To a Crisis

The media has failed to take note of the changing role of the state in regulating financial markets because they have been blinded by their free-market ideological blinkers, writes Seeraj Mohamed

The process of financialisation is the result of the widespread deregulation of financial markets over the past few decades. Financialisation has affected our cultures and become a much more important part of our daily lives. One could argue that there has been financialisation of the media. Financial motives have become more important in running globalised media companies. At the same time, media content has reflected the growing importance of finance in our economies and societies.

This change is most obvious in what is reported in news programmes. Huge chunks of radio and television news is taken up with announcing daily movements of financial variables. Whether we want to know or care about the Nasdaq, FTSE, and Wall Street does not matter. We are force-fed the numbers in almost every news show we watch.

There is also a proliferation of business news television shows and channels that constantly report on the same economic variables. These are channels that constantly repeat changes in financial indicators and provide continuous advice about which financial assets to buy and sell.

Of course, these developments are seen as progress and economic development. The positive impact of these changes on people’s lives is taken for granted.

The growth of the business media industry has changed the role of the media and what they do. Much of the business media do not report on economic and financial changes; they have become the marketing agents for these changes. They have become a space for investment brokers and bank economists to peddle their wares and to give the public stock tips. They have allowed large banks’ investment analysts to “talk-up” stocks being promoted by the bank.

The business media have not adequately questioned the conflict of interests of the industry commentators they regularly invite to their shows. The experiences of the late 1990s and the dotcom bubble have not had much influence on governance of the business media.

The growth of the business media industry has led to an increasingly ideological role for the business media. Most of the business media do not question whether the growth in financial influence and power of financial institutions is good or bad for society. In fact, they hardly report on these changes. Instead, they have become the mouthpieces of the financial institutions.

The business news channels, in particular, have provided a voice for people in financial markets. They have provided the space for financial speculators to make decrees about the credibility of economic policies. They have provided the public political platform for the promotion of free market ideas.

The business media and business news have had a profound impact on media content and news programming. They have influenced the ideological perspective in the media as a whole because their reporting has been so strongly biased by the views of people working in financial markets. As a result, the main commentators on the economy in the media today are bankers or representatives of investment companies. Therefore, it is not surprising that the mainstream media have not only reported financial deregulation as positive societal progress but have also advocated financial liberalisation.

The dominant ideology favoured by people working in finance has seeped into the everyday discussion and overall conventional wisdom of the business media.

This conventional wisdom espoused day after day in the business media has affected how we think. For example, we now think of the markets as forces for disciplining inefficiency and pro-efficiency. Markets are also supposed to discipline governments if they implement the wrong economic policies. The media have led us to believe that markets work better than the public sector.

Their beliefs that markets are efficient and that they allocate financial resources efficiently within countries and the global economy has spread through society. As a result, continued on page 16
there is an inadequate public discussion about the nature of markets and the role markets should play in society. Instead, society is left with a myth of the market where the metaphor of the market is that markets are gods: they discipline us when we are bad and reward us when we are good. Markets are always correct and have perfect insight into matters that ordinary people, even financiers, cannot have. According to their myth, markets always price assets correctly.

Of course, after the financial crisis we realise that markets are not god-like and that it is the behaviour of people operating in the markets that shape the role of markets. Markets are social institutions that are shaped by societal forces. If the main market actors operating in those markets choose to buy off politicians with campaign contributions and jobs for wives and friends then markets can be left inadequately regulated. The main actors can make up rules as they go to suit themselves. They can enrich themselves at the expense of others and can create global systemic risks.

Therefore, an important consequence of the global financial crisis is that the business media have to reconsider the role of the state and regulation of financial markets. Before the crisis, most mainstream business journalists would have argued that state involvement in financial markets and regulation are undesirable. They would have agreed with most mainstream economists that society should pursue free markets. They would have written against regulation that would impede free movement of goods and capital across borders. They would have advocated a limited role for the state.

However, most of them quickly jumped on the bailout bandwagon when the financial crisis started. They were comfortable with a large role for the state if it would save the very financial institutions that were involved in causing the crisis.

The cost of deregulation of financial markets to individual countries and the global economy has been huge. The rhetoric of the mainstream media has been that markets should be left free to operate without state interference. They have perpetuated the myth that markets have god-like qualities. They have also perpetuated the myth that markets achieve equilibrium and that state interference causes problems because it disrupts this equilibrium. Unfortunately, the current crisis has not shattered these myths. They remain very much part of the discourse in the business media.

A very important lesson from the series of financial crises that the world has experienced since the start of financial liberalisation in the late 1970s is that liberalisation does not mean less interference or involvement by the state in financial markets. In fact, the role of the state in financial markets has increased since liberalisation.

The role of the state after World War 2, which drew on the lessons from the Great Depression, was that the state should control and regulate financial markets to ensure stability in countries and stability of the global economy.

With liberalisation of financial markets, states have withdrawn from providing oversight and regulation of financial institutions and markets to prevent financial crises. The role of the state has changed to mopping up the damage and pouring in public money to bailout financial institutions after crises.

Unfortunately, most of the media have not reported on these changes in the role of the state and regulation of financial markets because their free-market ideological blinkers blind them to these historic changes. If these ideological blinders are not removed, the role of the media will largely remain that of cheerleaders when financial markets are doing well because of bubble dynamics and advocates of bailouts after financial crashes.