

# “Missing” From Media

4th Annual Forum of Emerging  
Leaders in Asian Journalism

May 18-19, 2009

# What this is all about:

- Aspects of the crisis that
  - At best: have not been sufficiently focused on
  - At worst: largely ignored

# What Crisis?

- Not one, but three interrelated crises:

Financial Crisis →→→

Economic Crisis (contraction in global economy and global trade for the first time in more than 60 years) →→→

HUMAN CRISIS

# The crises

- Global imbalances (between savings and investments in the world's major economies as reflected in current account imbalances)
- Savings glut led to low interest rates -- lending/borrowing spree (doubtful loans)
- Asset prices rise (e.g. housing bubble)

# The Crises

- Aided and abetted by commodities boom; development of complex financial instruments- which were aimed at managing risk but ended up used to gamble
- Unhampered by regulation
  - Failure of US Fed to use existing tools/authority that could have curbed predatory lending and prohibited other insidious practices such as granting of “liar” loans or interest-only loans)

# The Crises

- Unhampered by regulation (cont'd)
  - Failure to put markets under regulation: the \$450 trillion derivatives market -- 9 times the size of \$50 trillion global stock market, more than 6 times the \$74.2 trillion assets of 1000 largest banks in the world -- remained unregulated. This despite warnings by Warren Buffet that they were weapons of mass financial destruction with “megacatastrophic” risks to the economy.

# The Crises

- Unhampered by regulation (cont'd)..
  - Moves toward deregulation: repeal of Glass-Steagall Act separating commercial from investment banking, enacted in the aftermath of Great Depression. Result: risk-taking investment bank culture replaced conservative commercial bank culture.
  - US SEC decision to allow investment banks' debt-to-capital ratio from 12:1 to 30:1

# The Crises

- Perverse incentive structure: the credit ratings agencies, who were supposed to help investors who could not conduct their own due diligence, are paid by the very same companies that they are supposed to grade.



# The Crises

- Bursting of the Bubble (sub-prime crisis): led to a credit crunch - more accurately a credit freeze. Banks were calling loans, which were unpayable -- buildup of toxic assets; no new loans made.
- Vicious cycle starts: Output decreased; employment decreased, demand decreased, output and employment decreased, etc. The financial crisis has morphed into an **economic crisis**.

# The Crises

- From Economic Crisis to Human Crisis: growth slowdown or contraction reduces income (affecting the poor the most), translating into reduction in expenditures particularly on health and education -- which jeopardizes longer-term development

# 3 “Missing” Messages

- 1. Role of emerging/developing economies (EDEs) in the crises
- 2. Stimulus packages of EDEs
- 3. The Millennium Development Goals and the crises

# Missing from Media

## I: Role of EDEs

From the foregoing, it would seem that the EDEs have nothing to do with the unfolding drama although they are affected by it. But they did play a role,

1. Global Imbalances: The EDEs as a group (mostly China and Saudi Arabia) were net savers, as shown by their current account surpluses - thus contributing to the global savings glut and helping to sow the seeds of the financial crisis.

# Missing from Media I: Role of the EDE's

- 2. EDEs played valuable role of financial shock absorber the early part of the financial crisis, recapitalizing US banks.
- 3. EDEs have been playing an increasingly important role in the world economy and are even now what is keeping the estimated global contraction relatively low.
  - a. They are responsible for 2/3 of the global growth between 2003-2007 (China 1/4, BRIC almost 1/2)

# Missing from Media I: Role of EDEs

- b. EDEs account for more than 90% of the rise in consumption of oil products and metals and 80% of rise in grain consumption since 2002
- c. EDEs now account for about 1/3 of global trade and > \_ of total increase in import volumes since the beginning of the millennium
- d. almost \_ of EDE exports is now directed toward each other (change in pattern of trade)
- Thus: EDEs were part of the problem, and are part of the solution.

# Missing from Media II: Stimulus Packages of EDEs

- While media reports on size of stimulus package (as announced by EDE governments), no independent reports on quality and timing and targets of package contents.

# Missing from Media II: Stimulus Packages

- Purpose of Stimulus Packages: To expand the economy -- increase output and employment, hopefully to its potential level; To increase aggregate demand.
- Tools: Fiscal policy (increased government expenditures and transfers, tax reduction); monetary policy (increase money supply lowers interest rates , easing of credit conditions)



# Missing from Media II: Stimulus Packages

- Elements of Effective Stimulus Packages:  
“shovel-ready” labor-intensive,  
infrastructure projects; tax reductions to those  
who will spend the increase in disposable  
income; programs that transfer money to  
those who will consume rather than save

# Missing from Media II: Stimulus Packages

- Three examples of stimulus packages where there may be less than meets the eye:
  - Philippines, Malaysia, China

# Missing from Media II: Stimulus Package

- **Philippines:** Official govt estimate, P300 billion 3.5% of GDP; based on increase in budget deficit from plan, P76.2 million (0.95% of GDP); not clear where money will go; no provisions for monitoring.
  - Forecasted 2009 Growth Rate: 2-4%

# Missing from Media II: Stimulus Packages

- Malaysia: Stimulus Package 8% of GDP(second round). Expenditure elements reportedly have very long lead times.
- GDP growth forecast 2009: 0%

# Missing from Media II: Stimulus Packages

- China:
  - Announced Stimulus Package , \$587 billion (18% of GDP) but over a two year period;
  - But: estimated that only \$173 billion of that is “new” money. The rest represents previously budgeted expenditure items
  - GDP growth forecast for 2009: 7.5%

# Missing from the Media III: Effect of the Crisis on MDGs

- 189 countries committed to achieving the MDGs by 2015
- The stakes for the world:
  - 500 million lifted out of extreme poverty;
  - 300 million lifted out of hunger;
  - 30 million more children reach 5th birthday
  - 2 million mothers' lives saved
  - 350 million fewer people without drinking water
  - 650 million fewer people without basic sanitation
  - Hundreds of millions more women and girls will go to school, etc.

# Missing from Media III: Effect of Crisis on MDGs

- The Stakes for the Philippines:
  - 10 million people lifted out of poverty
  - 2 million people lifted out of hunger
  - 240,000 more children reach 5th birthday
  - 12,000 mothers' lives saved
  - 6.7 million more people with access to safe water

# Missing from Media III: the crises and the MDGs:

- The crisis so far has undermined the MDGs
  - 46 million more people under absolute poverty line of \$1.25 a day than forecasted for 2008
  - 7 million more people under \$2 a day than forecasted for 2008
  - 200,000 to 400,000 more babies could die each year from now until 2015 (WB)



# Missing from Media: Crises and the MDGs

- For the Philippines: Financing needs for achieving the MDGs will rise. Why? The original financing required for achieving our MDGs was based on “low growth” scenario of 5.5%  
2008 GDP growth: 4.7%  
2009GDP growth forecast: 1.9% - 4%

# Missing from Media III: Crises and MDGs

- Bottom line: MDGs will not be achieved  
UNLESS: Stimulus package  
components are pro-poor.

# Summary:

It is suggested that in its “discourse” on the crises, media should give greater attention to:

1. The role of the emerging/developing economies (EDEs) in the crisis: they are part of the problem, and very much a part of the solution.

2. The stimulus packages adopted by the EDEs: their effectiveness is crucial to getting the global economy back on the path to growth, as well as to development (growth that is pro-poor)

# Summary

- 3. Last, but definitely not least: In all the “discourse” keep in mind that the goal of society is not just economic growth but development. Focus on how the Millennium Development Goals, which have to do with reducing both income and outcome poverty, can be achieved in the face of the economic crisis.

» **Thank You**