

ANNOUNCER: The Kalb Report is funded by a grant from the Ethics and Excellence in Journalism Foundation.

From the National Press Club in Washington, D.C., this is The Kalb Report with Marvin Kalb.

MARVIN KALB: Hello and welcome to the National Press Club and to another edition of the Kalb Report. I'm Marvin Kalb. And our subject is the business of business reporting. I think we can all agree that whether we call it a recession or a depression, we have all come upon some very hard economic times. Jobs have been lost. Industrial productivity has crated. Homes have been foreclosed, and a sense of deep uncertainty has enveloped the American people.

They're wondering, "What's next? When do we hit rock bottom? When do we start to rebound?" Journalists are not economists, many of them anyway. But they are being asked to answer these questions and many others. Maybe that's unfair, but are they answering the questions? Are they equipped to provide the answers? Have they, in fact, done a good job?

I've invited four highly regarded business reporters to join me and to help us understand the role of journalism in this economic crisis. To my left (that is a geographic designation only) Ali Velshi who is CNN's chief business correspondent, host of a weekend TV broadcast called *Your Money*, and a weekly call-in radio program called *The Ali Velshi Show*. He appears in addition on many CNN programs and is the author of a new and timely book called *Give Me My Money Back: Your Guide to Beating the Financial Crisis*.

To my right, Steve Pearlstein, a Pulitzer Prize-winning business columnist for *The Washington Post*, where he has labored since 1988. He's been a journalist since 1973 ever since his graduation from Trinity College, where he was editor of the school newspaper. He then worked for a number of newspapers in New England, and also for WGBH, the PBS station in Boston, all that before joining *The Post*.

To my immediate left, Diana Henriques, a senior financial writer for *The New York Times*, where she has worked since 1989. She has received the George Polk Award for military reporting, the Goldsmith Prize for investigative reporting, and the Worth Bingham Prize. And she's also a finalist for a Pulitzer in 2005. She's written three books: *The Machinery of Greed*, *Fidelity's World*, and *The White Sharks of Wall Street*. And she is a Phi Beta Kappa graduate of the George Washington University.

Finally, to my immediate right, Alexis Glick who is vice president of business news at the Fox Business Network. And she anchors a program called "Money For Breakfast" which means she's one of those reporters who gets up very early in the morning, which she did, by the way, before joining Fox when she worked at NBC for the *Today* program. She was also senior trading correspondent for CNBC. And before that, she was actually in the business of business herself, working for Morgan Stanley where she headed the New York Stock Exchange floor operations. All I can say after that is, "Wow."

So let me start with what may be considered a very obvious question. The economic meltdown/recession/depression, whatever we want to call it, has affected every business, including the business of journalism. Hundreds of reporters have been laid off. Bureaus around the country are being closed. Has the quality of journalism in general been adversely affected? And in a more limited sense, the coverage of this economic crisis, has it also been adversely affected?

And let me quickly say that Charlie Gasparino of CNBC put it very bluntly when he said, "We all failed." Diana Henriques, what is your judgment on journalism and its working covering this crisis?

DIANA HENRIQUES: Well, I dispute that we all failed. I think that's unfair. I can enumerate, in fact. For speeches, I have gone back in our archives and enumerated a number of warning articles that we ran going back five, six, even seven years. There's not a major newspaper in this country that hasn't reported on subprime loans and foreclosure frauds in their local area. The issues of runaway debt were being addressed.

You know, there's some crises in this country's history that I think you can fairly say the business media took its eye off the ball. But I don't think this is one of them, frankly.

MARVIN KALB: Why is it then that we all have become aware of it only in recent months, that we all became aware of this large economic crisis, oh, let us say back in September/October of 1908 (sic)? Steve?

STEVE PEARLSTEIN: Well, I think Diana is right. There was information out there. It requires people who have the interest in the subject, for one thing, to focus on it. And it requires you to make a judgment. At any point in time where we would report things that might seem out of balance or not reasonable, there was always someone on the other side. And, you know, for the most part, journalists, not columnists like myself, but most other journalists still feel an obligation to report both sides. And there were people from Wall Street or economists or administration people, people from the industry saying, "Well, no, we see it a different way. The world has changed." So the old rules don't apply. Or, we look at the statistics now, and they're all good. So why are you complaining?

And they were all out there, too. So the information [simultaneous conversation] was there--

MARVIN KALB: But still, you were quoted as saying, "The business press tends to get in with the people they cover. They get in the bubble that is Wall Street, just like political reporters get in the bubble that is The White House. And they don't see the obvious things."

STEVE PEARLSTEIN: That's true.

MARVIN KALB: So the obvious thing in this case would be economic meltdown.

STEVE PEARLSTEIN: Right.

MARVIN KALB: Now both of you were saying that you did see this.

STEVE PEARLSTEIN: Well, some of us did.

MARVIN KALB: Some of you did.

STEVE PEARLSTEIN: Yes.

MARVIN KALB: Why is it that if some of you did, the word didn't get out?

STEVE PEARLSTEIN: Well--

DIANA HENRIQUES: I have a thesis about that, if I could. I think part of the problem is the fixation that the nation has developed on the stock market as the only meaningful barometer of the nation's financial health. Okay, maybe the media bears some responsibility for that. It's such a neat little fever chart to show all the time. But the fact is, the credit markets were melting down

beginning in August of 2007. And if you were reading any respectable business newspaper and following serious business journalism, you knew that.

You knew that there serious problems with bonds and credits and mortgages that were developing in the Fall of 2007. It wasn't until the Fall of 2008 that it began to hit the stock market. And that's when too many Americans suddenly woke up and said, "My goodness. We have a crisis."

We can't force people to read about the bond market. I understand that it may take a little training and it'll take a little discipline. But the bond market meltdown, the bond market crash of 2007 was where this meltdown started. It was covered. Not everybody paid attention to it.

ALEXIS GLICK: That's part of the problem, though, I think, is that in this case in particular, this is a very, very complicated story. You know, one of the things I think in the press that we are consistently wrestling with is that the audience is smarter than we give them credit for.

But let's also be perfectly honest about this scenario. We're talking about the types of instruments that even the executives and boards of directors of corporations today don't still fully understand. And so I think when we look back, if we could be revisionists, we would look back and say, "Well, what could we specifically have done differently?" The question is, could we have explained it better? Was there a way to break it down in layman's terms--

MARVIN KALB: Well, could you have explained it better?

ALEXIS GLICK: You know, I--

MARVIN KALB: Did you understand it yourself to explain it?

ALEXIS GLICK: To be perfectly honest with you, there are things that I understand and there are things that I don't understand. I worked in what's called mortgage backed securities for Bear Stearns in the height of the mortgage backed security growth back in the early to mid-'90s. And it's fascinating to see how much more-- It was complicated when I was working in these instruments back in '93.

To see how much more complicated they became over the course of a decade, looking back now, it's sort of hard to believe that we've come to this place. But that's part of what we now have to deconstruct. Why did this happen? What was going on? Where were the regulators? And how can we make it make sense? I still think they don't know how to make sense of it.

MARVIN KALB: That could very well be. Steve?

STEVE PEARLSTEIN: Part of the problem, Marvin, that is very difficult is that things that are irrational and crazy and out of balance go on for a lot longer than you think that they can and that they should. And so in 2006, you say, you know, "Prices are getting awful high." You know, "The amount of leverage is getting awful high. And everyone's making a lot of money." And you say, "Well, it's all going to come crashing down some time." Well, then six months goes by. Does it come crashing down? Fact, it keeps going up. And a year goes by, and it doesn't come crashing down, and it keeps going up. And pretty soon, people look at you and they say, you know, "Maybe you're wrong," or, "Maybe you're nuts."

And then just when you're ready to give up, that's when it happens. And so one of the problems is that the system has a lot of momentum behind it. And there's a lot of self-fulfilling quality to it.

There's a lot of self-reinforcing quality to it. And it is very hard to fight the tape, so to speak, if you're a journalist.

MARVIN KALB: Well, Ali Velshi, you're fighting the tape every day. And so I have two questions for you. First, you're all over CNN, probably because you're terrific--

ALI VELSHI: Thank you.

MARVIN KALB: --and that's why you're all over CNN. Is that the reason? Or is it because CNN can't afford to hire another business reporter?

[laughter]

ALI VELSHI: I'm actually on an internship. [laughter] It has come upon us in the last year that in addition to reporting the news, which we have to do, there is an amount of context that's required for business news. So I would say that the crisis that we are in, you can look at it as a hurricane that's somebody else's problem. Very interesting to watch hurricane coverage, even though it's got nothing to do with you, because there are things that are happening, and it's interesting, makes good pictures.

This financial hurricane, as it is, came upon us all. So the relevance of it, people may have been talking about it, as Diana and Steve have talked about, since, you know, 2007. But ultimately, wasn't your problem. The credit markets were not your problem. The collapse of the credit markets were not your problem. The mortgage backed securities and credit default swaps were not your problem. They [simultaneous conversation]--

MARVIN KALB: But you knew that there was a link.

ALI VELSHI: Right. And we even knew that the link was being felt. Because back in 2007, while you may have been looking at the credit situation, what we were seeing was slightly a weakening in housing prices. We started to see consumers spending less. Consumers are the biggest sign of this economy of any, because this economy, more than any, depends on all of you going out and buying stuff. It is our national therapy. It is our national pastime.

And very little has stopped consumers from buying things. So when you started to see home prices weakening, which happens (that's a cycle) but the consumer weakening, you had to know, this obviously isn't a hurricane somewhere else. There are storm clouds forming above us. And let's understand this, because this is not math. And this is not chemistry. And this is not science. It really is psychology, our entire economy.

And you started to see people feeling that something was wrong. They weren't sure. They didn't really want to believe it. The stock market kept on going up for another year. But things were wrong.

MARVIN KALB: Another question for you, because you're on the air so often. When do you get an opportunity to check a fact? And I ask that in all seriousness because if you're on the air all the time, you have very little time then to really go out, work the phones, use some shoe leather there, and try to find out. Well, how do you handle that problem?

ALI VELSHI: Well we, first of all, try and-- those of us who report at CNN, try to break up our day so that-- These days, I'm responsible for primetime programming, which means I get in substantially earlier than primetime and reading in. And then we try and hand off to whoever the next person is, a colleague of mine, who will be working mornings.

So first of all, we have teams that do things at different times. Then at various times during the day, we have journalists who are behind the scenes, our producers, our assignment editors, other reporters. And we're all kind of feeding into the same machinery. We're not all that competitive with each other, because we know we are entirely dependent. You can't learn this stuff anew every day. There's too much going on.

So when somebody interviews someone, or someone uses their shoe leather and gets in contact with someone, or somebody makes a phone call, we share that information with each other. The end goal has got to be threefold – one, reporting the story (that is always key for us) number two, providing context. And that is what has changed through this whole thing. Because the fact that so many people here are a younger audience, that's not a typical business news audience. We've had to create context for everybody across the board.

And number three, and most important, and something that we don't know whether it's-- we call it a recession or a depression or something else-- I've heard regression and repression and all sorts of words people are coining for this sort of thing. But ultimately, what is the tone that we use to deliver it? Because the four of us here have such great influence over a different number of readers, viewers, or listeners that we can cause them to behave a certain way if we're not responsible with that tone. So the tone is creating urgency that's necessary to let people know, this is a serious problem, but at the same time, not inciting panic.

MARVIN KALB: Alexis, do you feel that you at Fox have enough reporters at the Fox Business Network to cover this, as you were saying before yourself, this very complicated, evolving story?

ALEXIS GLICK: Yeah. I mean, it's interesting. Touching upon what Ali said is, one of the things that we find-- I mean, for example, I get on air on 7:00 AM. I'm on live from seven to ten. And then I'll be doing reports, just like I'll be doing every night until late into the evening. Is that, first of all, the amount of information that you have to digest in a short period of time is tremendous.

I mean, I, in the morning, have a stack of about a couple hundred pages of research, for not only all the guests, but all the pertinent articles that day. One of the things we are consistently aware of that scares me honestly is that when I go appear on any other Fox news show or any other Fox business show, I need to so meticulously make sure that I have done my homework. Because what occurred [simultaneous conversation]--

MARVIN KALB: When do you have the time?

ALEXIS GLICK: You're addicted to your electronic device, whether it's your BlackBerry or-- You know, I will have [simultaneous conversation]--

MARVIN KALB: But that only gives you a headline.

ALEXIS GLICK: Oh, no. My producers or assistants will send me multiple articles or multiple [simultaneous conversation] sound bites--

MARVIN KALB: You said 200 pages. When do you have time to read 200 pages?

ALEXIS GLICK: I'll read a couple hundred pages first thing in the morning, again, in the morning around 4:00. I'll [simultaneous conversation] read--

MARVIN KALB: ...(inaudible)

ALEXIS GLICK: No. Look, you have to learn how to read really fast and digest very quickly. Because we're in the type of news cycle right now that if you missed what was happening for one hour, you can make some very dangerous calls on any network. So you have to be very, very careful about what you're saying. And I think one of the things we've done is a lot of our journalists are people who came from those respective fields.

We have people who came from the energy community, people who worked on Wall Street for multiple years. We have attorneys, lawyers, you know, so that they understand practically speaking. David Brancaccio of PBS said that whenever business reporters cover a complicated business story, they turn to a key business source, they're likely to hear from that business source. Quote, David said, "Young man, you don't have an MBA like I do. Trust us. We went to business school," the suggestion being, "You should go to business school."

Well, I've checked on the four backgrounds here. None of you went to business school. You studied religion. I mean, maybe you have to be religious these days [simultaneous conversation]-

ALI VELSHI: That's right. I may be well prepared for this.

MARVIN KALB: But Steve [simultaneous conversation]--

STEVE PEARLSTEIN: Never took an economics course in my life. And we didn't have business courses when I [simultaneous conversation]--

MARVIN KALB: So this idea of having to have an MBA to be a very good economics journalist, not true?

STEVE PEARLSTEIN: No, that's--

MARVIN KALB: All right. So what is true? What is the kind of background that you ought to have?

STEVE PEARLSTEIN: You need to have an inquiring mind. You need to be like a sponge. You need to learn, ask good questions. And, you know, you learn by doing it. So when you start out, you're not maybe as good as you are ten years later. And you learn by making mistakes and by doing a lot and talking to a lot of people. I've been taught by some of the greatest economists in the world, by calling them up on the telephone and having long conversations with them or doing and visiting with them over a period of 20 years. And I've, you know, learned a lot. I've learned a lot -- enough to be able to explain things to people.

And the fact that I was not an economist actually makes me a better translator to people who are not economists, than people who have been schooled in economics. For one thing, people who have been schooled in economics have basically drunk the Kool-Aid. They believe all the things economists believe, which then sometimes they change their mind. And one of the ways we get them to change their mind is to ask somewhat dumb questions, which turn out to be, in the end of the day, pretty smart.

But I'd like to go back to something that you asked before about whether there is a danger of not checking things. And the answer is, there's very definitely such a danger. And it's not just a question of downsizing of newsrooms, although there has been some of that. The commitment of resources to this particular financial crisis is greater, though, than you've ever seen before in any previous financial crisis.

MARVIN KALB: I mean, it ought to be.

STEVE PEARLSTEIN: Well, it should be. But there is a point which is the speed. And we have had some stories recently which have become taken as true. For example, banks aren't doing any lending anymore. Actually, not true, just factually inaccurate. And yet it's been picked up in the conversation. And everyone now believes that banks have stopped lending.

Or we have this other fiction that, well, there were these bonuses, and they were paid for by the government's money. And there was \$18 billion of them, and they went to top executives. Well actually, not true. They didn't go to top executives. And, you know, you might want to learn a little more about that before getting outraged about it.

But we have seen examples of lack of checking on things that are easy to check on. And I think you've identified a problem. But this is a very fast moving story. And you don't want to get left behind. And you don't want to get criticized for not being tough on these issues. Just as you-- You know, you raised the question before -- why aren't you tougher on these guys? Well, there is a great tendency, a pressure on journalists to be tough on things like Wall Street bankers. Now, they deserve a lot of the toughness. But believe me, if you're perceived as being easy on them, it's not good for your reputation as a journalist.

MARVIN KALB: Diana, let me pick up one of the points that Steve just made about, for 20 years, checking with economists. How good are economists as a profession here, in terms of sourcing for business reporters?

DIANA HENRIQUES: I have some good friends who are economists, but they're not good sources. My personal theory is, if you're dealing with economists, you either have to know everything or nothing, in that you have to know it so well that you have the mastery to be able to translate it into average Americans English.

MARVIN KALB: Or to contradict what you're getting.

DIANA HENRIQUES: Or you have to know so little about it that you can keep demanding that they translate it into English that you can explain to America. But I think that the idea of mastery of your topic is both much harder today than it used to be and also much easier than it used to be.

I came of age when, if you wanted to learn about a corporation, a publicly traded corporation, you would hire yourself off to a securities and exchange commission public reading room which would be in one of six or eight cities around the country. And you would put in your little slip requesting the latest 10K or the latest 8Ks from General Electric. And then you'd sit and wait until some very nice people would bring little dollies along. And you would sit and read all these documents.

No, no, no, no, no. Now you just call-- We could call it up on somebody's cell phone right now and read all of those documents that it used to take me days and lots of money to get. So the playing field for information has flattened amazingly. So it is now possible for everybody to gather information very easily that you used to have to work very, very hard to get. So that's the good part about it being easier to stay informed.

But, as Alexis said, it's so much more complicated now; the things you need to learn about are so much more complicated. I am a believer in, you know, the self-taught. You know, I'm an autodidact to the core. But I do think nevertheless that to adequately prepare yourself for business journalism in the world going forward, you're going to need some discrete and specific skills that you better get. The days of standing there in the newsroom and saying, "Shucks, I just

don't do numbers," those are over, you know? Don't tell me that. You have to become fluent in the language of business. And you have to become fluent in the sources of business information. You just can't function otherwise.

ALI VELSHI: Regardless whether you're going to be a business journalist.

DIANA HENRIQUES: Absolutely.

ALI VELSHI: I mean, that's what we found at CNN. We are not an organization devoted to business coverage. But I don't know that there's a reporter or producer in the entire place in the last year that has not found themselves, not touching on a business story, but quite heavily involved in one. And--

MARVIN KALB: You think they know what a toxic asset is?

ALI VELSHI: I think that they have done a good job, as reporters tend to do, at reaching out to people who do know what certain things mean, and trying to learn. And there is the ability to learn. The danger is in the-- Steve, you talked about the speed. The danger is in when the BlackBerry goes off, and there's a wire story or an alert that says something that I couldn't figure out what it meant. I mean, I'd have to look it up and make some phone calls. And they want you on TV instantly, talking about it. And I'm saying, "I will get on TV as soon as I understand exactly what's going on." But we live in a world, whether it's blogs or the Internet [simultaneous conversation] or--

ALEXIS GLICK: Instant gratification.

ALI VELSHI: Right, you gotta get out there and say something. And, you know, people are forgiving in our instant TV world that the story develops over a few hours. But none of us ever want to be wrong right off the top.

MARVIN KALB: No, you don't want to be wrong. And I'm sure that gets to one of the things that we've been talking about now. I'm sure nobody wants to be wrong. But at the same time, I cannot help but believe that until last fall, 98% of the American people hadn't a clue as to how bad this economic crisis was going to be. You're disputing that by just the nod of your head.

DIANA HENRIQUES: Well, I am a little suspicious about it, yes, because the--

MARVIN KALB: Why did it come as such a huge surprise, almost a shock to the ex-President and the current President? Why weren't they--

[simultaneous conversation]

DIANA HENRIQUES: I'm not going to touch that one.

ALEXIS GLICK: I was going to say, I think it depends on where you live, if you think it became about this past fall or if it started a year before that. I think what makes this instance very unusual is that, there's probably every single person in this room has a family member or a friend who's either lost a job, has a home that's being foreclosed upon, or is behind in their bills.

And for many people in this country, that started well before last fall. And it's very interesting, I think, for the members of the Detroit Autoworkers, for the people who lived in the rust belt, when they saw what was happening to Wall Street last Fall, they say, "Well, it's about time. This has been happening to us for years."

I mean, if you look at the unemployment rate in Michigan, they were well ahead of where we are today.

MARVIN KALB: I want to pick up on that, but I just want to take a moment now to remind our radio and television audiences that this is The Kalb Report. I'm Marvin Kalb. And I'm discussing the business of business reporting with Ali Velshi of CNN, Diana Henriques of *The New York Times*, Alexis Glick of Fox Business Network, and Steve Pearlstein of *The Washington Post*.

But why is it that-- I mean, just continuing this point which I think is very interesting. What you're suggesting is that the people out there in Detroit and beyond knew all about this. And it's just-- what?-- we folks in Washington who didn't know anything [simultaneous conversation]--

ALI VELSHI: It was very, very irresponsible what the previous Administration did. They talked an economy up, which, again, this is an interesting point for debate because Presidents are not supposed to do an economy down. But they talked it up long enough that we didn't take evasive action early. So if you bury your head in the sand-- And the Federal Reserve was complicit in this. The indicators were out there for us non-economists. If you lived in the rust belt, if you lived in Ohio, you lived in Michigan, if you lived in Nevada, California, Arizona or Florida, you didn't see housing prices come-- Housing prices don't drop. People stop buying houses.

Retail sales don't disappear. People buy less. These were people's decisions that we were measuring. So it's not that the people didn't know. Somewhere around a kitchen table in America, someone decided they're not buying a house. Somewhere around a kitchen table in America, someone decided in 2007 at the end of the year that they weren't going to spend a little less on holiday spending. So we knew it was going on out there.

MARVIN KALB: 'We knew' meaning reporters knew [simultaneous conversation]--

ALI VELSHI: 'We' meaning the people making the decision, and anybody that can read the simplest of economic reports [simultaneous conversation]--

MARVIN KALB: No, but did the reporters know?

ALI VELSHI: Sure. Sure. We all knew. And [simultaneous conversation] the Administration knew--

MARVIN KALB: And you were on the air with that?

ALI VELSHI: Yes. We would press the Administration to say, "Tell us something is wrong." And they-- "No, it's great. It's going to be the strongest economy ever" [simultaneous conversation]--

MARVIN KALB: So who's at fault here? Is it the Administration?

ALI VELSHI: I think did we not do enough to push them? I don't know. The Administration is definitely at fault in not acknowledging this. Because whether you think about stimulus or whatever you end up doing, ultimately, your ability as an Administration to affect an economy depends on what you do and when you do it. So one economist that I've spoken to says it's like pushing a kid on a swing in a park. If the kid's here when you push him, you set sail. If a kid's over here and you push, nothing happens.

The Administration had opportunities to do things, that because they were so worried about creating a bad impression, actually worrying Americans into not spending, they didn't do it until it

was too late. We all knew it was going to be a bad economy. I will challenge that nobody knew it was going to be as bad as it was come Fall. I mean [simultaneous conversation] fell off a cliff--

ALEXIS GLICK: ...(inaudible) predicted the fourth and fifth largest investment bank in this country [simultaneous conversation]--

ALI VELSHI: That fell off a cliff--

ALEXIS GLICK: --would go out of business--

MARVIN KALB: And this is one of the--

ALEXIS GLICK: I mean, you couldn't have predicted that.

MARVIN KALB: Well, one of the things that has come up is that two characteristics of the current economic meltdown, one, the speed with which it happened, I'm told that that is a very important characteristic. And the other is the breadth, how it affected every part, I said before, about even journalism being affected by this, although journalism had its problems even before last Fall. But number one, Steve, do you believe that to be true, those two points?

STEVE PEARLSTEIN: Well, I think two things that are contradictory are true, that it took a long time for it to happen, longer than it should have, because it was sort of, like, the Wile E. Coyote, you know, goes running off the cliff, and kept going and kept going and kept going, and then all of a sudden, looked down, and then [noise]. That's the dynamic, because there's so much built in momentum, that it appears that that which should be happening isn't. And it causes you to let down your guard. And just when you do, that's when it all comes crashing.

But a propos to what Ali said, I think there's another important thing that has happened this time that maybe wasn't always the case, is that we had for 20 years the growth in this belief that markets knew everything, that markets incorporated all the information that you had to know, and that the market spoke the truth always. And there was this blind faith in the efficiency of the markets, which even now, Alan Greenspan, who was the high priest of that belief, has come to acknowledge was inappropriate.

And because the markets were speaking so strongly – the foreclosures were at their lowest rate in history, corporate defaults were at their lowest rate in history – there was so much that was going good that the markets said the market data was so good. And markets are perfect, right? Markets are efficient. And there was this blind belief in markets that I think was part of the reason that we kidded ourselves for so long.

MARVIN KALB: When you say 'we kidded ourselves' are you including reporters in there?

STEVE PEARLSTEIN: Well, I think everyone got caught up in it. Some of us got caught up in it a little less than others. I don't want to-- you know? But, you know, I can tell you that I spent many years criticizing Alan Greenspan, many years. And it did not make me a particularly popular fellow. And nobody thought that I was really smart and he was dumb. I just want you to know that. Nobody came to that conclusion for a long time.

MARVIN KALB: Diana, tell us, is there a way of knowing when we're going to hit rock bottom?

DIANA HENRIQUES: Mmm. I would rather defer to the folks who talk to more economists than I do. History says that we won't know. We'll know about six to eight months after we've hit it and started to bounce, if you look at history. And as we're trying to figure out where we're headed, a

good dose of financial history I think will be helpful to all of us. I'm certainly starting to reference it more in the writing I do. I think maybe if we had been more attuned to the stories of the '20s and the-- There was a great housing bust in Florida; the great Florida land crisis hit in 1925. Nobody paid much attention to it because, hey, stocks were still booming, right?

But if you had been paying attention to it-- By the way, that's where Charlie Ponzi went after he ran his Ponzi scheme in Boston. He was deported, came back, and sold Florida land. But the history of these market cycles can be instructive as we're trying to break through that fog of, "Everything's okay, everything's okay, what could go wrong," if you can draw historic parallels to, "Well, it looks a lot like back then." Then you might be able to get some people's attention.

And that will tell us, looking at historic parallels, which is the only way I can answer your question, will tell me that we never know when we hit bottom. After the '29 crash, everybody thought that we must have hit bottom then. And things rebounded into 1930, and then of course began a slow slide that continued well into the early '30s and wiped out 90% of the stock market. So just when people thought, "Oh, that's over," it got worse.

MARVIN KALB: --kept right on going and got worse. Ali, answer this question for me. The current economic crisis is said to have many unprecedented characteristics.

ALI VELSHI: Right.

MARVIN KALB: Is this not a time to take a look at the entire American economic system?

ALI VELSHI: Mm-hmm.

MARVIN KALB: In other words, I'm old enough to think back into the 20th Century. Communism was the big deal for a large part of the 20th Century and Russia led the way. There was a new way of doing, of structuring your economy. And it was a disaster. A disaster. The Russian people are still working their way out of [simultaneous conversation]. Do you feel, knowing what you know about the economy now, that it might be the time to take a whole new look at what the American economy ought to look like?

ALI VELSHI: I think there are a few key flaws that we can identify. First of all, is our regulatory system – so we have a regulatory system. We have government regulators. Let's say we have a regulatory system that's like a highway system that is built for cars that go 25 miles per hour in a world where cars go a hundred miles an hour. It's not that it's fundamentally wrong. It just does not deal with what we have now. So we need to fix that. We have more than a dozen agencies.

This is like the national security system before 9/11. Everybody had a piece of information, that if they put them together, might have figured out that something bad was going on. We have the same thing in our financial regulatory system. So we fix that.

MARVIN KALB: That's sort of modernizing--

ALI VELSHI: Modernize it. Make it three agencies, two agencies, not fourteen. Number two, the American dream made you feel that it was always going to be better and always going to be more. And, by the way, that better and more was available through credit. I think to bring it to its most basic terms, we need a society where you save for two years to buy a TV, not buy a TV and pay for it for two years.

Those are the two things that need to change. Otherwise, we still could have entrepreneurship. We can still build businesses. Government can still encourage people to invest through lower

taxes or incentives. We do need to realize we're in very tough times, and government will take a role that some people think is intrusive or socialist. But we'll get through that, too. And we'll get to the other side with an economy that is fundamentally still healthy. But we need to think of regulation. And a lot of companies think of regulation as rules to slow them down. I don't think that's the way we need to think of regulation. We think of regulation as things to keep people safe. And we think of the way we spend money as maybe having it first, and prioritizing what we spend.

We can still be very healthy consumers. We will buy a little bit less. But we were buying a little too much.

MARVIN KALB: Alexis, tell me first of all what your take is on that general theme. And then I have a follow-up for you.

ALEXIS GLICK: It's interesting. Sheila Bair, who's the FDIC chair, who I think is one of the people who stood out among the crowd-- And she's written two children's books. And one of the children's books that she's written about is about two brothers. One's a saver and one's a spender. And it's a story about compound interest. And I jokingly said to the Obama Administration, I said, "Listen -- I want to sit down with the President again." I interviewed him several months ago. And I said, "I just want to check and see if he's reading that book to the girls. Because I just want to make sure that they understand what compound interest is. Because I think we all forgot what it is."

But look -- I think the bottom line is, there are some vital lessons to be learned. And what we saw in the two longest recessions post-World War II is that the savings rate in this country went to double digits, fourteen percent, sometimes twelve percent, dependent on, if you look at the mid-'70s, early, mid-'70s, in the early to mid-'80s. The savings rate in this country right now is just 3.8%. And at one point last year, we had a negative savings rate in this country.

So I couldn't agree more with Ali that we've got to change the way we look at debt. We've got to change the way we look at how we spend. We've become so accustomed in this country to living off of credit cards, using it in a taxi, using it to buy everyday food. I mean, the other day, I put my American Express card in my desk and said, "That's it. I'm going to learn to live off of cash and change my habits." And what you do is, it forces you to think about how much money you're spending every day.

And if you look at economies, whether it's in Latin America, overseas in Asia, it's unthinkable for them to go buy a home and borrow 80% of the value of that home.

MARVIN KALB: You think, Steve, that the American-- Excuse me. Do you think, Steve, the American people are prepared to do that, will do that, are equipped to do that?

STEVE PEARLSTEIN: I think that they're coming around to it, Marvin. I'll just give you-- I'm going to give you some rough-- I'm more of an economics writer than a business writer, so it's a little different than my panelists-- other panelists. But as a matter of rough approximation, we were probably living six percent beyond our means as a country for many years.

MARVIN KALB: Six--

STEVE PEARLSTEIN: Six percent. So for every dollar we produced, we were spending a dollar six, okay? But really you shouldn't be spending everything you make. You should really be saving some, right? So we have to go from basically a dollar six spending to ninety-six spending, okay?

Well, again, this is just rough approximation. We basically have to take ten percent out of our consumption. And if we have to take ten percent out of our consumption-- and here's the bottom line-- we have to take out ten percent of our production. Because we had an economy that was geared to produce for a hundred and six.

Now, when I say we had an economy, we had a world economy that was geared to produce this. So it's a little more complicated. You can't speak about 'we' and just mean The United States anymore. But order of magnitude, I think you can understand how much of an adjustment we have to have here. It is not just a question of us putting the card in the drawer.

The fact is that we had an auto industry, domestic auto industry in this country that was producing 17 million cars a year. Now we're going to go to 14. Okay? We had 15% too many hotel rooms. We have 15% too much office space.

MARVIN KALB: Doesn't that suggest that the economy itself is going to have to constrict--

STEVE PEARLSTEIN: You betcha.

MARVIN KALB: --and then you go on the downside in terms of productivity.

STEVE PEARLSTEIN: No, well, productivity-- Careful about that word 'productivity'. But what recessions are always about are getting things right in balance, supply and demand, getting prices right, in balance. Only things were so imbalanced for so long, and this was such a big country and we were living so far beyond our means for so long, that this adjustment is huge. And so you asked the question of, how do you know when you get to the bottom? Well, you know when you start to see that people are not cutting capacity the way they are now, almost daily, tens and twenty thousand per company. I mean, we're talking major adjustments here. We've only just begin (sic) the economic adjustment that goes along with the financial crisis.

The financial crisis was the beginning of this. The big thing, the thing that all concerns us-- because most of us aren't in finance-- is that the economy is going to have to shrink, not just not grow, shrink. And you've got to do that over a two- or three-year period. And it's going to be very painful.

MARVIN KALB: Diana, we have been talking only about the American economy. Is that the right way to address the problem? It's all a world economy now, right?

DIANA HENRIQUES: Well, yes, as Steve says, I mean, one of the salient characteristics of the past ten to fifteen years has been that national borders just vanished. They just melted away with respect to capital. You can wire money around the world in a nanosecond. And any time new regulations were proposed, any time, you know, cautionary flags were waved-- You have the yellow flag, goes out on the racetrack, someone, I guarantee you, would stand up and say, "Oh, you can't do that or the U.S. economy will be uncompetitive, vis-à-vis Europe," or vis-à-vis Asia. "If we tighten our regulation here, all that money's just going to pour over into some other marketplace."

And, you know, I exaggerate only slightly. But it was certainly possible that that could happen. The ease with which capital flowed, the ease with which goods could be transported and could be purchased has radically changed. And I don't think that genie gets back in the bottle. I don't think you can un-write that DNA code. The world has become, at least a global bank. Whether it's become a global market for tangible goods, for, you know, washing machines and cars and T-shirts, that remains to be seen. The problems with protectionism, the potential for trade barriers

are going to be intensified as the economy worsens. But it's going to be very, very hard to draw any trade barriers that'll keep the money here.

MARVIN KALB: What I asked Ali about when we hit rock bottom, could it be that another part of the world hits rock bottom first, and then that spills over and affects the American economy? Or is it the other way around because we're the [simultaneous conversation]--

ALI VELSHI: Yeah, I think what we've seen in the last year is, a), how interconnected we are, but b), we still led the world into this one. We are most likely [simultaneous conversation]--

MARVIN KALB: Can we lead the world out of it?

ALI VELSHI: Most likely. The issue here is that-- Steve, you talk about assets, how a recession fixes prices. It gets them into balance. And we're talking, in many cases, about financial assets, about things that-- a financial environment that became so overheated that people were buying things in the financial world that they didn't fully understand, and they were paying a great deal of money for them. And that's because we somehow-- It all started with these mortgages, where it used to be that a bank made money off of your mortgage. Well, what we found out is that not just a bank, but several different organizations would keep selling that mortgage and taking a bit of it and taking a bit of it, until, in the end, there might have been five or six different organizations, and your mortgage was one of hundreds of thousands, all lumped together. Was all good until somebody stopped paying their mortgage, till their interest rates went up and it was a house of cards.

The house of cards is back on us to rebuild. So we have got to find a way to create wealth again that is sustainable. The issue is, we were running an unsustainable model for awhile, but nobody really cared, because everybody was getting rich. And it all came apart. So we're going to have to figure this out. It's not a matter of letting this just happen. We're going to have to figure out, how do you create wealth for people that creates an incentive for them to start businesses and invent products and do things so that they don't feel like they're working just for their hourly wage and don't create more than they're able to. That's what we're going to have to struggle to rebuild in the next couple of years. And we're going to have to do it with a lot less credit than was available five or ten years ago.

ALEXIS GLICK: You know, it's interesting. I just came back from the World Economic Forum in Davos. And I was saying, we were sitting at the table, talking a little bit about this. To be perfectly honest with you, it was completely eye-opening, watching not only the Russian prime minister speak, but the likes of the premier from China and several members of the Middle East countries, or the Turkish prime minister, Israeli president.

First of all, a), the rhetoric with The United States is probably as negative as it has ever been. They believe we're the root cause of the problem, and yet they very much depend on us to figure out how to get out of the problem. The biggest concern I had walking away from Davos is, number one, the rhetoric was incredibly gloomy about 2009. Almost every economist, almost every CEO, almost every head of state had completely written off all of 2009.

But the fascinating thing to me was, we have a tendency here in The United States to be exceptionally myopic about what is happening in our neighborhood, to our financial system. But this is happening to countries around the globe. Speaking to the governor of the Bank of Israel, they have the lowest interest rates that they've ever had in history. You talk to countries in the Middle East, whatever you're talking to Bahrain, they have the exact same issues. They're facing Federal budget deficits.

I mean, this isn't just something going on, The United States. And the thing we have to get our hands around, which scares me greatly when you talk about protectionism, is this can't be just about us. We are so interconnected. And if we don't figure out how to work together, the political risks out of an economic unstable environment, could be incredibly dangerous for the next couple years.

MARVIN KALB: Speaking of dangerous things, Bernie Madoff, there's a dangerous thing for you. Diana, you've been working on this story now for a long time, writing a book on it. The question that sort of runs through my mind, among many others about Madoff is, could we be seeing in this large economic meltdown a national version of a Madoff Ponzi scheme?

DIANA HENRIQUES: Well, I can't tell you how many emails I got from the first day of this story and continue to get from people suggesting exactly that, you know, that the subprime mortgage mess was just Madoff writ large, that the mortgage backed securities were just Madoff on steroids.

MARVIN KALB: I thought I was asking an original question.

DIANA HENRIQUES: No, no, no. You usually do, but on that one, the readers are out there way ahead of us. And I think what that tells us is that, in many ways, Madoff is the face of a lot of the trends that we are waking up to. He's the name of our hangover, you know? He's part of the picture we see when we look in the mirror over these last several years. Certainly that situation benefited from the deregulation, un-regulation, lack of enforcement of existing regulations that were part and parcel of how we got here.

Certainly the mystique around the financial geniuses, the Warren Buffetts, the George Soros, who know far more than we could ever know-- And maybe we don't understand exactly what they're talking about, but they're really geniuses because they're really rich. So they must be really geniuses. So that whole mystique that developed around the rich genius perfectly is captured in this story.

And interestingly enough, he too went global. I mean, the interesting thing about the Madoff scheme, it's probably the world's first global Ponzi scheme. And it was possible because money had gone global, too. And when money goes global, fraud can go global. So many of the characteristics that our, I think, historians will look back and say have dominated this period of our history are rather perfectly captured in Bernie Madoff, which is frankly why I find him so fascinating, but I think also why he has hit such a nerve. People who have not lost a penny to Bernie Madoff, who don't know anybody who lost a penny to Bernie Madoff are ready to take pitchforks and torches out at night to protect one character, one Wall Street financier.

ALI VELSHI: But the scandal now has a name. The whole issue of everything that happened has a name. And the danger we have is associating too much with it. In other words, mortgage backed securities were not illegal. Very little of what happened to get us into this crisis was illegal. Some of it might have been better regulated. And we need to clarify that. But we don't want to shut down all of business as we know it. Because along with that, there comes a great deal of ingenuity. And there are really creative people out there who do create value out of something that there wasn't value before.

And I use eBay as a perfect example of that. You know, it's created a lot of value for people where they would have had to have done that work themselves. That's creative on the genius side.

DIANA HENRIQUES: One of the things that worries me-- and I'll preempt your options here with a question for the other panelists. In the aftermath of previous great financial convulsions in this country, people got so scared that they engaged in behavior for decades that was not healthy, that was not healthy for them at the individual level financially, and it wasn't healthy for the overall economy. After the '29 crash, you could not give a share of stock away in this country until well into the 1950s. Grass was growing on Wall Street during those years because people knew about stocks: "Oh, no, no. I'm not buyin' stocks."

Similarly when people came back from the war, they wanted safety. They hated debt. So you had companies trading on the New York Stock Exchange for prices that were lower collectively than the money they had in the bank, because nobody was willing to borrow any money to buy them, even if they could have paid off the loan with the money in the bank accounts. Risk aversion is going to be an inevitable backlash from what we're going through right now. And I think it's going to be incumbent on business and economic journalists to try to watch for that next wave so that we can [simultaneous conversation]--

STEVE PEARLSTEIN: --next overreaction--

DIANA HENRIQUES: --the next overreaction, exactly, that refusal to engage in healthy economic activity because we're so scarred and bruised from this.

MARVIN KALB: We've only got a little less than three minutes to go. And I have a concluding question for all of you. And that is that, as you look out at this audience, I have no doubt, though I haven't checked, that any number of them are young journalists ready to go. And some of them actually would like to work in the field of finance, of business, of economics.

In thirty seconds or so, tell me, should they be taking any special courses, traveling to any special countries, any special languages? Steve, start with you.

STEVE PEARLSTEIN: You know, I suppose any of that is useful. The most useful thing I think would be to study history. Because these things tend to repeat themselves. We tend to think that everything has changed. And while a lot has changed, some things have not changed, including human nature. And that's-- I find with a lot of young people, they know a lot of technical things, but they are not well grounded in history. And that's a [simultaneous conversation]--

MARVIN KALB: Alexis?

STEVE PEARLSTEIN: --blind spot.

ALEXIS GLICK: Yeah, I would say also political science. That's what I majored in. And I'd also say, my father taught me when I was in college that the best thing to do in life is to learn what you don't want to do. So I had multiple internships over my summers in college. And it brought me closer to knowing what I did want to do. Took me longer, but--

MARVIN KALB: Diana?

DIANA HENRIQUES: Well, as I said before, I think some kind of specialized knowledge about the basic business literacy is a must. I don't care whether you're going into business journalism or not; business has escaped all its boundaries. It occupies every beat you might be on. So you've got to know the basics of business literacy.

MARVIN KALB: Ali?

ALI VELSHI: You said don't fight the tape. The thing you don't want to fight if you want to be in news or in business news is in fact, the tape in America is people. You can learn a lot about business from understanding behavior. The trends would have been very clear if you were studying how people were behaving. So ultimately, the great part about studying business in America is that it is about people. And that can be your best education.

MARVIN KALB: That's absolutely marvelous. In other words, for an economics journalist, don't study economics; study history. Study political science. Well, I must say, that's quite wonderful. In any case, the tyranny of the clock is upon us once again. Our time's up. My thanks to our really wonderful and attentive audience. I thank you very much. And to our articulate, superbly well informed panelists, and to all of you out there in radio and television land who believe in a free press, in a free society, I'm Marvin Kalb, good night and good luck.

[applause]