effect. Recently the *Post* ran a goofy set of "near consensus of economists" charts purporting to forecast down to fractions of percentage points where inflation and growth would be in 1990. At a time when economists can't even agree on something so basic as whether the economy is expanding or contracting, declaring that annualized CPI increases will be exactly 4.6 percent in the fourth quarter 1990 is about as useful as predicting the final score of the 1990 Super Bowl will be 27-20. And about as likely to be correct. Stock market coverage follows the same pattern. STOCKS OFF SLIGHTLY AFTER DRIFTING AIMLESSLY, a *Post* headline from February, nicely captures the mindset that believes the direction of stock prices ought to have some purpose, dammit, and not just drift aimlessly" like an irresponsible teenager.

But if the general propensity is to find the cloud for every silver lining, an occasional bizarre shaft of sunlight will pierce the gloom. My nominee for economic headline of 1989 (so far) comes from the *New York Times*: ISRAELIS VIEW A BATTERED ECONOMY AS MOTIVATION FOR A PEACE EFFORT. Seen in that light, may all the world's nations be blessed with economic collapse.