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Editorial Board

Title

GLOBAL FINANCIAL CRISIS: MEDIA PERSPECTIVES

Author(s)

Dr. CHANDRA SHEKHAR GHANTA

Assistant Professor

Department of Mass Communication

Telangana University

Dichpally-Nizamabad

Pin No. 503 322

Andhra Pradesh, India

Abstract:

The United States of America, which is considered as the super cop of the world could not withstand the impact of global financial crisis as its economy crashed and crumbled. The global financial crisis showed its devastating role not only on the developed countries but also on the developing as well as the third world countries. It is the worst financial crisis the world has ever experienced since the Great Depression of 1930. The reason for this recent crisis can be summarized in just one word, -"greed". Greed is the factor behind all the misbehavior that eventually led to the crisis. Greed made people to forget common sense and prudence in all aspects of financial management. In a normal situation, sub prime mortgage should not be done at all. The banker needs to have enough collateral while lending a mortgage to protect themselves from any possible financial risks if the payment of the house owner defaulted. As people wanted to make more money, because the normal mortgage market did not have enough room for growth anymore, people intruded to the much riskier world of sub prime mortgage. The reasons for the financial crisis are at large, but the way it was projected by the media played a crucial role in disseminating the information regarding the global financial crisis to the layman around the globe, especially in India. The present paper studies on how the media played a role in creating awareness on the global financial crisis in India.

Keywords: awareness, developing countries, financial crisis, financial discipline, media

INTRODUCTION:

The global financial crisis created a panic and collapsed the world economy within a short period. Most of the world powerful countries melted down to the heat of the recent crisis. The financial crisis of 2007-2010 was triggered by a liquidity shortfall in the United States banking system. It has resulted in the collapse of large financial institutions, the bailout of many banks by the national governments, and downturns in stock markets all around the globe. With the effect of the financial crisis in many areas across the world, the housing market had also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies. It is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in trillions of

U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity;

The present study gives, in brief, an overview of the 2007 financial crises, the origin and features of the current crisis, and discusses how the media projected the financial crisis in India and across the world.

Growth of real and financial sectors is essential for economic development. The financial sector has claimed an ever-growing share of the nations' income over the past generation. The financial sector comprises institutions, which promote savings on the one side and investment on the other, and includes facilitators like, stock exchanges and merchant bankers. Any imbalance in the growth of the two sectors is a cause of concern. The global financial crisis 2007 is not different from the earlier ones, as the two mutually resulted negative trends, namely financial system crisis and global economic slowdown, reinforced each other leading to severe economic contraction. The financial system crisis was reflected by unprecedented level of debt, three times the GDP in US and Europe. This led to additional requirement of capital for banks to cover losses. All developed economies (e.g. the US, European Union, Japan) faced major economic slowdown due to decline in consumption, a sharp decline in export demand, and a slowdown in investment due to credit crunch.

COLLAPSE OF FINANCIAL INSTITUTIONS:

Most of the countries financial roots have been weakened with the crisis effect. Many banks closed their shutters. In many countries, the Governments announced bail out packages to save the banking sector. As per one estimate, while only 11 banks have failed within a short period since the beginning of the crisis, the number on the Federal Deposit Insurance Corporation's watch list has grown to 117. Global financial crisis started to show its effects by the middle of 2007; stock markets had fallen worldwide; large financial institutions collapsed or were bought out and governments even in the wealthiest nations came up with rescue packages to bail out their financial systems.

Collapse of the US sub-prime mortgage and the reversal of the housing boom in other industrialized economies had a ripple-effect around the world. The financial crisis dripped many countries including USA into great crunch. As per Bank of England estimates, world's financial firms lost in October 2008, around 2.8 trillion dollars because of the continuing credit crisis. Global taxpayers have spent around $ 8 trillion to shore up the world's banks and these amounts increased as the crisis spread into the real economy. To quote the Trade and Development Report 2008 of the United Nations (as summarised by Raja 2008), "the global economy is teetering on the brink of recession. The downturn after four years of relatively fast growth is due to a number of factors: the global fallout from the financial crisis in the United States, the bursting of the housing bubbles in the US and in other large economies, soaring commodity prices, increasingly restrictive monetary policies in a number of countries, and stock market volatility".

SHADOW ON US 'SUPER POWER' STATUS:

World being inter-connected, things like a credit crunch rippled and spread speedily through the entire world. Financial crisis was viewed to affect the United States of America's superpower status and it would be harder for the US to argue in favor of its free market ideas as its own markets had collapsed. Most of the banks closed down; many financial institutions of US have dripped in crisis. In Europe, major financial institutions also failed, while others needed rescuing. As such, European countries attempted different measures e.g. some nations stepped in to nationalize, or in some way attempted to provide assurance for people. This included guaranteeing 100 percent of people's savings or helping broker deals between large banks to ensure that there is no failure. The European Union was planning to increase in expenditure and tax cuts worth Euro 200 billion over the past two years to help to restore consumer and business confidence, shore up employment, getting the banks lending again and promoting green technologies.

'WORK SHARING' CULTURE:

Not only western countries, the financial crisis also affected countries in Asia. Asian products and services were global, and a slowdown in wealthy countries meant increased chance of a slowdown in Asia and the risk of job losses and associated problems like social unrest. It was a very unwanted situation to the Asian countries. China and India, the two largest economies in Asia, experienced sharp slowdown. Japan, which had suffered its own crisis in the 1990 also, faced trouble, as it was dependent on exports. On another side, many were lost their jobs and employment. As per ILO Report 2009 (Global Employment Trend 2009): with the global deteriorating economic situation, over 50 million workers could lose their jobs by the end of 2009 and about 200 million workers mostly in developing countries could be pushed into extreme poverty. This was reflected by the higher fuel prices; soaring commodity prices; crash in the stock markets and downward trend in currency values.

A new kind of work culture had been developed with the effect of the crisis. The new dimension of the humanitarian ground had emerged. Japanese companies adopted "work-sharing" to ride out of the global slump. Work sharing involved slashing employees pay and hours instead of firing people out rightly. Two or three people shared the previous one person's job. The idea was that employees were required to share the pain of coping with hard times while everyone gets to keep their job- even if they are paid less. Japan is known for its policy of lifetime employment and work sharing was another form of providing employment for lifetime. Critics describe it a fancy way to disguise wage cut. The Japanese government was considering earmarking public money for companies that took up work sharing to curb surging joblessness as the world's second largest economy slid into what authorities were calling Japan's worst recession since the Second World War.

IMPACT SOCIAL SECTOR:

The financial crisis shows its impact on the social sector also. The world bank report 2008 clearly indicated that the crisis puts upward pressure on inequality, richer investors and through the householders are better off, they tend to receive compensation as bank bails out occur; wealth transfer takes place not only between rich and poor but also between domestic and foreign investors. Financial crisis hampers investment in social services such as health and education as well. According to United Nations, international donor assistance for population related activities including family planning for the years 2006 and 2007 were $ 7.4 billion & $ 8.1 billion respectively. These were estimated to increase to $ 11.1 billion in 2008 and 11.2 billion in 2009. The global financial crisis was likely to decrease the financial assistance drastically.

IMPACT ON INDIA:

In India, the adverse effects have so far been mainly in the equity markets because of reversal of portfolio equity flows, and the concomitant effects on the domestic forex market and liquidity conditions. The macro effects have so far been muted due to the overall strength of domestic demand, the healthy balance sheets of the Indian corporate sector, and the predominant domestic financing of investment. As expected, the main impact of the global financial turmoil in India has emanated from the significant change experienced in the capital account in 2008-09 so far, relative to the previous year. Total net capital flows fell from US$17.3 billion in April-June 2007 to US$13.2 billion in April-June 2008. Nonetheless, capital flows are expected to be more than sufficient to cover the current account deficit this year as well. Even in Foreign Direct Investment (FDI), inflows have continued to exhibit accelerated growth (US$ 16.7 billion during April-August 2008 as compared with US$ 8.5 billion in the corresponding period of 2007). The portfolio investments by foreign institutional investors (FIIs) witnessed a net outflow of about US$ 6.4 billion in April- September 2008 as compared with a net inflow of US$ 15.5 billion in the corresponding period last year.

The financial crisis in the advanced economies and likely slowdown in these economies could have some impact on the IT sector. According to the latest assessment by the NASSCOM, the software trade association, the current developments with respect to the US financial markets are very eventful, and may have a direct impact on the IT industry and likely to create a downstream impact on other sectors of the US economy and worldwide markets. About 15 per cent to 18 per cent of the business coming to Indian outsourcers includes projects from banking, insurance, and the financial services sector, which is now uncertain. Impact on the Indian Banking System one of the key features of the current financial turmoil was the lack of perceived contagion being felt by banking systems in EMEs, particularly in Asia. The Indian banking system also had not experienced any contagion, similar to its peers in the rest of Asia.

ROLE OF INDIAN MEDIA:

Indian media have done a good job over the financial crisis. While the world is blaming the media for keeping them blindsided to the severity of the economic crisis, but the Indian media had shown their resistance to cover up the issues and created awareness among the people on financial crisis. In most of the cases, the media cautions the people towards the financial discipline to wards the civil society. Major newspapers like Times of India, Hindustan Times, and The Hindu etc created a lot of awareness with their articles and news items. The media projected the facts sheet what is going on the financial crisis affected countries like United States of America. Many pictures appeared in daily newspapers as well as weeklies in India. This was because the most of the newspapers disseminated the information and gave top priority on the most typical issues. There is no doubt about the view that news media did not do a good job of informing them of issues that led to the economic downturn in India. At the time of crisis, the media had done a good job in helping the people to understand the issues affecting the better of global economy and the media helped the people to understand what the governments are doing to solve the economic problems at hand and how they are dealing with the crisis.

The electronic media i.e., television as well as radio had exposed the affect of the financial crisis in a clear strategy. Many stories and special features covered the issue. Apart of the fact file, many graphs and illustrations as well as expert's opinions on various issues of the financial crisis is clearly show by the media. This kind of projection had created awareness among the people towards the financial discipline. In some cases, the media projected and was given moral support for the Indians to showing the standard of the Indian economy and its importance to the people.

Attitudes about early media coverage were most positive in Philippines, Pakistan, Indonesia, Venezuela and India, all of which scored above the global average. Factors that drove the failure to communicate usually varied. Some critics have argued that the financial media was too close to those it covered. More over, the speed of negative events following the Lehman Brothers bankruptcy filing caught not only journalists by surprise, but also economists and government officials.

THE BUSINESS MEDIA:

The great recession of 2007 and the world economy is currently experiencing a turmoil. The magnitude of this crisis has apparently taken many by surprise. The international business media, which are the main sources of the Indian media, have been ticked off for failing to highlight the problem while unfolding matters such that the world was caught unaware. This may be one of the main causes to the global financial crisis. Media coverage on various issues, in the early stages of the crisis, is claimed to be limited to the news of symptoms such as bankruptcies, corporate failures, market collapse and job losses, rather than the disease itself. Paradoxically, the media are also accused of talking down the world economy with horror stories of skeletons falling out of the closets in some parts of the world. Such perceptions display a total misunderstanding of the role of business media can play in today's world. Expecting the media to have discerned the crisis in the formative stages is tantamount to asking for the moon. It is important to bear in mind that the current crisis is the worst in the past 75 years on a global scale, and that it has been in the making for several decades, too subtly and slowly for the media to take notice. What we are now witnessing are tectonic shifts in the global economy that become visible only after they have occurred. The media were understandably clueless. This kind of attitude is one of the cause to the crisis affect.

Some time there is no such a balancing attitude in the financial organizations as well as corporations. The crisis is largely the result of serious structural imbalances between production and consumption, saving and investment, imports and exports, and wages and productivity, to mention a few. Growth becomes increasingly unsustainable, if not untenable, as such imbalances build up, but it takes time for them to boil over. It is beyond media capabilities to figure out what's shaping up beneath the surface. The crisis was hardly perceptible even to the experts in the initial stages.

Business media interests revolve around current events. It takes investigative journalism to probe and preempt events before they actually happen. To be fair, the business media have not failed to do what they are good at, that is to highlight sensational stories relating to the financial crisis, such as fiascoes attributed to Lehman Brothers, Bernard Madoff and Alan Stanford. However, these are the outcomes of the crisis, not the causes. Understandably, media attention was focused on the symptoms, not the disease. Neither could regulators and watchdogs do a good job. Most of the cases the Business media had guided the people in view of projecting the facts, which were appearing in the developing countries.

BUSINESS MEDIA IMPACT IN ASIA:

There is no such impact of business media in the people of Asian countries. The business media in Asia may also have been mislead by the so-called "decoupling" theory, which had postulated that East Asia and other emerging economies would not be affected by the recession in North America and Western Europe, as they were on a very different growth trajectory. However, short-term fluctuations in the United States and European Union in recent times had discernible impacts on the economic performance of emerging economies, notwithstanding the fact they are on different long-term growth paths. This may explain why the media in East Asia was much less concerned than their Western counterparts.

None of these absolves the media of the blame for its failure to pay sufficient attention to the global financial crisis. The business media everywhere have always been preoccupied with ups and downs in the stock markets from New York to Kuala Lumpur, as if stock market movements and trends were the only thing that mattered. Nothing can be further from the truth. Stock market behavior had little or no bearing on economic realities, as it is driven largely by greed or fear rather than fundamentals. Stock markets and the real-estate sector can move in the opposite directions. Many a time the stock market had rallied when the real sector of the economy was slumbering and vice versa. The stock market is hardly a reliable barometer of the health of the real estate sector of the economy anywhere in the world. The media's preoccupation with stock market movements is often misplaced. Depressing stories of the crisis fallout were seen to be spawning more bad news, while the recent spate of reports of "green shoots" or "glimmers of hope" has been viewed as a deliberate attempt to halt the downward spiral.

CONCLUSION:

When the American housing bubble was blasted, the whole world economies melted down in the fire of the financial crisis. Within a short period of three years, the banking sector of the super power countries collapsed. This can be treated as a silent cyclone, which washed out the most powerful countries of their economic power. Unfortunately, even the media could not smell out the seriousness of the crisis. With the experience of the crisis-affected countries like US, the Indian media cautions their people and taught a financial discipline among the Indians.

The media created awareness among the people that how to maintain restrain in putting expenditure on various issues. Whatever the result was there in the civil society, the media in developing countries like India had a crucial role to protect the interests of their people.

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