

# The Political Economies of Media

# The Political Economies of Media

The Transformation of the  
Global Media Industries

Edited by  
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Dal Yong Jin

B L O O M S B U R Y   A C A D E M I C



First published in 2011 by

**Bloomsbury Academic**

an imprint of Bloomsbury Publishing Plc  
36 Soho Square, London W1D 3QY, UK

*and*

175 Fifth Avenue, New York, NY 10010, USA

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CIP records for this book are available from the British Library and the Library of Congress

ISBN 978-1-84966-353-3 (hardback)

ISBN 978-1-84966-420-2 (ebook)

This book is produced using paper that is made from wood grown in managed, sustainable forests. It is natural, renewable and recyclable. The logging and manufacturing processes conform to the environmental regulations of the country of origin.

Printed and bound in Great Britain by the MPG Books Group, Bodmin, Cornwall

**Cover design:** Sharon Cluett

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# The Political Economies of Media and the Transformation of the Global Media Industries

Dwayne Winseck  
*Carleton University*

## Setting the scene: baseline considerations

In this introductory chapter, I want to set the scene for this book and to paint a broad portrait of a certain view of communication and media studies, and the role of different political economies of the media in the field. Communication and media studies often labor under the illusion that political economy comes in one flavor, but here I suggest that we can identify at least four perspectives that have considerable currency in the field. They are (1) conservative and liberal neoclassical economics; (2) radical media political economy, with two main versions, the monopoly capital and digital capitalism schools; (3) Schumpeterian institutional political economy and two recent offshoots, the creative industries and network political economy schools; and lastly (4) the cultural industries school. Of course, neither all of this volume's authors nor communication and media studies as a field can be placed so neatly in these categories, but other approaches can be thought of as derivatives of them (e.g. cultural economy, neo-Marxian political economy, critical cultural political economy, and economic geography).

To begin, we need to clearly specify our "object of analysis." To that end, I focus on the "network media industries," a composite of the 10 largest media and internet industries, ranked by total worldwide revenues: television, internet access, newspapers, books, films, magazines, music, radio, internet advertising, and video games. These industries do not exist all on their own but are surrounded by the "social ecology of information" and flanked, on one side, by the telecoms industries and, on the other, by the information, communication, and technology (ICT) sector. I use the concept of the network media industries in a way that follows Yochai Benkler (2006). The construct refers to the core and emergent public communications media that migrate around various distribution networks and media platforms and devices. It is not convergence, per se, but a network of media tied together through strategies, capital investment, ownership, technologies, uses, alliances, rights regimes, and so on. Methodologically and empirically, the concept is an important tool because it establishes what is included and excluded from analysis.

The network media concept also reflects judgments about how far digitally mediated communication has been subsumed by the processes of commercialization and capital accumulation (McChesney 2008; Mosco 2009a; Schiller 1999a). I follow the cultural industries' claim that understanding the capitalization of the communication and media industries is essential but that the process itself is never complete (Miège 1989). In other words, digital network media are immersed within the market, but they also enable and depend upon forms of expression that are not market driven. These ideas line up well with Benkler's concept of the "social production of information" and what others call "gift culture," the "digital commons," and "mass self-expression" (Andrejevic 2007; Castells 2009)—an amalgamation of which I call the "social ecology of information" (see below). These ideas also fit well with the cultural industries school's emphasis on how the uncertainty and habits of people's lives and patterns of media use erect strong barriers to the complete commodification of media and culture.

Political economies of media take it as axiomatic that the media must be studied in relation to their place within the broader economic and social context. This context is undeniably one where capitalist economies have expanded greatly over the past quarter of a century, albeit at a relatively slow pace in most of the Euro-American "advanced capitalist economies" since the post-1973 "long downturn." After expanding across the planet, however, the global economy has staggered badly from one crisis after another in recent years, starting with the Asian Financial Crisis of 1997, followed by the collapse of the dot-com bubble (late 2000–3), and the global financial crisis that erupted in 2007–8. The impact of these events on all aspects of the network media has been substantial in the Euro-American countries. Elsewhere, however, almost all media, from newspapers to the internet, are growing at a fast clip, as is the case in, for example, Brazil, China, India, Indonesia, Russia, and Turkey (Organisation for Economic Co-operation and Development (OECD) 2010: 7; PriceWaterhouseCoopers (PWC) 2010: 29).

The fact that the global financial crisis (2008) fell so fast on the heels of the collapse of the telecoms–media–technology (TMT), or dot-com bubble, should certainly disabuse us of the notion that improved communications will create "perfect information" and therefore "perfect market," the mainstream economists holy grail. During the dot-com bubble years (1996–2000), the media, telecoms, and internet industries served as objects of massive financial investment and speculation (Brenner 2002; "The Great Telecom Crash" 2002). Some scholars also argue that the fast paced growth of business media, such as *Business Week*, CNBC, and *The Economist*, especially in India and China, have essentially served as the "handmaidens" of Wall Street and "the City" (London) (Shiller 2001; Chakravarty and Schiller 2010). Things are likely more complicated than that, however, as the chapters by Aeron Davis and

Marc-André Pigeon in this book explain, but can essentially be boiled down to the idea that elite business-oriented newspapers (e.g. *Financial Times*, *The Wall Street Journal*, *The Economist*), television channels (CNNfn, CNBC), and specialized news services (e.g. Bloomberg, Dow Jones, Thomson Reuters) help to circulate and crystallize certain key economic “conventions” among financial market traders, central bankers, policymakers, politicians, and journalists. The public is well aware of the financial world and its impact on people’s lives, but most people are neither all that interested in nor the primary subjects of these “convention-making conversations.”

Many observers argue that some segments of the media, journalism and music especially, that were already staggering from the steady rise of the internet and falling advertising revenues have been tipped headlong into the abyss by the global financial crisis of 2007–8. The financial crisis, however, has also spurred many governments to invest substantial sums of stimulus money into next generation networks (NGNs), basically 100 Mbps fiber-to-the-home networks. In Australia, Korea, France, the United Kingdom, the United States, and at least a dozen other countries, more than US\$71 billion has been pledged to develop universally accessible fiber and/or wireless-based NGNs over the next few years. The most ambitious of these projects, in Australia, will bring 100 Mbps fiber networks to over 90 percent of homes in the next 5 years through a new government-created company, the National Broadband Network Company (NBN Co.). In Sweden and Holland, municipal governments and cooperatives are doing the same thing (Benkler, Faris, Gasser, Miyakawa, and Schultze 2010: 162–4; Middleton and Givens 2010). These are the digital public works projects of the twenty-first century. Some wonder if they mark the renationalization of telecoms after 30 years of privatization and neoliberalism (IDATE 2009: 16).

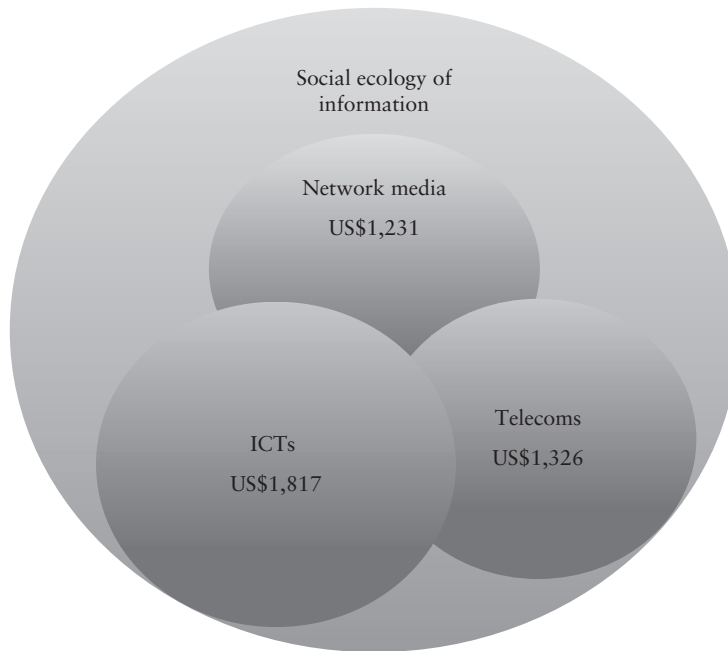
In reference to the United States, Robert McChesney and John Nichols (2010) argue that the crisis now facing journalism will only be turned around if new forms of journalism and public media, including universal, affordable, and open broadband internet services, are well-financed by these stimulus projects. The range of such initiatives suggests that we live in unconventional times, and in such times the boundaries of what is possible expand. Of the nonconventional media options now on offer, Benkler (2010), Benkler *et al.* (2010), McChesney and Nichols (2010: 96–7), and Eli Noam (2009: 15–16) identify the following “ideal types”: public service media (e.g. BBC), employee or co-op ownership, effective nonprofit media (Wikipedia), municipal broadband networks, community media, small commercial media (Talking Points Memo, Huffington Post, GlobalPost), and volunteer partisan media (Indymedia). This is truly an impressive display of structural diversity. It is significant and should not be underplayed. But is it revolutionary? As we will see, that depends on whether you ask followers of Joseph Schumpeter or Karl Marx.



Perhaps, however, this is just another wave of “creative destruction” that happens every so often to wipe away the old, and usher in the new, as Joseph Schumpeter (1943/1996: 83) put it in his classic, *Capitalism, Socialism and Democracy*. This, I believe, would not adequately capture the essence of the situation either. There is scant evidence to support the view that traditional media are going the way of the dinosaur, although many of the media conglomerates cobbled together near the end of the twentieth century have since been restructured, dismantled, or fallen into financial disarray, as Chapters 6 and 7 in this book show. For the most part, however, the traditional media are not in crisis. Among the top 10 internet companies worldwide, 3 are well-known media conglomerates, and another is a nonprofit entity: Google, Microsoft, Yahoo!, Facebook, Wikipedia, AOL, Ask.com, CBS, Apple, News Corporation (News Corp.)—ranked by monthly users (Comscore 2010a). Internet-centric firms have obviously carved out an influential role for themselves, and this is even more apparent among second-tier firms, all of which are internet centric, with five Chinese firms figuring prominently among them: Glam Media (14th), Tencent (16th), Baidu (17th), NetShelter Technology (19th), and Alibaba (20th) (Comscore 2010a: s.03). Nonetheless, when we turn our gaze to the traditional media, the “big 10 global media conglomerates” are not, give or take a few additions and deletions, all that different from the end of the 1990s: Disney, Comcast, News Corp., Viacom–CBS, Time Warner, Bertelsmann, Sony, NBC-Universal, Thomson Reuters, and Pearson, ranked in that order on the basis of revenues (2009).

Of course, such rank-ordered lists assume that paying attention to the top 10 global media companies and top 10 to 20 internet companies is a wise thing to do. I believe that it is. Figure I.1 gives a sense of the scale of the telecoms, ICT, and network media sectors and the social ecology of information, respectively, and a portrait of how all the pieces fit together. Table I.1 introduces the biggest 10 players in the traditional media, internet, telecoms, and ICT sectors, respectively. Table I.2 then shows the revenues for the “network media industries” (the 10 largest media and internet sectors) from 1998 to 2010. The goal in each case is to establish some common empirical referent points for the discussion that follows. Each of the authors in the book also presents key elements of their own approach, essentially offering a guide on how to do political economy of media research. Creating a set of common empirical reference points also helps guard against what Terry Flew (2007) calls the “fallacy of big numbers,” that is, big numbers that come with no proper sense of scale. He implies that this is primarily a problem of critical media political economy, but it is far wider than that, as we will see.

Gathering information on the media industries, even in countries that are relatively open by global standards, is not easy (Noam 2009). In Canada, for instance, as my experience with the International Media Concentration Research Project (IMCRP)<sup>1</sup> shows, and in the United States, as other researchers



**Figure 1.1 The multiple economies of network media, 2009 (billions, US\$)**

Sources: PWC (2010: 36), IDATE (2009: 24), Canadian Radio-television and Telecommunications Commission (CRTC) (2010), OECD (2007b: 163).

state, regulated companies' claims that the data they provide to policy-makers are "trade secrets" are often accepted and thus excluded from the public record. As a result, crucial data that are needed to properly examine the media industries are off-limits (Frieden 2008). Matters are worse in (ex-)authoritarian countries, as Guillermo Mastrini and Martín Becerra note in their study of the media and telecoms industries in South America in this book, because the topic has been a forbidden area of public discussion and academic research until relatively recently. Consequently, there is no systematic data collection on the subject, and much baseline research needs to be done.

Public corporate documents, such as Annual Reports, Financial Statements, and so forth, are essential reading for political economists. The 2009 Annual Report of Baidu—the world's 17th largest internet company,<sup>2</sup> and China's equivalent to Google—for example, offers important insights into its ownership, business models, and so on. It also offers an exquisitely detailed discussion of the difficulties of operating one of the world's largest internet firms in a country where that is strictly supervised by an all-powerful Ministry of Industry and Information Technology (Baidu Inc. 2010: 21–8). Consultants' reports can also be excellent sources of information but are often inconsistent over time, tied too closely to clients' needs, and prohibitively expensive. The *Global Entertainment*

Table I.1 The "big 10" in the media, internet, ICT, and telecoms industries (2009) (billions, US\$)

Firm	Ownership	Base	Capitalization	Revenue	International revenue US\$ (%)
<b>"Big 10 global media companies" by capitalization and revenue</b>					
Disney	Diversified	United States	49.5	36.1	24
Comcast	Roberts	United States	57.1	35.8	0
News Corp.	Murdoch and others	United States/Australia	26.5	28.0	45
Viacom-CBS	Redstone	United States	27.6	27.2	28
Time Warner	Diversified	United States	33.7	25.8	30
Sony	Diversified	Japan	20.2	21.7	27
Bertelsmann	Bertelsmann/Mohn	Germany	Private	21.4	65
NBC Universal	Diversified/GE	United States	161.3	15.4	25
Thomson Reuters	Thomson Family	Canada/United Kingdom	26.7	13.0	94
Pearson	Diversified	United Kingdom	11.4	8.8	87
<b>"Big 10 internet companies" by capitalization and revenue</b>					
Google	Brin/Page/Schmidt	United States	197.0	23.7	43
Yahoo!	Yang	United States	23.6	6.5	27
Apple Inc.	Steve Jobs	United States	164.1	4.0	55
AOL	Diversified	United States	2.5	3.3	12
Microsoft	Gates/Ballmer	United States	211.0	3.1	43
News Corp.	Murdoch and others	United States/Australia	26.5	2.4	45
IAC (Ask)	Diller/Liberty Media (Malone)	United States	2.5	1.4	15
CBS	Redstone	United States	27.6	0.6	14
Facebook*	Zuckerberg	United States	15.0**	0.15	NA
Wikipedia	Jimmy Wales Volunteer Foundation	?		Patron	?

**“Big 10 telecoms companies” by capitalization and revenue**

AT&T	Diversified	United States	165.4	123.0	0
Verizon	Diversified	United States	94.0	107.8	0
NTT	Diversified	Japan	49.7	104.1	0
Deutsche Tel	Diversified	Germany	64.3	90.1	56
Telefonica	Diversified	Spain	127.5	79.1	65
Vodafone	Diversified	United Kingdom	92.1	70.5	87
France Tel	France	France government (27%)	66.1	64.1	56
Tel. Italia	Diversified	Italy	30.0	37.9	20
BT	Diversified	United Kingdom	8.7	36.8	22
Sprint Nextel	Diversified	United States	10.9	32.3	0

**“Big 10 ICT companies” by capitalization and revenue**

Nokia	Diversified	Finland	47.4	57.1	57
Microsoft	Gates/Ballmer	United States	211.7	43.5	43
Apple	Steve Jobs	United States	164.1	32.5	55
Cisco	John Chambers	United States	130.4	36.1	46
Oracle	Larry Ellison	United States	98.0	23.2	56
SAP	Diversified	Germany	58.0	14.9	80
Ericsson	Diversified	Sweden	29.4	27.2	98
Sony	Diversified	Japan	20.2	57.0	75
Motorola	Diversified	United States	17.9	22.0	46
Alcatel-Luc.	Diversified	France	7.7	21.1	91

Note: Revenues for cross-listed firms were allocated by sector. ICT list compiled to include firms most relevant to media and internet advertising. \*Facebook is a private firm, \*\* estimate based on Microsoft investment of US\$240 million for 1.6 percent share.

Sources: Compiled using OECD (2008, 2009), Comscore (2010a), and Corporate Annual Reports and Bloomberg (2010), for each company.

Table I.2 The “big 10 network media, entertainment, and internet industries,” 1998–2010 (global revenues, millions, US\$)

	1998	2000	2004	2008	2009	2010 (estimate)	% change
Television	202,893	243,322	279,971	342,509	334,461	351,300	+73
Internet access	15,556	35,483	110,370	210,788	228,060	247,453	+1,490
Newspapers	142,794	156,641	174,395	174,723	154,887	149,317	+4.6
Books	94,442	97,340	103,407	109,485	108,201	108,516	+15
Film	46,484	52,803	82,834	82,619	85,137	87,385	+88
Magazines	69,814	76,972	75,817	79,931	71,475	69,548	-0.4
Music	51,201	54,000	62,955	66,802	68,436	71,410	+40
Radio	38,289	45,658	67,696	75,243	67,269	68,298	+93
Internet advertising	953	6,533	17,922	58,068	60,568	66,176	+6,844
Video games	15,968	17,738	27,807	51,390	52,507	58,168	+264
Total	678,394	786,490	1,003,174	1,251,558	1,231,001	1,277,571	+88

Note: I have taken the internet out of the telecoms sector and put it into the “network media.” Revenue for ICTs was extrapolated from figures for 2008 based on 4.5 percent per annum growth rate identified by IDATE (2009).

Sources: PWC (2003, 2009), PWC (2010: 33) for all segments, and IDATE (2009).

*and Media Outlook* by PWC that I use heavily in this introduction, for example, is US\$1,500 per edition for a single user or US\$6,000 for a library license. Online information sources such as Alexa.com, Comscore, Experien Hitwise, and Internet Stats World also offer timely data on internet use, some of which are free.

All approaches to the political economy of media take it as axiomatic that the media industries—the structure of the markets they operate in, their patterns of ownership, the strategies of key players, trajectory of development, and so on—are important objects of analysis. As Figure I.1 shows, ICTs are the biggest of the three sectors, with revenues of US\$1,817 billion in 2009 versus US\$1,326 billion for telecoms (excluding internet access)<sup>3</sup> and US\$1,231 billion for all 10 segments of the network media industries *combined*. In total, the network media industries, telecoms, and ICTs had worldwide revenues of US\$4,374 billion, or about 6.5 percent of global GDP, in 2009 (IDATE 2009: 24). The social ecology of information is, by definition, “priceless” and is valued by different criteria (see below). Table I.1 identifies some basic descriptive characteristics of the “big 10” firms in each of the network media, telecoms, internet, and ICT industries: that is, capitalization, ownership, total revenues, global receipts, and national base. One other point that can be quickly sketched here is the rapid growth of the internet from about 200 million users worldwide in 1998 to 2 billion in 2010. The tectonic shift in the center of gravity of internet use to Asia, notably China, from the United States and Europe over this period also stands out (International Telecommunications Union (ITU) 2010: 201; see Figure I.5).

Two other features in Table I.2 are important for the discussion that follows. First, the network media industries nearly doubled in size between 1998 and 2010. The steady upward trajectory was interrupted in 2009 in the wake of the global financial crisis, but this was followed by the expectation that total revenues will clamber back to new heights in 2010 (PWC 2010; IDATE 2009). Otherwise, *every* segment of the media industries has grown, except for newspapers and magazines, which seem to have peaked in 2004, stayed steady afterward until 2008, before falling in the 2 years since. This trend strongly challenges claims that the traditional media are “in crisis.” Matters are not as clear-cut with respect to newspapers, however, with some arguing that the industry is in demise (McChesney and Nichols 2010; Goldstein 2009; Scherer 2010), while others claim that the fate of the newspaper business has always closely tracked the ups and downs of the economy, thus suggesting that the current state of the press reflects long-term trends rather than a crisis, per se (Garnham 1990; Picard 2009; OECD 2010: 6). I return to a detailed examination of these questions below.

The last word for now on Tables I.1 and I.2 and Figure I.1 relates to the concept of the “social ecology of information,” an idea that I appropriate mainly from Yochai Benkler’s (2006) account of the expanding diversity of

media and informational forms that are created for reasons other than money and profit. The “social ecology of information” has no direct, measurable economic value but instead should be seen as sitting in the background of the network media, ICTs, and telecoms domains as well as straddling both the market and nonmarket areas of life.

The “social ecology of information” concept is novel, but it is not new because all societies possess deep “stocks of knowledge” (Melody 1987; Polanyi 1944/1957). These “stocks of knowledge” are typically taken for granted but appear to be gaining greater visibility by being dis-embedded from their ordinary contexts and re-embedded in the flows of communication enabled by digital technologies.<sup>4</sup> The fact that the internet pushes the ability to create and share information, by design, outward to the edges of the network and into the hands of more speakers extends and deepens such processes. This, of course, allows the market to penetrate into more and more domains of life, as many critical political economists argue (Mosco 2009a; Schiller 1999a), but it has also breathed new life into the social ecology of information as well (Benkler 2006; Lessig 1999).

The online encyclopedia, Wikipedia, is the poster child for these ideas, given that it relies on volunteer contributors, does not accept advertising, and is based on an alternative model of property, that is, the GNU Free Documentation License. Wikipedia is also the fifth most visited website in the world, another indication that the social production of information is not peripheral to either the internet or to digital media economies but is central to them (see Table I.2). The social ecology of information concept also reflects the fact that, historically, many foundational features of the internet—the WWW, Mozilla, Netscape, Yahoo!, Lycos, Google, TCP/IP, Linux, the hyperlink structure, and so forth—emerged from the public domain or “digital commons” (Lessig 2004).

The social ecology of information also retrieves an idea advanced by Aristotle more than two millennia ago, who observed that people devote some of their labor to meeting their own needs (i.e. *self-production*), the needs of others with whom they share a social bond (i.e. *the community*), and commerce (i.e. *the market*) (Swedberg 2005). These “multiple economies” are present in all societies and represent one more reason for using the plural “economies” in the title of this book. Lastly, the social ecology of information concept highlights another feature of *all* theories of media political economy: the understanding that information and communication are “strange commodities” or, in the language of neoclassical economics, public goods. As communication scholars grasp, communication uses peculiar symbolic expressions (language, symbols, images, gestures, thoughts) that do not conform to conventional definitions of products. Communication, and the media of communication, provides the “stuff” from which we build our sense of self-identity, our perceptions of the world, and social ties with others; it is a source of pleasure and conviviality and the basis upon which societies are organized. In other words, both the social

ecology of information and a broad view of our domain offer a more expansive view of communication than the conventional concept of “public goods” in neoclassical economics. As Robert Babe (1995) provocatively concludes, taking all of these ideas into account would lead to a fundamental transformation of economics into the political economy of communication.

## Big sweeping trends, critical details, and political economies of the media

Political economies of the media evolve in relation to developments in their objects of analysis—media institutions, technologies, markets, and society—and to changes in scholarship. The fact that so much is changing around us means that we must be open to theoretical revision more than ever. People who embrace political economy do not just sit back passively on the receiving end of these changes but try to influence them by, among other things, doing policy-relevant research and fostering knowledge that can be used by social and media reform and activist movements. Just how closely scholarship should be tied to political ends, however, is a hotly contested issue, as we will see.

In the latter half of the 1990s, it seemed easier to speak confidently about globalization, particularly in its Anglo-American or neoliberal version, the consolidation of national and global media conglomerates as well as the wholesale triumph of the commercial media model of development that had first been staked out in the United States and subsequently exported around the world. However, it was the techno-enthusiasts who seemed to crow loudest, predicting the imminent demise of television (Gilder 1994), the music business (Barfe 2003), the press (Negroponte 1995), radio, and in short, the “old media regime” entirely due to the rapid growth of the internet (Thierer and Ekselsen 2008: 31).

Many critical media political economists responded to such triumphalism by taking an opposing tack, arguing that the “enormous market power of the media giants” gave them the capacity to “colonize the internet” (McChesney 2000: xxii). The unprecedented US\$350 billion amalgamation of AOL–Time Warner in 2000 appeared to confirm just such prospects (Bagdikian 2004: ix). The fact that AOL immediately abandoned its role as an outspoken advocate of the need for all internet service providers (ISPs) to have open and nondiscriminatory access to cable and telecoms networks to deliver their services to customers did not bode well either. This was especially true in light of the fact that AOL had played a lead role funding open access movements in the United States and Canada in the late 1990s, chalking up significant victories along the way. Once AOL–Time Warner was in place, however, vertical integration, synergy, cross-promotion, and portals designed as “walled gardens” became the “new norm.”



AT&T's resurrection as a dominant player across telecoms, media, and internet in 1998 also fueled concerns that the open, end-to-end internet was being sacrificed on the altar of corporate consolidation and convergence. The company's Internet Services CEO, Daniel Somers, further stoked the flames by exclaiming, "AT&T didn't spend \$56 billion to get into the cable business to have the blood sucked out of our veins" (quoted in Lessig 2000: 995). Legal decisions at the time giving AT&T the First Amendment right to program, edit, and control its network as it saw fit also seemed to bless the corporate takeover of the internet (*Comcast Cablevision v. Broward County* 1999). Telefonica's (Spain) purchase of Dutch television producer Endomol (e.g. "Big Brother," "Fear Factor," "Deal or No Deal") and the ISP Terra Lycos as well as the French utility and telecoms provider Vivendi's acquisition of Universal Film Studios indicated that these trends were global. As Peter Curwen (2008) observed in 1999, in the first of an annual series of articles published over the following decade, "the era of the telecoms, or perhaps more appropriately simply 'coms,' dinosaurs bestriding the world is upon us" (Curwen 2008: 3). Or was it?

The above examples were part of a bigger, global trend. Indeed, as Figure I.2 depicts, two powerful waves of consolidation, the first from the mid-1990s to 2000, followed by a more modest surge from 2003 to 2007, fundamentally restructured the network media industries. The first wave of mergers and acquisitions began in the United States in *anticipation* of the Telecommunications Act of 1996 and rippled outward as one country after another opened their markets. The 1997 World Trade Organization's *Basic Telecommunications*

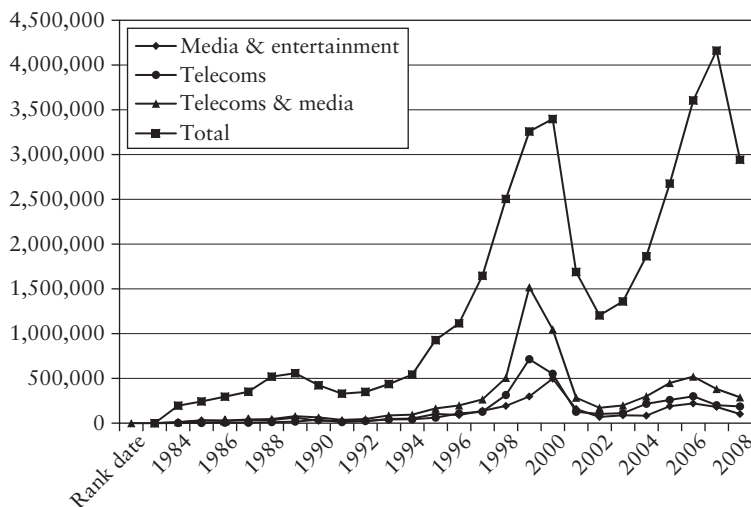


Figure I.2 Worldwide mergers and acquisitions in the media and telecoms industries, 1984–2008 (millions, US\$)

Source: Thomson Reuters (2009).

*Agreement* consolidated these trends on a global scale. In the final 3 years of the 1990s alone, the capacity of global telecom networks multiplied 100 fold because of massive levels of investment and rapid development of the internet (Brenner 2002; Federal Communications Commission (FCC) 2000). These trends did not add up to deregulation, however, as the number of telecom and media regulators worldwide skyrocketed from just 14 in 1990 to 100 in 2000, to 150 today (ITU/UNCTAD 2007: 66). The mandate of these agencies, however, is not primarily to serve as a check on unbridled market forces but to deepen and extend them.

These dynamics fueled the rise of massive communication and media conglomerates that, at least for a time, stood at the apex of a rapidly converging communication environment. In the United States, vertical integration between all the Hollywood film and major US television networks reached unmatched levels, with Rupert Murdoch's News Corp. leading the way by combining Twentieth Century Fox film studios with the launch of Fox television (1985/86), Sony's acquisition of Columbia (1989), Time and Warner's merger in 1989 and launch of the WB network (1995), Disney's takeover of ABC (1995), Viacom's merger with CBS (1999), and later in the game, as General Electric-NBC purchased Universal Studios in 2004 (Winseck 2008). Elsewhere, particularly in midsize media economies such as Latin America and Canada, as Chapters 2 and 6 in this book show, family-owned media businesses morphed into huge media conglomerates, with some taking advantage of globalization to expand abroad and diversify (especially Televisa, Cisneros, Globo, and Canwest).

At the same time, however, and especially in Latin America, these large media groups remain at a crossroads, with ample opportunities to expand but their options hemmed in by the potential for powerful telecoms-based rivals to enter their domains, on one side, and by the more assertive regulators, on the other. In Latin America, media reform is now on the agenda in ways that would have been unthinkable a decade ago. Elsewhere, governments in Australia, Britain, Canada, the European Union, and the United States, among others, have conducted more examinations of media concentration in the past decade than the previous quarter of a century combined, and there is mounting public and scholarly interest in the issue (Baker 2007; Canada 2006; McChesney 2008; Noam 2009; Rice 2008; United Kingdom, House of Lords, Select Committee on Communications 2008). All in all, these are additional signs indicating that we may be witnessing the "return of the state" and standing on the cusp of a post-neoliberal era.

By the end of 2000, the TMT bubble had burst and with it many of the earlier prophesied scenarios failed to materialize. A decade after his 1999 article, Peter Curwen (2008) reached a very different conclusion, stating that rather than a handful of "coms dinosaurs" straddling the earth, "a settled structure" for the telecoms, media, and technology sector "remains a mirage" (Curwen 2008: 3). In fact, several bastions of the "old order"—Time Warner, AT&T, Bertelsmann,

Vivendi, and ITV, among others—have been restructured or dismantled since the turn of the century. Others have crashed entirely (Kirch Media, Adelphia, Canwest, Knight Ridder, etc.) or now stand on the brink of financial ruin (e.g. the Prisa Media Group). In 2005, Telefonica sold its stake in Endomol to Mediaset, the giant media group owned by Italian Prime Minister Silvio Berlusconi. Some elements of the media, the press in particular, appear to be in grave trouble, as venerable titles such as *The New York Times*, *Le Monde*, the *Guardian*, *Chicago Tribune*, and *LA Times* struggle to attract new benefactors, hive off parts of their operations, and lay off media workers in droves. By 2009, the severity of the situation led the Conservative Government in France to bail out the daily press at a cost of US\$800 million. In the meantime, websites such as [papercuts.org](http://papercuts.org) and [newspaperdeathwatch.com](http://newspaperdeathwatch.com) chronicle the carnage. As the Project for Excellence in Journalism (2009: 2) stated, this is one of the “bleakest” moments in history for journalism and the press in the United States (cf. Almiron 2010; McChesney and Nichols 2010; OECD 2010; Picard 2009; Scherer 2010; Starr 2009).

### Which media political economy?

Making sense of this dynamically shifting terrain turns on the theoretical views and methods that we adopt. As indicated earlier, there is a tendency to see the political economies of media as constituting a single field (McChesney 2008; Mosco 2009a; Hartley 2009; Holt and Perren 2009). David Hesmondhalgh (2007, 2009a) offers an important exception in this regard by distinguishing between the McChesney–Schiller model and the cultural industries school, but even this framework strains to contain the diversity of views on offer. Here I broaden the lens to include the following: (1) conservative and liberal neoclassical economics, (2) radical media political economies (the monopoly capital and digital capitalism schools), (3) Schumpeterian institutional political economy and two of its contemporary progeny, the creative industries and network political economy schools, and (4) the cultural industries school.

### Neoclassical political economy

The neoclassical approach is probably the most well-known school, instantly recognized by its stress on the “marketplace of ideas” in democratic societies. The heritage of John Milton’s *Areopagitica* (1644) through to John Stuart Mill’s *On Liberty* (1859) and the views of US legal jurist Oliver Wendall Holmes Jr in the early twentieth century, among others, offer a treasure trove of liberal

ideas about free markets and free speech that have been retrospectively fused together into the concept of the “marketplace of ideas”—a neat and tidy bit of phraseology that has lent the neoclassical cannon much rhetorical appeal ever since (Peters 2004: 79).

The two main wings of the neoclassical school—conservatives and liberals—are mainly divided over how each sees the potential for market failure and the role of governments. The latter are more open to the idea that markets sometimes fail and that governments will occasionally need to step in to set things right. However, in both cases, State intervention should be minimized to providing meritorious public goods (e.g. museums, libraries, and “high art and culture”), bringing a small number of essential services to areas not served by private business (e.g. broadband internet to rural communities), and striking a balance between the public good qualities of information versus protecting its status as valuable property. Conservative economists are likely to stress the need for strong government intervention to protect private property rights in information, while their liberal counterparts are more inclined to promote the idea that the wider the information is spread the more valuable it is. Information is a public good because after the high cost of producing the first copy of information is absorbed, the subsequent cost of reproducing, transmitting, and storing it declines quickly to zero—qualities that have been amplified greatly by digital communication technologies. Furthermore, when I consume information, it is still available for others to enjoy (i.e. it is non-rivalrous). For these reasons, the cost of excluding people from information is socially and economically inefficient, a conclusion that leads many economists to oppose strict copyright rules (e.g. Atkinson 2010: 13; Hayek 1945: 519; Pool 1990).

For neoclassicists, especially on the conservative and libertarian side, any notion that information is scarce is a delusion. As Adam Thierer and Grant Eskelsen (2008) of the US Progress and Freedom Foundation exclaim, “*to the extent there was ever a ‘golden age’ of media in America, we are living in it today*” (Thierer and Eskelsen 2008: 11, italics in original). In this view, the enormous growth of television networks and cable and satellite channels—MTV, HBO, ESPN, al Arabiya, Al-Jazeera, Canal1, to name just a few—has created a cornucopia of choice. Throw into this mix the internet, with its endless well of web pages, news sites, social media, music and video downloading services, and the freewheeling commentary of millions of blogs, and any concerns with media concentration are obsolete. Indeed, media markets have been utterly transformed by the proliferation of new technologies. Goldstein (2007) depicts the magnitude of these changes by comparing the state of the television universe in the 1970s versus today, as shown in Figures I.3 and I.4.

The above-mentioned authors argue that all of the layers in the media system—(1) media content, (2) media distributors, (3) media reception

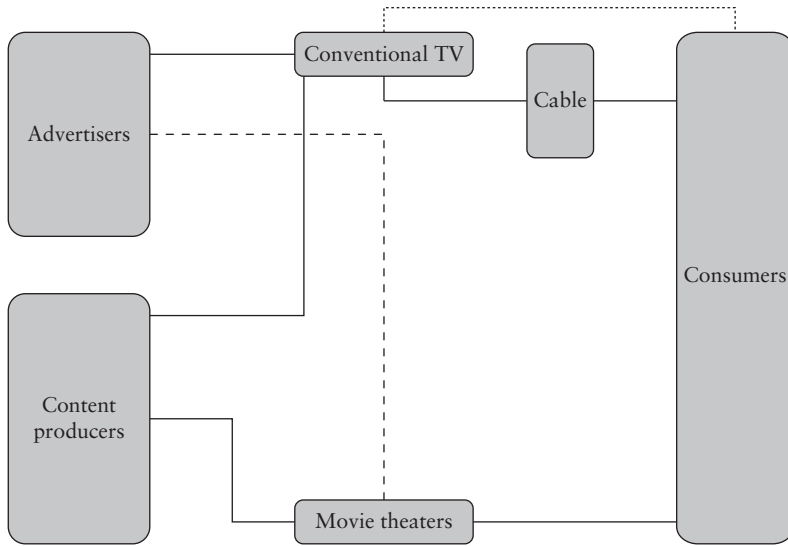


Figure I.3 Television in the video continuum value chain, circa 1975

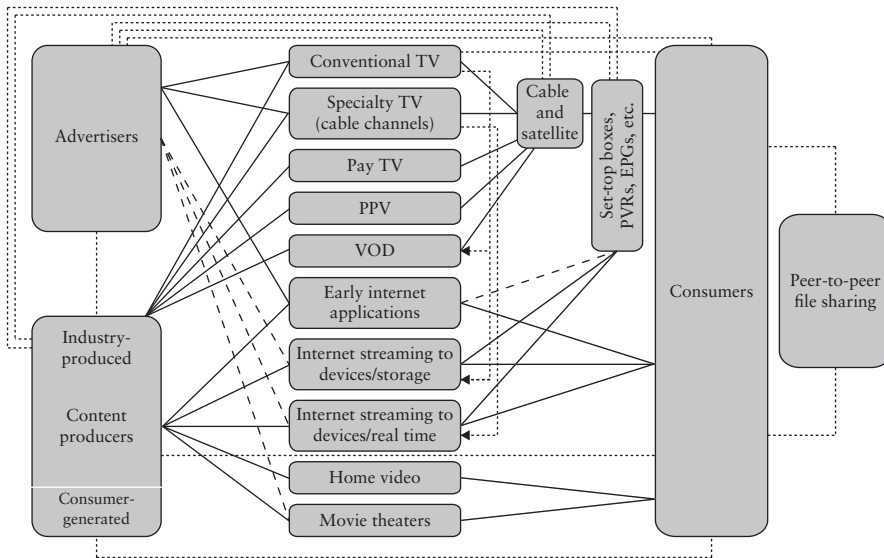


Figure I.4 Television in the video continuum value chain, circa 2007–12

Source: Goldstein (2007: 15–16).

and display devices, and (4) personal storage options—have become more fragmented and competitive than ever (Thierer and Eskelsen 2008: 13; Goldstein 2007: 17). Digitization and convergence are drawing different players from the media, telecoms, internet, and ICT industries into a common

field of competition. The portrait that emerges is of a complex media ecology organized as so many Lego building blocks that can be snapped together in an endless array of personal choices. If there is a problem, it is not media concentration but that fragmentation is eroding any sense of a common culture (Goldstein 2007; Sunstein 2007).

Of course, not all dimensions of the media conform to the textbook ideals of competitive markets. The existence of potential rivals, for example, to broadband internet networks providers—cable systems, telecom operators, satellite systems, IPTV, wireless cable, public utilities, VOIP, and so on—reveals a contestable market. In contestable markets, incumbent players do have opportunities to abuse their dominant position, but they are constrained by the prospect that rivals on the horizon could become real competitors in practice (Atkinson 2010: 8). Attempts by regulators to correct even limited cases of market failure, it is argued, will make matters worse. For instance, retaining limits on media ownership confers enormous advantages on new rivals such as Apple, Microsoft, Google, Facebook, and Yahoo!, which tend to have capitalization levels greater than traditional media firms and are almost completely unregulated (Thierer and Eskelsen 2008: 20–5). To take another example, attempts to regulate broadband networks are seen as interfering with the property rights of network owners, discouraging investment, and short-circuiting market forces in setting private companies’ “business models” (Yoo 2008). In the United States, such claims underpin the telecoms and cable companies’ opposition to municipal broadband networks and their successful efforts to have many state legislatures pass laws that prohibit such initiatives—despite evidence from other countries that such initiatives have played a vital role in extending broadband internet services faster than would otherwise have been the case (Benkler *et al.* 2010).

Taking these ideas altogether, MIT economics professor Benjamin Compaine (2001) argues that the “marketplace of ideas ... may be flawed, but it is ... getting better, not worse.” As he states, looking at the information industries as a whole, even the largest firms are but tiny specks in the competitive universe. In response to critics who argue otherwise, Compaine offers a terse, one-word retort: *internet*. And if a lack of internet access is a problem, its rapid spread will solve the problem soon enough (Compaine 2005: 574).

Columbia University professor of finance and economics, and author of the authoritative *Media Ownership and Concentration in America* (Noam 2009), Eli Noam is another well-known neoclassical economist, but his approach and the conclusions he reaches set him apart from those just addressed. Noam argues that objective economic analysis of the media industries is essential. However, he laments the fact that such studies are rare because ideology tends to color the analysis of most observers, critics tend to overburden the media with all of societies’ ills, and most analysts do not clearly specify what elements of the media they are studying (also see Hesmondhalgh 2009a: 249). Noam

singles out the work of Ben Compaine and Ben Bagdikian with respect to this latter point. Compaine's overly broad conception of the "information industries," he says, dilutes any potential for concentration to be found. In contrast, Bagdikian's specification of the media is so vague that it is all but impossible to meaningfully assess his dire claim that the number of giant media corporations controlling the bulk of the US media plunged from 50 to 5 between 1984 and 2004 (Noam 2009: 3–22).

Noam (2009) responds to these problems by developing a broad definition of the information industries that covers 100 sectors and divides these into four groups: electronic mass media, telecoms, internet, and ICTs (Noam 2009: 4). He assesses the changes in market structure from 1984 to 2005 in the United States for each sector, then combines them at successively higher stages of abstraction to portray trends over time for each group, and then for the "information industries" as a whole. Several important results emerge: First, a "U-shaped" pattern can generally be seen for each level of analysis, with concentration declining in the 1980s (under Republican administrations), rising steeply in the 1990s (during the Clinton administrations), before plateauing in the 2000s (under Bush II). Overall, concentration in the media, telecoms, ICTs, and internet is more serious than Compaine suggests but not as catastrophic as Bagdikian alleges. In the mass media, the top firm in each sector typically accounts for just under a quarter of the market, followed by three others with 10 percent market share each, and many small players rounding out the rest. Companies in one sector, however, "are not necessarily the same firms across the various industries" (Noam 2009: 5). For the mass media as a whole, the top five companies' share of the market doubled from 13 percent in 1984 to 26 percent in 2005—half the level cited by Bagdikian but substantial all the same (Noam 2009: 5). Lastly, Noam demonstrates that the internet is neither an antidote to media concentration nor immune to such outcomes. In fact, many dimensions of the internet exhibit high, and growing, concentration: search engines, ISPs, broadband internet, web browsers, and media players, among others (Noam 2009: 290–3).

Noam offers several valuable lessons. First, his findings are historically informed and reflect a liberal temperament, where an open mind and systematic research are deployed to discover answers to meaningful questions. Second, he shows that consolidation is not foreign to the media industries but endemic to them. Third, he argues that digitization is creating stronger economies of scale, lower barriers to entry, and digital convergence. In the end, Noam concludes that a two-tier media system is crystallizing around a few "large integrator firms" (e.g. Apple, Google, and traditional media conglomerates), surrounded by numerous smaller, specialist firms (Noam 2009: 33–9). Ultimately, whether the future of the media is bright or bleak will largely turn on us and politics.

## Radical media political economies: the monopoly capital and digital capitalism schools

Radical media political economies have a long and diverse set of influences that have shaped their development. One thing held in common, however, is that the neoclassical claim to being a “value-free” science is seen as being neither tenable nor desirable (Babe 1995; Murdock and Golding 2005; Mosco 2009a).

I want to initially focus on the scholarship of Robert McChesney because he has been a key figure in the monopoly capital school for over a decade. Many critics claim that the monopoly capital school, and McChesney’s work specifically, is thin on theory; weak on history, method, and evidence; and that it rests on the dubious media effects tradition (Hartley 2009; Hesmondhalgh 2009a; Holt and Perren 2009). Some of these claims hit their mark, but many critics misconstrue the monopoly capital school, and McChesney’s work specifically, and thus are wide off their target.

McChesney takes the media industries as serious objects of analysis, both in the United States and globally, and places greater emphasis on the “public good” characteristics of journalism and media goods than neoclassical economists. This is not because he is prone to wishful thinking but because information and media goods are “public goods,” as we saw earlier. Seen in the light of free press principles and theories of democracy, we all benefit from living in a society where quality journalism and a rich media environment exist, whether we directly consume these “goods” or not. Indeed, it is hard to argue with the idea that it is better to live in a society of knowledgeable and tolerant citizens rather than ignorant and parochial ones (cf. Baker 2007).

The problem, however, is that news and information goods that lack effective commercial demand will be underproduced in the media marketplace—*unless* they are subsidized by advertising or some other form of subsidy (e.g. public license fees for the BBC, access to spectrum and public rights-of-way, copyright). The advertising-for-journalism *quid pro quo* has always been the bastard child of free press theories because it expects commercial media to take on responsibilities that they are ill-equipped, and often unwilling, to do, not least because *by law*, if not just by the laws of capitalism, they must maximize shareholder profits (Baker 2007: 100–21; Curran and Seaton 2003: 345–62; McChesney 2008). McChesney and Nichols (2010) argue that the advertising-for-journalism model, while always a thin reed to begin with, is on the verge of collapse as internet companies such as Google, Yahoo!, Craigslist, and so on pick apart advertising functions from news and journalism functions. The migration of advertising revenue to the internet, coupled with the fact that companies such as Google and Yahoo! create little original content of their own, means that the engine of journalism in the United States is being gutted with no adequate replacement



in sight. Add to this the unfolding of the global financial crisis since 2007–8, and these blows could be fatal (cf. Davis 2009; OECD 2010; Scherer 2010; United Kingdom, House of Lords, Select Committee on Communications 2008 for related concerns in Europe and the United Kingdom).

In contrast to critics' charges, McChesney's analysis relies on a fairly extensive body of historical material, especially relative to the standards of the field. I disagree with him on three important points of media history—that is, the “struggle for control model of global media history” that he and Herman use in *The Global Media*, the claim that the definitive historical moments in the early politics of radio in the United States fell between 1927 and 1934 (rather than 1918 to 1926), and a reading of the 1996 US Telecommunications Act that leads him to conclude that it was a complete capitulation to the incumbent telecom and media players negotiated outside of public view (McChesney 2008). That said, however, McChesney has “rediscovered” the history of radical media and media criticism in the United States; his account of radio history makes extensive use of archival material, and his recent book *The Death and Life of American Journalism* (2010) (with John Nichols), uses some of the best scholarships available on the history of the press, post office, and journalism in the United States. Indeed, the bibliography is as impressive as it is long, and the belief that the First Amendment bars the government from implementing policies to help foster high-quality journalism and a good media system is convincingly discredited.

Behind the regularly updated ranking of the small number of mega-conglomerates that McChesney sees as controlling the media industries, he uses a respectable and straightforward “three-tier” model of national and global media systems. In this theoretical model, the first tier consists of 6 to 10 major media conglomerates that dominate film, television, music, radio, cable and satellite, publishing, and internet, followed by another 15 to 20 firms in the United States, and about three dozen worldwide, that makeup the second tier. The actions of the latter, in turn, are constrained by the contexts set by large global media conglomerates, a grouping that most analysts would probably agree includes some variation of the following list: Disney, Comcast, News Corp., Viacom–CBS, Time Warner, Bertelsmann, Sony, NBC-Universal, Thomson Reuters, and Pearson. Finally, the third tier consists of thousands of tiny voices that “fill the nooks and crannies of the media system” (McChesney 2004: 183; Herman and McChesney 1997: 70–1; McChesney and Schiller 2003: 13; Castells 2009; Noam 2009). Ultimately, the whole of the media system is stitched together by strategic alliances that blunt the sharp edge of competition. In sum, the conditions of monopoly capitalism replace those of competitive capitalism, leaving the *liberal ideals* of the “free press” and democracy in tatters as a result (McChesney 2008: 13–14).

Ultimately, McChesney's is not only an academic argument but also a political one designed to inspire people to challenge the prevailing state of affairs.

And if that is a key measure of success, then by all indications McChesney has been hugely successful. He has put media political economy on the map in an unprecedented way, and the media reform group, *Free Press*, that he created (December 2002) with Josh Silver and John Nichols has had a major influence on media politics. Finally, there are limits to his method, as there are with *any* method, but as Noam (2009: 21) states, “one can quibble with some of McChesney’s data,” but it is not bad.

The main weakness of the monopoly capital school is its view of the media industries as a giant pyramid, with power concentrated at the top and not enough attention paid to the details of key players, markets, and the dynamics and diversity that exist among all the elements that makeup the media. Even a friendly critic like Vincent Mosco (2009a) is at pains to take his distance from the monopoly capital school on the grounds that its focus on big media behemoths embodies a static view of the world that blots out issues of class, race, gender, and other standpoints of resistance, especially labor (see Mosco 2009a: 27, 113, 133). In contrast to hostile critics, however, Mosco (2009a) seeks to establish a dynamic view of the political economy of communication, which he defines as being the “*study of the social relations, particularly the power relations, that mutually constitute the production, distribution, and consumption of resources*”; more broadly, it is “*the study of control and survival in social life*” (Mosco 2009a: 24–5, italics in original). He also identifies four characteristics—history and social change, social totality, moral philosophy, and praxis—of this approach that anchor communication studies in a dynamic Marxian ontology, or in other words, a view of the world that is constantly in motion, with the play of its parts all set amidst a broader set of dynamic processes and forces (Mosco 2009a: 26; Murdock and Golding 2005: 61; Chapter 9 in this book). This is the core of the digital capitalism view.

In contrast to Daniel Bell’s (1973) idea of a “postindustrial society” or Manuel Castells’ (2009) recent claim that networks have become the axial principle of social organization in the “network society,” the digital capitalism approach, as Dan Schiller (1999a) states, views “networks as directly generalizing the social and cultural range of the capitalist economy” (Schiller 1999a: xiv). Rather than emphasizing the *differences* between “industrial societies” of the past and “information societies” of today, the digital capitalism school stresses the underlying *continuity* of capitalist principles of exchange and social organization within both periods. In this view, the media in capitalist societies have always been important businesses in their own right and served to deepen the processes of commodification. Initially, this was done *indirectly* because commercial media relied on advertising for their financial base, instead of direct payments from consumers. Now, however, *direct commodification* is playing a greater role because digital media make it easier, more efficient, and effective than ever to monitor, measure, and monetize the value of content,

audiences, and information. Thus, far from constituting a rupture with the past, *the* “central tendency” of digitalization “is to deepen and expand the capitalist market system” (Mosco 2009a: 120).

There is no doubt that a dynamic ontology needs to be at the heart of political economy of *any* kind, but Mosco’s effort to shift the focus from *institutional structures* to *dynamic processes*, by and large, abandons the terrain of the media industries as serious objects of analysis. Second, the effort substitutes overly unified *processes* of capitalist integration for a unified *structural* view of the media. Overall, neither version of radical media political economy pays sufficient attention to the complexity of the media industries, the reasons for this diversity, and the pervasive role of uncertainty across all levels of the media (Bustamante 2004: 805; Garnham 1990: 38; Garnham 2005: 18). Writing nearly a quarter of a century ago, Bernard Miège (1989) crystallized the gist of these criticisms in a slim but extremely valuable volume, *The Capitalization of Cultural Production*.<sup>5</sup> Those criticisms are probably even more relevant today than when they were first expressed. They are as follows:

- First, the line between culture and commerce is artificial and ignores the fact that culture has developed *within* industrial capitalism for the past 150 years. The “distrust of technology and artistic innovation” implied by such views is excessive and unnecessary (Miège 1989: 10).
- Second, referring to the industry or “system” “in the singular misleads one into thinking that we are faced with a unified field, where the various elements function within a single process ... The cultural industries are complex, and an analysis must bring out the reasons for this diversity” (Miège 1989: 10).
- Third, “new communication technologies ... contribute to tightening the hold of capitalist production over culture as well as communication, [but] this does not mean that the capitalist industrialization of culture has been fully realized” (Miège 1989: 11)

In other words, the monopoly capital school overemphasizes the tendency toward market concentration, while the digital capitalism school (or Frankfurt school before it) overplays the ineluctable colonization of the lifeworld by market forces and the one-dimensional commodification of all cultural forms, even oppositional ones.<sup>6</sup> These criticisms have been dealt with in several different quarters ever since. In Britain, some neo-Marxian political economists such as Nicholas Garnham, Graham Murdock, Peter Golding, Colin Sparks, and James Curran have responded through a series of (not always friendly) historical encounters with the cultural studies of Raymond Williams, William Hoggart, E.P. Thompson, and the Birmingham school (especially Stuart Hall) (see the chapters by these authors, for example, in Calabrese and Sparks 2004).

They have also paid far greater attention to the coevolution of communication and modernity (Murdock 1993), and been more sensitive to arguments from popular cultural theory about audience autonomy. Several dimensions of this “sensibility” are shared with the cultural industries school as well. Therefore, instead of covering the well-trodden and disputatious terrain between neo-Marxian political economy and cultural studies, the bulk of these points can be addressed by a discussion of the cultural industries school. Doing this will also help to avoid bringing in a bevy of additional writers to whom justice cannot possibly be done and which would not do much to advance the core elements of this introduction anyway. Yet, before turning to the cultural industries school, I want to discuss what I will refer to as Schumpeterian institutional political economy and two of its contemporary progeny, the creative industries and network political economy schools. This is vitally important because Schumpeterian-derived approaches to institutional political economy have long played a pivotal role in scholarship and policy-oriented research, although more outside the field of communication and media studies than from within, and because, as we will see, the cultural industries school itself has developed in crucial ways through ongoing critical conversations with one or another version of this approach.

### **Creative destruction: Schumpeterian institutional political economy, the creative industries school, and network political economy**

The ideas of Joseph Schumpeter are the pillars of the network political economy and creative industries schools. His views also underpin a wide range of other approaches, from information economics to the monopoly capital school (Foster and Magdoff 2009; Freeman and Louca 2001; Pool 1990; Garnham 2000). William Melody (2007a) captures some of the essence of this broad appeal when he observes that “the ‘creative destruction’ associated with the ICT revolution has introduced obsolescence not only for many older technologies, business models, industry structures, government policies and regulations, but for a significant portion of the conventional wisdom and mainstream thinking across all the social sciences” (Melody 2007a: 70).

The Schumpeterian view differs from neoclassical and radical views in four substantial ways. First, technological innovation is the motor of competition in capitalist economies, not price and markets, as neoclassical economists hold. Second, competition through technological innovation creates temporary monopolies and superprofits, but these are likely to be short lived because “superprofits” attract new rivals. Third, Schumpeter (1943/1996) makes the process of “creative destruction” a central fixture in his view of capitalism, which he outlines as follows:

The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory ... illustrate the same process of industrial mutation ... that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is ... what capitalism consists in and what every capitalist concern has got to live in. (Schumpeter 1943/1996: 83, italics in original)

The emphasis on creative destruction as a function of technological and economic forces contrasts with the emphasis on *equilibrium* in the neoclassical view and the Marxist idea that it is people's interaction with the material world (labor) and class conflict that drives socioeconomic change. Fourth, the privileging of technology and economics as "agents" of change over people and social forces embodies Schumpeter's disdain for classical liberal views of democracy and the notion that people have the capacity to govern in complex societies. If radicals and some liberals believe in "strong democracy," Schumpeter held a weak view of "elite democracy." Curiously, a cone of silence has been placed around this aspect in the current revival of Schumpeterian ideas (see Schumpeter 1943/1996: 250–96).

The information economist Ronald Coase (1937) added to these ideas by suggesting that changes in the information environment lead to changes in the organizational structure of firms and markets. Information that is scarce and costly creates bureaucratic hierarchies. This is why the "industrial mass media" of the past were ruled by enormous bureaucratic firms. Conversely, when information costs less to acquire, produce, store, transmit, and consume, markets emerge and hierarchies recede. This idea is central to claims that the steep drop in information costs enabled by digital technologies is tilting the structure, not just of the communication and media industries but society as a whole, toward a much larger role for markets and dispersed forms of socioeconomic organization. A recent OECD (2007a) report expresses this view as follows:

New digital content innovations seem to be more based on decentralized creativity, organizational innovation and new value-added models, which favour new entrants, and less on traditional scale advantages and large start-up investments. ... [U]ser created content has become a significant force for how content is created and consumed and for traditional content suppliers. (OECD 2007a: 5)

The creative industries approach harnesses these ideas to a broad research agenda that examines the disintegration of media work from the confines of the towering hierarchies of media conglomerates and stresses the need for mid- and micro-range studies of media organizations, media work, the participatory web, and other forms of creative expression that have been enabled by the open innovation ecology (Born 2004; Caldwell 2008; Flew 2007, Chapter 3 in this book; Holt and Perren 2009; Pratt and Jeffcutt 2009). These studies also

recast an enduring debate in a new light over whether the creation of cultural goods is best viewed as dominated by global media conglomerates or as a mix of large and small firms that depend on specialized markets, flexible networks of production, unique skills, and social relationships. In several studies in the 1980s and 1990s, Susan Christopherson and Michael Storper (1989) developed and applied an early version of the latter view to an analysis of the film industry. However, in a manner highly relevant to debates today, Asu Aksoy and Kevin Robins (1992) criticized their approach as follows: “Their interest is almost exclusively in examining changes in the film *production* process, and they fail to address the key areas of *film distribution, exhibition and finance*” (Aksoy and Robins 1992: 7, italics added). Variations on this debate continue to be replayed but mainly between creative industries and monopoly capitalism school scholars (e.g. Flew 2007; Miller, Govil, McMurria, Wang, and Maxwell 2005; Moran and Keane 2006; Tinic 2005; see Chapters 3, 4, and 5 in this book).

Terry Flew makes an exceptional contribution to the creative industries approach because he consistently strives to foreground both the centripetal and centrifugal forces at play in the media industries. As Susan Christopherson states in her chapter, however, the bulk of such studies adopt a romantic view of creative workers, even if sometimes battered and bruised by their work, with little sense of how some key elements of the media industries have become more concentrated over time. Also underplayed is the fact that many of these same entities retain control over distribution channels/platforms and the “finance for content property rights” regime that most media professionals labor under to begin with (see Lash and Urry 1994: 113; Garnham 1990, 2000). Three other problems beset the creative industries view. First, by critiquing radical media political economists’ focus on big media, but without doing much comparable research of their own, there is a tendency, ironically, to reify political economy as an unified intellectual approach while relying on the very same sources they criticize to ground their own writing (Grossberg 2006: 20). Second, the approach implies a simplistic distinction between people who work with their heads versus those who toil with their hands. Third, it is vague, leading to some pretty big numbers being tossed around, but with little sense of scale (e.g. Hartley 2009: 236).

In the network political economy school, Manuel Castells and Yochai Benkler extend Schumpeter’s ideas in a different direction. First, instead of seeing changes in the techno-economic and information environment as only affecting the balance of hierarchies and markets, they stress the *role of the state* and also attach much significance to the “social ecology of information,” which they see as growing *alongside* the information marketplace, rather than being subsumed by it, in contrast to radical political economies of media.

Benkler's (2003, 2006) self-described approach to the political economy of information puts technology, individuals, markets, and social justice, in roughly that order, at the center of attention (Benkler 2006: 12–13). He is skeptical of grandiose political philosophical goals but tolerant of State intervention to break up monopolies, expand networks where capital investment is slow on the uptake, and highly critical of the ability of incumbents in the telecom and media industries to bend policy to their own interests. He is keen on the “digital commons,” the social production of information, creativity, pleasure, and the potential of the network media to make valuable contributions to many aspects of life, without being naïve. Benkler (2006) describes the network political economy approach as a way of

framing ... the institutional ecology of the digital environment ... in ways that are more complex than usually considered in economic models. [Institutions] interact with the technological state, the cultural conceptions of behaviors, and with incumbent and emerging social practices that may be motivated not only by self-maximizing behavior, but also by a range of other social and psychological motivations. In this complex ecology, institutions ... coevolve with technology and with social and market behavior. This coevolution leads to periods of relative stability, punctuated by periods of disequilibrium ... caused by external shocks or internally generated phase shifts. (Benkler 2006: 381)

Benkler sees strategic, often incumbent, interests from the telecoms, ICT, and media content industries as being locked in a battle over the future of the information ecology, but not of one mind when it comes to these struggles. Pressures to “flip” the internet from an open network into a more closed system have been a strong, persistent, and sometimes successful part of these efforts (Andrejevic 2007; Benkler 2006; Lessig 1999, 2004; Vaidhyanathan 2004). However, telecom and ICT industries are also sometimes aligned with fans, hackers, and activists in terms of the need to curb the media content industries' copyright maximalist position. At other times, though, they are deeply at odds with the same groups over issues of network neutrality, open source code, privacy, and so forth. These cleavages were revealed during recent hearings on a US Senate bill that aims to give new powers to the Department of Justice, a move that the CEO of the Computer and Communications Industry Association, Ed Black, condemned as follows:

If legislation like this goes through, we start to break the internet ... . Nobody is arguing that copyright infringement doesn't exist. But Lady Gaga isn't going to go broke tomorrow. We should try to solve the copyright issue in as an unobtrusive and thoughtful way as possible and not creating anti-First Amendment laws. (quoted in Sandoval 2010a, np)

Open internet, copyright, and free speech constitute the “holy trinity” of contemporary media politics, with such issues arising in one country after another. Typically, the push is to have ISPs and ICT firms assume

more legal responsibility for protecting copyrighted information. And on each occasion the lineup on each side of the debate is similar. ICT, internet, and telecom firms, along with consumer and freedom-of-expression groups, stand opposed, while the media industries plead that their future hangs in the balance (European Commission 2010; Mansell 2010; United Kingdom 2010). In each case, however, network media politics is conducted strategically. Drawing on Bob Jessop (2008), this means that we need to adopt a conjunctural frame of analysis to understand the nature of such events, rather than a strictly structural or pluralistic approach to politics and policy (Jessop 2008: 34–7).

Ultimately, not all mediated communicative activities are owned, generated, or controlled from within the core of the network media system. Mass self-expression (Castells 2009) and the social production of information (Benkler 2006) have put the power of creative expression into the hands of more people than ever and elevated the logic of the “social ecology of information” in the media as a whole. For Schumpeter’s followers, this *is* a revolution *within* capitalism; for those who follow Marx, however, the prospects of that happening have only been slightly brightened by digital media, if at all (Dyer-Witheford 1999; Chapter 9 in this book; Terranova 2004).

## Mutations: the cultural industries school

Since its inception in the late 1970s, the cultural industries school<sup>7</sup> has always drawn judiciously from different strands of political economy and systematically engaged the different versions of Schumpeterian institutional political economy that have emerged over the years. This can be seen, for example, in the role now played by the concept of “mutations” among the adherents of this approach (see Chapter 1), a concept critically appropriated directly from the passages in Schumpeter’s *Capitalism, Socialism and Democracy* that set out the concept of “creative destruction” (see above). It is also in the foreground of the work of Nicholas Garnham, a leading figure in this school, who also functions somewhat as a bridge between this approach’s European roots and British neo-Marxist political economy of communication. As Garnham (2005) explains, the cultural industries school has always taken “the term ‘industries’ seriously and attempted to apply both a more detailed and nuanced Marxist economic analysis and the more mainstream industrial and information economics to the analysis of the production, distribution and consumption of symbolic forms” (Garnham 2005: 18). In contrast to the “very general model of the capitalist economy” found within *some* mainstream and radical versions of political economy, the emphasis of the cultural industries school is on the unique and specific attributes of the media economy *and*



the persistent *barriers* that impede the wholesale commodification of culture (Garnham 2005: 18; Garnham 1990: 37–40).

The cultural industries school has always advanced the idea that different sectors of the cultural industries cannot be treated as one and the same thing because of the crucial organizational differences that exist between what they called the “publishing” (e.g. books, music, film), “flow” (e.g. broadcasting), and “editorial” (e.g. the press) models. Since that time, and based on the ideas of French Canadian scholars Jean-Guy Lacroix and Gaetan Tremblay (1997), the editorial model has been gradually discarded in favor of a “club” model to reflect the growing centrality of the telecoms, cable, and internet sectors in the production, distribution, display, and consumption of media and cultural products. While the media content industries have *always* developed in close proximity to the communication hardware and equipment industries, Bernard Miège observes in Chapter 1 in this book that the dominance of the TiC sectors over the media content and cultural industries is growing over time, with TiC being the acronym for the telecoms, information, and communication sectors.

The dominant cultural industries model in the twentieth century was the “flow” model, based on the central role of television, radio, and in some respects, film (especially during the Hollywood Studio era). The “flow” model is defined by advertising-supported and public service broadcasting, where the demand for a steady flow of programs/content is met by a handful of gigantic, hierarchically organized firms and large steadily employed media workforces that operate under tight, but not complete, administrative and management structures. Programs/content in the flow model is mostly immaterial and, consequently, is neither possessed nor paid for directly by consumers. Instead, advertisers and government funds subsidize media consumption (i.e. *indirect commodification*).

The publishing model, in contrast, is based on creating a “*catalog of content*” that can be sold directly to consumers in as many ways as possible. It is based mostly on material goods that people can touch and pay for *directly* or rent access to: books, music, video, and film. For these goods, the logic of *direct commodification* prevails. The publishing model is also typified by a core group of companies that commission, finance, package, and distribute content, and own the intellectual property rights to their “catalogs.” Rather than directly creating content, “publisher firms” depend on independently sourced programming and a “flexible” pool of cultural workers who are paid from royalties and employed from one project to another. Originally, this model played a modest role in the overall scheme of things. Since then, however, it has moved closer to the center of the media, first through policy initiatives, such as the creation of Channel 4 in the United Kingdom in 1982, and subsequently as the template for neoliberal capitalism writ large (Lash and Urry 1994).

The “club” model is a hybrid of elements from the publishing and flow models as well as some new characteristics unique to digital media. The

gradual shift from the “flow” to the “publishing” and “club” models reflects the cumulative changes since the 1980s due to the growing centrality of digitization and communication networks (cable, telecoms, DTH, internet, wireless, etc.), corporate consolidation, restructuring and the rise of new players (e.g. Apple and Google), and the proliferation of content receiving and storage devices (Lacroix and Tremblay 1997). These models are being extended through the direct pay model of television and subscription services based on large catalogs of content rather than the scheduled *flow* of programs. Content integrators/aggregators (Noam) exemplify the “publishing” and “club” models, but they simultaneously continue to cultivate audiences’ expectations that content is free. The free culture norm, in turn, does not reflect new expectations, however, but the enduring “sociocultural fact” that information and cultural products are public goods as well as more than a century of socialization by the flow model where most of the costs of media consumption were paid by someone else (Bustamante 2004: 811). The three models of the cultural industries are summarized in Table I.3.

The change from a commercial media model based on *indirect commodification* to one based on *direct commodification* captures an essential feature of these changes. However, this is just a part, albeit an important one, of broader changes that cannot be reduced to a single thing or process, whether technology, market forces, commodification, or corporate consolidation. Instead, they embody a series of mutations, as Miège calls them, that are unraveling the organizational, economic, and technological props that have underpinned the media historically, while reassembling them, with the addition of new elements, into a yet-to-be completed “new digital media order.”

The more intense capitalization of the network media industries that coincided with the two waves of media consolidation from the mid-1990s to, roughly, 2007 is also highly significant in relation to these developments. This is not primarily because they fostered even more media concentration in the media industries (although they did, e.g. see Noam 2009; McChesney 2008) but because they signaled that the telecoms, media, and internet sectors had become ensnared in the *financialization* of capitalist economies. In fact, they were at the forefront of the process, accounting for a far greater proportion of all mergers and acquisitions than their weight in the economy dictated. As the TMT frenzy peaked at the end of the 1990s, firms in these sectors were absorbing upward of three-quarters of *all* venture capital investment (Picard 2002: 175; Brenner 2002). As media, telecom, and internet firms became inserted more tightly into the circuits of capital accumulation, they were no longer just competing with one another but with *all* other firms for capital.

Financial investors prefer enormous, vertically integrated media conglomerates (Picard 2002), but the financialization process also reconceives of the corporation as a “portfolio of assets.” Consequently, each division, for instance, within Time Warner, News Corp., Disney, Bertelsmann, and so forth—television, cable,

**Table I.3 General economic and organizational models of the media industries**

	Flow	Publishing	Club
Sector	Broadcast TV & radio	Books, Music, & Film	Digital network media
Content	Continuous flow & immaterial Huge uncertainty, large amount of commercial failures	Durable and fixed in individual copies Huge uncertainty, large amount of commercial failures	All content types Huge uncertainty, large amount of commercial failures
Central function	Programmer & scheduling	Publisher & catalog creation	Publisher & aggregator
Commodification	Indirect—advertising & government subsidies	Direct purchase	Mixture of direct & indirect financing
Industrial structure	Quasi-industrial, vertical integration, & central planning Managerial control of all elements in the value chain	Hub & spoke model—few large companies, shared infrastructure (printing, studios, etc.), project-based networks and small firms	Large infrastructure providers and layers of application, service, & content providers, which may or may not be under common ownership
Market structure	Tight oligopoly, vertical integration	Oligopolistic core surrounded by small firms	Oligopolistic core surrounded by small firms
Creative workers	Steady employment: broadcast workers, technicians, journalists, hosts, etc.	Small core workforce flanked by large pool of writers, directors, composers, artists, etc.	Mix of steady and contract-based labor plus freelance writers, web designers, hosts, etc.

*Source:* Adapted from Lacroix and Tremblay (1997: 56–65).

DTH, film, books, internet, and so on—must compete against one another, and other firms generally, based on prevailing norms of return on capital investment. Thus, and with no shortage of irony, as *convergence* becomes more feasible, financialization has been regearing the internal operations of media conglomerates in a way that pits one division against another *inside* these companies. This, in turn, reinforces the distinctions between media sectors along the lines identified by the cultural industries school. Consequently, instead of creating well-oiled corporate structures founded on tangible assets, economies of scale, synergy, and expertise, the financialization of the media spawned bloated, debt-laden corporate behemoths governed by the pursuit of unsustainably high levels of capital return, crosscutting objectives and inchoate incentives—perched atop the delusion that all this could, essentially, go on forever. In sum, the logic of financialization and the “bundle of assets” image of the corporation are at cross-purposes with digitalization, economies of scale, synergy, promotional government policies, and so on, which should make convergence more feasible than ever. None of this, however, even touches on the “rational” development of democratic media, the quality of life for media workers, or long-term technological and cultural innovation (Almiron 2010; Bouquillion 2008; Duménil and Lévy 2005; Fitzgerald 2011; Melody 2007b).

**“All that is solid melts into air” (Karl Marx):  
the global transformation of the network  
media industries**

By any account, television, film, music, and the press constituted the core of the mass media during the twentieth century, but as I indicated earlier, there is a great deal of debate over how they have fared as the internet and digital media move closer to the center of the network media universe. The last section of this introductory essay examines this question in light of the theoretical perspectives just discussed.

Despite early widespread rumors about the impending death of television (Gilder 1994), it is thriving, *everywhere* (Miller 2009). At the beginning of the 1980s, there were a handful of television channels in the “advanced capitalist economies” of the OECD. By the end of the twentieth century, there were 600. Now there are roughly 1,200 (OECD 2007b: 175). A total of 200 television channels are available to two-thirds of households in India that pay for cable and satellite television service. In China, 40 percent of households subscribe to such services. The “total television universe” has become more complex and encompasses cable and satellite distribution networks, pay television services, video-on-demand, Internet Protocol Television (IPTV), streaming internet video (Hulu, Daily Motion, YouTube), digital download services (Apple iTunes,

Netflix, BBC's iPlayer), and mobile phones. Watching television is no longer tied to a single device or place but a series of television screens, computers, and portable devices. Television viewing is not shrinking but becoming more mobile and personalized ("Changing the Channel" 2010: 1–14; OECD 2007b: 177; Ofcom 2010: 160).

In the United States, the total television universe is worth an estimated US\$136.9 billion (2010) versus US\$89.4 billion in 1998. Worldwide, the total television universe grew from US\$203 billion to US\$351.3 billion during this time. Film revenues also grew in the United States (including Canada) from US\$24.9 billion to US\$38.4 billion, while total film industry revenues worldwide nearly doubled. DVD sales and video rentals *have* tumbled but have been roughly compensated for by online subscriptions and digital downloads. The bottom line is that the television and film industries have grown considerably, and their share of the vastly enlarged total network media economy is now only slightly smaller than it was 12 years ago (34 vs 37 percent) (PWC 2003: 29–43, 2010: 41–5). Table I.4 shows the trends.

The logic of the television industry is passing from one based on advertising and state subsidies to the "direct commodification" model. The pay-per-model of television has grown far faster than advertising-supported television (7 vs 1.5 percent per annum), and overall the amount of television revenues accounted for by advertising has fallen from 54 to 45 percent during the past decade. The ascent of the "publishing" and "club" models is also clear, as television programs are detached from specific platforms and assembled as part of a catalog of content delivered to audiences one by one. This is the "logic" of the Apple iTunes model and it being adopted by public service (e.g. the BBC's iPlayer) and commercial media alike (e.g. Hulu and the "Television Everywhere" strategy in the United States) (Ammori 2010; see Chapter 6 in this book regarding Canada). These changes raise issues about the role of public service broadcasters in the digital media world and how their activities will be financed, if they are permitted at all, as Chapter 10 discusses. In the United Kingdom, News Corp., the British Publishing Association, and

Table I.4 Worldwide TV and film industry revenues, 1998–2010 (millions, US\$)

	1998	2000	2004	2008	2009	2010 (estimate)	% Change
TV	202,893	243,322	279,971	342,509	334,461	351,300	+73
Film	46,484	52,803	82,834	82,619	85,137	87,385	+88
Total	249,377	296,125	362,805	425,128	419,598	438,685	+76

Sources: PWC (2003, 2009, 2010).

Newspaper Publishers Association, for example, have derided the BBC's efforts to carve out a place for itself in the digital media universe. As the director of the latter association, David Newell, argues, the BBC's ambitions "threaten to strangle an important new market for news and information" (quoted in "Call to Block BBC iPhone Apps" 2010). The basic assumption appears to be that new media should be reserved for commercial media, while public service media remain lashed to the mast of a sinking ship, that is, the "flow" model.

In contrast to the continued hostilities between commercial and public service media operators, the tensions between traditional media players and companies such as Google appear to be abating, despite periodic flare-ups (IDATE 2009; PWC 2010). The trend is well illustrated by the judgment in Google's favor in the long-drawn-out "blockbuster" Viacom versus Google case in 2010, where the latter's video sharing site, YouTube, was accused of facilitating unauthorized uses of commercial television programs. The case, however, revealed that some divisions within Viacom, notably MTV, were secretly uploading vast amounts of video to YouTube and, more to the point, that Google had signed agreements with Viacom, NBC-Universal, Sony BMG, Time Warner, and News Corp. *before* it acquired YouTube for US\$1.65 billion in 2006. According to the arrangements made, Google would (1) implement content identification technology, (2) share access to its technology, and crucially, (3) share advertising revenue (*Viacom International, et al. v. YouTube, Inc., YouTube LLC, and Google, Inc.* 2010).<sup>8</sup> Google, in sum, was working hand and glove with the traditional media conglomerates to preserve their copyright interests, not against them. The online movie streaming service, Netflix, has also signed agreements with Paramount (Viacom), MGM (Disney), and Lions Gate that point in a similar direction. Crucially, these arrangements are built around *the* cornerstone of the television and film industries' "business model": time- and territory-based "distribution windows" (Wasko 2004a). Netflix is already becoming a serious new "distribution window" for the film industry (Sandoval 2010b). In these arrangements, movies first appear in theaters, then pay-TV services a year later, and 90 days afterwards Netflix can stream them over the internet for another year before they are broadcast on basic cable (Nakashima and Liedtke 2010: B10).

Although the television and film industries have grown substantially, their growth rates pale alongside those of internet access and advertising, as Table I.5 highlights. Even the growth of these latter two sectors, however, stalled in the face of the global financial crisis. Moreover, despite all of the talk about the migration of advertising to the internet cannibalizing the revenue base of the "old media," internet advertising still only represents about 5 to 6 percent of the total network media economy, as Table I.5 indicates.

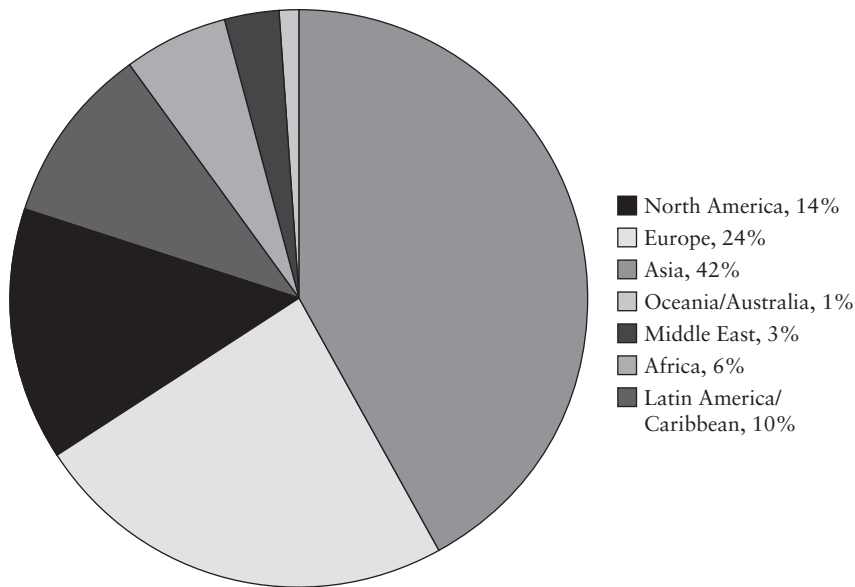
Table I.5 Worldwide internet industry revenues, 1998–2010 (millions, US\$)

	1998	2000	2004	2008	2009	2010 (estimate)	% change
Internet access	15,556	35,483	110,370	210,788	228,060	247,453	+1,490
Internet advertising	953	6,533	17,922	58,068	60,568	66,176	+6,844

Sources: PWC (2003, 2009, 2010).

Internet access is probably more important than internet advertising in the general scheme of things. Indeed, it is an index of the growing centrality of communication networks, as some of the following examples suggest. The number of telephone users worldwide, for example, rose from 800 million in 1998 to 4.2 billion in 2009, while the number of mobile phone users soared to 4.5 billion subscribers. A total of 2 billion people use the internet in 2010, about 10 times the number in 1998. Today, 28.7 percent of the world's population has internet access, up greatly from 5 percent 12 years ago, although it is still sobering that 70 percent of people have no access whatsoever. In 1996, two-thirds of all internet users lived in the United States; since 2009, China has had the most internet users, although citizens in the United States are more than twice as likely (77 percent) to have internet access than their counterparts in China (30 percent). The gap between the “info rich” and the “info poor” is still very significant, within countries and worldwide. People who live, for instance, in the “advanced capitalist economies” are more than *300 times* likely to have broadband internet access than people in the poorest regions (ITU/UNCTAD 2007: 22; ITU 2010: 195–202; Internet World Stats 2010). Overall, however, the *primary* trend, according to a joint study by ITU/UNCTAD (2007: 26), is of “*growing* equality over time in the global distributions of internet users, mobile and fixed [phone] lines.” Figure I.5 shows the distribution of internet users in 2010.

These changes are also accompanied by a more general reorganization of the “world communication order.” Table I.6 depicts some of this change by showing the growth in the 10 largest *national* media economies over time. As Table I.6 demonstrates, media markets in all 10 countries have grown substantially. It also shows that the United States is still the biggest media market and is in fact larger than the next four media markets combined: Japan, Germany, China, and the United Kingdom. In total, 6 of the 10 biggest transnational media conglomerates (Disney, Comcast, News Corp., Viacom–CBS, Time Warner, NBC-Universal) are still United States based, while the other four are located in Japan, Germany, Canada, and the United Kingdom (Sony, Bertelsmann, Thomson Reuters, Pearson) (see Table I.1). Firms from the core capitalist economies continue to dominate the telecoms, ICT, and internet industries, as Oliver Boyd-Barrett (2006) also stresses in his effort to recast the media imperialism thesis in a contemporary light. However, the world no



**Figure I.5** Global distribution of internet users by region, 2010

Source: Internet World Stats (2010). Available at [www.worldinternetstats.com](http://www.worldinternetstats.com)

**Table I.6** Top 10 network media, entertainment, and internet markets by country, 1998–2010 (millions, US\$)

	1998	2000	2004	2008	2009	2010 (estimate)	% change
United States	336,885	395,695	395,936	420,397	406,733	411,357	+22
Japan	94,255	100,799	114,330	141,340	156,120	157,985	+68
Germany	59,919	68,981	79,877	84,635	84,100	89,905	+50
China	23,057	27,599	32,631	66,310	72,024	81,005	+251
United Kingdom	56,738	65,319	75,637	72,346	70,478	72,605	+28
France	39,984	46,031	53,302	63,863	58,841	59,587	+49
Italy	29,626	34,107	34,494	41,528	39,890	39,924	+35
Canada	18,346	21,432	25,842	31,287	30,701	31,229	+70
S. Korea	17,687	18,492	22,760	26,672	27,394	28,589	+62
Spain	19,219	22,132	25,622	28,736	27,200	27,479	+43
Total	695,716	797,358	860,431	977,114	973,481	999,665	+44

Sources: PWC (2003, 2009, 2010).

longer orbits so tightly around the US axis as it once did, and “cyberspace,” as we will see shortly, is by no stretch of the imagination the exclusive dominion of Western-based transnational communications corporations. The United States’ “mature market” is growing slower than the others and is in relative



decline. In 1998, the US media market accounted for one half of all worldwide media revenues; in 2010, the figure was less than a third. The four largest Anglo-American markets—United States (1), United Kingdom (5), Canada (8), and Australia (12)—still account for about 44 percent of media revenues worldwide, but this is a drop from 60 percent in the late 1990s. The average foreign revenues of the big 10 media (42.5 percent), internet (25 percent), and telecoms companies (31 percent) are significant, but less than ICTs (65 percent), and not a solid and unambiguous index of “strong globalization.” Internet companies are actually *less* global than traditional media companies on the basis of revenues. The most global of the media conglomerates are Thomson Reuters, Pearson, Bertelsmann, and News Corp., in that order (see Table I.1).

The steady rise of China among the major media economies along with Japan (2) and South Korea (9) is tilting the center of gravity of the global media decisively toward Asia. National internet companies dominate in each of these countries, allowing them to carve out a significant spot for themselves among second-tier firms, with five Chinese internet companies standing out in this regard: Glam Media (14th), Tencent (16th), Baidu (17th), NetShelter Technology Media (19th), and Alibaba (20th) (Comscore 2010a: s.03). Moving beyond the “big ten” national rankings also shows that there is considerable diversification among smaller media economies and firms: Brazil and India rank 11th and 14th in terms of the size of their media economies, for instance, while several so-called small media economies figure quite prominently, that is, Canada (8), South Korea (9), Australia (12). These are not, thus, quite the “small national media economies” they are often made out to be, and therefore, the reigning orthodoxy that they require a few massive media groups is not as compelling as some might like to think.

Table I.7 maps some of the differences between “national network media spaces” along six key dimensions: (1) online time/user/month, (2) top internet company, (3) top search engine, (4) top two social network sites (SNS), (5) number of online videos viewed per month, and (6) Wikipedia ranking. In terms of time and the number of online videos watched per person, Canadians are the heaviest internet users in the world. Wikipedia ranks among the 10 most visited websites in all of the countries addressed, except South Korea (16th), Brazil (17th) as well as China, where it does not even rank in the top 100 (Alexa.com). Google looms largely in several categories in many countries but not all categories everywhere. Brazilians have embraced Google to an unusual degree, as illustrated by its hold across four out of the six categories. Globally, Google dominates the search engine category, accounting for 67 percent of all searches in a tight oligopolistic market where Google and three others—Yahoo! (7.1 percent), Baidu (6.4 percent), and Microsoft (3.1 percent)—account for 84 percent of all search traffic. This figure is rising over time, not falling. In the United States, Britain, Canada, Australia, Germany, France, India, and

Brazil, Google controls 80 to 90 percent of the search engine category, while ranking highly in other categories through its social networking site Orkut (Brazil and India) or its online video site, YouTube (Canada, Brazil, Australia). In Australia, 93 percent of all searches in 2010 used Google, while the top four search engines accounted for 97 percent—up from 91 percent 9 years earlier (Papandrea 2010).

In several countries, however, Google and other “Western” companies play minor roles and operate mainly in the shadows of “national champions” as is the case in South Korea, Russia, China, and Japan. In South Korea, the NHN Corporation (naver.com) as well as CyWorld, a branch of South Korea Telecom, dominate the national network media space. Google, in contrast, accounts for only 8 percent of searches; Facebook lags far behind CyWorld in social network sites. In other words, the network global media system shows characteristics of diversification between some countries but high levels of concentration in all countries.

There is nothing about digital networks that render them immune to concentration. Concentration at a relatively small number of nodes in the network media environment enables control—economic, political, and cultural—and helps to explain why Wikipedia is unavailable in China, for example, whereas it ranks highly almost everywhere else, that is, it is blocked. That this power is leveraged to control national media spaces is undeniable (Diebert, Palfrey, Rohozinski, and Zittrain 2010). Market dominance also means that Google, Facebook, Microsoft, and MySpace, for example, possess a great deal of power to set *de facto* standards for privacy, copyright, the distribution of advertising revenues, and the parameters of “audience behavior.” The concentration of control over network media is a function of money and power (Baker 2007; Noam 2009; McChesney 2008), but the idea of “network effects”—that is, the value of the network to each user increases exponentially as more “conversational partners” join the network—also biases network evolution toward concentration at key points. Furthermore, communication networks also tend to collect large volumes of traffic, people, messages, and so forth at a relatively small number of nodes, followed afterward by a “long tail” of sites receding into lesser and lesser visibility. This is known as “power law” and it can be a good thing in the network media environment because it helps to “gather attention” and create a “structure of importance” on the basis of “soft factors,” such as trust, communities of interest, hyperlinks, credibility, and so forth, that allow intelligibility, relevance, and mutual understanding to emerge amidst a babble of voices, cultural fragmentation, and the potential for money and power to run roughshod over online communication (Benkler 2006; Shirky 2003). The upshot, nonetheless, is that it is more important than ever to keep digital networks as open and free from money and power as possible so that the processes of social and communicative interaction can unfold in as undistorted a fashion as possible.

Table I.7 New world media order? Global homogeneity and “varieties of capitalism” in the network media

	Minutes online per user per month	Top internet companies (% reach)	Top search engine (Google share)	Top two SNS (% reach)	# of online videos per viewer per month (YouTube share)	Wikipedia rank
Canada	2,750	Google, 92%	Google (81%)	Facebook, 79% Windows Live, NA	185 (49%)	7
United States	2,050	Yahoo!, 84%	Google (66%)	Facebook, 62% Google, 19%	196 (26%)	6
S. Korea	1,974	NHN naver.com, 85%	NHN (8%)	SK Tel (CyWorld), 56% Facebook, 8%	NA	16
United Kingdom	1,800	Google, 87%	Google (80%)	Facebook, 76% Windows Live, 16%	185 (45%)	9
France	1,625	Google, NA	Google (90%)	Facebook, NA Windows Live, NA	138 (NA)	10
Brazil	1,550	Google, 90%	Google (63%)	Orkut (Google), 72% Facebook, 20%	95 (80%)	17
Germany	1,475	Google, NA	Google (93%)	Facebook, NA Twitter, NA	193 (50%)	6
Japan	1,450	Yahoo!, 89%	Yahoo! (48%)	Mixi JP, 19% Facebook, 6%	154 (44%)	6
Australia	1,325	Microsoft, 93%	Google (92.5%)	Facebook, 74% Windows Live, NA	92 (55%)	8
Russia	1,250	Yandex, 79.3%	Yandex (39%)	Vkontakte, 73% Facebook, 8%	NA	6
China	780	Tencent, 65%	Baidu (13%)	Baidu (QQ), 16% Kaixin, 7%	50 (5%)	NA
India	750	Google, 94%	Google (86%)	Facebook, NA Orkut (Google), NA	NA	8

Sources: Comscore (2010a,b), Alexa.com (2010), and Experien Hitwise Canada (2010) (all sources last accessed October 20, 2010).

The internet is not the same “thing” in every place; nor has it been the same “thing” over time (Braman 2010). For instance, Elizabeth van Couvering, in Chapter 8 in this book, sketches three phases in the development of the internet since its popularization after the introduction of the world wide web in 1993: first, a phase of technological and commercial innovation (1994–7), followed by attempts to consolidate ownership and control over the internet by media and telecoms firms (1997–2001), and finally the rise of a commercial internet model based on the searchable web, syndicated search engines, user-created content, and selling access to audiences (2002–). The fact that the internet changes over time and space also suggests that its potential impact on other media will vary over time and place.

As I have shown, the traditional media are largely thriving, growing more diverse, yet becoming concentrated in key areas. The strongest potential counterpoints to this portrait, however, are the newspaper and music industries. Newspapers are still the third largest segment of the network media industries, with revenues significantly higher than the film industry, about double those of the music industry and nearly 3 times as high as video games (see Table I.2). Some, however, argue that the press is in terminal decline. There is no doubt that *some* elements of the press have been battered badly in recent years. In the United Kingdom, for instance, the internet accounted for 24 percent of all advertising revenue in 2009, up greatly from 3 percent just 5 years earlier (Ofcom 2010: 10). This is far more than the worldwide average of 5 to 6 percent and substantially greater than in the United States (17 percent) and Canada (14 percent)—two other countries where the flow of advertising to the internet is relatively high. This is undoubtedly part of the reason why the United States, United Kingdom, and Canada are among just five countries that have seen *medium-term* newspaper revenues decline since 2005 (Japan and the Netherlands are the other two).<sup>10</sup> In the United States and United Kingdom, revenues plummeted by about 30 and 21 percent, respectively, between 2007 and 2009. Newspaper revenues fell in *every* OECD country during the “crisis years” but at a more modest pace (e.g. about 9 percent) (OECD 2010: 17–18; PWC 2010: 29).

The consequences of these trends for journalists and newspaper workers have been harsh. In the United States, the number of full-time journalists dropped from 53,000 in 2007 to 40,000 by early 2010. There were one-quarter fewer full-time journalists in 2009 than at the turn of the twenty-first century. Many US newspapers have been closed or forced into bankruptcy, while coverage of foreign affairs, Washington, state legislatures, science, and so forth has been slashed. The “crisis of journalism” is also allowing spin and official news sources to gain greater control over the news agenda and the primary definition of events, with baneful effects for the role that journalism and media are supposed to play in democratic societies (McChesney and Nichols 2010: ix; Project for Excellence in Journalism (PEJ) 2010; Starr 2009).

Despite the severity of these issues, however, the OECD's (2010) report, "The Evolution of News and the Internet," concludes that it is too early "to make the case for 'the death of the newspaper'" (OECD 2010: 6). Why? First, only five countries have suffered *mid-term* revenue losses (i.e. since 2005–6). For the rest of the OECD countries, the decline has been *short term* and not nearly as severe. In fact, and second, "most OECD countries have seen a growth of their newspaper market between 2004 and 2008" (OECD 2010: 17). This pattern is actually the "norm" on a global basis, where the number of daily newspaper titles *doubled* in the past decade and revenues expanded substantially. In Brazil, China, India, Indonesia, and South Africa, newspaper circulation grew, on average, by 35 percent from 2000 to 2008 (OECD 2010: 24). Third, there has been no downward spike in daily newspaper circulation due to the internet, and newspaper revenues grew even in the worst-hit countries until the mid-2000s. Fourth, newspapers are still often highly profitable, as Chapter 6 shows with respect to Canada. Even in the United States, three out of the four newspaper groups that filed for bankruptcy between 2008 and 2010—Media Group, Freedom Communications, and the Tribune Company—were profitable (the fourth is Philadelphia Newspapers). Bankruptcy allowed them to remove debt, journalists, and old assets from balance sheets that had been warped by the logic of financialization ("Update 1—Big US Newspaper" 2010; Picard 2009: 5). Table I.8 shows the global trend for newspaper revenues for the past 12 years.

The point is not to deny that some elements of the press have fallen on extremely hard times but to suggest that we must qualify the diagnosis and understand that the recent instability is part of the much broader dismantling and reorganization of the traditional media—even though it does appear to be most severe in this sector. Still, it cannot be ignored that, in many countries, the press is enjoying something of a renaissance. Finally, Yochai Benkler (2010), among several others, strikes a less ominous note by suggesting that a revamped press may be in the making, with the following elements at its core: (1) a large role for traditional media organizations that successfully grasp the "new logic" of digital media, (2) many small-scale commercial media (Talking Points Memo, Huffington Post, GlobalPost), (3) volunteer, partisan media (Indymedia), (4) effective nonprofit media (Wikipedia), and (5) a networked public sphere of citizen bloggers and journalists (also see PEJ 2010).

Table I.8 Worldwide newspaper industry revenues, 1998–2010 (millions, US\$)

	1998	2000	2004	2008	2009	2010 (estimate)	% change
Newspapers	142,794	156,641	174,395	174,723	154,887	149,317	+4.6

Sources: PWC (2003, 2009, 2010).

The music industry is often cast as being in equally dire straits. Indeed, the notoriety of file-sharing and peer-to-peer (P2P) networks from Napster in the late 1990s to Grokster, Pirate Bay, and the closing of Limewire as I write provides the stuff of legends. The fact that new sites emerge as quickly as old ones are closed down reinforces the view that the music industry is under siege from rampant piracy, digitization, and the internet and that this will only get worse as broadband internet becomes widely used. For about a decade and a half, the Recording Industry Association of America (RIAA) and the International Federation of Phonographic Industries (IFPI)—the two most important lobby groups for the music industry—have consistently argued that the industry’s revenues are in decline and that it is a portent of things to come for the rest of the media. As the IFPI (2010) states in its most recent *Digital Music Report*, digital piracy is wreaking havoc on all of the “creative industries” and will soon create “a world where copyright has no value” (IFPI 2010: 20). Given that “digitization” has progressed further in the music industries (27 percent of revenues from digital media) than film (5 percent of revenues), newspapers (4 percent), and all other media sectors, except video games, it should not be surprising that the effects of digitization have been severe in this sector (IFPI 2010: 10).

According to the IFPI, music industry revenues have fallen in lockstep with the advent of the internet. As its *Digital Music Report* for 2010 states, “overall music sales fell by around 30 percent between 2004 and 2009” (IFPI 2010: 18). Figure I.6 below shows the trend.

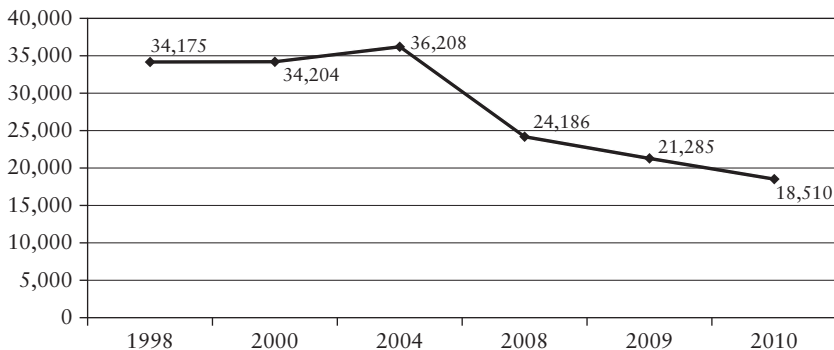


Figure I.6 Worldwide “recorded music industry” revenues, 1998–2010 (millions, US\$)

This image of a beleaguered industry, however, is badly flawed because it refers to only one element of the industry and lets that stand for the whole. Indeed, the only way that the music industry can be presented to be in dire shape is to show *only* the revenues from the “recorded music” segment of the business. Figure I.7, however, shows the trend going in exactly the opposite direction once the three fastest growing segments of the industry are included: (1) *concerts and live performances*, (2) *internet and mobile phones* as well as

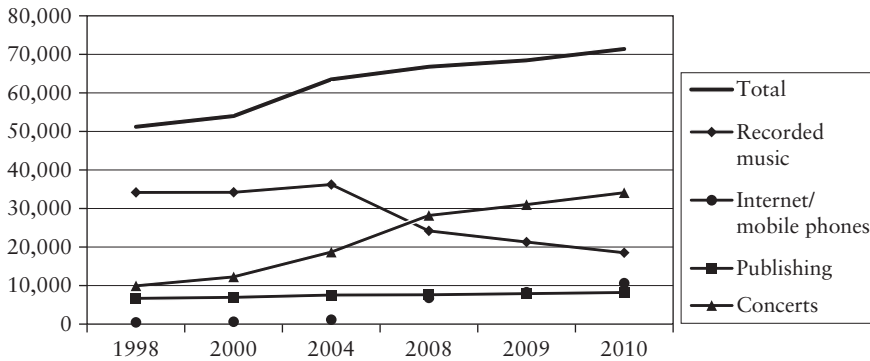


Figure I.7 Worldwide “total music industry” revenues, 1998–2010 (millions, US\$)  
Sources: PWC (2003, 2009, 2010) and IDATE (2009).

(3) *publishing* (lending rights + digital and network distribution platforms, broader global markets in some cases) (PWC 2009: 274–5).<sup>11</sup>

The “total music industry” is *not* in decline. Instead, its revenues have grown *substantially* from US\$51 billion in 1998 to just over US\$71 billion in 2010—consistent with other sectors of the network media, with the partial exception of newspapers. The IFPI’s use of 2004 as its baseline is also dishonest because this was not a typical year but a relative high point for “recorded music” sales. By definition, anomalies skew averages and in this case the narrow measure is being skewed to advance a policy agenda. That policy agenda has been remarkably successful over the past decade and a half, with copyright laws in one country after another being made longer, broader, and more punitive (e.g. the World Intellectual Property Organization (1996), US Digital Millennium Copyright Act (1998), and Copyright Directive (2001)). This agenda has also been augmented, until recently, through the addition of digital rights management technologies that circumscribe what digital media can and cannot be used for, albeit with results, even from the industry’s perspective, that can best be described as ambivalent. Currently, the core of that policy agenda aims to legally require ISPs to restrict, and even cut off, people’s access to P2P networks, unlicensed MP3 pay sites, MP3 search engines as well as fan forums and blogs that link to “cyber-lockers” of unauthorized music stashes (IFPI 2010: 19). The IFPI has already chalked up many “wins” for this agenda in several countries that have passed legislation along such lines: France, United Kingdom, Sweden, South Korea, Taiwan, and with many others in line to adopt similar measures (IFPI 2010: 25–7). The thrust of these initiatives is to leverage control over networks to exert greater control over copyright for content. This turns the historical practice of separating control over the medium from the message on its head and poses substantial threats to creative expression by relocating editorial and gatekeeping power

back in the center of networks instead of leaving those choices at the ends of networks and in the hands of users (Benkler 2006; Lessig 2004; Vaidhyanathan 2004).

As the screws tighten on BitTorrent and other P2P sites, new commercial digital media services are moving closer to the center of the industry. The emergence of “legitimate” online digital music services is of considerable benefit to the music industry, but they also pose further challenges to traditional players. The long-standing “big four” firms in the music industry—Warner, Universal, Sony, EMI—are in disarray. All have been spun off from their former media conglomerate parents, except Sony, and their share of the market has fallen considerably over the past decade (Noam 2009). In 2009, there were 400 “legitimate” commercial online digital music services (IFPI 2010: 28–9; OECD 2008: 268). The vast majority of these entities have no formal ownership links to incumbent interests (e.g. Spotify, Deezer 3). Many of them are well funded by venture capitalists. This is extremely important because it means that they do not just compete with the incumbent interests in the marketplace for audiences but for capital, observes Hesmondhalgh (2009b: 60). Others are divisions of major telecoms and ICT firms (e.g. MSN Music/Microsoft, iTunes/Apple, TDC Play/TeleDenmark, Sonora/Telefonica, CWM/Nokia). Nonetheless, there are still other services that are owned by the well-established media conglomerates (e.g. Myspace/News Corp., Last.fm/Viacom–CBS, Vevo/Universal, Sony, Google, Abu Dhabi Media).

This is a crowded, complicated, and sometimes competitive field, which makes it easier to explain why the incumbents’ sense of being under siege is not allayed by significant revenue growth. At the same time, we must also remember that despite so many different interests and vectors of development, even digital online music services are not immune to concentration. With 100 million subscribers in 23 countries, Apple’s iTunes dominates digital music downloads globally; in the United States, it accounts for about one-quarter of such sales (IFPI 2010: 4, 10). Again concentration and fragmentation emerge as two sides of the same coin and thus ought to be considered a defining characteristic of the network media similar to the “publishing model” during the “industrial media age.”

### Some closing thoughts

To bring this introductory essay full circle, we can conclude by saying that incumbents in the media and telecoms industries have not been able to simply graft the internet and digital media onto their existing operations. However, catastrophic claims regarding the “death,” “crisis,” and so on of one or another medium, with the partial exception of the press, are at odds with the evidence. In the current conjuncture, digital media, the crisis of capitalism, and a flood



of new players entering into an evermore common commercial and cultural field *do* pose significant challenges to well-established players across the network media generally. The discourse of “crisis” and use of the romantic image of “struggling artists” to front for the media industries’ bid to apply stronger-than-ever restrictions on the internet and digital media, however, skate over the reality that music, like most other areas of culture, is thriving as an artistic and cultural form and as popular culture commodities. The fact, however, that all media industries are based on “strange commodities” that have been force-fit into the commodity mold with extreme difficulty since the late nineteenth century is a significant cause of never-ending uncertainty (Babe 1995; Boyle 1996). This conundrum has been brought to a head because digitization seems to excavate the “social ecology of information” (lifeworld) from its natural setting and subject it to the processes of commodification to a greater extent than ever in the past. That process, in turn, has been given added momentum by the intense drive for new outlets for capital investment under the guise of the financialization of capitalist economies—a trend that has been very pronounced in the telecoms, media, ICT, and internet sectors relative to other sectors. These processes, however, and as we have seen, do not flatten out all significant social, political, and cultural differences but in some instances magnify them as, for example, the divergent situation of newspapers and “national network media spaces” in different countries helped to illustrate.

Each sector of the media industries, and these industries as a whole, has its own interests that compel them to cloak self-interest in the guise of a problem affecting us all. Pointing the finger at technological change, and one as ubiquitous as the internet, is easy, but also terribly flawed, and based on methodological sleights of hand that take partial elements of a particular media sector and allow it to stand for the whole. The tendency to wrap self-interests in societal concerns has gained more traction in the aftermath of the global financial crisis of 2007–8. However, radical and heterodox political economists have always emphasized that the consequences and costs of capitalism are born by citizens, while splitting over whether these tendencies can be ameliorated through reform or the belief that the system is so congenitally flawed that only its complete overthrow offers a decent way forward. We are once again at such a “fork-in-the-road” moment. While it is neither possible nor desirable to predict how things will transpire, the chapters in this book are animated by the conviction that the rich intellectual traditions in political economies of the media and an open mind are essential to shedding light on the crucial issues of our time.

## Notes

- 1 The IMCRP is directed by Columbia University professor of finance and economics Eli Noam. It includes 40 researchers, including Guillermo Mastrini and Martín Becerra who have chapters in this book, investigating trends in media concentration in every sector of the media and telecoms industries in 40 countries since 1984. It is funded by a modest grant from the Soros Foundation's Open Society Institute.
- 2 By the number of users and as of December 2009, according to Comscore (2010a).
- 3 This account of disembedding, social stocks of knowledge, and mediated flows draws from Polanyi (1944/1957), Lash and Urry (1994), Benkler (2006), and Castells (2009).
- 4 Miège's criticisms were related directly to Theodore Adorno and Max Horkheimer's culture industry thesis, but the surrounding discussion makes clear that the criticisms apply to the then dominant versions of neoclassical economics (e.g. Baumol) and the monopoly capitalism school (e.g. H. Schiller as well as Baran and Sweezy 1966) as well.
- 5 I am indebted to Peter A. Thompson for a series of discussions that deeply inform this paragraph.
- 6 Among others, the key members of this school include Bernard Miège, Patrice Flichy, Gaetan Tremblay, Jean-Guy Lacroix, Enrique Bustamante, Philippe Bouquillion, Christina Pradie, Yolande Combes, David Hesmondhalgh, and Nicholas Garnham.
- 7 As also indicated in the annual reports of these firms for 2006.
- 8 Google is leveraging its market power in a range of media and cultural policy matters (see Chapter 6 regarding Google's role in Canadian broadcasting regulatory hearings). Google has also attempted an end run around copyright reform in the US Congress by setting its own standards with book publishers (the Google Books Settlement case)—a move that triggered opposition from the governments of Germany, France, the US Department of Justice, and hundreds of others (Darnton 2009; Samuelson 2010). There are many benefits to the proposed Google Books Settlement, but they come at a very steep price in terms of existing legal and cultural standards regarding the preservation, use, sale, and distribution of books and other cultural goods.
- 9 See Chapter 6 for an assessment of conditions in Canada. Newspaper revenues in the United States, Japan, United Kingdom, Canada, and the Netherlands fell by 20, 9, 7, 2, and 1 percent, respectively, over this period.
- 10 See Note 3.
- 11 Note on method for Table I.2: The music category is constructed using data from PWC and IDATE. PWC's *Outlook* does not include publishing rights, concerts, merchandizing, and advertising in its definition of the music segment, even though it observes that these are the fastest growing segments of the music industry (PWC 2010: 275). IDATE does include these elements. I have done three things to arrive at "total revenues" for the music industry: first, averaged the slightly different figures these sources identified for "recorded music"; second, I added the additional categories from IDATE to come up with a total; and third, based

on average growth rates for these “additional categories” I worked backward from the 2006 figures to come up with estimates for previous years. The “internet access” and “internet advertising” sectors are not disaggregated before 2004 in the *Outlook* report. The “book publishing” is drawn more narrowly after 2004 by eliminating professional and training books. In order to make the data consistent across time, I use the definitions from the 2009 edition and then arrive at figures for prior years by extrapolating based on average annual growth rates identified in the *Outlook* report. The 2009 *Outlook* drops “theme parks” and “sports.” I have deleted them from earlier years as well to maintain consistency over time. Data for 2010 here and throughout the introduction are based on PWC estimates in the 2010 edition of the *Outlook*.

# The Contemporary World Wide Web

## Social medium or new space of accumulation?

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### Introduction

Many observers claim that the internet in general and the world wide web in particular have been transformed in the past years from a system that is primarily oriented toward information provision into a system that is more oriented to communication and community building.<sup>1</sup> The notions of “Web 2.0,” “social software,” and “social network(ing) sites” have emerged in this context. Web platforms such as Wikipedia, MySpace, Facebook, YouTube, Google, Blogger, Rapidshare, Wordpress, Hi5, Flickr, Photobucket, Orkut, Skyrock, and Twitter are said to exemplify this transformation of the internet.

One of the best-known definitions of “Web 2.0” has been given by Tim O’Reilly (2005):

Web 2.0 is the network as platform, spanning all connected devices; Web 2.0 applications are those that make the most of the intrinsic advantages of that platform: delivering software as a continually-updated service that gets better the more people use it, consuming and remixing data from multiple sources, including individual users, while providing their own data and services in a form that allows remixing by others, creating network effects through an “architecture of participation,” and going beyond the page metaphor of Web 1.0 to deliver rich user experiences.

The claim by O’Reilly and others is that the web has become more social, community-oriented, cooperative, and based on user-generated content. These claims have thus far hardly been empirically tested, and although there is much talk about the “social web,” there are hardly any approaches based on social theory that think systematically about what sociality on the web and the internet actually means. This chapter aims to remedy that shortcoming by introducing and discussing some social theory and critical theory foundations of the world wide web. I do so in three steps. First, the notions of Web 1.0, 2.0, 3.0 will be introduced based on social theory. Then the notion of the participatory web and the role of the category of class for the web will be discussed. Finally, some conclusions are drawn.

## The world wide web and social theory

For Emile Durkheim, a “social fact is every way of acting, fixed or not, capable of exercising on the individual an external constraint” (Durkheim 1982: 59). For Durkheim, social facts are ubiquitous and permanently shape our thinking and action. Max Weber had a different notion of sociality as social action: “Not every kind of action, even of overt action, is ‘social’ in the sense of the present discussion. Overt action is not social if it is oriented solely to the behavior of inanimate objects” (Weber 1968: 22). For Ferdinand Tönnies, the most important form of sociality is the community, which he understands as “consciousness of belonging together and the affirmation of the condition of mutual dependence” (Tönnies 1988: 69). For Karl Marx, cooperation is a fundamental mode of human social activity: “By social we understand the cooperation of several individuals, no matter under what conditions, in what manner and to what end” (Marx and Engels 1846/1970: 50).

Based on these four theoreticians, we can distinguish three modes of human sociality: cognition, communication, and cooperation. Cognition is the activity of the human mind. Cognition is social for Durkheim because it is permanently confronted with social facts and is the foundation for creating and recreating social facts. Communication is a process in which signs and symbols are given a certain meaning by a person or group of persons who share those meanings among themselves and with others who also give certain meanings to these signs and symbols. The notion of communication relates to Weber’s concept of social action and stresses the role of meaning, signs, and symbols. Communication, in other words, is social action that makes use of symbols. Cooperation is a process in which several humans act together in order to achieve a goal or a process of joint actions that produces a shared consciousness of belonging together. If cooperation is understood in this way, then it expresses Marx’s notion of cooperation and Tönnies’ concept of community. Information can be understood as process that involves one or more of the social activities of cognition, communication, and cooperation (Hofkirchner 2008).

This notion of information allows us to distinguish three dimensions of the web (Figure 9.1). Web 1.0 is a computer-based networked system of human cognition, Web 2.0 is a computer-based networked system of human communication, and Web 3.0, a computer-based networked system of human cooperation. Web 1.0 describes cognitive aspects of the web, Web 2.0, communicative aspects, and Web 3.0, cooperative aspects. These three notions are layered one atop the other, whereby cooperation is based on but more than communication and communication is based on but more than cognition. In order to cooperate, we need to communicate, and in order to communicate we need to cognize. In Web 1.0, individuals cognize with the help of data that they obtain from a technologically networked information space. Web 2.0 as a system of communication is based on web-mediated cognition: Humans

interact with the help of symbols that are stored, transmitted, and received with the help of computers and computer networks. Web-mediated cognition enables web-mediated communication and vice versa. There is no communication process without cognition. In Web 3.0, a new quality is said to emerge out of the productive capacities of communicative actions. A certain amount of cohesion between the people involved is necessary, and web-mediated communication helps to enable such mediated cooperation. To put it another way, there is no cooperation without communication and cognition. These three relatively distinct forms of sociality (cognition, communication, and cooperation) are encapsulated within one another. Each layer forms the foundation for the next one, reflecting the emergent property of each element and the “total system” as a whole. As I use the term, the “web” is meant not only to refer to the world wide web but also to any techno-social information network that enables human action and interaction. There are also feedback loops between the levels, which are indicated by the causal arrows in Figure 9.1: Cognition enables communication, communication enables further cognition, communication enables cooperation, cooperation enables further communication.

In order to assess whether there have been significant transformations and distinct stages in the evolution of the web over time, I compared the top 20 websites used in the United States between 1998 and 2010, and asked whether there are manifest differences in the technological affordances they provide for cognition, communication, and cooperation over this span of time. The statistical data in Table 9.1 show the number of unique users who accessed

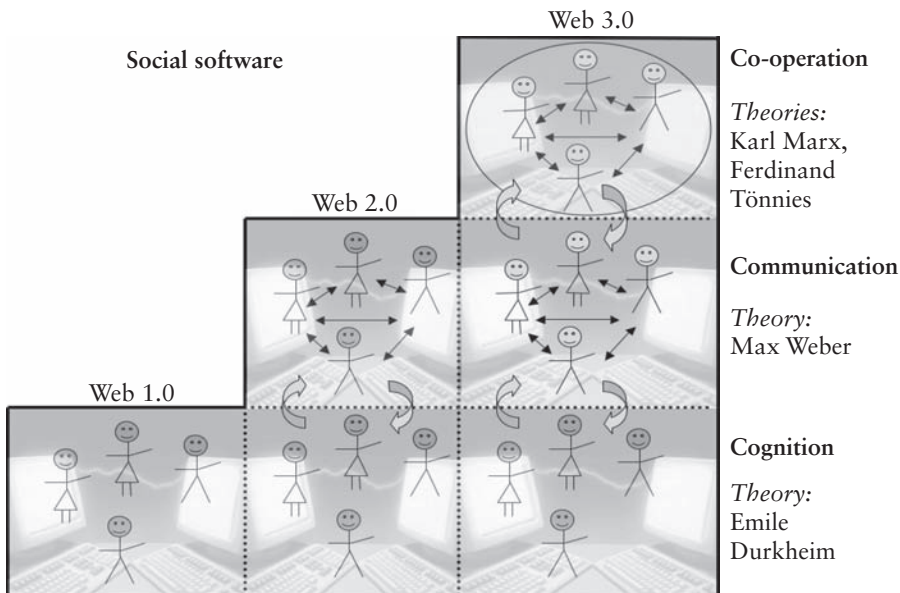


Figure 9.1 A model of social software and its three subtypes

Table 9.1 Information functions of the top 20 websites in the United States, 1998/2010

1998		2010					
Rank	Website	Unique users in '000s (December)	Primary functions	Rank	Website	Unique users in '000s (December)	Primary functions
1	aol.com	28,255	Cognition, communication	1	google.com	153,774	Cognition, communication
2	yahoo.com	26,843	Cognition, communication	2	facebook.com	133,843	Cognition, communication, cooperation
3	geocities.com	18,977	Cognition	3	youtube.com	123,585	Cognition, communication
4	msn.com	18,707	Cognition, communication	4	yahoo.com	120,081	Cognition, communication
5	netscape.com	17,548	Cognition, communication	5	amazon.com	85,311	Cognition
6	excite.com	14,386	Cognition, communication	6	twitter.com	81,631	Cognition, communication
7	lycos.com	13,152	Cognition, communication	7	msn.com	78,184	Cognition, communication
8	microsoft.com	13,010	Cognition	8	ebay.com	74,207	Cognition
9	bluemountainarts.com	12,315	Cognition, communication	9	wikipedia.org	71,952	Cognition, communication, cooperation
10	infoseek.com	11,959	Cognition, communication	10	live.com	71,348	Cognition

11	altavista.com	11,217	Cognition	11	microsoft.com	69,891	Cognition
12	tripod.com	10,924	Cognition	12	answers.com	62,192	Cognition, communication, cooperation
13	xoom.com	10,419	Cognition	13	blogspot.com	58,418	Cognition, communication
14	angelfire.com	9,732	Cognition	14	ask.com	56,249	Cognition
15	hotmail.com	9,661	Cognition, communication	15	blogger.com	52,673	Cognition, communication
16	Amazon.com	9,134	Cognition	16	aol.com	52,273	Cognition, communication
17	real.com	7,572	Cognition	17	bing.com	51,612	Cognition
18	znet.com	5,902	Cognition	18	ehow.com	50,590	Cognition, communication, cooperation
19	hotbot.com	5,612	Cognition	19	craigslist.org	45,943	Cognition, communication
20	infospace.com	5,566	Cognition	20	about.com	43,776	Cognition
		260,891				1,537,533	

Sources: Comcast (1999), Quantcast (2011).



a platform in a time span of 1 month. For each platform, it was assessed if it primarily supports information publishing or search (cognitive function), symbolic interaction (communicative function), or community building and knowledge cocreation (cooperative function). To help understand this relationship between different platforms and different functions, we can see, for example, that Google mainly supports information search (cognition) and communication (with its e-mail platform Gmail), while Wikipedia supports information search (cognition), interaction of users who collaborate on articles (communication), and knowledge cocreation (cooperation). The results of the analysis are shown in Table 9.1.

One initial observation is that from 1998 to 2010, the number of unique visitors in the United States to the top 20 websites multiplied by a factor of almost 6. In terms of the functional orientation of the top 20 websites, one can observe that in 1998, there were 20 instances in which information functions and 9 where communication functions were predominant. By 2010, there were still 20 information functions, but the number of communication and cooperation functions of the top 20 US websites had grown to 13 and 4, respectively. The number of websites that are oriented purely toward cognitive tasks decreased from 11 in 1998 to 7 in 2010. Thus, in 1998, and in terms of its technological structure, the world wide web was predominantly a cognitive medium (Sociality 1), although communicative features (Sociality 2) were also present. In 2010, the number of websites that also have communicative or cooperative functions is much larger than the number of “pure” information sites. This shows that the technological foundations for Sociality (2) and (3) have increased quantitatively. In other words, a feature of the web in 2010 that was not present on the top 20 websites in 1998 is the support of cooperative tasks: collaborative information production with the help of wikis (Wikipedia, answers.com) and social networking sites oriented to community building (Facebook, eHow). The development of the world wide web is thus marked by both continuity and discontinuity. Information sites are still predominant, but the importance of communicative and cooperative features has increased.

### Participatory web as ideology

Changes of media and technologies have historically been connected to the emergence of certain one-sided techno-optimistic and techno-pessimistic myths. In the case of “Web 2.0” and “social software,” this continues to be true. The reigning myth of the past couple of years is that the world wide web and the internet have morphed into a participatory medium, with a reinvigorated participatory culture close in tow.

Henry Jenkins encapsulates this stance well when he argues that increasingly “the web has become a site of consumer participation” (Jenkins 2006a: 137). He claims that blogging, in particular, is “increasing cultural diversity and lowering barriers in cultural participation,” “expanding the range of perspectives,” and making it possible that “grassroots intermediaries” and “everyone has a chance to be heard” (Jenkins 2006b: 180–1). Axel Bruns sees the rise of produsage—the “hybrid user/producer role which inextricably interweaves both forms of participation” (Bruns 2008: 21)—as the central characteristic of Web 2.0. He argues that produsage “harnesses the collected, collective intelligence of all participants” (Bruns 2008: 1), that it allows “participation in networked culture” (Bruns 2008: 17), and that the “open participation” (Bruns 2008: 24, 240) of Web 2.0 has the potential to reconfigure democracy as we know it (Bruns 2008: 34). Clay Shirky (2008: 227–8) believes that the “linking of symmetrical participation and amateur production” in Web 2.0 spaces such as Flickr, YouTube, MySpace, and Facebook creates environments of “public participation.” Shiffman (2008) sees the emergence of the “age of engage” as result of Web 2.0. Tapscott and Williams (2006: 15) similarly argue that “the new web” has resulted in “a new economic democracy ... in which we all have a lead role.” Yochai Benkler (2006) points to the rise of commons-based peer production on the internet and concludes that “we can say that culture is becoming more democratic: self-reflective and participatory” (Benkler 2006: 15).

In the face of this seeming consensus, however, we must step back and ask whether the web is as participatory as many seem to think it is? To answer this question, however, we must first understand what is meant by the notion of participation. A good place to start in terms of that question is participatory democracy theory.

Held (1996: 271) argues that a primary feature of participatory democracy is the “direct participation of citizens in the regulation of the key institutions of society, including the workplace and local community.” It also means “democratic rights need to be extended from the state to the economic enterprise and the other central organizations of society” (Held 1996: 268). The central idea of participatory democracy theory is that individuals should be enabled to fully take part in collective decision processes and in the control and management of structures in the economic, political, and cultural systems that concern and affect them. In other words, participatory democracy can be understood as an extension and intensification of democracy in line with the following basic principles (Macpherson 1973; Pateman 1970).

### The intensification and extension of democracy

Participatory democracy involves the “democratization of authority structures” (Pateman 1970: 35) in *all* decision-making systems, such as government,

the workplace, the family, education, housing, and so on. In particular, the economic system is seen as the fundamental sphere of participation, given that “most individuals spend a great deal of their lifetime at work and the business of the workplace provides an education in the management of collective affairs that it is difficult to parallel elsewhere” (Pateman 1970: 43).

### **The maximization of human developmental powers**

Participatory democracy is not only a system of government but also a kind of society that “attains the presently attainable maximum ... level of abilities to use and develop human capacities given the presently possible human command over external Nature” (Macpherson 1973: 58). Factors that impede these powers—inadequate means of life (physical and psychological energy), lack of access to the means of labor, and a lack of protection against invasion by others—must be abolished in order to realize participatory democracy (Macpherson 1973: 59–70).

### **Extractive power as impediment for participatory democracy**

For Macpherson (1973), capitalism is based on the individual right to unlimited accumulation of property and unlimited appropriation, a system of rights that allows some human beings to exploit others and that ultimately ends up limiting the development of human capacities in general (Macpherson 1973: 17–18). This results in an unequal distribution of property as well as inequality in terms of the “effective equal right of individuals to exert, enjoy, and develop their powers” (Macpherson 1973: 34–5). He calls this extractive power: the exercise of “power over others, the ability to extract benefit from others” (Macpherson 1973: 42).

### **Participatory decision making**

Participatory democracy requires “(equal) participation in the making of decisions” (Pateman 1970: 43) and “a process where each individual member of a decision-making body has equal power to determine the outcome of decisions” (Pateman 1970: 71).

### **Participatory economy**

Participatory democracy does not exclude individuals from common property but guarantees “the right to a share in the control of the massed productive resources” (Macpherson 1973: 137).

## Technological productivity as material foundation of participatory democracy

A high level of technological productivity can be used to create a post-scarcity economy where all people have “economic security” (Pateman 1970: 40). As Macpherson (1973: 20f) states, “I am arguing that we are reaching a level of productivity at which the maximization of human powers, in the ethical sense, [...] can take over as the criterion of the good society, and that in the present world climate it will have to be an egalitarian maximization of powers.” According to Macpherson (1973), the revolution in energy generation and communication technologies could

releas[e] more and more time and energy from compulsive labour, allow men to think and act as enjoyers and developers of their human capacities rather than devoting themselves to labour as a necessary means of acquiring commodities. At the same time the technological revolution could enable men to discard the concept of themselves as essentially acquirers and appropriators. (Macpherson 1973: 37)

Macpherson’s views that people’s capabilities can be maximized through the application of technological forces rather than the latter leading to greater exploitation closely parallels Herbert Marcuse’s remarks on the role of technology in liberation. Marcuse (1964) imagined that a stage

would be reached when material production (including the necessary services) becomes automated to the extent that all vital needs can be satisfied while necessary labor time is reduced to marginal time. From this point on, technical progress would transcend the realm of necessity, where it served as the instrument of domination and exploitation which thereby limited its rationality; technology would become subject to the free play of faculties in the struggle for the pacification of nature and of society. (Marcuse 1964: 16)

This discussion shows that democracy is not limited to voting in general elections but is a condition where grassroot political participation and decision making in the economy, culture, and all spheres of society is the norm. This also includes the question of ownership, which is conceived to be undemocratic within contemporary capitalist societies because the means of production are privately owned by the capitalist class even though they are, in many respects, collectively produced. A participatory economy also requires that extractive power be reduced to zero and the establishment of “the right to a share in the control of the massed productive resources” (Macpherson 1973: 137). Furthermore, it involves “the democratizing of industrial authority structures, abolishing the permanent distinction between ‘managers’ and ‘men’” (Pateman 1970: 43).

Given these baseline conditions, we can analyze the ownership of “Web 2.0/3.0” to determine if it is truly participatory, as I do in relation to the top 50 websites in the United States in July 2009 identified in Table 9.2. The

Table 9.2 Web 2.0/3.0 platforms that are among the top 50 websites in the United States, 2009

Rank	Website	Ownership	Country	Year of domain creation	Economic orientation	Unique US users per month (July 2009) (in millions)	Unique US users per month (December 2010) (in millions)
4	Facebook	Facebook Inc.	USA	2004	Profit, advertising	91	134
6	YouTube	Google Inc.	USA	2005	Profit, advertising	72	124
8	Wikipedia	Wikimedia Foundation	USA	2001	Nonprofit, non-advertising	67	72
9	MySpace	MySpace Inc. (News Corporation)	USA	2003	Profit, advertising	63	29
14	Blogspot	Google Inc.	USA	2000	Profit, advertising	49	57
19	Answers	Answers Corporation	USA	1996	Profit, advertising	39	62
22	Wordpress	Automattic Inc.	USA	2000	Profit, advertising	28	43
23	Photobucket	Photobucket.com LLC	USA	2003	Profit, advertising	28	25
26	Twitter	Twitter Inc.	USA	2006	Profit, no advertising	27	82
31	Flickr	Yahoo Inc.	USA	2003	Profit, advertising	21	16
32	Blogger	Google Inc.	USA	1999	Profit, advertising	20	53
44	eHow	Demand Media Inc.	USA	1998	Profit, advertising	14	51
49	eZine Articles	SparkNet Corp.	USA	1999	Profit, advertising	13	7.5

Source: Quantcast (2010).

websites are ranked according to the number of unique US visitors in 1 month of observation.

Table 9.2 uses the number of monthly unique visitors per website to show which Web 2.0/3.0 platforms were among the top 50 websites accessed in the United States in July 2009. If we define Web 2.0/3.0 platforms as those that mainly support social networking, community building, file sharing, cooperative information production, and interactive blogging—platforms that are more systems of communication and cooperation than systems of cognition—then we can analyze the role that Web 2.0/3.0 platforms play on the world wide web overall. When we do so, one thing becomes immediately clear: namely, that 13 out of the top 50 websites in 2009 can be classified as Web 2.0/3.0 platforms (i.e. 26.0 percent). In terms of total usage of these top 50 websites in the United States, these 13 platforms account for 532 million visits out of a total of 1,916 million (i.e. 27.7 percent). If just 26.0 percent of the top 50 US websites are Web 2.0 platforms, and these platforms account for only 27.7 percent of usage, then this means that claims that the web has been transformed into social medium based predominantly on sharing, cooperation, and community building are vastly overdrawn. The predominant usage type of the internet in the United States is to access information search sites and others that provide information, shopping, and e-mail services. Web 2.0/3.0 platforms have become more important, but they do not dominate the web. Furthermore, 12 out of 13 Web 2.0/3.0 platforms among the top 50 websites in the United States are profit oriented, and 11 of them are advertising supported. An exception is Wikipedia, which is nonprofit and advertising-free. Advertising and targeted-advertising are the most important business models among these Web 2.0/3.0 sites.

There are also some sites that combine this accumulation model with that of selling special services to users. So, for example, Flickr, an advertising-based photo-sharing community, allows uploading and viewing images for free but sells additional services such as photo prints, business cards, and photo books. WordPress uses advertising but also generates revenue by selling VIP blog hosting accounts that have monthly subscription rates and services such as extra storage space, customized styles, a video blogging service, ad-free blogs, and blogs with an unlimited number of community members. Until 2010, Twitter was the only profit-oriented corporation that did not have a business model based on advertising. In April 2010, however, Twitter announced that advertising will be introduced in the near future (see <http://news.bbc.co.uk/2/hi/8617031.stm>, accessed on July 1, 2010). In July 2010, Twitter had not-yet implemented advertising, but its privacy policy had already been changed in the preceding year in anticipation of an advertising-financed business model. As a result, Twitter's terms of use significantly grew in length and complexity, and set out the company's ownership rights with respect to user-generated content. A note that Twitter "may include advertisements, which may be targeted to the Content or information on the Services, queries made through the Services, or

**Table 9.3 Ownership rights and advertising rights of the 13 most used Web 2.0/3.0 platforms in the United States**

Rank	Website	Ownership of data	Advertising
4	Facebook	License to use uploaded content	Targeted advertisements
6	YouTube	License to use uploaded content	Targeted advertisements
8	Wikipedia	Creative commons	No advertising
9	MySpace	License to use uploaded content	Targeted advertisements
14	Blogspot	License to use uploaded content	Targeted advertisements
19	Answers	License to use uploaded content	Targeted advertisements
22	Wordpress	License to use uploaded content	Targeted advertisements
23	Photobucket	License to use uploaded content	Targeted advertisements
26	Twitter	No license to use uploaded content	No advertising
31	Flickr	License to use uploaded content	Targeted advertisements
32	Blogger	License to use uploaded content	Targeted advertisements
44	eHow	License to use uploaded content	Targeted advertisements
49	eZineArticles	No license to use uploaded content	Targeted advertisements

Source: Quantcast (2010).

other information” was added to Twitter’s terms of service (<http://www.twitter.com/tos>, version effective on November 16, 2010).

The key point then is that, according to my empirical sample, 92.3 percent of the most frequently used Web 2.0/3.0 platforms in the United States and 87.4 percent of unique monthly Web 2.0/3.0 usages are corporate based. The vast majority of popular Web 2.0/3.0 platforms are mainly interested in generating monetary profits, and the corporate Web 2.0/3.0 is much more popular than the noncorporate Web 2.0/3.0.

We can also raise questions about the extent to which Web 2.0/3.0 are participatory by asking who owns the personal information gleaned from, and created by, the users of such sites? The difference between the “myth” of participatory democracy versus corporate capitalism can be seen by focusing

on Google, which owns 3 of the 11 web platforms listed in Table 9.3. In terms of ownership, 18 human and corporate legal persons own 98.8 percent of Google's common stock. Google's 20,000 employees, 520 million global Google users, 303 million users of YouTube, and 142 million users of Blogspot/Blogger have no ownership stakes in Google.<sup>2</sup> Beyond Google, all of the analyzed Web 2.0/3.0 platforms guarantee for themselves a right to display user-generated content in any manner they see fit. This is not a tangential consideration but pivotal to how they operate their services and their business model as a whole. As Table 9.3 shows, 10 of the 13 Web 2.0/3.0 sites have user licenses and "terms of use" policies that provide them with a *de facto* ownership right over all of the data the users create, including the right to sell the content.<sup>3</sup> Furthermore, 11 of the 13 Web 2.0/3.0 platforms guarantee themselves the right to store, analyze, and sell the content and usage data of their users to advertising clients, who are enabled to provide targeted, personalized advertisements as a result. In sum, this means that the vast majority of the Web 2.0/3.0 companies in our sample exert ownership rights on user-generated content and behavioral data. While Web 2.0/3.0 companies own the data of the users, users do not own a share of the corporations.

To this point, we can see that corporate Web 2.0/3.0 platforms attract a large majority of users and that the corporations that operate the vast majority of these platforms are profit oriented and accumulate capital by online advertising and in some cases by selling special services. A few legal persons own the companies that operate Web 2.0/3.0 platforms, whereas millions of users have no share in ownership. This is how they accumulate capital and the cornerstone of their "business model." Web 2.0/3.0 does not extend democracy beyond the political sphere into culture and economy. Nor does it maximize the developmental powers of human beings. Instead, it mainly maximizes the developmental powers of an economic class that owns web platforms and holds the extractive power to dispossess users and to exploit workers and users in order to accumulate capital. We can conclude that from the perspective of participatory democracy theory, Web 2.0/3.0 is not a participatory techno-social system because it is based on capitalist ownership and accumulation structures that benefit the few at the expense of the many and access is stratified.

For Georg Lukács, ideology "by-passes the essence of the evolution of society and fails to pinpoint it and express it adequately" (Lukács 1971: 50). Slavoj Žižek (1994) argues that "'Ideological' is a social reality whose very existence implies the non-knowledge of its participants as to its essence" (Žižek 1994: 305). An ideology is a claim about a certain status of reality that does not correspond to actual reality. It deceives human subjects in order to forestall societal change. It is false consciousness (Lukács 1971: 83). Based on participatory democracy theory, we can argue that scholars who argue that the contemporary web or the internet is participatory advance an ideology that



celebrates capitalism and does not see how capitalist interests predominantly shape the internet. Given these empirical results, it seems both necessary and feasible to theorize “Web 2.0” not as a participatory system but by employing more negative, critical terms such as class, exploitation, and surplus value.

## Class and the web

Karl Marx highlights exploitation as the fundamental aspect of class by saying that “the driving motive and determining purpose” of capitalist production is “the greatest possible exploitation of labour-power by the capitalist” (Marx 1867: 449). He says that the proletariat is “a machine for the production of surplus-value,” and capitalists are “a machine for the transformation of this surplus-value into surplus capital” (Marx 1867: 742). Whereas Marx had in his time to limit the notion of the proletariat to wage labor, it is today possible to conceive of the proletariat in a much broader sense as all those who directly or indirectly produce surplus value and are thereby exploited by capital. Besides wage labor, this also includes houseworkers, the unemployed, the poor, migrants, retirees, students, precarious workers, and also the users of corporate Web 2.0 platforms and other internet sites and applications. Hardt and Negri (2004) use the term “multitude” for the multidimensional proletariat of the twenty-first century.

For Marx, the profit rate is the relation of profit to investment costs:  $p = s/(c + v) = \text{surplus value}/(\text{constant capital (= fixed costs)} + \text{variable capital (= wages)})$ . If internet users become productive Web 2.0 producers, then in terms of Marxian class theory this means that they become productive laborers who produce surplus value and are exploited by capital because for Marx productive labor generates surplus. Therefore, the exploitation of surplus value in cases like Google, YouTube, MySpace, or Facebook is not merely accomplished by those who are employed by these corporations for programming, updating, and maintaining the software and hardware, performing marketing activities, and so on, but by the users and the producers who engage in the production of user-generated content. New media corporations do not (or hardly) pay the users for the production of content. One accumulation strategy is to give users free access to services and platforms, let them produce content, and to accumulate a large number of producers who are then sold as a commodity to third-party advertisers. No product is sold to the users, but users are sold as a commodity to advertisers. The more users a platform has, the higher the advertising rates can be set. The productive labor time that is exploited by capital, on the one hand, involves the labor time of the paid employees and, on the other hand, all of the time that is spent online by the users. For the first type of knowledge labor, new media corporations pay salaries. The second type

of knowledge is produced completely for free. There are neither variable nor constant investment costs. The formula for the profit rate can be transformed for this accumulation strategy as follows:

$$p = s/(c + v1 + v2),$$

where  $s$  is surplus value,  $c$  is constant capital,  $v1$  is wages paid to fixed employees, and  $v2$  is wages paid to users.

The typical situation is that  $v2 \geq 0$  and that  $v2$  substitutes  $v1$ . If the production of content and the time spent online were carried out by paid employees, the variable costs would rise and profits would therefore decrease. This shows that produsage in a capitalist society can be interpreted as the outsourcing of productive labor to users who work completely for free and who help to maximize the rate of exploitation ( $e = s/v = \text{surplus value/variable capital}$ ) so that profits can be raised and new media capital accumulated. Again, this situation is one of infinite overexploitation. Capitalist produsage is, thus, an extreme form of exploitation rather than the harbinger of a new “democratic” or “participatory” economy based on fundamentally different values and principles.

That surplus value generating labor is an emergent property of capitalist production means that production and accumulation will break down if this labor is withdrawn. It is an essential part of the capitalist production process. That producers conduct surplus-generating labor can also be seen by imagining what would happen if they stopped using platforms such as YouTube, MySpace, and Facebook: The number of users would drop, advertisers would stop investing because no objects for their advertising messages and, therefore, no potential customers for their products could be found, the profits of the new media corporations would drop, and they would go bankrupt. If such activities were carried out on a large scale, a new economic crisis would arise. This thought experiment shows that users are essential for generating profit in the new media economy. Furthermore, they produce and coproduce parts of the products and, therefore, parts of the use, exchange, and surplus values that are objectified in these products.

Dallas Smythe (1981/2006) suggests that in the case of advertising-based media models, the audience is sold as a commodity to advertisers: “Because audience power is produced, sold, purchased and consumed, it commands a price and is a commodity. ... You audience members contribute your unpaid work time and in exchange you receive the program material and the explicit advertisements” (Smythe 1981/2006: 233, 238). Smythe’s argument is that audience labor is productive, creates surplus value, but is not materially remunerated by money. With the rise of user-generated content, free-access social networking platforms, and other free-access platforms that yield profit through online advertising—a development subsumed under categories such as

Web 2.0, social software, and social networking sites—the web seems to come close to accumulation strategies employed by capital from traditional mass media like TV or radio. When we speak of Web 2.0, however, the audience has turned into prosumers, understood as, first suggested by Toffler (1980), consumers of information, who are at the same time producers of information. The prosumers who google data, upload or watch videos on YouTube, upload or browse personal images on Flickr, or accumulate friends with whom they exchange content or communicate online via social networking platforms such as MySpace or Facebook constitute an audience commodity that is sold to advertisers. The difference between the audience commodity on traditional mass media and on the internet is that in the latter case the users are also content producers; prosumers' creative activity generates communication, community building, and content production. That the users are more active on the internet than in the reception of TV or radio content is due to the decentralized structure of the internet, which allows many-to-many communication.

The first sentence of Chapter 1 of Marx's *Capital* is as follows: "The wealth of societies in which the capitalist mode of production prevails appears as an 'immense collection of commodities'" (Marx 1867: 125). A commodity is a good that is exchanged in a certain amount for a certain amount of another good (in most cases, money). Marx (1867) formulates this relation as follows:  $x$  amount of commodity  $A = y$  amount of commodity  $B$ . In capitalism, labor power and means of production are bought as commodities on markets by capitalists and used as production factors. Labor creates new products in the production process by using its labor power with the help of the means of production. The new products according to Marx contain unpaid labor time (surplus value) that is transformed into profit by selling a commodity. As a result, the initially invested sum of money capital is increased. Commodities have a use value, and thus they satisfy human needs, while commodification reduces such values to exchange values. The exchange value dominates over the use value of a commodity. Dallas Smythe's notion of the audience commodity means that consumers are no longer just the buyers of commodities but are themselves sold as commodities to advertising clients. In other words, they are transformed into exchange values. Prosumers also have a price tag, where advertisers have to pay to obtain access to a certain number of people.

Due to the permanent activity of the recipients and their status as prosumers, we can say that in the case of the internet the audience commodity is a prosumer commodity. This category does not signify a democratization of the media toward a participatory or democratic system but the total commodification of human creativity. During much of the time that users spend online, they produce profit for large corporations like Google, News Corp. (which owns MySpace), or Yahoo! (which owns Flickr). Advertisements on the internet are frequently personalized; this is made possible by surveillance, storing, and assessing user activities with the help of computers and databases. This

is another difference from TV and radio, which provide less individualized content and advertisements due to their more centralized structure. But one can also observe a certain shift in the area of traditional mass media, as in the cases of pay-per-view, tele-votes, talk shows, and call-in TV and radio shows. In the case of the internet, the commodification of audience participation is easier to achieve than with other mass media.

The importance of the prosumer commodity and extractive power as principles of the contemporary web is evidenced by the continuing absolute and relative rise of internet advertising revenues. In 2008, internet advertising was the third-largest advertising market in the United States and the United Kingdom. Internet advertising revenues were only exceeded in these two countries by newspapers and TV advertising (Internet Advertising Bureau (IAB) 2009: 14; Ofcom 2009: 36). Worldwide, advertising spending on Facebook was US\$605 million in 2010, which was an increase of 39 percent in comparison to 2009 (Adweek 2009).

The constant real-time surveillance of prosumers is also achieved through the proliferation of privacy statements that guarantee that personalized advertising can be operated on web platforms. Indeed, users hardly have any choice as to whether or not to agree with such policies if they want to interact with others and make use of the technical advantages Web 2.0/3.0 poses. Privacy statements are, in other words, totalitarian mechanisms that are, out of necessity, not democratically controlled by the users but under the exclusive control of corporations.

Facebook, for example, automatically uses targeted advertising. There is no way to opt out.

We allow advertisers to choose the characteristics of users who will see their advertisements and we may use any of the non-personally identifiable attributes we have collected (including information you may have decided not to show to other users, such as your birth year or other sensitive personal information or preferences) to select the appropriate audience for those advertisements. For example, we might use your interest in soccer to show you ads for soccer equipment, but we do not tell the soccer equipment company who you are. [...] We occasionally pair advertisements we serve with relevant information we have about you and your friends to make advertisements more interesting and more tailored to you and your friends. For example, if you connect with your favorite band's page, we may display your name and profile photo next to an advertisement for that page that is displayed to your friends. (Facebook 2010)

Also, MySpace allows targeted personalized advertising that is automatically activated. Users can opt out, but doing so is very difficult. There is no menu setting in the privacy options that allows people to do so, only a link in the privacy policy that users have to follow in order to opt out. As its statement declares,

MySpace may use cookies and similar tools to customize the content and advertising you receive based on the Profile Information you have provided. Profile Information you provide in structured profile fields or questions (multiple choice questions like “Marital Status,” “Education,” and “Children”) (“Structured Profile Information”), information you add to open-ended profile fields and questions (essay questions like “About Me,” “Interests” and “Movies”) (“Non-Structured Profile Information”) and other non-PII about you may also be used to customize the online ads you encounter to those we believe are aligned with your interests. (Facebook 2010)

## Conclusion

The social theories of Durkheim, Weber, Tönnies, and Marx make it possible to distinguish between three modes of sociality that can be applied to the realm of the web. Web 1.0 is a networked digital system of cognition, Web 2.0 a networked digital system of communication, and Web 3.0, a networked digital system of cooperation. Based on this distinction, one finds that in the past 10 years the world wide web has continuously remained primarily a web of cognition, although sites that support communication and cooperation have become more important.

Empirical analysis shows that corporate interests dominate the contemporary web. In participatory democracy theory, economic democracy is a central element of participation, and capitalist ownership structures are considered as undemocratic and, thus, nonparticipatory. This allows me to conclude that claims about the contemporary internet and the web as spaces of sociality, cooperation, and a “new economy” are uncritical and ideological. They celebrate capitalism and the capitalist character of the internet but wrap these realities in new rhetoric, thereby constituting a form of false consciousness.

Viable alternatives to celebratory web theories are critical theories of the web that are based on Karl Marx’s notions of class, exploitation, and surplus value. A central mechanism for capital accumulation on the web is the surveillance of personal user data and activities. The access to these data or the analyzed data are sold to advertising clients that the right to use these data in order to present targeted advertising to the users. Contemporary internet users are to a certain extent content producers, so-called produsers or prosumers. Nonetheless, they are exploited by capital and produce surplus value because their activities are sold as commodities. They constitute an internet produsage commodity that is at the heart of class formation, exploitation, and surplus value production on the internet.

My suggestion that the contemporary internet and the contemporary world wide web are predominantly corporate spaces of capital accumulation is meant as a corrective to techno-optimistic approaches that claim that the internet has become a participatory system. My approach should not

be misread as a techno-pessimistic nihilism that declares that there are no positive potentials in the internet. The internet is a dialectical space consisting of positive and negative potentials, potentials for dominative competition and for cooperation that contradict each other (for a detailed discussion of this hypothesis, see Fuchs 2008). The internet acts as critical medium that enables information, coordination, communication, and cooperation of protest movements (Fuchs 2008). It has the potential to act as a critical alternative medium for progressive social movements, as examples such as Indymedia show (Fuchs 2010a; Sandoval and Fuchs 2009). The internet is both a social medium and a space of accumulation. The extension of internet sociality toward more communication and cooperation today serves primarily corporate purposes, however. Corporations commodify and exploit sociality, that is, communication, production, and cooperation on the internet. At the same time, internet cooperation, as, for example, expressed by the free sharing of data on the internet with the help of file-sharing platforms, points toward a noncapitalist economy in which goods are not exchanged but available for free (Fuchs 2008). Cognition, communication, and cooperation on the internet, thus, have a contradictory character: They are commodified but at the same time advance the socialization and cooperation of labor that undercuts and tends to threaten corporate interests.

But the dialectic of the internet is asymmetric. Visibility is a central resource on the internet. Information can be produced easily, cheaply, and fastly, but the more important aspect of information on the internet is how many users become aware of this information and make use of it in meaningful and critical ways. Dominant actors such as corporations, political parties, or governments control a vast amount of resources (money, influence, reputation, power, etc.) that gives them advantages over ordinary citizens and protest movements. It is much easier for them to accumulate and maintain visibility on the internet. Everyone can produce and diffuse information relatively easily because the internet is a global, decentralized, many-to-many and one-to-many communication system, but not all information obtains the same attention. Amidst an ocean of information, the problem is how to draw other users' attention to information. So, for example, Indymedia, the most popular alternative online news platform, is only ranked Number 4,147 in the list of the world's most accessed websites, whereas BBC Online is ranked Number 44, CNN Online, Number 52, *The New York Times Online*, Number 115, *Spiegel Online*, Number 152, *Bildzeitung Online*, Number 246, or Fox News Online, Number 250 (alexa.com, top 1,000,000,000 sites, August 2, 2009). This shows that there is a stratified online attention economy in which the trademarks of powerful media actors work as potent symbols that help these organizations' online portals to accumulate attention.

In short, as with the material world, resources, and hence visibility, on the internet are asymmetrically distributed. Protest, critique, and participation

are therefore mere potentials on the internet. Citizens and movements have to struggle in order to attain a more participatory web and a more participatory society. These struggles will not continue on their own accord, and they are currently subsumed under the dominance of capital and State. The asymmetric dialectic of the internet can only be exploded through class struggles that question the dominative and corporate character of the internet. The emergence of a participatory web is only a nonrealized potential. Its attainment is possible but not certain.

## Notes

- 1 The research presented in this chapter was conducted as part of the project “Social Networking Sites in the Surveillance Society,” funded by the Austrian Science Fund (FWF): Project Number P 22445-G17. Project coordination: Christian Fuchs.
- 2 Data: Google US Securities and Exchange Commission (SEC) Filing Proxy Statements 2008. Number of worldwide internet users: 1,596,270,108 (internetworldstats.com, August 14, 2009); 3-month average number of worldwide Google users (alexa.com, August 14, 2009): 32.671 percent of worldwide internet users (520 million users); 3-month average number of worldwide YouTube users (alexa.com, August 14, 2009): 18.983 percent (303 million users); 3-month average number of worldwide Blogger/Blogspot users (alexa.com, August 14, 2009): 8.869 percent (142 million users).
- 3 At the time when the analysis was conducted (August 2009), Twitter had relatively short terms of use. However, in September 2009, the terms were changed so that targeted advertising and the *de facto* ownership and selling of user data by Twitter became possible. Twitter’s terms of use thereby became very similar to the ones by other commercial, profit-oriented Web 2.0 platform companies.

# Mediation, Financialization, and the Global Financial Crisis

An inverted political economy perspective

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## Introduction

This chapter looks at two distinct but related phenomena: the expansion of financial and business news, and the growth of financialization in Anglo-Saxon-style, free-market economies. Both of these postwar trends have been documented in different scholarly fields. The questions are how, if at all, are these developments related and, what, if any, have been the possible consequences of this relationship?

The chapter adopts what I elsewhere call an *inverted political economy of communication framework* (Davis 2007). This critical approach still assumes power originates, is played out, and recorded in material forms. However, it chooses to reverse the traditional, critical media political economy line, which explores how powerful groups and institutions, and political and economic factors shape media content and public understanding in a top-down way. Instead, it takes those sites of power, elite actors and processes, operating at the tops or centers of political and economic power, and then asks the following: What is the part played by media and culture in the activities of those actors and in the evolution of those processes?

Employing this perspective, the chapter focuses on the communicative and cultural mechanisms that link established economic and political elites to processes of financialization. The key argument is that the significance of financial media has lain in its ability to disseminate a series of discourses, narratives, and myths, about finance itself, to *financial and associated stakeholder elites*. A combination of such general discourses and more specific narratives have supported a series of high-level policy and investment decisions that, over time, have aided the growth of financialization and its dangerous creations. Ultimately, these trends have both destabilized the financial sector



and sucked the resources of States and ordinary individuals into financial markets. The mechanisms and consequences of these long-term developments became painfully apparent as the financial system began to collapse in 2007 and a global recession resulted.

The chapter focuses on developments in the United States and the United Kingdom. These two countries both have overinflated financial centers, produce extensive financial news media and trading information, promote a particular brand of global, finance-led capitalism, and have suffered strongly from the recent financial crises. The chapter has four sections. The first charts the parallel, postwar growths of finance, financialization, and financial media. The second discusses how such developments are related. It makes the case that the focus of this relationship should be on *financial and associated stakeholder elites* and the *elite discourse networks* that link them. The third details larger financial market discourses and narratives and their impact on financial and associated elites. The fourth looks more closely at the recent market crises in internet company shares, property, banking, and financial products, and speculates further on the role of financial media in those.

### The rise of financialization and the rise of financial media

Banking and financial centers have always been key components of large-scale capitalist societies. Over time they have come to provide vital functions for the state, corporations, and the general public. From governments balancing their books and controlling the money supply to corporations raising investment capital, to retail banking for ordinary citizens, they have a central role to play in capitalist democracies.

However, in recent decades, things have changed. A process of financialization has taken place. The term “financialization” has varying definitions. In its broader descriptions (see e.g. Philips 2006; Palley 2007), financial sectors have come to play a more dominant part relative to the economy as a whole, swallowed up and come to control significantly larger amounts of capital than either governments or nonfinancial corporations, and have been increasingly influential in government policy-making with regard to social, economic, and industrial policy. Thus, where once financial institutions made profits from servicing the financial needs of their economy and society, now they have become large-scale entities that increasingly influence the very workings of those economies and societies.

So, for example, in 2007, the gross domestic product (GDP) of the United Kingdom was estimated to be £1.24 trillion (IMF 2008), and the total managed annual expenditure of the UK government was £587 billion. However, in that same year, members of the UK-based Investment Management Association controlled £3.4 trillion worth of funds (IMA (Investment Management

Association) 2007). Also, in 2007, US\$3 trillion worth of currency was traded on international exchanges daily (Steger 2009: 49), and the international banking system operated funds of US\$512 trillion or 10 times the GDP value of the entire world economy (Cable 2009: 30, 146). Under such circumstances, the financial sector has outgrown the economies and states they once served. According to pre-2007 critical accounts (e.g. Strange 1986, 1998; Dore 2000; Soderberg, Menz, and Cerny 2005; Zorn, Dobbin, Dierkes, and Kwok 2005; Froud, Johal, Leaver, and Williams 2006), the processes of financialization have, by virtue of this power, contributed to a number of worrying political and economic developments. These include a decline in the power of democratically elected governments to manage their economies, being a driving force of neoliberal economic policy from antiunion legislation to deregulation, a spur to global trading imbalances, the crude imposition of IMF/“Washington Consensus” economic policies on developing economies, the destruction and/or drastic reshaping of traditional industries and the erosion of welfare systems in developed economies, a source of unstable currency and commodity values, and a cause of economic instability, bubbles, and crashes. In post-2007 accounts (e.g. Krugman 2008; Bootle 2009; Cable 2009; Elliott and Atkinson 2009; United Nations Centre for Trade and Development (UNCTAD) 2009), the financial crisis and world recession that has followed are directly tied to an out-of-control financial and banking system, led by a particularly “Anglo-Saxon” model of finance-led capitalism.

A parallel but distinct development has been the rise of financial media. Business and financial news has been circulating, in the press and newsletters, since the establishment of financial centers, largely in the eighteenth and nineteenth centuries (see Parsons 1989). For many, such forms of news expanded substantially in advanced economies after the Second World War and then, again, from the late 1970s onward (see Curran 1978; Newman 1984; Berkman and Kitch 1986; Davis 2002; Kjaer 2010). A mixture of interest from a wealthier public, and a strong rise in financial advertising, spurred this expansion. Financial advertising tripled in the period 1975–83 (Newman 1984: 221). By the late 1980s, Jones (1987) and Tunstall (1996) were concluding that the financial press had become the leading news sector in the United Kingdom’s serious press. Similar expansions were noted in the US press and in broadcasting and specialist media in both countries (Tumber 1993; Shiller 2001; Cassidy 2002). Most recently, online financial news, information feeds, blogs, and other sites have also proliferated (Knorr-Cetina and Bruegger 2002; Sassen 2005; Davis 2006).

Clearly, financialization and financial media have had parallel upward trajectories. The question is how intertwined and codependent have these developments been? Of more central concern to this chapter, how has the growth of financial media contributed to the growth and shape of Anglo-Saxon-style, financialized capitalist economies? Has it had a central role to

play in the most recent bubbles and crashes as well as the evolution of an unstable and unequal financial system?

### Explaining the relationship between financialization and financial media

For mainstream economists and liberal/middle-ground media scholars, financial media has had little significant influence. In standard market models and classical economics, media is virtually irrelevant. The same is true of financial market theory, as is generally relayed in subject text books (e.g. Reilley and Brown 2000; Bodie, Kane, and Marcus 2003). The efficient markets hypothesis (EMH, see Fama 1970), which has dominated finance theory and practice in the postwar period, relies on notions of individual rationality and market equilibrium. Prices and equilibrium are reached by the absorption of all market-relevant information by large numbers of rational, self-serving individuals competing to buy and sell. Markets may be affected temporarily by irrational individuals or externals such as media, but ultimately always find their rational equilibrium. Although, it should be noted, with some irony, that many in high finance were happy to blame the media, at least initially, when the financial system began collapsing, domino-like, in 2008. Liberal, reflectionist accounts in media scholarship also present media as having a minimal role in events, society, and economy. Media reporting, including that in finance and business, reflects rather than influences society. In specific accounts of the rise of financial and business news (Gavin 2007; Kjaer 2010; Tambini 2010), it has developed a relatively balanced, autonomous reporting style that responds to the requirements of a more affluent general public. The failure to spot recent market crashes (2000, 2007) or fraudulent companies (Enron, Worldcom) is more to do with the natural limits of reporting practice, rather than any systemic bias or ideological leaning.

Outside mainstream economics, a mix of economic historians, behavioral and left-wing economists and practitioners, have shown rather more skepticism about classical economics and financial market theory (Keynes 1936; Shiller 1989, 2001; Soros 1994; Kindleberger 2000; Krugman 2008; Bootle 2009; Akerlof and Shiller 2009). Each of these accounts focuses on market instabilities and externalities and the irrational behavior (animal spirits) of individuals and groups. In some of these, media have, on occasion, played a significant role in fueling herd behavior, bubbles, and crashes (Shiller 1989, 2001; Cassidy 2002). Critical economists have been joined by critical media scholars. They argue that there are structural and ideological biases deeply ingrained in media reporting and that these favor capitalism and the corporate classes who benefit from them.

This has been the case in relation to media reporting of industrial relationships, economic policy, and high finance (Jenson 1987; Philo 1995; Rampton and Stauber 2002; Dinan and Miller 2007). Certainly, many ordinary people have been encouraged to put their life savings into the purchase of internet stocks at the peak of the dot-com bubble or to buy overvalued homes they could not afford in the long term (subprime mortgages) (see Shiller 2001; Cassidy 2002; Cable 2009).

Arguably, although both perspectives offer useful insights, neither deals adequately with the financialization–financial media relationship. The classical economics/reflectionist media perspective fails to engage with the realities of human behavior, or external social and economic influences, in its abstract modeling of markets and media. As Soros states (1994: 11), financial market theory “is a theoretical construct of great elegance that resembles natural science but does not resemble reality.” Similarly, media are never simply a neutral reflection of society that play a minimal part in social relations.

However, the second critical position rather overplays the weight and influence of media when it comes to financial matters, financialization, and the general public. First, the day-to-day direct impact of the financial media on finance is likely to be limited. The size of the media industries is tiny when set next to those of many industrial and financial sectors. As with all professional occupations in society, those in the financial world rely relatively little on information they pick up from the “amateur” observers working in the media. They have access to a plethora of specialists, information sources, and key players. Second, whatever the intentions of journalists, their ability to investigate or criticize the financial center is limited. Financial reporting, compared to other areas of journalism, is far more dependent on business advertising than general consumer sales and subscriptions. Business and finance are also highly complex topics that most journalists struggle to understand and keep up with (see Davis 2002; Doyle 2006; Tambini 2010). Third, public understanding of, and participation in, financial affairs is also relatively limited. One survey (Tunstall 1996: 217) recorded that only 6 percent of readers of *The Sun*, *The Daily Mail*, and *The Times* in the United Kingdom chose to read “personal finance” sections, and only 4 percent looked at the “business and companies” sections. Goddard, Corner, Gavin, and Richardson (1998) found that public understanding of economic matters was very weak. According to one report (London Stock Exchange 1996), when share ownership was nearing its peak in the United Kingdom, only 3 percent of individual shareholders were active traders, and only 6 percent had ever attended a company annual general meeting (AGM). Thus, to suggest that financial media have had a significant impact on the growth and shape of financialization or on public understanding seems rather far-fetched. To argue that financial media had a starring role in the recent financial market bubbles and crashes of recent decades seems almost absurd.

However, I would argue that financial media has played a significant supportive, rather than primary, role. Its most important influence has been something less obvious, rational, or technically sophisticated. Its impact has lain in its ability to build and perpetuate certain discourses, narratives, and myths among financial and related stakeholder elite groups. Its power has been ideological and cultural, at the elite rather than public level. This is because the discourses, ideologies, and decision-making about the economy, corporate practices, and financial regulation have been decided largely by small elite groups and networks. These activities, in turn, have been aided by a mixture of mainstream financial media and more exclusive forms of communication.

Looking just at financial media, it is financial and corporate elites who are the main advertisers, sources, and consumers of financial and business news (although not on all aspects of the economy, see Gavin 2007). Indeed, several studies (Parsons 1989; Herman 1982; Hutton 1996; Bennett, Pickard, Iozzi, Schroeder, Lagos, and Caswell 2004; Davis 2007; Durham 2007; Corcoran and Fahy 2009) have noted that such media coverage, in effect, revolves around economic elites in dialog and conflict with each other, all to the exclusion of the general public. In Parson's (1989: 2) historical account of the financial press, Keynes, Galbraith, Samuelson, and Friedman have all made their impact on policy-makers through their frequent, public interventions in the financial media. At different times, the financial press have come to "constitute a significant medium through which economic ideas and opinions are legitimated ... a unique interpreter, less of mass opinion than of the views and values of a more limited and narrower elite" (Parson 1989: 2).

In effect, most financial and corporate reporting is produced by and for elites operating in these linked spheres. Yes, many economic and industrial issues do hit the headlines from time to time. However, on a day-to-day basis, the activities and decision-making of financial and corporate elites go largely unnoticed and often unreported. So do the weighty discussions of economic policy of governments, regulatory bodies, and international financial institutions such as the IMF, World Bank, and WTO. If, therefore, financial media has influenced financial and business activities, and contributed to the growth of financialization, it is likely to be among elites. Before exploring this issue, it is worth first clarifying what specific elites and financial media are being referred to.

In terms of elites, the following discussion focuses on financial and *associated stakeholder elites*—those with some form of stake in financialization. Financial elites are those who work at the higher levels of financial and banking institutions, in investment and retail banks, in fund management, as brokers and other intermediaries. Associated stakeholder elites are those in the corporate, political, and regulatory/bureaucratic communities, at both the national and international levels. They relate to financial elites by virtue of a set of dependencies, management and regulatory responsibilities. It would be a mistake to assume these elites act together and with identical goals and objectives. In fact, there are many points of

tension on policy matters and in relationships and dependencies between these overlapping elite networks as well as within them. Each of these networks also makes use of overlapping but distinct forms of media and communication, be it mass media, specialist publications, or electronic exchanges and forums. At the same time, it is important to note that such elites also share important goals, discourses, and media and information sources. In various ways, they have all come to rely on the growth and success of financialization. This combination of a shared interest in financialization but divergent goals, knowledge bases, and information sources is very significant, as explained in the next section.

The relevant mainstream financial media being considered are a select group of financial publications and business channels. These include the *Financial Times*, *The Wall Street Journal*, *International Herald Tribune*, *The Economist*, *Time*, *Newsweek* as well as the financial programs and reporting of BBC World, CNN (CNNI/CNNfn), CNBC, News Corporation, and Bloomberg. As several studies have noted (Kantola 2006, 2009; Davis 2007; Durham 2007; Chalaby 2009; Corcoran and Fahy 2009), these media are widely consumed in all of these overlapping elite networks. Their reporting and commentaries are taken very seriously by both financial and associated stakeholder elites, if only because of the awareness that they are widely consumed among fellow and rival elites. They thus make up an important communicative architecture that supports and links such networks. In theory, such communicative structures are also likely to generate and sustain a variety of discourses, cultures, narratives, and practices.

Therefore, I would suggest that the most important contribution of financial media to financialization has been its provision of cultural discursive networks through which financial and related elites communicate—on both a conscious and an unconscious level. Such an apparatus has played a supportive role in developing a number of key discourses in general support of financialization and neoliberal, free-market economics and particular narratives justifying irrational/unstable trends in regulation and investment.

### The creation of financial market discourses and narratives

One such discourse presents the financial centers of the City of London and Wall Street as key engines of growth and prosperity for the United Kingdom and United States, respectively. In today's globalized world, where countries are developing specialist labor markets, the United Kingdom and United States excel in the business of finance. In recent decades, the financial sectors of both nations have grown immensely, bringing employment, large tax revenues, and impressive balance of trade surpluses with other countries. In the United States, in 2007, although the financial sector made up only 8 percent of the economy, it was responsible for 40 percent of domestic corporate profits (Bootle 2009: 113).

In the United Kingdom, at the turn of the twenty-first century, the City employed an estimated 300,000 people, had recorded an average growth of 7 percent per year for 25 years, and a consistent annual overseas trade surplus in the tens of billions (Golding 2004: 10). According to Hutton (1996), Elliot and Atkinson (2009), and Cable (2009), this faith in the UK financial center has been clear across government and financial regulatory services. As Cable puts it (2009: 26), "After the decline of much of Britain's manufacturing industry, the City emerged as a national success story ... an image of buccaneering, innovative entrepreneurship ... Governments were seduced by this narrative." It is also assumed that these profits have then filtered through to the rest of the population, encouraging a sense of financial democracy, greater home ownership, and general prosperity (the "trickle-down effect" of wealth creation and dispersion in the United States). Recent assessments of the UK financial services industry, by Wigley (2008) and Bischoff and Darling (2009), very much repeat and concur with this line of argument, despite the very real costs and problems that have surfaced since 2007 (see CRESC 2009).

A second discourse relates to financial market theory and the EMH (see above). As many critics now point out, EMH-influenced thinking has provided the rational and directive parameters for deregulation of the financial markets since the early 1980s (Pratten 1993; Davis 2007; Akerlof and Shiller 2009; Bootle 2009). In regulatory terms, its credo is, eliminate outside (government or other) interference and markets will always look after themselves. The financial markets have thus become self-managing, almost mythical-like entities that, it is assumed, will always overcome human fallibilities. Such beliefs were regularly recorded in interviews and surveys of fund managers and other participants in London's financial markets (Lazar 1990; Davis 2007). In each case, there was a general expectation that the market, if not always correct in the short term, would be so in the long term.

Third, and related to EMH thinking, there has been a tendency to assume all nonfinancial markets (e.g. industrial, labor) operate best if working like liberated financial markets. Several authors record such thinking among the United Kingdom's financial elite networks (Hill 1990; Lazar 1990; Hutton 1996; Boswell and Peters 1997; Davis 2007). Anything that hinders markets, such as collectivism, strong unions, and greater state intervention, through taxation, regulation, or redistribution, is deemed a hindrance. In contrast, privatization, competition, deregulation, and lower taxes are deemed positive for markets. Consequently, City support for free-market parties, such as the Conservatives or Republicans, is particularly high. In the 1997 General Election, in the face of Labour's landslide victory, 69 percent voted Conservative and only 7 percent voted Labour (MORI 1997). In 2004, some 41 percent of UK fund managers supported the reelection of George Bush, and only 9 percent supported John Kerry (Merrill Lynch 2004). Such thinking and market assumptions are regularly relayed in the financial press (Davis 2000a; Doyle

2006; Kantola 2006). Doyle's (2006: 446) study of financial reporting, in the wake of the Enron scandal, found that "several" financial journalists interviewed "readily acknowledged that passivity in relation to pro-market ideologies is fairly characteristic of the sector."

A fourth discourse revolves around globalization, free trade, and the general freeing up of international markets. This discourse regularly supports the interests of international (often Western-based) financial institutions and investors over national governments and democratic processes. Durham's (2007) analysis of the *Financial Times's* (*FT*) coverage of the Thai currency crisis in 1997 produced "a consistent ideological position" that elevated IMF accounts and demands over those of the Thai government (see Krugman's 2008 critique). Similarly, Kantola's (2006) analysis of *FT* content reveals that its coverage of some 32 elections between 2000 and 2005 repeatedly backed candidates who supported pro-market reforms and was critical of democracies, publics, and leaders who did not (see also Kantola 2009). Likewise, Bennett *et al.*'s (2004) study of the reporting of the World Economic Forum at Davos found that the dominant reporting frames strongly promoted the interests and policy positions of such financial elites over those of citizens and activists.

Financial media not only has played a part in the creation and circulation of financial and free-market discourses generally but also has had a significant role in the generation and sustenance of a series of specific market narratives. These have helped spur and justify a lighter regulatory regime and several irrational market movements and investment bubbles in recent decades. Such narratives have supported financial elite actions and persuaded associated stakeholder elites (as well as ordinary citizens) that such activities were safe and, also, to buy directly into these bubbles (see accounts in Kindleberger 2000; Shiller 2001; Krugman 2008; Akerlof and Shiller 2009). From the mystique of the Nobel-prize-winning economists who ran Long-Term Capital Management to the mythologies surrounding the Asian tiger economies, stories have accompanied "rational" actor participation. In each case, such stories and myths have been widely repeated and circulated in the financial media.

One key, recurring narrative that has supported the various bubbles in internet stocks, property, and financial products, since the early 1990s, has been that of the "new economy." Financial and associated stakeholder elites as well as the financial media have frequently referred to "the new-era economy," "the creative" or "knowledge-based economy," and the "end of the traditional business cycle." This narrative is tied to "an era of permanently low inflation and low interest rates," "globalization," the rise of the "service sector," and the "taming of unions and labour inflexibility" (see Shiller 2001; Cassidy 2002; Turner 2008; Krugman 2008). As trading values have become increasingly disconnected from real asset values and historical measures, elements of "the new economy" have been used to justify these discrepancies. For several observers, such narratives have been uncritically relayed and magnified by elements of the



financial press and broadcasting. For Cassidy (2002) and Shiller (2001), *The Wall Street Journal*, the new financial news channels (CNBC, CNNfn, Bloomberg), as well as certain websites and specialist financial journals all fed the earlier dot-com boom and reinforced the rhetoric of “new economy.” Cable (2009) is similarly critical of the media’s portrayal of the property market, as a safe “one-way bet” perpetuated by ever-increasing demand in the new, low-inflation economy of the past decade.

The financial media have not created these mythical discourses and narratives. But they have endlessly circulated them, rarely subjected them to critical scrutiny, and frequently presented them as unquestionable realities. They have spread them to financial insider and outsider stakeholder elites. They have ensured that critics have been marginalized and policy choices limited to those that fit with an ideologically narrow interpretive framework.

### **Bubbles, ponzi schemes, and crashes: virtual discourses and financial realities**

As stated, financial media cannot be held particularly responsible either for the dangerous deregulation of financial markets since the 1980s or for the extreme market bubbles and crashes that have followed. However, it has aided and abetted the creation and circulation of a number of discourses and narratives that have underwritten such developments. These, in effect, have made highly irrational market developments appear quite rational. The consequences have been felt far beyond financial markets and their elite participants. In each case, a series of giant ponzi schemes or chain letters have been facilitated through financial centers. These have centered on internet stocks, property, and financial market products. In each case, large amounts of public and individual money have been sucked into these markets. This has allowed financial elite insiders, at the top of these schemes, to profit and then leave, while outsider stakeholder elites and the public have been left with the losses and debts. As the dust clears, it is becoming apparent that the price of sustaining the financial and banking sectors has been a huge rise in personal and government debt and the destabilization of governments and public institutions.

In the case of the hi-tech bubble of the 1990s, and its collapse in 2000, the part played by creative narratives and fairy-tale accounting is now evident (see accounts in Shiller 2001; Cassidy 2002; Golding 2004; Davis, 2007). From the mid-1990s, stock markets began to boom, driven by the new telecommunication and internet industries. The Telecommunications, Media, Technology (TMT) boom, or dot-com bubble, was talked up by entrepreneurs, financial market participants, and journalists. However, these new industries did not have a trading history, often had no assets, produced no profits or dividends, and therefore,

could not be valued by usual accounting measures. So, instead, stockbrokers, analysts, investors, and companies came up with their own means of evaluation that ignored conventional forms of valuation and historical trading patterns. The stock markets exploded. From 1995 to 2000, the New York Dow Jones more than tripled in value—from below 3,500 points to just under 12,000. The London Stock Market went from just over 3,000 points to almost 7,000 points. The value of stock markets as a whole became entirely detached from long-term, traditional, real-world measures. Prices, relative to company earnings (P/E ratios), tripled in that period and were rather more out of alignment than during the previous record set in 1929, just before the Wall Street Crash (see Smithers and Wright 2000; Shiller 2001). Individual internet company stocks rose dramatically. In 1998 alone, Yahoo!'s value was up 584 percent, Amazon's, 970 percent, and America Online, 593 percent. Priceline.com, an online company for selling excess airline capacity, was worth US\$150 billion or more than the entire airline industry (figures in Cassidy 2002: 8, 169). Ultimately, in the collapse that began in 2000, both the US and UK stock markets lost over half their value. Many TMT companies became worthless. Crucially, financial coverage failed to adequately question such developments and, in some cases, actively promoted the “new economy” narrative that underpinned them (Shiller 2001; Cassidy 2002; Davis 2007).

The responses of governments and central banks were neither fundamental regulatory reform of the sector nor the enablement of a proper market correction in stock markets. Instead, markets, financial and other, were boosted by low interest rates and other fiscal stimuli, leading to further bubbles. Most obvious among these were the wildly overinflated property markets, including that of the highly risky “subprime” mortgage market in the United States. Once again, by various historical measures, the value of property departed from “real economy” norms quite considerably. From 1995 to 2007, house prices doubled in relation to average earnings, from four and a half to nine times that of earnings. The buy-to-let market went from 1 to 10 percent of the market in a decade (Cable 2009: 14–16). In the United States, rent returns in relation to property values (price/rent ratios) dropped considerably (Krugman 2008: 145). Many buyers, with minimal finance and capacity, were encouraged to join the market with great short-term deals that contained long-term costs they did not understand. Thus, Northern Rock, the first UK bank to fall in September 2007, had been offering 125 percent mortgages at five or six times personal incomes, when three times had been the average.

What made the property and stock market bubbles far more dangerous was what had been happening in the financial and banking communities: deregulation and bubbles in financial products. Financial deregulation had allowed a greater proportion of bank financing to take place outside of the normal regulated banking sector—the “shadow banking sector.” By the time of the collapse, more money was being raised and circulated in this sector than

through normal, regulated and protected, conventional means. According to Cable (2009: 34), the derivatives market, one such area, rose in value over a decade, from US\$15 trillion, to US\$600 trillion or 10 times the total world output. On the basis of these enormous, mythical totals of capital, banks, hedge funds, and private equity companies were able to raise and invest funds far in excess of their capital assets. By the time Northern Rock collapsed, it had assets of £1.5 billion and loans worth over £100 billion, most of which were borrowed from overinflated international money markets (Elliott and Atkinson 2009: 52).

Financial deregulation had also enabled the growth of a multiplicity of complex financial products that were promoted as a means of spreading financial risk and bringing stability but, instead, created more dangerous bubbles. It is through such forms of financial engineering that subprime mortgages could be packaged up into mortgage-backed securities and then further complicated and spliced, using collateralized debt obligations, to hide the risks. This resulted in lots of these packages being given AAA risk ratings by credit rating agencies such as Moody's, Finch, and others. This encouraged normally cautious institutions, such as pension funds, and ordinary banks to buy them. In effect, not only were mortgages sold to the poorest and least educated in society, but they were then repackaged up and sold on in complex packages to elite investors and lenders around the world. When interest rates went up, and subprime mortgage owners began to default in droves, the complex pack of cards and IOUs began to unravel and fall apart. Financial elites, as well as ordinary borrowers, had all bought into the accompanying narratives about property, low interest rates, booming economy, stable financial markets, low risks, and so on.

In 2010, we are still trying to gauge all the consequences of the collapse that followed. First, literally hundreds of banks and related financial institutions have gone under worldwide. Second, private finance debt has been transferred to public debt as large institutions, deemed "too big to fail" (e.g. Freddie Mac, Fannie Mae, AIG, RBoS, Lloyds-TSB, HBoS, Fortis, Dexia, BNP-Paribas, IKB, UBS, Wachovia, Washington Mutual), have effectively been partially or entirely nationalized, at a cost of trillions of dollars of public money worldwide. In relation to the United Kingdom, by 2009, the cost of the bank bailout was £289 billion and rising (CRESC 2009: 6–7). The United Kingdom's external debt rose from £34 billion in 1997 to £319 billion in 2007 or 22.5 percent of GDP. Two years later, after the bank bailouts and fiscal stimulus packages, it had reached 66.5 percent of GDP (Turner 2008: 26, 71). Formerly wealthy countries, such as Iceland and Greece, have become effectively bankrupted and others, such as Spain and Portugal, are struggling under their debts. Third, personal debt has risen considerably and many households have been left in negative equity. During this bubble period, in the United Kingdom, total private debt rose from £570 billion in 1997 to £1,511 billion in 2007. In the United States, it rose from US\$5,547 billion in 1997 to US\$14,374 billion in 2007.

Cable (2009: 130) estimated that 20–30 percent had been knocked off the value of property in the United States, and United Kingdom by 2009. In the United States, by 2008, 12 million households were in negative equity (Krugman 2008: 189). Fourth, pension funds have been devastated and welfare state systems are being severely cut back in order to balance national accounts. Fifth, unemployment has grown considerably and poverty levels are rising.

Many financial elite actors have lost their jobs and/or seen their incomes reduced. However, their salaries, bonuses, redundancy payoffs, and pension schemes, gathered over the good years, have left them very much in the black. This has led many critics to compare what has happened over the past three decades generally, and through these market bubbles, to a series of “giant chain letters” or “naturally occurring ponzi schemes” (Shiller 2001; Krugman 2008; Elliott and Atkinson 2009). In these, financial elite insiders have been the beneficiaries, and stakeholder elites (in governments, central banks, etc.) and the public (through pension funds, property, and savings) have taken on the losses and debts.

As several economists and City practitioners have pointed out (Soros 1994; Shiller 2001; Krugman 2008; Elliott and Atkinson 2009; Akerlof and Shiller 2009; Bootle 2009), much of what has happened has been built on a series of myths, narratives, and discourses, all without sound foundations. Financial news coverage, with a few notable exceptions, failed to question the specific narratives and larger discourses that were used to justify an increasingly risky and unbalanced financial system (Tett 2009; Starkman 2009; Marron 2010; Chakravartty and Schiller 2010). According to UNCTAD (2009: 21) “market fundamentalist ideology” has enabled a state of affairs whereby “Financial markets in many advanced economies have come to function like giant casinos, where the house almost always wins (or gets bailed out) and everybody else loses.” For Bootle, a respected member of the financial elite of London for over 30 years, a lot of the crisis, pure and simple, must be put down to the ideology of the financial markets themselves

the *ideas* that underlay the disaster: the idea that markets know best; the idea that the markets are “efficient”; the idea that there was no good reason to be concerned about the level and structure of pay in banking; the idea that bubbles cannot exist; the idea that in economic matters, human beings are always “rational” ... if you ever questioned, never mind disputed, these ideas, you were regarded as a complete no-no. (2009: 21–2).

## Conclusion

As stated, it would be a mistake to simply see financial media as a major contributor to financialization and its Frankenstein-like creations. It would also be a mistake to assume that the media have the power to impose dominant

financial ideologies on the masses, turning the population into unequivocal cheerleaders of capitalism. However, that does not mean that the specialized financial media, or the mainstream media more generally, has had a neutral or negligible role either. Rather, as argued here, financial media has had a significant, supportive function in the development of financialization via its influence within elite discourse networks. This has helped persuade financial and associated stakeholder elites, as to the validity of financial market discourses, narratives, and investment myths. These have become reified through financial media and other communication fora, producing unassailable ideologies of free and financial market logic. These have enabled such markets to grow, become dangerously autonomous and corrupt, to impose crude market thinking on a range of social policy processes, and to suck in public funds and private savings into unstable market bubbles. This has left government accounts, pension funds, and individual savings in high levels of debt and national polities and welfare state programs teetering on the brink.