

Viewpoints

Of influenzas and financial crises: three lessons

A few weeks ago, I found myself buying several bottles of hand sanitizer for my office. My motivation was the late-April news that the swine flu had killed more than a hundred people and infected 1,600 in Mexico. I wasn't the only one to react. Trips were cancelled, schools were closed and people were warned against riding trains and planes.

Days later, the same news sources that broke the original story reported that estimates of the severity of the outbreak were overblown. Estimates of the death toll and number of infections in Mexico had been exaggerated. While the swine flu had spread to the United States, the number of cases was relatively small, and in most cases those infected with the flu had mild symptoms.

I don't want to make light of this worldwide epidemic. Many were infected with the flu virus, some died, and more will become infected. I am not a public health official, so I won't speculate on the future of this illness or the potential for other pandemic diseases.

I do want to draw upon the swine flu scare to make some observations about how the media reports on major events, and how the public reacts to these reports. In particular, there are some similarities between the reporting of the swine flu outbreak and news coverage of the economy and financial markets, which have been suffering from a different contagion. There are lessons to be learned.

Lesson Number One: The media likes big stories. Reporters like to cover stories involving the biggest, the worst and the first. If something isn't the biggest, the worst or the first, reporters may engage in a little hyperbole to make the event seem more significant.

Current news reports have likened the present financial situation to the crash of 1929 and the Great Depression. My parents and grandparents lived through the depression and I heard many of their stories when I was growing up. In later years, while working on my doctorate in economics, I studied the history of the depression.

During the Great Depression, 25 percent of the workforce was unemployed and 2.5 million people migrated out of the Great Plains and sought work elsewhere. At the end of the depression, the number of banks in existence was less than half the number in 1920. Most of these banks had failed, and this was in an era when bank deposits were not federally insured.

If your bank failed, you were simply out of luck.

Despite widespread reports, the economic situation we have seen during the past few months does not rival the Great Depression. It does not mark the end of free enterprise or the demise of capitalism.

The first lesson is captured by Will Roger's observation that: "I hope we never live to see the day when a thing is as bad as some of our newspapers make it."

Lesson Number Two: In the case of financial reporting, the media can create the story. You aren't going to catch the flu by reading a story about the flu. Financial reporting is different. If a news story indicates

that a company is going under, at least some investors and some customers will steer clear of that company.

Even inaccurate and implausible stories can hurt a company. When bad news is reported, business will drop off and the company will suffer; it may even fail. This is a classic example of the self-fulfilling prophecy. More than one unethical reporter has used this fact to their advantage. The second lesson is that it is prudent to ask whether a reporter is observing a catastrophe or creating a catastrophe.

Lesson Number Three: Small stories are important to those involved. Although the swine flu has not yet reached pandemic proportions, it is a major concern for those infected. It has been disastrous for those with the misfortune to lose a family member to the illness.

Similarly, even though our present financial situation is not a Great Depression, it is a major problem for those who lose their jobs. There is an old axiom that a recession is when your neighbor is unemployed; a depression is when you are unemployed.

More than 2.6 million people lost their jobs last year. For them, comparisons with the Great Depression are largely irrelevant. The central fact is that they don't have work and the things that come with work — income, savings, and health care.

It shouldn't take a pandemic to get people to practice proper hygiene, such as washing your hands and covering your mouth when you cough. Likewise, the final lesson is that it shouldn't require a Great Depression for policy makers to take prudent economic steps and for those fortunate enough to still have a job to show some compassion for those less fortunate.

Top of Utah Voices



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Commentary