Media Amnesia

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Rewriting the Economic Crisis

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Contents

Acknowledgements vi

Introduction 1
1. Crash 32
2. Deficit 70
3. Slump 108
4. Eurocrisis 139
5. Inequality 178
6. Curing Media Amnesia 210

Glossary 240
References 242
Index 259

Introduction

On 15 September 2007, the UK experienced its first run on a bank since 1866. Exactly a year later, Lehman Brothers filed the biggest bankruptcy in history. Over the course of 2008, global stock markets plunged nearly 50 per cent, wiping out $35 trillion in financial assets (McNally 2011: 13). Eight major US banks collapsed, as did more than twenty across Europe, many of which were taken over by governments. The entire edifice of the market system seemed to be crumbling before our eyes. Even the *Financial Times* ran a series on 'The Future of Capitalism', declaring that 'The world of the three past decades is gone' (quoted in McNally 2011: 14). A decade later, we are still feeling the effects of the banking meltdown, which has cost an estimated $13 trillion in bank bailouts (Blyth 2013: 5), and $50 trillion in asset values worldwide (Harvey 2011: 6). The economic crisis has now morphed into a political crisis, as authoritarian populist figures marshal people's anger and fear over their precarious finances into nationalist projects.

It is perhaps difficult to remember the sense of sheer panic and confusion in the initial stages of the crisis, swiftly followed by fury at a set of people who had styled themselves as 'masters of the universe' and reaped untold rewards creating what had turned out to be 'financial weapons of mass destruction' (in the words of master of the universe, Warren Buffett). We seem to have grown accustomed to a pervading sense of economic and now political turmoil. Not only that, we seem to have gotten used to the idea that it is we, the ordinary people, who will pay for it, via cuts to public services and lower incomes. Many now even believe that it was public spending that caused the crisis in the first place. It is widely thought that Labour lost the 2015 UK election partly because voters believed it had crashed the economy by spending too much public money, and was not committed enough to tackling the deficit through austerity. Some blame the poor or immigrants for the problems. We seem to have forgotten the origins of the banking meltdown, and its roots in the wider economic system. This is remarkable, not only because of the historical reality of the financial crisis, but because that crisis was *all over the news* at the time. How has history been so quickly rewritten,

what role has the media played in rewriting it, and what effects might this have had for thinking about solutions to the economic problems?

These are the kinds of questions this book will address. It follows the UK news coverage of the crisis from the run on Northern Rock in 2007 until the present day, encompassing the global financial meltdown, the Great Recession, the UK deficit, the eurozone crisis, and falling living standards and rising inequality. It traces the twists and turns by which the media have taken us from a crisis produced by a form of capitalism that has created untold riches for those at the top to a situation in which the majority of people are struggling while those responsible have actually increased their share of global wealth.

In particular, it explores the phenomenon of *media amnesia*, which has been created purposely by politicians and sections of the press, and is often reproduced passively by the 'impartial' broadcasters and 'liberal' press. As the crisis has mutated over time, it has been continually reframed in the media. With each reframing, certain information is forgotten and other information is added, so that the crisis narrative is fluid, malleable and difficult to grasp in its entirety. It will be shown that this amnesia, which entails the media forgetting *its own very recent coverage,* has helped trap us in a neoliberal groundhog day. It has legitimised the implementation of the same kinds of policies that helped cause the crisis in the first place. These policies not only hit the poorest hardest but actually transfer resources upwards, from the 99 per cent to the 1 per cent. The 'strange non-death of neoliberalism' (Crouch 2011) since the 2008 crash has been widely observed (Mirowski 2013; Sum and Jessop 2013). This book explores the role of the media in this non-death.

There are three primary characteristics of the media coverage that contribute to media amnesia: a lack of historical explanation; an overly narrow range of perspectives privileging elite views; and a lack of global context. Each of these threads will be teased out through the following chapters. Media amnesia is not limited to the coverage of the economic crisis – it can be found in all kinds of reporting (the reporting of the Iraq War springs to mind), and is a defining condition of today's media. The economic crisis provides a rare opportunity to examine media amnesia over a time frame of several years continuously – it is one of the only phenomena that has stayed in the media eye constantly for that long a period. The workings of media amnesia in relation to a crisis that has become the backdrop of life for millions is thus the subject of this book.

MEDIA AMNESIA AND THE CRISIS

For some critical theorists, forgetting is a key feature of capitalism. Fredric Jameson, in his reading of Karl Marx, describes capital as a 'machine constantly breaking down, repairing itself not by solving its local problems, but by mutation onto larger and larger scales, its past always punctually forgotten...' (quoted in de Cock *et al.* 2012: 87). Prichard and Mir point out that this forgetfulness, a 'collective absent mindedness', lies at the heart of the economic regime that creates the conditions for ever more frequent and intensive crises. De Cock *et al.* argue that it is this forgetfulness that has allowed us to return to 'business as usual' after 2008 (de Cock *et al.* 2012: 87). Henry A. Giroux (2014) writes of 'the violence of organized forgetting', which has been perpetrated in the US by a range of institutions and sustains an increasingly destructive form of capitalism by short-circuiting critical thought.

Part of the reason capitalism creates amnesia is that the search for profit – capitalism's driving force – leads to the constant speeding up of our experience of time: what David Harvey (1989) has called 'time-space compression'. Companies are always searching for ways to produce more and faster. The current era has taken this acceleration to new levels, with finance capital's real-time transactions on the one hand and the just-in-time supply chains of transnational corporations on the other (Hope 2011). For social theorist Hartmut Rosa (2015), we are experiencing acceleration in multiple spheres of life, and this affects the ways we relate to each other and the world. For many, the speeding up of time under capitalism has wrought havoc on our ability to remember.

It is media, in the sense of information and communication technologies (ICTs), that have enabled the instantaneous transactions of finance and the transnational supply chains that are behind this acceleration (Hope 2011). In turn, media, including news media, have been profoundly affected by this phenomenon. In the age of 24/7 multi-platform news, journalists are having to operate at 'warp speed', constantly churning out stories while looking over their shoulders at what the competition are doing (Le Masurier 2015). This has led to problems with inaccuracy, cannibalisation of each others' stories and lack of contextualisation, as will be explored later on. The acceleration of news production has created a 'media torrent' and 'information overload' (Gitlin 2001).

Though there is now an abundance of information, that does not necessarily mean we can process and remember it – quite the reverse. In their book *No Time to Think*, journalists Howard Rosenberg and Charles S. Feldman (2008) argue that 'today's media blitz scrambles the public's perspective in ways that potentially shape how we think, act and react as a global society'. When it comes to news, acceleration has meant ultra fast-moving news agendas. As will be seen, new news doesn't only build on what came before it, but can actually serve to erase or write over past coverage. In the age of 'warp speed' this amounts to more than rewriting history: *history is being constantly rewritten as it is happening.* This book will show how, when it comes to the economic crisis, this media forgetting and rewriting has had ideological outcomes, coming to serve certain interests.

The acceleration of time within capitalism and information overload are not in themselves the focus of this book. Rather, they form the backdrop to the ongoing coverage of the crisis, with its amnesiac tendencies. The next part of this introduction gives an overview of the crisis itself. It is followed by an introduction to the key media issues that will be explored throughout. It ends with a description of the media study on which the book is based.

THE CRISIS

This section journeys into the economic processes resulting in the 2008 disaster. As mentioned above, the three major factors contributing to media amnesia are a lack of historical explanation, the dominance of elite perspectives and a lack of global context, so it is crucial that we avoid falling into the same trap by beginning with an understanding of the crisis that takes hold of its historical and global dimensions. Having said that, it is impossible to grasp fully in one introductory chapter the dynamics of global capitalism resulting in the crash, about which endless books have been written. In a sense, this section can be seen as a taster, and the issues raised here will be revisited in later chapters. We will start with a brief treatment of the immediate causes of the crash in the shape of toxic financial products, before moving to the deeper roots in the wider economy.

The 2007 run on Northern Rock was one consequence of a credit crunch which catastrophically went on to block the flow of money through the financial system. The problem was that banks relied not

on deposits from their savers but short-term loans from each other to support their activities. When these money markets dried up, the banks did not have enough liquidity – cash and assets that can be quickly turned into cash – to continue functioning. Many also did not have enough capital – shareholders' equity and operating profits – to keep them going and so were actually insolvent. The big US banks had leverage ratios of around 30:1, meaning they borrowed $30 for every dollar they held in bank capital. The leverage of many European banks was even worse (McNally 2011: 106). Banking had become more indebted than any other sector of the economy (Harvey 2011: 30).

The banks stopped lending to each other because it had become clear that they had no way of valuing the more exotic assets on their books. These included types of mortgage-backed securities called collateralised debt obligations (CDOs). CDOs are a form of tradable debt made out of lots of other, particularly risky, bits of debt. Robert Peston (2012: 13) describes them as 'investments manufactured out of the offcuts and offal of other investments'. Banks had been creating and trading billions upon billions worth of these securities. They wreaked havoc in combination with a type of derivative called credit default swaps (CDSs). Derivatives are products that derive their value from the value of an underlying asset. The financial sector had been busy concocting more and more elaborate derivatives, eschewing what regulation existed by creating a shadow banking sector where much of this 'over the counter' trading took place. These markets were circulating up to $600 trillion by 2008 – compared with global output of $61 trillion (Harvey 2011: 21). If we think back to the questions of acceleration and time, it is the speed of financial transactions that means they are so voluminous, and therefore cumulatively so profitable – and so dangerous.

CDSs are a kind of insurance against debt default. If you make a loan and are worried that it might not be repaid, you can buy a CDS on the loan. The issuer of the CDS will, for a fee, refund you the amount of the loan in case of default. Only you don't have to be the holder of the debt to buy a CDS on that loan – anyone can buy the CDS, allowing them to be used for the purposes of pure speculation. Up to 80 per cent of the CDS market involved clients who were not themselves exposed to the relevant credit risks (Sayer 2015: 201). CDOs could be sold as very safe, AAA rated bonds by attaching CDSs to them. Together, CDOs and CDSs allowed risky loans to be repurposed into instruments billed as 'sound as a pound' (Peston 2012: 90). What is more, CDSs could also be

used to bet against the risky loans contained in CDOs. The hedge fund Paulson & Co. made $15 billion from betting against the CDO market in 2007 (Peston .2012: 91). The speculators were right not to trust the CDOs' ratings. The credit rating agencies whose job it was to assess them – and who had given them AAA ratings – were paid by the same institutions they were supposed to rate.

Through CDOs and other securities – instruments supposedly designed to manage risk – the risk of loan default was diffused through the entire financial system. When people, particularly in the US, began defaulting on their mortgages, nobody knew where this bad debt was located, which is why the credit markets froze. But why was there so much bad debt in the first place? Banks had been conjuring enormous sums out of thin air to lend to businesses and households – at interest, of course. They then packaged up that debt into all kinds of different products and traded it back and forth to make vastly more profit out of it. The banks didn't care if those they were lending to could not afford to pay the money back, because the nifty securities spread (or at least hid) the risk. And in any case, it wasn't the loan issuer's problem as it had passed the debt on to who-knows-where. Predatory lending to those who couldn't afford it – in the form of subprime loans – was the order of the day.

As may have become apparent, for all this to happen, financial sector regulation had to have been somewhat lax. Regulation had been increasingly 'light touch' for the preceding thirty-odd years and especially from the 1990s. Many accounts of the crisis stop at around this point (as we'll see in chapter 1), with the recklessness of the financial sector, the building up of systemic problems in that sector and with the lack of adequate regulation of banks. However, to understand the crisis, we need to go deeper than that, and look at why finance had become so big and how it relates to movements in the wider economy. Marxian economic analysis helps grasp those deeper roots.

FINANCIALISATION

Finance had been actively deregulated ever since the breakdown of the Bretton Woods system of global financial governance from 1971. The Bretton Woods system had been set up after the Second World War to try to restabilise the world money system and prevent another

Great Depression. It had pegged the major currencies to the US dollar – confirming the US's place as the global economic hegemon – and the dollar to gold. This meant that the dollar was convertible to gold.

However, by the mid 1960s, new trends were shaping the global system. The Japanese and German economies, due in part to postwar support provided by the US, were developing at a much higher rate than the US. German and Japanese firms began seizing growing shares of the American market. In 1971, the US experienced its first postwar trade deficit with the rest of the world. The trade deficit overlapped with big deficits in the current account – the balance of inflows and outflows of money as well as goods – partly due to outward foreign direct investment and partly to massive military spending overseas on the Vietnam War (see glossary for definitions of trade and current account deficits). This meant more and more dollars leaving the US, many of them finding their way to central banks around the world. America's trading partners were now accumulating dollars they didn't need, and began cashing them in for gold. By 1971 foreign holdings of dollars were more than twenty times greater than all the gold the US government possessed (McNally 2011: 92). Once the reality of the trade deficit set in, the rush to convert dollars to gold intensified, and President Nixon had little choice but to break the link between the dollar and gold. Other currencies were in turn detached from the dollar.

The breakdown of the Bretton Woods arrangement led to enormous uncertainty for businesses operating multinationally and doing business in multiple currencies, as world money had begun to operate, in the words of the West German Chancellor, as a 'floating non-system' (McNally 2011: 93). The foreign exchange market duly exploded, becoming far and away the world's largest market. As monetary instability became the new normal, so did new forms of 'risk management', and with it, speculation. The extraordinary growth of foreign exchange trading thus drove the financialisation of contemporary capitalism – the growth of the financial sector relative to the rest of the economy.

Meanwhile, all the dollars washing around the world had led to the emergence of the eurodollar market, a unique space, unregulated by any state, in which dollars could be lent and borrowed. As this sector grew through the 1960s, states lost effective control of an increasingly large financial market, one which had grown to around $200 billion in deposits by 1984 (McNally 2011: 91). Governments followed suit with active

deregulation. In 1986, the Big Bang interlinked London and New York and immediately thereafter all the world's major financial markets into one trading system. Banks could operate relatively freely across national borders. The Big Bang originated in the City, the UK's financial centre, sealing its place as one of the leading financial centres in the world. Then in 1999, the repeal in the US of the Glass-Steagall Act of 1933, which separated investment and commercial banking, further integrated the banking system into 'one giant network of financial power' (Harvey 2011: 20).

Since there were a lot of dollars sloshing around, the deregulated banks began conjuring up all kinds of exotic financial instruments for wealthy individuals and managers of pension and mutual funds to invest in – including securities like CDOs. The securitisation of mortgages really took off in the 1990s and went through the stratosphere from 2000. In 2005, the amount of debt Wall Street bought, packaged and sold equalled $2.7 trillion (McNally 2011: 102). It was the unquenchable thirst for mortgage-backed securities (such as CDOs) that drove the mania for subprime mortgages. By 2005 banks had made $625 billion in subprime loans, more than $500 billion of which was securitised. By 2006, 40 per cent of all US mortgages were 'non-traditional' i.e. pushed onto people who couldn't afford them and were likely to default.

Credit default swaps (CDSs) were being sold as insurance against these securities. Theoretically, there was no limit to the amount of CDSs that could be generated on a mortgage-backed security. By 2006, CDSs on mortgage bonds were eight times larger than the actual value of the bonds themselves (McNally 2011: 105). Astonishingly, the banks themselves believed in the products they were peddling, and kept billions worth of these junk bonds on their books. Some of them, including Lehman, kept buying mortgages and trying to securitise and sell them even as the market was clearly collapsing. Other financial institutions continued to sell CDSs on mortgage-backed CDOs even when the rise in mortgage default rates was common knowledge. The insurance company AIG sold $400 billion worth of CDSs on mortgage-backed CDOs, and was bailed out to the tune of $182 billion by US citizens. All the while, the 'Value at Risk' statistical models used to measure risk were signalling that everything was fine. All this shows that the bankers, in the words of one of the characters from Michael Lewis' *The Big Short*, were probably 'more morons than crooks' (quoted in McNally 2011: 107).

NEOLIBERALISM

The process of financialisation described above is one feature of the phase of capitalism that began at around the same time as the Bretton Woods monetary system collapsed, and with which we are still living to this day. It is known as neoliberalism – a term you may have come across and are possibly sick of by now. It is characterised by increasing marketisation of all aspects of life, i.e. turning what were previously considered public provisions into markets where goods and services are bought and sold for the profit of private individuals or companies. Liberalisation and deregulation, privatisation and reductions in social spending have all been central to this process. So have other so-called supply-side measures such as tax cuts for corporations and wealthy individuals, ostensibly to encourage them to invest in the economy, and other subsidies to the private sector. The Washington Consensus on economic policy was established by the late 1980s and supported by international bodies such as the IMF and World Bank. It was built around a set of principles emphasising regressive rather than progressive taxes; liberalisation of financial markets, trade and foreign direct investment; deregulation of markets and privatisation of state enterprises; strengthening of property rights; fiscal discipline (limitation of budget deficits) and the reduction of public spending (Screpanti 2014: 230).

These neoliberal policies have been accompanied by a potent ideology, promoting the private sector as more efficient than the public sector, individual responsibility and entrepreneurship, and competition. Central to the rise of this set of ideas have been certain strands of neoclassical economic theory (Weeks 2014). They espouse notions of 'public choice' and 'efficient markets' that must not be 'interfered with' by governments. The Chicago School of economic thought was an important site for the production of this economic theory (Quiggin 2010). It is important to note, though, that neoliberal ideology does not always correspond with neoliberalism in practice. It espouses a virulently anti-state ethos, for example, but relies heavily on the state to introduce and enforce the mechanisms by which it functions (Harvey 2011). These include the privatisation of public goods, particular tax and spend regimes, anti-union laws, (de)regulatory regimes, and a coercive apparatus to enforce the new status quo, including, in the US and increasingly in the UK, a prison system bursting at the seams. Thus, although neoliberalism is associated with 'free market' capitalism as opposed to state interventionism, markets

in the neoliberal era are far from free. The key economists associated with neoliberalism are the Chicago School's Milton Friedman and his mentor Friedrich von Hayek. Its main political figureheads were Ronald Reagan in the US, Margaret Thatcher in the UK and Augusto Pinochet in Chile.

Many accounts of the 2008 financial crisis – those that go deeper than the greed and systemic problems within the banking sector – stop with neoliberalism. If it hadn't been for economic liberalisation and 'free-market fundamentalism' spawning a culture of greed, this disaster could never have happened. This may be true, but we need to ask why neoliberalism developed in the first place. It didn't happen by accident and it wasn't just down to the malevolence of Reagan, Thatcher and Pinochet. Neoliberalism developed because the previous form of capitalism, after two decades of buoyancy, was in crisis.

THE CRISIS OF SOCIAL DEMOCRACY

The Great Depression ended only with the massive stimulus to the economy that was the Second World War and its large-scale investment in 'mega-death' (Varoufakis 2015: 45). After the war, capitalist world leaders were worried about a possible return to depression, as well as the threat from communism, and they decided what was needed was a tightly controlled form of capitalism with strong public investment. The Bretton Woods system was part of this new compact. Some claim that the capitalist and communist regions of the cold war era were not that different in economic terms – both were in fact capitalist economies tightly managed by states and with state ownership of certain key resources (Kurz 2009). The combination of postwar rebuilding, state intervention, Fordist production techniques and mass consumption, decolonisation and leaps in world trade and investment led to high employment rates and spectacular economic growth in parts of the capitalist core. Worker productivity increased impressively, which meant that companies could pay their employees more whilst continuing to pocket higher profits. Living standards rose consistently. Under this social democratic form of capitalism, labour movements were strong and women and some other marginalised groups began making economic headway (Wolff 2012: 37–40).

However, from the mid-1960s the boom started to unwind (Streeck 2017: 25). The downturn conformed to a familiar pattern of declining