CHEERLEADERS 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

One cannot blame the mainstream media for the current global financial crisis – which has now transformed into a full-blown global economic crisis – but one can argue that the media were an accomplice.

The mainstream media have been cheerleaders for unregulated finance. They have cheered and supported inflating financial assets market bubbles and have been shocked when those bubbles burst. They have failed to adequately investigate and report on huge excesses in financial institutions and governments' failures to deal with these problems.

They are currently cheering on what they believe is a recovery in financial markets. They are not questioning whether the little change in financial institution leadership and absence of reregulation of finance will cause another financial crisis in the near future. The media should be much more introspective about their reporting on financial markets and economics in general.

There has been widespread liberalisation of financial markets and global capital flows since the late 1970s. An important consequence of this liberalisation has been increased freedom for people in the financial sector to increase their leverage (the amount of debt they hold relative the assets they own) and to take on more risk. In fact, the liberalisation has allowed people working in financial markets to increase the level of systemic risk not only in domestic financial markets but also in global financial markets.

The episodes of increased leverage and risk-taking have been associated with bubbles in financial and real estate asset markets. The deregulation and bubbles have allowed many people working in financial markets to use the system to unfairly enrich themselves. Many of these bubbles deflated slowly but some have burst. We are living through the fallout of a burst financial bubble.

The mainstream business media – as cheerleaders for the financial sector – have probably helped to inflate most of the bubbles formed since the 1980s. They have spent very little effort on exposing the greed and profligacy in financial markets. To make matters worse, their views have become aligned with those of the financial sector.

The mainstream media have changed as a result of the growth of financial markets. The term "financialisation" has become popular among non-mainstream economists. It refers to the growth in the size of financial markets and the influence of financial actors in the functioning of domestic and global economies.

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 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 broking firms 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 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 bank economists 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 in businesses. 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,

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September 2008

30 September
Dexia becomes the latest European bank to be bailed out as the deepening credit crisis continues to shake the banking sector. In Ireland, the government says it will guarantee all deposits in the country's main banks for two years .

October 2008

3 October
The US House of Representatives passes a $700bn (£394bn) government plan to rescue the US financial sector. The 263-171 vote is the second in a week, following its shock rejection of an earlier version on Monday.

6 October
Germany announces a €50bn ($68bn; £38.7bn) plan to save one of the country's biggest banks. The deal to save Hypo Real Estate, reached with private banks, is worth €15bn more than the first rescue attempt, which fell apart a day earlier. Iceland announces part of a plan to shore up its troubled banking sector. The country's largest banks agree to sell some of their foreign assets.

7 October
The Icelandic government takes control of Landsbanki, the country's second largest bank, which owns Icesave in the UK.

8 October
The UK government announces details of a rescue package for the banking system worth at least £50bn ($88bn). The US Federal Reserve, European Central Bank (ECB), Bank

of England, and the central banks of Canada, Sweden and Switzerland make emergency interest rate cuts of half a percentage point. The Fed cuts its base lending rate to 1.5%, the ECB to 3.75%, and the Bank of England to 4.5%.

13 October
The UK government announces plans to pump billions of pounds of taxpayers' money into three UK banks in one of the UK's biggest nationalisations. Royal Bank of Scotland (RBS), Lloyds TSB and HBOS will have a total of £37bn injected

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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.

November 2008

plans to use some of the $700bn bail-out money to buy up banks' bad debts and decided instead to concentrate on improving the flow of credit for the US consumer.

20 November
The International Monetary Fund (IMF) approves a $2.1bn (£1.4bn) loan for Iceland , after the country's banking system collapsed in October. It is the first IMF loan for a Western European nation since 1976.

23 November
The US government announces a

$20bn (£13.4bn) rescue plan for troubled banking giant Citigroup after its shares plunge by more than 60% in a week.

25 November
The US Federal Reserve announces it will inject another $800bn into the economy in a further effort to stabilise the financial system and encourage lending. About $600bn will be used to buy up mortgage-backed securities while $200bn is being targeted at unfreezing the consumer credit market.

26 November
The European Commission unveils an economic recovery plan worth €200bn which it hopes will save millions of European jobs. The scheme aims to stimulate spending and boost consumer confidence.

December 2008

1 December
The US recession is officially declared by the National Bureau of Economic Research, a leading panel including economists from Stanford, Harvard and MIT. The committee concludes that the US economy started to contract in December 2007.

4 December
French President Nicolas Sarkozy unveils a €26bn stimulus plan to help France fend off financial crisis, with money to be spent on public sector investments and loans for the country's troubled carmakers.

11 December

Bank of America announces up to 35,000 job losses over three years following its takeover of Merrill Lynch. It says the cuts will be spread across both businesses. The European Central Bank, as well as central banks in the UK, Sweden and