

**THE MONEY INDUSTRY AS
AN EXTENSION OF THE CULTURE INDUSTRY**
An Analysis of Mass Media's Stake in Financial Consumerism

By

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Abstract:

The Canadian and the United States' economies are predicated on the system of capitalism. Its cultures are structured around a belief in free markets. The mass media are dominant institutions in shaping culture. This work has drawn from Horkheimer and Adorno's concept of the culture industry and has used critical theory to investigate how the 'culture industry' includes what I refer to as the 'money industry'.

I argue that the capitalist elite, which creates a perceived culture of freedom and prosperity for its consumers, controls the culture industry *and* the money industry. Together these industries shape the social and economic context to further market capitalism as ideology.

To illustrate my argument, I refer to the mass deception carried out by the Enron Corporation and show how the rise and fall of its stock price was greatly influenced by information propagated and distributed by the money industry.

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INTRODUCTION

*The smart way to keep people passive and obedient is to strictly limit the spectrum of acceptable opinion, but allow very lively debate within that spectrum - even encourage the more critical and dissident views. That gives people the sense that there is freethinking going on, while all the time the presuppositions of the system are being reinforced by the limits put on the range of the debate.*¹

- Noam Chomsky

This thesis addresses the Canadian and the United States (US) social, political, economic, and cultural belief in the system of capitalism. Mass media corporations (Transnational Media Conglomerates, TMC) shape culture with their myriad of information. Those who own media corporations, the capitalist elite, craft the messages that are created and distributed. The capitalist elite have a powerful influence over the corporations and, therefore, over the creation of the 'culture of capitalism'.

Chapter 1, '**Policy, Culture, and Money**' demonstrates that changes in communications policies have been instrumental in enforcing free market capitalist ideology. I argue that policy has acted as a catalyst to justify corporate power and ownership and works together with mass media and Transnational Media Conglomerates (TMC) to indoctrinate the belief in the capitalist system that is embedded in society. The expansion of a robust financial services industry in recent decades with an infusion of

¹ Chomsky, N. Retrieved from www.thirdworldtraveler.com

unprecedented amounts of capital and debt into our economic system has changed the landscape of our culture. In analyzing the impact that these policies have had on one another, I review the power that policy has on the corporate market and the influence that financial media information has on the financial decision-making of investors. The cultural and economic spheres are no longer autonomous. They are merging into a greater whole that now includes culture, the economy, and politics. This, in turn, affects social spheres and influences ideology.

This thesis will focus specifically on the money industry as an extension of the culture industry. Parallels are drawn between the two industries to illustrate how the media as an influencer of culture should now extend to include financial media as an influencer of financial culture. This is critical to understanding the evolution of our modern 'capitalist' system. To exemplify this, I review the financial systems structure and the institutions creating financial messages. I review how they affect what Dallas Smythe has described as the 'consciousness industry'.

Horkheimer and Adorno critique the culture industry and I reference their essay "The Culture Industry: Enlightenment as Mass Deception". Although there are many arguments Horkheimer and Adorno make throughout their essay, I will refer to only three: (1) The culture industry is the predominant influencer of society, (2) the culture industry restricts society's freedom, and (3) it is an industry of mass commercialisation.

Further to the ideas outlined in their work on the culture industry, I extend them into a discourse about the capitalist system and the money industry. Through the financial infrastructure, I define the money industry, which includes the financial media, financial corporations, and financial institutions.

Horkheimer and Adorno have suggested that the culture industry creates products for the masses as a mind-controlling technique and that the media propagates culture as a form of rationalized control of labour and leisure. Working from a neo-Marxist social theoretical perspective, Horkheimer and Adorno have suggested that consumers are subservient to the absolute power of capitalism and that they are controlled by constant entertainment. They describe the culture industry as being

an “iron system” that occupies consumers’ leisure time with amusements designed to enable them to bear the exhaustion and boredom of their increasingly “rationalized” and mechanized work. The consumer is never left alone long enough to consider resisting the economic and social system. The standardized, repetitious forms of entertainment prescribed by the culture industry take up any free time she might have to consider the reality of her exploitation. The authors (of the media) suggest that amusement, in this form at least, serves to protect the existing social order: ‘To be pleased means to say yes’.²

I agree with Dodson’s analysis of their work and argue that culture is a shaper of consciousness in our society. Although occasionally opposing Karl

² Dodson, T. (2003) *The Culture Industry Has You* retrieved from <http://www.poppolitics.com/articles/2003-08-05-cultureindustry.shtml>

Marx, Horkheimer and Adorno were greatly influenced by Marx's work. In contrast to Marx's social theory, Horkheimer and Adorno have argued that capitalism was more entwined as part of a revolutionary consciousness which makes up the fabric of a capitalist society. Marx's theory has defined capitalism as an unsustainable economic system on the edge of collapse. Never arguing that the system would inevitably collapse, Horkheimer and Adorno did contend that this system thrives as a system of dominance over the masses.

The whole sphere of the culture industry, which Horkheimer and Adorno suggest is controlled by the creators of popular entertainment³, is also interwoven into economics and the money industry. Although written in 1944, its relevance continues today (but the financial sphere is much more sophisticated and prevalent in 2005 than it was sixty years ago). Throughout their work, Horkheimer and Adorno were concerned that genuine human freedom was stifled by mass media and the perceived control of the culture industry. They defined the totality of the 'culture industry' as a closed system that thoroughly and inescapably dominated the consumer. They further stated that the masses were the objects of industry, and that culture was a commodity. The 'culture industry' creates a leveling power of consumer society and the homogenization of culture was achieved through

³ Adorno, T. & Horkheimer, M. (1944) *The Culture Industry: Enlightenment as Mass Deception*, Published in Durham, M.G. & Kellner, D. M. (eds). *Media and Cultural Studies: Keywords*. Oxford: Blackwell Publishers.

capitalism. Today's free market capitalist system creates the 'culture of capitalism'. The money industry is an extension of the culture industry and as such, provides various sales, marketing and advisory information through all forms of media to promote financial investment. Products come in the form of equity, debt, and other financial product offerings for consumer/investor consumption.

The money industry focuses on promoting the corporation. Throughout this paper, I illustrate the connection of the cultural with the economic in the case study of Enron. In review of the Enron example, I question why consumers/investors invest, who creates the financial information that guides them in their financial decisions and lastly, I propose that the controllers/creators (corporations) of the financial information are self-serving to the mandate of profitability at all costs.

In Chapter 2, '**Control by Design**', I outline the culture industry as an omnipresent system and a form of popular manipulation. I further this thought and extend hegemony to the omnipresent system of the money industry. The similarities between the culture industry and the money industry are that they both work within the mass media to influence the consumers and/or investors to exchange labour and accumulate assets. On a micro level, I demonstrate this with the Enron employee compensation system as a system of corporate control, which denotes hegemony, a dominant group of management and corporate board of directors controlling

the employees and dictating the terms of exchange of labour. Exchange of labour for payment comes not only in the form of salary, but also by stock options and bonuses for performance, making the employee an investor. These additional methods of compensation have potential for large financial rewards. An employee might gain if their performance contributed to the growth and success of the company. The employees were convinced that this type of corporate culture and treatment of individuals was acceptable. Only after the Enron collapse did employees realize that they had been immersed so extensively in a corrupt system that they actually thought that it was normal business practice.

Horkheimer's and Adorno's core argument was that individual freedom in a capitalist system was a 'perceived' freedom controlled by the culture industry. This also applies in the money industry; that there is an absence of financial freedom in the system and investors become consumers. The masses or investors blindly trust financial institutions to present accurate and relatively transparent information. Investors rely on the system for information to base their investment decisions upon. They have the option to choose from a myriad of investments, all vetted, and presented by bankers, investment brokers, accountants, lawyers and other money industry stakeholders. In the case of Enron, misrepresentation occurred throughout the financial industry by all stakeholders who prepared the information, by the media that presented the information to the masses, and internally at

Enron by the management who motivated employees to hold onto their stock options as the corporation started to collapse. Enron misrepresented key financial information and the consumers/investors were free to do due diligence before investing or divesting. Unfortunately, the information used to shape their decision was misleading.

In Chapter 3, '**The Structure of Consumerism**', I outline that the culture industry is created to captivate consumers with the myth that all goods and services have inherent value. Horkheimer and Adorno would claim that these were distractions from the true functionality of the economic and social system, which was not acting in the best interests of the individual but rather in the best interests of the capitalist elite. A hyper-commercialization of financial products and services creates a distraction from the actual economic and social system. It offers financial freedom to the masses when, in reality, it masks the fact that the system was servicing the capitalist elite. Enron was constantly packaging and promoting their shares to the public and offering potential stock options through company growth. The actual inherent value of the stock was not relevant to the stock trading price because the financial information packaged and propagated was misrepresented. The high stock price reflected the misleading information that Enron was growing and successful. Meanwhile, the money industry stakeholders, the corporate executives and investment bankers, accountants

and lawyers continued making money by exercising stock options they earned for services rendered and then selling the underlying stock.

In this chapter, I use specific examples of psychological and cognitive research to explore the process of investment decision-making by investors. Through comparative analysis and empirical evidence, I will illustrate my argument that the mass media exerts a deliberate psychological influence on investors.

CHAPTER 1 – POLICY, CULTURE AND MONEY

*Words are a form of magic. They conjure thought out of the confusion of experience, and they form the lens through which we see the world. Politics is largely a contest over words - over a version of reality. Those whose words prevail, rule; and those who rule choose the words.*⁴

- Jonathan Rowe

1.1 Political Economy and Culture

The political economy of communications was formed as a discipline in the late 1950's. It "resulted from the break with the theses on the history of modern capitalism drawn from classical Marx texts, which also departed from the East/West schema that characterized the US sociology of the media. The polarization engendered by the Cold War affected the divisions within the social sciences of communication."⁵

Karl Marx referred to political economy as "the theoretical analysis of modern bourgeois society".⁶ When discussing political economy of communication I define it as "changing the focus of thought from the 'culture industry' to the 'culture industries'... to delve into the complexity of these various industries in order to grasp the growing process by which cultural activities became objects of valorization by capital."⁷

⁴ Rowe, J. (2001) *The Promise of the Commons* [Earth Island Journal](#).

⁵ Mattelart, A. (1998) *Theories of Communications* (p.93)

⁶ Marx, K. (1976) *A Contribution to the Critique of Political Economy* (p.218)

⁷ Mattelart, A (1988) sup.cit., (p. 91)

For the purpose of this essay, I refer to Dallas Smythe, and review his concept of the 'consciousness industry', to demonstrate how Horkheimer and Adorno's theory of the culture industry extends into the economic sphere. Together, these theories further explain the impact that the mass media and TMC can have on the culture industry, the money industry, and how those two spheres can shape investors' decisions.

The original thoughts of Horkheimer and Adorno have been developed further by many political economy of communication scholars who have defined the culture industry as more than an industry that exists alone. They have argued that it was a composite of various elements, laws and standards.⁸ The political economy of communications would contend that the culture industry exists to enforce capitalism.⁹

The capitalist agenda in a free market economy is paramount, placing corporations above individuals with regard to social and economic structure. The power to shape culture rests with those who can distribute the messages. Post-privatization, governments gave control to corporations and placed messaging into the hands of the capitalist elite. Robert McChesney, a communications theorist, has argued that today, the regulatory and policy-making process is even more corrupt, and that the corporate elite are shaping policies to further privatize any and all public assets¹⁰.

⁸ Ibid., (p. 99)

⁹ Ibid., (p. 99)

¹⁰ McChesney, R.W. (1993) *Telecommunications Mass Media and Democracy: The battle for the control of U.S. Broadcasting 1928-1935* Oxford University Press Oxford.

Privatization is the catalyst that has allowed for the expansion of free markets. The most relevant policy shifts were the deregulation and privatization of media in the 1960's, which altered the ownership of mass media from state to corporate. TMC own the media and the channels of distribution.

It is axiomatic in nearly all variants of social and political theory that the communication system is a cornerstone of modern societies. In political terms, the communication system may serve to enhance democracy, or to deny it, or some combination of the two. Less commented upon, although no less significant, the communication system has emerged as a central area for profit making in modern capitalist societies.¹¹

The concept that TMC are a system for profit is also central to my argument. I argue that the money industry has the power to influence the economy through financial media content. The economy is used as a term to define a 'technical' and 'political' perspective and at a macro-economic level, using standard economic, financial and market indicators (such as: values, prices and wages, output, demand and jobs, money and interests rates, debt-to-income ratios, disposable income ratio, stock-markets, net worth, etc.) as references. This comparison also views the economic component from a structural perspective by reviewing the institutions of economics as business or industry.

¹¹ McChesney, R. & Schiller, D., *The Political Economy of International Communications*. October 2003. UNRSID Programme Paper #11.

From a historical ownership perspective, McChesney and Schiller have stressed that, "With hyper-commercialisation and growing corporate control comes an implicit political bias in media content. Consumerism, class inequality, and individualism tend to be taken as natural and even benevolent, whereas political activity, civic values, and anti-market activities are marginalized."¹² The cultural blend of the economy and the ideology of capitalism work together then, to perpetuate the system.

As the system continues to grow and as capitalism prevails internationally, so do the capitalist messages. On the subject of the development of international markets, consolidation of commercial power and aggregators of messages, Herbert Schiller has stated that:

The presence of gigantism and concentrated control in the media and allied culture fields, though hardly a secret, now seem perfectly reasonable to most Americans – and certainly no cause for anxiety. The extent to which the public has been programmed to accept these conditions in the media, and in the economy overall, is remarkable.¹³

Schiller has suggested that consumers were unaware of the power of the hegemonic system. His suggestions were made in the 1960s and reflect a similar perspective to Horkheimer and Adorno. Schiller has continued to

¹² Ibid., (p. 14) UNRISD Programme Paper Number 11

¹³ Schiller, H.I. (1989) *Culture, Inc.: the corporate takeover of public expression* (p.40) New York: Oxford University Press.

incorporate the culture industry with the TMC to outline control and ownership concerns as they are a predominant influencer of society. He has also referred to consumer acceptance in the cultural system and the economic system. This begins to demonstrate the blend between the cultural and the economic to create the 'culture of capitalism'.

The culture of capitalism is "the concept that the people within the society are driven by the rules set by their culture, and believe that these values, attitudes and aspirations were 'normal' for all people in the world. The culture of capitalism works to promote the accumulation of wealth; the business' desire for profit as more important than human rights or environmental issues; the concept that making money (employment) and spending money (consumer) is the way things are; the will to defend the values it believes as right; the will to spread influence to those who don't agree or don't conform."¹⁴ The rich versus poor dichotomy exists in modern capitalism. Capitalist society favours free markets and corporate freedom over individual freedom.¹⁵

The financial media's editorialization of financial information can influence unconventional rises and falls in consumer/investor investment behaviour. A review of the consciousness industry will help to further describe this.

¹⁴ Retrieved from http://en.wikipedia.org/wiki/Culture_of_capitalism

¹⁵ Krugman, P.R. (1990) *The Age of Diminished Expectations: U.S. Economic Policy in the 1990's*. Cambridge, Mass: MIT Press.

1.2 Consciousness Industry

Dallas Smythe refers to the 'Consciousness Industry' as the primary information sector plus the consumer goods industries. Mass media and mass production of information are at the genesis of the culture industry and consciousness industry but they are also interlocked with business and markets. Dallas Smythe has broadly defined the 'consciousness industry' as:

Advertising, market research, photography, the commercial application of art to product and container design, the fine arts, teaching machines and related software and educational testing, as well as the formal education system... The mass media are also linked through corporate ties and intersecting markets with professional and amateur sports, the performing arts, comic books, toys, games... Still another dimension of the complex consists of the banking, finance, and insurance industries, which produce and deal information.¹⁶

In other words, the 'consciousness industry' is all information manufactured by the culture industry and the money industry, which are both owned and controlled by corporations. The production and distribution of information by TMC has been categorized as one of the greatest of

¹⁶ Smythe, D. (1981) *Dependency Road: Communication, Capitalism, Consciousness & Canada* (p 5-6) Norwood, NJ: Ablex Publishing Corporation.

influencers as their messages are inseparable forms of every day life. It has been described that, "the role of media institutions is so fundamental, and their products so pervasive...[the media] presents us with a steady flow of words and images, information and ideas, concerning events which take place beyond our immediate social milieu... but [we] share, by virtue of participation in a mediated culture, a common experience and a collective culture."¹⁷ The culture industry indoctrinates society into the free market system. Dallas Smythe discusses this in-depth. He outlines the nature of the monopoly capitalist system while emphasizing the following:

1. Mass media are fulfilling a corporatist agenda to attract consumers to consume;
2. Audience is a manufactured product and creates consciousness, and;
3. Corporations can therefore market to their audiences' goods and services, politicians, and public policies.¹⁸

The above would make collective consciousness a product of corporations. Horkheimer and Adorno also believe that culture is directly correlated to administration or the controlling agency. In the case of a free market system, the controlling agency is the corporation. Since the corporations create the financial products, they can also be said to be creating our collective financial consciousness, and since the money industry is an extension of the culture industry, it now extends beyond the social and

¹⁷ Thompson, J.B. (1990) *Ideology and Modern Culture: critical social theory in the era of mass communication* (p.163) Cambridge, U.K.: Polity Press.

¹⁸ Smythe, D. (1981) *Dependency Road: Communications, Capitalism, Consciousness & Canada*. (p. 4,52) Norwood, NJ: Ablex Publishing Corporation.

political realm and into the economic. The money industry infiltrates every aspect of our financial lives, and being that our financial lives were based on a free market capitalist system, individuals are subject to the collective imagery and information on the image of wealth.

1.3 The Frankfurt School & Karl Marx

In 1923, a new Institute for Social Research ('Institut für Sozialforschung') was founded at the University of Frankfurt. The Institute was made up of scholars who examined social theory and included Herbert Marcuse, Erich Fromm, Leo Lowenthal, Jürgen Habermas, Max Horkheimer and Theodor Adorno.¹⁹ Within the Institute, a group of theorists developed a critical theory of contemporary society that would combine philosophy, social theory, economics, and cultural criticism as a new type of interdisciplinary theory; this came to be known as the 'Frankfurt School'. Members from the school developed perspectives on contemporary society and culture which included analyses of fascism, state monopoly capitalism, the culture industry, and advanced industrial society.

Horkheimer and Adorno's premise was that there was interconnectedness between society, culture and economy, and state. From this perspective I correlate culture and economy as industries and demonstrate that "interconnectedness exists in a definite social group, in a

¹⁹ Retrieved from <http://radicalacademy.com/adiphifrankfurtschool.htm>

definite period of time and in a definite country, between the role of this group in the economic process, the transformation of the psychic structures of its individual members, and the totality of the system that affects and produces its thoughts and mechanism".²⁰ Thus, culture and economy are correlated to the 'culture industry' and the 'money industry'. Horkheimer's and Adorno's perspectives draw from their experiences in Europe and the US and refer to the culture industry that includes both these societies.

As a foundation to analyse their essay, an overview of Horkheimer's and Adorno's theoretical relationship to Karl Marx and his social theories will be conducted. Horkheimer and Adorno shared some Marxist critical thought and agreed with the idea that people were selling their labour power. Although they agreed with Marx's basic premises, they argued that capitalism had become more entrenched through its attack on the objective basis of revolutionary consciousness. Their focus was on culture rather than economics.²¹

According to Marx, a capitalist mode of production developed in Europe when labor itself became a commodity — when peasants became free to sell their own labor-power, and needed to do so because they no longer possessed their own land or tools necessary to produce. People sell their labor-power when they accept compensation in return for whatever work they do in a given period of time (in other words, they are not selling the

²⁰ Bronner, S. & Kellner, D. (1989) *Critical Theory and Society: A Reader* (p.44) New York and London: Routledge.

²¹ Retrieved from <http://www.answers.com/topic/theodor-adorno?method=6>

product of their labor, but their capacity to work). In return for selling their labor power, they receive money, which allows them to survive. The person who buys the labor power, generally someone who does own the land and technology to produce, is a 'capitalist' or 'bourgeois'.²²

For Marx, ideology referred to the dominant ideas of the ruling class (bourgeois elite) and was a system which supported capitalism. Marx has critiqued classical economists for referring to capitalism as natural and inevitable. "The Marxian conception of ideology is based upon a humanistic notion that consent should be based upon an authentic consciousness free from distortion... that the bourgeoisie manipulate the way in which the working class people think [and they] create a 'worldview'... shaped via the mass media, the education system and organized religion, together with other institutions which are concerned with ideas."²³ I concur and will demonstrate that the money industry emulates the same problem. There is a distortion of financial consciousness and the capitalist elite create a 'worldview' centered on the idea of wealth.

Horkheimer and Adorno would argue that the culture industry was a system of mass manipulation, which promoted commodification of labour and restricted freedom of the masses. This was similar to Marxism. "Under capitalism workers are forced to sell their labor – which Marx regards as the

²² Retrieved from <http://www.answers.com/karl%20marx>

²³ Best, S. (2003) *A Beginners Guide to Social Theory* (p.53) Sage Publications

essence of human existence – to the capitalists, who use this labor to accumulate more capital, which further increases the power of the capitalists over the workers. Capitalists become rich, while wages are driven down to a bare minimum needed to keep the workers alive.”²⁴ In Marxist tradition, cultures are structured in ways that enabled the group holding power, the capitalist elite, to have the maximum control with the minimum of conflict. This was not a matter of the elite deliberately planning to oppress consumers/investors and alter their consciousness but rather of how the culture industry and the money industry and their associated institutions presented the values, structure and order.²⁵

In the essay “The Culture Industry: Enlightenment as Mass Deception”²⁶, Horkheimer and Adorno created a discourse surrounding the culture industry as a culture-centric system for distribution of products using the masses as labourers or commodities. Their essay was a pessimistic critique of the culture industry and modernity. The culture industry was seen as a system supporting capitalism, a method of rationalization for the masses. The masses were controlled by their labour and leisure therefore, companies that manufacture culture products control them.

Various media shape cultural perceptions, restrict freedom, create control parameters and reinforce commercialization and consumerism.

²⁴ Singer, P. (1980) *MARX* (p.45) Oxford University Press

²⁵ Lye, J. (1997) *Ideology: A Brief Guide*, retrieved from <http://www.brocku.ca/english/jlye/ideology.html>

²⁶ Adorno, T. & Horkheimer, M. sup., cit (p 10)

Culture can play a critical role in structuring the way people think, feel and act in an organization. Keeping in mind Marx's influence on Horkheimer and Adorno, it is important to compare and contrast culture and its effects on macroeconomics.

1.4 Cultural Economy

'Cultural economy' theorists have often defined cultural and economic spheres as two separate entities and have created a discourse around their distinction from each other. I argue rather, that culture and economy are converging. Don Slater's research of markets and modern social theory has explained that market society was a new social order with an emphasis on individualism, rationality, division of labour, commodification and monetarisation. Economics has become a mode of social thought.²⁷ Given the interconnectedness between culture and economy, I have correlated the 'culture industry' and 'money industry' as two parts of the greater sphere. Slater has explained that,

Capitalist ideologies give an inverted explanation for market relations, for example, so that human beings perceive their actions as the consequence of economic factors, rather than the other way around, and moreover, thereby understand the market to be natural and inevitable. Members of the Frankfurt

²⁷ Slater, D. & Tonkiss, F. (2001) *Market Society* (p. 35) Polity Press, Cambridge

School such as Jurgen Habermas drew on the Marxist idea of ideology as a distortion of reality to point to its role in communication, wherein interlocutors find that power relations prevent the open, un-coerced articulation of beliefs and values.²⁸

Horkheimer and Adorno have argued that the system of social class domination has created a culture where freedom was non-existent. They have defined commercialisation and commodification as the primary controls of culture. These correlate with the modern financial media, and I argue that the money industry as a system is a key influencer of investor choices. According to Horkheimer and Adorno, the culture industry was an organ of mass deception, which manipulated individuals into accepting the current organization of society. In their view, the culture industry was engaging in sophisticated forms of ideological propaganda, using "popular entertainment" to soft-sell oppression while corroding cultural standards. This would successfully smother any forms of individual expression, which might contest the capitalist rule of order.²⁹

The money industry is part culture and part economy as it uses the financial media to influence society's choices (culture) in investment decisions (economy). This empirical definition demonstrates why examining both culture and economy has an impact on a society defined by capitalism.

²⁸ Retrieved from <http://plato.stanford.edu/entries/law-ideology/#2>

²⁹ Keller, D. *Critical and the Crisis of Social Theory* Retrieved from <http://www.uta.edu/huma/illuminations/kell5.htm>

They are dependant on each other for a fully functioning capitalist system. Capitalism would not survive without consumerism.

Alan Warde, a culture economy theorist, has explained that culture and economy are converging more than ever before. "Most recent analysis of the relationship between culture and economy assume that the boundaries between them are collapsing. Moreover, it is widely asserted that there is more culture in the economy than the converse."³⁰ The 'economy' is used in my argument to demonstrate a 'technical' and 'political' perspective and at a macro-economic level, using standard economic, financial and market indicators (such as: values, prices and wages, output, demand and jobs, money and interest rates, debt-to-income ratios, disposable income ratio, stock-markets, net worth, etc.) as references. The comparison also views the economic component from a structural perspective by reviewing the institutions of economics such as business or industry.

Warde has gone into further depth explaining the culturalisation of the economy and has presented the problem of perception of consumption as cultural, no longer related to the satisfaction of needs, but rather to symbolic gains. If consumption was therefore deeply cultural, then consumption of financial products was also cultural.

³⁰ du Gay, P. & Pryke, M. (2002) *Culture Economy – Cultural Analysis & Commercial Life* (p. 185). Sage Publications. Essay by Warde, A. "Production, consumption and cultural economy"

1.5 The Money Industry Defined

The 'money industry' is a closed system able to dominate consumers through all forms of the financial media, becoming an enforcer of free markets, and helping to reinforce the capitalist system. The money industry is defined as financial media: financial print, financial television shows, financial and investment websites, etc. The money industry also functions within a system of financial institutions: banks, stock exchanges, financial brokers/planners, public companies and corporate experts such as lawyers, accountants and financial agents, all offering products to investors.

As an extension of Horkheimer and Adorno's discourse on culture, I argue that the same discourse can also be referenced in the money industry. The finance industry produces various sales and marketing materials through all forms of media in order to promote equity, debt, and other financial products for consumer/investor consumption to aid in the further consumption of more material assets to support the free markets. Don Slater contends that,

[T]here has been a consistent association between enculturation and affluence... taking many forms, that with increasing material welfare, western societies move from a preoccupation with the production and consumption of material necessities to concern with cultural goods... function and price themselves come to signify identity and status, as when people will aspire to buy an expensive fur coat from a prestige

department store rather than a cheaper overcoat from a high street retailer on the basis of what it might signify.³¹

Mass investors want to achieve financial success and trust the money industry to provide accurate information so they can make informed investment decisions.

1.6 Enron- Money Industry Case Study

Enron Corporation was founded in 1930 as the Northern Gas Company, which evolved into an energy trading, natural gas, and electric utilities company based in Houston, Texas. It was a publicly traded company on the New York Stock Exchange with a peak market capitalization of over US \$60 billion in 2001. Prior to filing for bankruptcy in November 2001, it employed approximately 21,000 people. Before engaging in misleading and fraudulent accounting practices, it was listed as the seventh largest company in the US. Enron dominated trading in all areas where it was the pioneer and inventor of exchange markets for specific derivatives, such as communication, power and weather. By way of definition and example,

Weather derivatives are financial instruments that can be used by organizations or individuals as part of a risk management strategy to reduce risk associated with adverse or unexpected weather conditions. The difference to other derivatives is that the underlying asset (rain/temperature/snow) has no direct value to price the weather derivative. Farmers can use weather

³¹ Slater, D. & Tonkiss, F. (2001) *Market Society* (p176-177). Polity Press, Cambridge

derivatives to hedge against poor harvests caused by drought or frost, theme parks may want to insure against rainy weekends during peak summer seasons, and power companies may use heating degree days (HDD) contracts to smooth earnings.³²

Enron set up the exchange markets for trading derivatives of the value of electricity in California by buying and selling the future value of the derivative and predicting the future demand of electricity as compared to the supply of electricity. Since the supply was finite and demand was growing, Enron traded based on predictions that electrical power was limited, demand was high and the price for electricity per kilowatts would increase. Enron triggered power outages, suggesting to consumers that the electrical system demand was overloaded, thus the price for electricity increased, and demand outweighed supply. In advance of the control outages and electrical prices increasing, Enron made heavy wagers on electricity derivatives at lower prices, investing in the future increased price. They manipulated the supply and demand, they sold into the demand of the derivatives and made money trading the fluctuating prices. Since Enron controlled power outages, they created the illusionary sense of demand. As power levels stabilized and the securities lowered, Enron was once again a buyer so that it would accumulate enough stock for the next time they triggered an increase to occur. They had influence on the supply and demand and therefore made

³² Retrieved from http://en.wikipedia.org/wiki/Weather_derivatives

money on the rise and fall of the price of the derivatives which they systematically controlled.

Enron became one of the largest corporate failures in U.S. history once the scam was exposed as institutionalized, well-planned corporate fraud. Prior to its exposure, the media profiled Enron as a capitalist success. It was named "America's Most Innovative Company" by *Fortune Magazine* for five consecutive years, from 1996 to 2000. It was on their list of "100 Best Companies to Work for in America" in 2000, and was legendary even among the financial elite for the lavishness of its offices.³³

Enron is hardly an aberration in an otherwise clean business community. The corporation has no moral or social responsibility, its sole mandate being to attain profitability for its shareholders. Enron was just one of many corporate bankruptcies of large public companies recently examined for misleading financial information and false corporate representation. Comparable to Enron in dubious business practices are companies such as Nortel, Global Crossing, WorldCom, and Xerox in the US; Elan in Ireland; and Vivendi Universal in France. All have undergone investigations because of questionable financial representation. Some have gone bankrupt; others have had their share prices collapse. Yet, the public outcry has been short-lived and relatively subdued.

³³ Retrieved from <http://en.wikipedia.org/wiki/Enron>

Enron's corporate representation was a mass public deception.³⁴ This deception was enabled by the money industry and by the societal belief that there were checks and balances to protect investors. Investors have a belief that the system was fair. Unfortunately, the system is frequently unfair, as independent monitoring of the accuracy of the information provided by the company is not subject to scrutiny.

By drawing a parallel to these corporations and the money industry as a subset of the culture industry, I demonstrate that these corporations were so heavily ingrained in the capitalist system that society was myopic to the omnipresence of the culture of capitalism and its underbelly of corruption. Furthermore, those who gained from the success of these corporations were the capitalist elite. The mass investors struggled hard to participate in what Horkheimer and Adorno referred to as the "myth of success"³⁵. The investor strives for financial success and attempts to reach the top level of the capitalist pyramid. Very few were successful in this attempt, all the more so because it would appear that the deck was stacked against them right from the start.

³⁴ Jorion, P. (2003) *Investing In A Post Enron World* (p.12) McGraw Hill Publishers

³⁵ Adorno, T. & Horkheimer, M. sup., cit (p 79-80)

CHAPTER 2 - CONTROL BY DESIGN

*Freedom for the corporate voice and especially its marketing message has been the common development in most parts of the world.*³⁶ – Herbert Schiller

2.1 Culture of Control

In "The Culture Industry: Enlightenment and Mass Deception"³⁷ Horkheimer and Adorno emphasized the elite over the masses and they demonstrated that the power to create culture resided with those who could distribute the messages with a uniformed stamp. They defined the capitalist elite as the creators and controllers of media. Through mass media, advertising and the marketing of messages, the corporate culture creators have succeeded in attaining control both in civil and political society.

Horkheimer and Adorno have explored mass media as a method of manipulating cultural perspectives. Their essay challenged the social order by demonstrating how the culture industry redefined ideology. They wrote unequivocally about the totality of the culture industry as a closed system that thoroughly and inescapably dominated society. The authors observed that,

No independent thinking must be expected from the audience: the product prescribes every reaction, not by its natural

³⁶ Schiller, H. (1992) Mass Communications and American Empire. Westview Press (p.12)

³⁷ Adorno, T. & Horkheimer, M. sup., cit.,

structure (which collapses under reflection), but by signals. Any logical connection calling for mental effort is painstakingly avoided. As far as possible, developments must follow from the immediately preceding situation and never from the idea of the whole. For the attentive moviegoer any individual scene will give him the whole thing.³⁸

Thus, they reasoned:

Capitalist production so confines them ('the workers and employees, the farmers and lower middle class'), body and soul that they fall helplessly victims to what is offered to them. As naturally as the ruled always took the morality imposed upon them more seriously than did the rulers themselves, the deceived masses are today captivated by the myth of success even more than the successful are. Immovably, they insist on the very wrong, which to them is a greater force than the cunning of the authorities.³⁹

The culture industry was the method of keeping social order, which was reinforced by political, social, and economic initiatives and, more specifically, the cultural and social institutions. Regardless of the existence of democracy and often because of democracy in Canada and the United States, dominance can still be maintained with consent of the cultural and social groups. Capitalism can therefore be defined as a part of the core structure of the new social order that has gained ideological dominance.

³⁸ Ibid., (p.82)

³⁹ Ibid., (p.79-80)

Social dominance and cultural control is inadvertently propagated by mass media. As Horkheimer and Adorno have stated,

The 'culture industry' has taken over the civilizing inheritance of the entrepreneurial and frontier democracy - whose appreciation of intellectual deviations was never very finely attuned. All are free to dance and enjoy themselves, just as they have been free, since the historical neutralization of religion, to join any of the innumerable sects. But freedom to choose an ideology - since ideology always reflects economic coercion - everywhere proves to be freedom to choose what is always the same.⁴⁰

Take for example at Enron, the system of control was elaborate and part of a corporate culture of intense competition for financial success. To keep their jobs, employees were forced by the management to be accountable to each member of their team. Enron implemented a ranking system known as the 'Performance Review Committee' (PRC).⁴¹ All management had to rank employees in their unit on a scale of 1 to 5 with the lowest score defining the best employees.

Although the process was designed to advance the careers of top performers and punish the low performers, it quickly mutated into a numbers game. Every group within Enron had a limited pool of dollars available for salaries and bonuses. The people who were rated one and two were golden... With millions

⁴⁰ Ibid., (p 100)

⁴¹ Bryce, R. (2004) *Pipe Dreams: Greed, Ego, And The Death of Enron* (p.129) Public Affairs

of dollars at stake in each annual rating, the fight over individual ratings became intense... It wasn't about supporting, it was about tearing down."⁴²

Bonuses were made to the employees with the best rank. Conformity to adhere to the PRC rules would result in potential financial gains or mitigate job loss. Corporate internal memorandums, corporate rallies, and corporate videos were the indoctrination into the system. "We had TV sets in the building blaring out all this propaganda on the four values... Respect, Integrity, Communication and Excellence... it was Orwellian."⁴³ The employees were captivated by the fear of losing their jobs and motivated by the opportunity to be wealthy.

2.2 Money Domination and Rationalisation

The money industry is a subset of the culture industry and it is hegemonic. Hegemony then, was the structure within which the financial institutions and corporations worked. The corporation was the social group, which could "exert 'total social authority' over other investors/consumers and/or employees (subordinate groups), as they are winning and shaping consent so that the power of the dominant classes appears both legitimate

⁴² Ibid., (p 129)

⁴³ Ibid., (p 128)

and natural.”⁴⁴ Consent was given by consumers as they were “captivated by the myth of success”⁴⁵ and believe in capitalist ideology, free markets, and the opportunity to be as financially free as the capitalist elite. An example of this is represented in the structure of public companies.

A public company is a company whose shares were listed on a stock exchange. In this case, the subordinate group (the employees) traded their labour for financial remuneration. This could come primarily in the form of multiple methods of payments and could include salary and benefits. Over and above a salary, the administration and/or finance department of the corporation may automatically deduct benefits (contributions for pensions, retirement savings, and unemployment plan). An employee often received additional compensation by way of options to purchase the company stock at a specific price for a specific time period. Stock options then, were in exchange of labour. In many instances, these ancillary payments were deducted from the employees’ pay and were managed by the company. The employees were informed of the value of these payments and were advised whether and when they could withdraw them. Unless the employee/employer agreement was a management employment contract, the employee rarely had opportunity to influence or negotiate the contract. An employee’s finances i.e. taxes, health benefits and sometimes

⁴⁴ Kellner, D. (2001) *Media and Cultural Studies* (p. 205) Blackwell Publishing

⁴⁵ Adorno, T. & Horkheimer, M. sup., cit (p 78-79)

contributions to retirement plans, were automatically managed through deductions by the company.

Over the years, Enron's employees had their contributions to their 401(k) plan matched (50 cents on the dollar) with Enron stock, and for a while, this looked like a great deal. People counted their 401(k) as potential earnings and reviewed their statements value as real value rather than perceived value. Divesting would crystallize and create true cash value in the 401(k). The employees believed that they were getting rich and while it was only on paper, they believed that they were setting the stage for a comfortable retirement.⁴⁶

Television sets throughout Enron offices kept employees up to date on how wealthy they would be if they exercised their options, only they were strongly encouraged not to sell. Enron boasted a long-term hold strategy, which would create an even higher share price. Horkheimer and Adorno would describe this predicament as employees who had fallen helplessly victim to what was offered to them.⁴⁷ The additional compensation with options may have seemed like corporate generosity, however, the accounting principles used by Enron allowed the stock options to be granted as part of operating income instead of net operating income. This allowed for greater operating profit, which was misinterpreted as net operating income.

⁴⁶ Jorion, P. (2003) *Investing in a Post-Enron World* (p.3) McGraw Hill

⁴⁷ Bryce, R. (2004) *Pipe Dreams: Greed, Ego, And The Death of Enron*, Public Affairs

Increased share value and higher stock price are often synonymous. According to Bear Stearns & Co., Enron's operating profit for 2000 would have been 8 percent lower if the company had not granted \$155 million worth of stock options.⁴⁸ A higher share price would intimate self-interest on the part of Enron and a method of control over the employees who had blind trust in the company to continue to be profitable and grow stock value. The issuance of stock options only inflated the perceived value of Enron as they used an accounting method that allowed them to report the option as part of operating income.

Alternatively, if the corporation had allowed employees to sell their shares, it would have created high volume of stock for sale in the market, which could have placed greater pressure on the stock, causing the price to fall if there were no interested buyers. Basically, too much supply with no demand. From a market perception point of view, the market might also question why employees were selling instead of holding their stock. The superstructure of Enron culture dictated the belief in Enron as a successful corporation and that the system of corporate success would help create the employees' wealth. Employees were encouraged to hold their stock and not sell. The system was hegemonic. Stock options "were the driving force

⁴⁸ Jorion, P. sup., cit., (p.119)

behind management decisions... that focused on increasing Enron's stock price rather than solid growth of the company."⁴⁹

As Enron's case study illustrated, the employer could control the social group - in this case, the employer had control over the employees. Ancillary wages, benefits, and bonuses were a perceived method by which employees could attain greater wealth and security. The employee blindly trusted this praxis provided by the corporation who was, in fact, acting in its own self-interest. The employees were oblivious to this dichotomy (or class struggle) between the corporate elite and themselves because they did not have and were not given the choice of self-regulating the deductions. If you worked for the company, you had to follow the administrative and financial protocol of the company in order to remain employed. The alternative - an undesirable one from the corporate perspective - would be for employees to self-regulate taxes, benefits, and investment contributions and thus, give them freedom to control their own finances.

Employees only revolt against the system when they lose all of their ancillary payments from the corporate elite, which put its own personal financial freedom ahead of its employees', as was the case with Enron. A way out of this quagmire may have been regulatory capitalism and I will refer to it in my conclusion.

⁴⁹ Ibid., (p.119)

Horkheimer and Adorno have theorized that the pervasiveness of the culture industry further embraced capitalism. Was this rationalisation? Rationalisation in psychological terms is defined as a process of constructing a logical method of validating a decision that was originally derived in a different manner of thought process. I would suggest that rationalisation was taking place at a subconscious level and the culture industry was creating a state of oppositions, or cognitive dissonance, for and against capitalism. This caused the need for rationalisation and the acceptance of the system, as there were no perceived alternatives to capitalism.

As Max Weber has theorized, "modern societies are caught up in a process of rationalization which increasingly permeates every aspect of social life, rendering individuals increasingly dependent on a reified and administered totality that threatens to overwhelm them."⁵⁰ The culture industry and the money industry have successfully created a belief in capitalism as a free market ideology, "for culture now presses its stamp on everything,"⁵¹ and "business is their ideology."⁵²

The culture industry creates media products to propagate culture as a form of rationalised control of labour and leisure. Horkheimer and Adorno have described the culture industry as an 'iron system' that occupied consumers' leisure time, leaving the employee no time to consider resisting

⁵⁰ Thompson, J.B. (1990) *Ideology and Modern Culture: critical social theory in the era of mass communication* (p. 329) Polity Press, Cambridge, U.K.

⁵¹ Adorno, T. & Horkheimer, M. sup., cit (p 81).

⁵² Ibid., (p 81)

the corporate system. Horkheimer and Adorno have attempted to demonstrate how the freedom and liberation of consumers was non-existent and have implied that the audience was duped. To live in capitalist society, individuals must participate in its structure. An example of this was the money industry. Investors must participate through corporations, on corporate financial terms, trading labour for payments within the corporate structure of payments. Rational decision-making by employees with respect to distribution of payment for their labour was not open for debate, or negotiation.

Employees had less freedom over these ancillary payments and were not encouraged to understand the nature of the deductions or the financial management of their plans. It was understood that the company was acting in the best interests of the employees and the employees' rationalisation was that this was a great opportunity to accumulate wealth. Enron superstructure was hegemonic because they manipulated their financial information in reporting the company's financial position to their employees, promoting them on the future value of Enron stock and the potential growth of their 401(k). The information was also used to market the company's stock to investors as a "growth stock". Behind the scenes, Enron was promoting the stock on the back of intricate and elaborate limited

partnership structures with intertwining loans that only created the illusion of profits and growth.⁵³

Enron issued financial information to the money industry stakeholders: bankers, accountants and lawyers, etc. and, in turn, they approved and propagated the information. Enron created financial structures and propagated information to support the illusion of profitability. Manipulation continued with the employees, as they were encouraged to invest in Enron. The directors of the board and management, the capitalist elite, had created a pyramid system in which they could sell their shares into the market place while continuing to promote consumers/investors to invest in Enron's stock. The elaborate scheme of a multitude of stakeholders creating an illusion of profit for Enron was systemic internally and externally. "Enron started down a slippery ethical slope. And no one in authority seemed to care."⁵⁴ The BBC reported in February of 2003 the results of a Senate Finance Committee report, which called into serious doubt the ethics of tax advisers and "desperate" bankers, accountants and lawyers who helped Enron. It also named some of the U.S.' finest banks, accounting firms and attorneys who were all working together to prop up the biggest corporate scandal in US history.⁵⁵ This scandal was analyzed, approved, and promoted to consumers/investors by the money industry stakeholders.

⁵³ Bryce, R. (2004) *Pipe Dreams: Greed, Ego, And the Death of Enron* (p. 137-143) Public Affairs

⁵⁴ *Ibid.*, (p. 143) Public Affairs

⁵⁵ Retrieved from <http://news.bbc.co.uk/1/hi/business/2756345.stm>

2.3 Freedom Defined

The main entry for 'Freedom' in Dictionary.com has referred to freedom as a noun: the quality or state of being free as (1) the absence of necessity, coercion, or constraint in choice or action, (2) liberation from slavery or restraint or from the power of another (3) the quality or state of being exempt or released from something onerous, and (4) a political or civil right.⁵⁶ I refer to freedom as freedom from power of another and the absence of necessity, coercion, or constraint in choice or action. Furthermore, freedom for corporations is defined in this paper as economic freedom to act with little or no governmental restrictions. In this chapter, I will refer to freedom for consumers to make choices in a capitalist system.

The French philosopher Jean Jacques Rousseau asserted that the condition of freedom was inherent to humanity, an inevitable appearance of the possession of willpower, with the implication that all social interactions subsequent to birth implied a loss of freedom, voluntarily or involuntarily. Economic freedom was sometimes equated with economic power. The term, as used by economists, usually means the degree to which economic actors were unfettered by governmental restrictions, as in the Index of Economic Freedom.⁵⁷

⁵⁶ Retrieved from <http://dictionary.reference.com/search?q=freedom>

⁵⁷ Retrieved from <http://www.answers.com/freedom>

When reviewing the above stated definitions and relating them to Horkheimer and Adorno's essay "The Culture Industry: Enlightenment and Mass Deception", it can be determined that in the modern capitalist system in Canada and the U.S., consumers have little choice or freedom. Choices were limited to the options the capitalist institutions offered. As stated, "The whole world is made to pass through the filter of the culture industry"⁵⁸ and consumers have freedom to choose what the culture industry has offered. This defined 'monopoly' and 'sameness' is the key feature in the repression of freedom. Horkheimer and Adorno have related this to conformity rather than choice. Capitalism represents freedom in the free market system - capitalism denotes freedom, choice, and opportunity.

To Horkheimer and Adorno, the power of capitalism was creating cultural chaos, and that the culture creators (the media, advertisers, corporations) were dictating that culture. These ideas were directly developed from Marx's theory about capitalism. "Culture was not any more a product of man's creative mind, but of the standardized, uniform mechanisms put forth by large international financial concerns... The assumption remained that the culture industry was interested in people merely as customers – people become objects and surrender to the overall driving force of capitalism."⁵⁹ Horkheimer & Adorno's have suggested that

⁵⁸ Adorno, T. & Horkheimer, M. (1979) *Dialectic of enlightenment* (p. 126)

⁵⁹ Retrieved from <http://www.geocities.com/CapitolHill/2152/adorno.htm#adorno2>

society cannot be free and use the terminology to define the culture industry as “the circle of manipulation” and a society “alienated from itself”.

Freedom and emancipation for the masses are often repeated words throughout Horkheimer & Adorno’s essay.

Freedom is also attacked at its core through the culture industry as it is ever-present in our language, style, music... and it is propagated into our psyche and we are oblivious to what is happening, we confirm and we are controlled by it (capitalism and consumerism). In the culture industry, this imitation finally becomes absolute. Having ceased to be anything but style, it reveals the latter’s secret: obedience to the social hierarchy. Capitalist production so confines them, body and soul, that they fall helpless victims to what is offered them.⁶⁰

In the money industry, corporations benefit from the concept of economic freedom. The financial industry capitalizes on investors and creates financial products that appear to offer the opportunity to be elite, wealthy and financially in control, and free from governmental constraints. Freedom could then be contrived as a perceived freedom. Advertising slogans such as London Life’s “The freedom to choose, the power to get

⁶⁰ Adorno, T. & Horkheimer, M. sup. cit., (p 78-79)

there"⁶¹ and MetLife's "Building Financial Freedom"⁶² only serve to embed in the minds of investors the idea that these lofty goals were attainable.

Enron marketed freedom through various methods that reinforced that the corporation was a giant success and was continuing on a growth trajectory. The money industry promoted what Weber called the 'charismatic leaders' as the successful leading edge management team. Through corporate rallies, internal memorandums and mass-emails to employees, they were lead to believe company value was being created and the stock value would continue to increase. As the company started to unravel, Sherron Watkins (former Vice President of Enron), known as the Enron inside whistle blower, confronted the Chairman, Ken Lay, and uncovered the elaborate financial structures that were on the edge of collapse. Ken Lay's response to employees was via internal memorandum, "As I mentioned at the [August 16th] employee meeting, one of my highest priorities is to restore investor confidence in Enron... this should result in a significantly higher stock price." On that same day, "Lay sold 68,620 shares of Enron Stock, netting himself just over \$1 million. The day before that, Lay had sold 25,000 shares, taking home nearly \$387,000."⁶³

The example below will demonstrate that the employees did not have the freedom to react to the bankruptcy of Enron by selling their stock in their 401(k).

⁶¹ Retrieved from <http://www.londonlife.com>.

⁶² Retrieved from www.metlife.com

⁶³ Bryce, R. (2004) *Pipe Dreams: Greed, Ego, And The Death of Enron* (p.299)

Enron employees also lost pension money because of Enron's bankruptcy. Enron's 401(k) plan had employer contributions. Enron's plan required these contributions to be held in Enron stock. Employees could not sell the shares until age 50, even if they left the company. Some employees were with Enron for 10-20 years, and had their entire employer matching contributions locked into Enron stock. U.S. federal law does not require companies to make their matching contributions in company stock, but it does allow them to do so. As a result, Enron's employees could not diversify their portfolios. ⁶⁴

The employees were convinced that this company was successful, would continue to be successful and that they could not lose their investment. '*Invest in Enron*' was the corporate culture message. However, they did not anticipate the possibility of misleading financial information and bankruptcy.

Enron's 401(k) plan allowed, but did not require, employees to invest their contributions in Enron stock. Around the time that Enron's accounting fraud became public; Enron's 401(k) plan had an "administrator change". Enron changed the vendor for their 401(k) plan administration. As a result, employee accounts were frozen for a few weeks during the changeover. However, the time period for the freeze was not properly announced, and employees were misled into thinking that the time interval of the freeze was longer than what actually occurred. As a result, many employees did not sell off their Enron stock as the accounting

⁶⁴ Ibid., (p 299)

fraud was announced and the stock crashed.”⁶⁵

At the time of Enron’s bankruptcy, most employees received a US \$4000 severance for their work and could not sell the Enron shares in their 401(k).⁶⁶ During the same period that the employees laboured under the belief that they were restricted from selling their shares, management and the board of directors at Enron were free to sell their shares. Various boards of directors and management gained from the sale of Enron shares. Overall, they exercised massive financial gains, and between October 19, 1998 and November 27, 2001, stock sales by individual Enron directors and executives ranged from the smallest gain by an individual of US \$337,200 to the largest gain by an individual of US \$270,276,065. The total gross value of Enron stock sold during that period from all directors and executives was over 1 billion US dollars (close to US \$1,190,479,472).⁶⁷

2.4 The ‘Image of Wealth’

In modern capitalism, wealth is expressed by the abundance of highly debt-leveraged assets. Those who ‘own’ houses, cars, boats, jewelry etc... have an image of being wealthy. ‘Image of wealth’ is defined as an

⁶⁵ Retrieved from http://en.wikipedia.org/wiki/Pension_fund_losses_with_Enron

⁶⁶ Bryce, R. (2004) *Pipe Dreams: Greed, Ego, And The Death of Enron* (p.329)

⁶⁷ Ibid (p.viii, table ‘Enron Cast of Characters and their stock sales’)

individuals' wealth explicit of the quality of their material assets regardless of their net worth. Net worth is defined as total assets minus total liabilities.

This status can be leveraged with debt, creating the image of wealth when, in reality, the debt is sometimes greater than the equity. In our capitalist culture, it has become more important to accumulate assets than it is to have financial wealth or a high net worth. Purchasing assets and attaining the false image of wealth is made possible through the money industry. The money industry specializes in offering financial debt products that offer the consumer/investor greater purchasing power. Overall, net worth has been lowered as debt products have been created in order for investors continue to consume/invest in the products of the culture/money industry. The money industry has helped to finance the growth of the culture industry and further commodification and commercialisation by providing debt products.

The relationship between savings, debt, and disposable income will be demonstrated through the use of Canadian statistics.⁶⁸ Understanding the difference between assets and liabilities is important to understanding the true wealth of individuals and the impact that the media might have on why society chooses to spend and/or save. Although research by economists Saez and Veallhas has shown that incomes in Canada have remained relatively constant since 1920 (with variances during World War II and

⁶⁸ Retrieved from <http://www.cbc.ca/consumers/market/files/money/credit/numbers.html>

during the 1970 inflationary period)⁶⁹, the following statistics suggest overall debt has increased enormously.

These numbers reflect micro-economic information, which demonstrates trends on household income, disposable income, and net worth⁷⁰.

- Canadian household-debt-to-income ratio in 1983-2003 increased from 55% to 105.2%.
- % increase in Canadian credit card debt from 1997 - 2001: 90%

The following statistics are U.S. statistics from the Federal Reserve Board. They represent ratio changes in personal savings from 1960 to 1997 respectively⁷¹.

- Personal savings to disposable income 5.7 down to 2.1
- Household credit debt to disposable income 59.9 up to 95.0
- Household debt multiple to savings 10.5 up to 45.5

The above information suggests that income ratios have shifted from high net worth to lower net worth. Debt levels are higher, savings are lower, and disposable incomes are lower in both Canada and the U.S.

This is not an economic analysis but rather an example of how powerful the media is in delivering messages that are designed to maintain

⁶⁹ Saez, E. & Veall, M. (2004) *The Evolution of High Incomes in Canada, 1920 – 2000*. Retrieved from <http://emlab.berkeley.edu/users/saez/canada-oup.pdf>

⁷⁰ Retrieved from <http://www.cbc.ca/consumers/market/files/money/credit/numbers.html>

⁷¹ Retrieved from *The Common Wealth Institute: The Pulse of Capitalism Issue 99-1*, April 1999. Retrieved June 6th 2005 from <http://www.comw.org/poc/9904.html>

the status quo by propagating the belief in financial freedom. The statistics suggest that lower savings and more debt actually lower net worth and does not make society more financially free. The image of wealth is ubiquitous and the accumulation of goods has become the status quo.

Following Horkheimer and Adorno's analysis, this trend would have been heavily critiqued. The culture industry infiltrates messages into society to maintain the status quo, participate in culture, purchase goods, and participate in the free market, as consumerism would benefit all. The money industry now extends this and suggests expanding on free markets and participating in the image of wealth by using financial products to greater increase debt. J.B. Thompson has suggested that:

As religion and magic lost their hold on individuals caught up in the restless activity of capitalist industrialization, the ground was prepared for emergence of a new kind of belief system: for the emergence of secular belief systems which could mobilize individuals without reference to other worldly values or being. It is these secular belief systems, which some contemporary theorists describe as "ideologies"... the development of industrial capitalism gave rise to an age of ideologies.⁷²

The values of the culture industry reflect economic interests, not social ones. The foundation of a system that was based on a cultural idea or "idea-system" is ingrained in the motivations of the capitalist elite (in this case,

⁷² Thompson, J.B. (1990) *Ideology and Modern Culture: critical social theory in the era of mass communication* (p. 11), Polity Press, Cambridge, U.K.

the stakeholders of the money industry) and they were dependent on the social class system that the social structure supported.⁷³ This offers the opportunity for the capitalist elite to continue to create wealth for them by selling their investments down the chain to the mass investors thereby suggesting that the system was that of a pyramid, or a 'Ponsi' scheme.

The consumer revolution of the 1960s has revealed that the culture industry was more than a system of beliefs; it was a "socializing force" through which a mindset was generated.⁷⁴ The mindset was a belief in freedom through capitalism. I suggest that this was a financial revolution, the new paradigm of structuralisation to further support the capitalist elite. This post-World War II revolution stems from the consumer/investors' desire to have financial control and their belief that they can successfully craft their financial destiny and create freedom through wealth accumulation. The money industry embraces this desire and creates financial products to fulfill the consumers'/investors' perceived need. This time the narrative was so deeply embedded in the overabundance of economic and financial data, propagated primarily through controlled media, that the consumer/investor actually believed that they were financially enlightened.

⁷³ Geertz, C. (1973) Ideology as a Cultural System. Published in *The Interpretation of Cultures: Selected Essays* (p. 201), New York: Basic Books.

⁷⁴ Ellis, J. (1991) Ideology and Subjectivity. In Hall, S.G. *Culture, Media, Language: Working papers in cultural studies 1972-79*. (p 187). New York: Rutledge.

2.5 Financial Enlightenment

Horkheimer and Adorno have suggested that enlightenment has disappeared and that it was not possible in the culture industry, where the parts were dictated by the whole, and where society was suppressed by, and subservient to, the universality of the financial machine. Therefore, everything was formulated to achieve maximum efficiency in the name of production, and no deviation was possible within the formula. If the formula was followed perfectly, the result was prosperity. This ostensibly gave consumers the edge. Financial media offered what consumers believed to be the most up-to-date financial information, keeping them informed of world financial events, interest rates, corporate earnings, bond price fluctuations and other leading economic indicators. The same could be stated in the money industry. The consumer/investor has no reason to doubt that the information was factual and complete, enabling them to make informed decisions. Such blind trust of the financial media was extremely harmful, as it endorsed hegemony, and restricted freedom.

Modern society is not as financially enlightened by this widely available information as it believes itself to be. Enlightenment is understood in the widest sense as the advance of thought, and it has always aimed at liberating human beings from fear and instilling in them independent power. Yet, the enlightened, modern capitalist masses have bought into a system that does not allow them to be truly free, only to perceive that they have

independent power.⁷⁵ In the money industry, this would presuppose the fact that investors were educated enough to filter and analyze the financial information to their benefit. In reality, even the most educated economists struggle with processing financial data from multiple sectors.

I extend the concept of enlightenment to the money industry. Enron was a modern example of the money industry's influence on financial calamity. The information distributed to investors and to the employees was intended to keep them informed of the corporate and financial status of Enron. This information was created to enlighten investors, inform them of financial status and corporate positioning, and allowed the investors to be free to make investment choices. Since the system was hegemonic however, the information was only a tool for manipulation because it was entirely biased and self-serving.

Furthermore, there was a presupposition that consumers were able to analyze the information properly. In the case of Enron, money industry stakeholders, bankers, accountants, etc. also misinterpreted and misrepresented the financial information and fundamental value of the Enron share price, further compounding the flawed picture that investors and employees believed to be true.

⁷⁵ Cumming, J. (1973) *Dialektik der Aufklärung* (1944 with Horkheimer). Translation: *Dialectic of Enlightenment*. Trans. John Cumming. New York: Continuum

Social authority was the de facto role of the culture industry and the money industry. Stuart Hall has outlined the power that the dominant group flexes while shaping consent of the masses and developing the process so that it appears as justifiable and natural.⁷⁶ The money industry would maintain financial dominance, and define market value, stock value, and economic value as long as there was no competing definition of what equates to those values.⁷⁷ The money industry can define value and dictate whether a public company was a good investment or not. They create financial analyst reports for consumers/investors, and have a tremendous amount of control over inherent value of the companies promoted, as they set the standards to which similar companies were compared. The financial rationalisation of the money industry evolves as it is in a constant state of redefining what inherent values were in relative terms to today's marketplace.

⁷⁶ Hall, S. et al. (1980) *Culture, Media, Language: Working Papers in Cultural Studies, 1972-1979*, UK: University of Birmingham.

⁷⁷ Hebdige, D. (1977) *From Culture to Hegemony*, (p. 205). In Durham, M.G. & Kellner, D.M. (1977) (eds.) *Media and Cultural Studies: Keywords*. Oxford: Blackwell Publishers.

CHAPTER 3 – THE STRUCTURE OF CONSUMERISM

"Consumer culture marks out a system in which consumption is dominated by the consumption of commodities, and in which cultural reproduction is largely understood to be carried out in the exercise of free personal choice in the private sphere of everyday life."⁷⁸

– Don Slater

3.1 Commercial Aggregators

Horkheimer and Adorno represent the culture industry as commercial aggregates that assimilate a culture's products into a mass economy of advertising and consumption. Corporations make all cultural products 'commodities' for sale to fulfill a need supposedly expressed by the consumer. When referring to the culture industry, Horkheimer and Adorno have stated that, "Business is their ideology. It is quite correct that the power of the culture industry resides in its identification with a manufactured need, and not in simple contrast to it, even if this contrast were one of complete power and complete powerlessness."⁷⁹ I suggest that commercialization of the opportunity for wealth was causing the descent of society into a Darwinian society obsessed with money. The money industry has a leveling power over consumer society and only the strong survive to

⁷⁸ Slater, D. (1996) *Consumer Culture and Modernity* (p.8) Blackwell Publishers

⁷⁹ Adorno, T. & Horkheimer, M. sup., cit.,

reach the top capitalist elite. It is not about human survival, but survival as defined by those who were the financially wealthy and who were at the top tier of this hierarchy. This could only be attained by participation in the capitalist system. The homogenization of culture was at the hands of the capitalist elite which enabled greater commercialization and allowed the system to grow.

It is alleged that because millions participate in it, certain reproduction processes are necessary that inevitably require identical needs in innumerable places to be satisfied with identical goods... Furthermore, it is claimed that standards were based in the first place on consumers' needs, and for that reason were accepted with so little resistance. The result is the circle of manipulation and retroactive need in which the unity of the system grows ever stronger. No mention is made of the fact that the basis on which technology acquires power over society is the power of those whose economic hold over society is greatest.⁸⁰

To Horkheimer and Adorno, the concept of commercialisation, commodification and standardization of labour and cultural products reflected the omnipresence of the culture industry in social life. The millions who participated in the culture industry have enabled the pyramid to continue to build. Without the constant addition of new participants creating new lower-tier levels, allowing the top-tier capitalist elite to divest from the scheme, the system would disintegrate. This would correlate to Marx's

⁸⁰ Adorno, T. & Horkheimer, M. sup. cit., (p 81)

thoughts about how the system of capitalism was on the edge of collapse. Without millions of buyers of goods/services, without participation in exchange in the marketplace, the marketplace would cease and desist.

Horkheimer and Adorno also believe that modernity forces out independent thinking and that the power rests with the capitalist elite who produce the cultural products. Is the money industry also creating products that enable society to believe in the opportunity to be a part of the capitalist elite? As long as others are enticed to participate, the capitalist elite will not be at the entry level. The only way to ensure that they move up was to continually introduce new consumers to the bottom tier.

Can independent decisions about how to become wealthy be made if they are based on propaganda? According to Horkheimer and Adorno, consumers were further commodified as buyers and they, via of the capitalist elite, categorize each individual into a profile for targeted propaganda. The public is catered to with a hierarchical range of mass-produced products of varying quality, thus advancing the rule of complete quantification. Everybody must behave (as if spontaneously) in accordance with his previously determined and indexed level, and choose the category of mass product turned out for his type. Consumers appear as statistics on research organization charts, and were divided by income groups into red,

green, and blue areas; the technique was that used for any type of propaganda.⁸¹

The core argument of Horkheimer's and Adorno's essay centres on the culture industry as a tool for mass domination and that commercialisation was at its core.

The assembly-line character of the culture industry, the synthetic, planned method of turning out its products... Advertising and the culture industry merge technically as well as economically. In both cases, the same thing can be seen in innumerable places, and the mechanical repetition of the same culture product has come to be the same as that of the propaganda slogan. In both cases, the insistent demand for effectiveness makes technology into psycho-technology, into a procedure for manipulating men. In both cases the standards are the striking yet familiar, the easy, yet catchy, the skilful yet simple; the object is to overpower the customer, who is conceived as absent-minded or resistant.⁸²

Horkheimer and Adorno would believe that this was causing the intellectual impoverishment of society, favouring commercialisation over individuality and authenticity. This was also similar when referring to the money industry. Various financial products have been sold to investors as defined by their personal investor profile, which determined their level of risk capacity. The definition of risk capacity, or level of risk, was determined by

⁸¹ Horkheimer & Adorno, T. sup. cit., (p 73)

⁸² Horkheimer & Adorno, T. sup. cit., (p 98)

the same industry that sold products/services to the consumer/investor. The culture industry and money industry were made up of corporations. Their priority is based upon making a profit and creating shareholder value at all costs, a priority that did not include the best interests of the consumer/investor.

3.2 Commercialising Finance

The expansion of the culture industry into the money industry was the ultimate commodification and hyper-commercialization, as it represented the commodification of money through the offering of financial products and consumers becoming 'investors'.

Transnational Media Conglomerates (TMC) were corporations whose primary assets were media companies who created and propagated information to mass audiences and/or media distribution companies who owned channels of distribution. TMC have embraced the money industry and the distribution of financial information. In our post-modern culture, the belief in the accumulation of wealth as emancipation from the struggles of the working class was reaching a pinnacle. Are the capitalist elite controlling the financial institutions that propagate generic financial products to those who have blind trust in the value of the investment products that they purchase? After all, financial corporations have a fiduciary duty to make

profits for their shareholders, but this does not necessarily create wealth for their investors. It creates wealth for the capitalist elite.

Debt, equity, wealth accumulations, and liability management are structured through financial institutions (bankers, financial planners, money managers, brokers, and financial advisers) with products such as mortgages, loans, credit cards, stock portfolios, insurance policies, mutual funds, and retirement savings. With guidance and advice from financial advisors through financial institutions, investors are informed about how to manage their money. The money industry now encapsulates the culture industry, and financial world markets offer opportunities to participate in an arena once reserved for the capitalist elite. The financial products and services marketed to the investors were often similar, but various financial institutions market them differently. They often carry similar risk and promise similar returns. Investors believed that they were involved in investment-making decisions because they were choosing from a variety of financial products. Horkheimer and Adorno would suggest that this was just a method of manipulation and that the investors could only choose from that which the money industry had to offer.

Investors idealized the accuracy and validity of available financial information and blindly accepted that it was without antagonistic tendencies, because mass media were providing equal access to the information. The never-ending bombardment of advertisements for financial goods and

services, such as equity offerings (mutual funds, bonds, private placement in publicly listed companies, limited partnerships in private companies etc.), along with debt offerings (credit card pitches, home equity loans, mortgages, financing to purchase a car or luxury items etc.) were inescapable in our modern world. These products were made accessible to even those who had weak financial status. The financial institutions now offered a myriad of products to serve all financial needs. The bourgeois elite of the post-modern capitalist society were the stakeholders of this money industry.

In the Enron case, the share price was justified through the promotion of an above-average revenue growth. "Enron was not worth the \$126 per share that Jeff Skilling had touted... nor was it worth the \$76 it was trading at that time... [comparable] firms were trading at fourteen times their projected 2001 earning. Enron was trading at forty-four times its projected earnings. Enron was overvalued."⁸³ Published financial analyst reports favored Enron and set a time frame and a target stock price. The reports offered financial market statistics and comparable companies as benchmarks to help investors weigh the risks. The analysts' rationale for promoting Enron stock's growth and continued high pricing comparable to similar companies was that they perceived the management of Enron as exceptional, innovative, and aggressive business people. They were positioned as (what

⁸³ Bryce, R. (2004) *Pipe Dreams, Greed, Ego and the Death of Enron* (p. 250) Public Affairs

Weber would refer to as) 'charismatic leaders', shapers of ideology, and enforcers of the free market system.

As a corporation, the main motive of investment banking firms was to make profits. They publish analyst reports to this end, and within these reports, they profiled their clients (corporations) and projected the company target stock price. The investment banking firms used these tools to create an interest in potential investment of the company profiled. The firm then offered investors an opportunity to make an investment in the profiled company. The investment was the financing that raised money for the profiled company and made fees for the investment-banking firm. The money raised for a company enabled the company to grow and for that money, the investment bank earned a fee, which often included stock options at a favourable price. The investment banking firms also orchestrated mergers, acquisitions, and divestitures as well as equity and debt financings. In order to generate this business, investment bankers used methods of propagating company information to promote investors on the investment. "Enron could make sure the Wall Street firms kept their analysts in line because the company was a deal machine."⁸⁴ The fees that investment-banking firms generated justified having the analyst create favorable reports. It also continued to propagate the illusion of Enron's growth. Analysts' reports were one of the key pieces of investment

⁸⁴ Bryce, R. (2004) *Pipe Dreams, Greed, Ego and the Death of Enron* (p. 252) Public Affairs

information investors used to analyze investment buying and selling. The reports could, in retrospect, be seen as another product of the money industry, one that supported the continued wealth of the capitalist elite over the wealth of investors. Even as the mass consumers/investors continued to buy the stock based on these favourable reports, the management and board of directors of Enron continued to sell shares on the public market in exchange for cash. The top tier capitalist elite sold their shares down to the lower levels of investors. In 2001, they were well aware of the financial hardship the company was enduring, although none of the information was made public.

3.3 Structuring Financial Gain

The hyper-commercialisation of financial goods and services was a necessary structure in a capitalist system, which helped to create financial consumerism. The perceived market value of assets owned by the elite was so great that outside mass investors (outside of the capitalist elite) were needed so that the value could be confirmed by selling (shares) portions of the asset into a broader mass market for financial gain. The assets, which were once owned by the capitalist elite, were now being offered for sale and they were marketed as investments to the individuals who wanted the opportunity for wealth accumulation. The free market system offered equal opportunity for all the individuals to now participate in the potential financial

upside of the companies who were competing in a deregulated market and which needed to raise capital to grow and prosper in the newly defined unregulated market.

These assets were offered in the form of share ownership to the masses of investors. The opportunity for investors to participate by way of public share offerings meant that the capitalist elite would not be the sole investors and they would mitigate their risk by both charging fees for the transaction, participating in lower-priced rounds of financing and offering the broader consumer/investor opportunity at higher price levels. The capitalist elite were selling the investment down the pyramid to the masses of investors. The financial industry began to create product offerings for the masses as a protectionist method to service the capitalist elite. The commercialisation and commodification of the financial industry helped create a greater selection of products for a wider audience enabling investors the freedom to choose among many financial opportunities.

Another segment of the money industry is the propagation of financial products and services, which aids the investor in the unraveling of the consumer/investor's financial chaos. These would include bankruptcy management, debt consolidation, credit rating adjustment, etc. During Enron's potential bankruptcy, various money industry players attempted to turn the failing company around. In the process, they continued to profit. These included turn-around specialists, investment bankers, bankruptcy

lawyers, and accountants who made millions of dollars trying to help the perishing company.⁸⁵ "The key premise is that the corporation is an institution – a unique structure and set of imperatives that direct the actions of people within it. It is a legal institution, whose existence and capacity to operate depend on law. The corporation's legal mandate is to pursue, relentlessly and without exception, its own self interest, regardless of the often harmful consequences it might cause to others"⁸⁶ This was exemplified during Enron's collapse. The employees and individual shareholders of Enron's stock saw the value of the shares fall from its peak of U.S. \$84 to U.S. \$0.11 as bankruptcy specialists continued to generate fees to help the struggling corporation.

Western society operates in the classical economic system of market economy. Each individual functions with self-interest and is solely concerned with exploitation of personal gain; nonetheless, the consumer/investor participates in the development of the omnipresent culture industry and the money industry. When society is monopolized by self-gain, the system eventually erodes.

Expressing a Marxist viewpoint on the subject, Raymond Aron has stated that: "Each man, working in his own interest, contributes both to the

⁸⁵ Bryce, R. (2004) *Pipe Dreams, Greed, Ego and the Death of Enron* (p.363-369) Public Affairs

⁸⁶ Bakan, J. (2004) *The Corporation* (p. 1-2), Penguin Books

necessary functioning and to the final destruction of the regime.”⁸⁷ Accordingly, society’s mass participation in a system designed by and for the capitalist elite may ultimately be the catalyst for the erosion of capitalism. The potential collapse of the financial system would infer weakening the structure of capitalism. Can this pyramid scheme survive without more investors continuing to invest in the system? What happens when there are no more new investors? How can you regulate a capitalist/pyramid scheme? Unfortunately, Horkheimer and Adorno did not provide any suggestions on emancipation from the culture industry. By extending their method of analysis however, I will suggest an alternative for the money industry.

3.4 Cultural Realism - Financial Realism

Economics, political economy, and how policies impact consumers cannot truly be addressed without outlining cultural realism and defining financial realism. Social and economic theory can best be used to examine the political economy of the money industry by first determining the correlation between the two, and then by assessing the possible impact one can have on the other. Dallas Smythe has emphasized the practices and institutions that enforced the realism of the system and has stated that

The context of the arts and sciences in any social system is the cultural realism of that system. Cultural realism means the

⁸⁷ Aron, R. (1965) *Main Currents in Sociological Thought* (Vol. I. p. 135), New York: Basic Books.

central values of the system as expressed as artifacts, practices, and institutions. These central values may be thought of as the realisation which informs and is implicit in the relations of the components of the system.⁸⁸

In financial realism, the artifacts were in financial statements, analyst reports, and corporate annual reports. The practices were the method for distribution of the information, which was through the money industry. Cultural realism within a capitalist state was the strategic positioning of culture to attain consumerism. Cultural realism could now extend to financial realism as the investors used the system and its information to define the financial context and financial consumerism.

Capitalist economists' have insisted that open markets harness power. Sociologists have stated that even economically free markets were structured by the particular institutional or sociological context within which they operated.⁸⁹ Economists rarely took into consideration sociological implications such as class, corporate structure, ownership, education etc.⁹⁰ Both economics and sociology are subject to human condition. From a communications perspective, how people react to the media helps to

⁸⁸ Smythe, D. (1981) *Dependency Road: Communications, Capitalism Consciousness & Canada*, Norwood, NJ: Ablex Publishing Corporation. (p.192)

⁸⁹ Roberts, J. & Dietrich, M. (1999). Conceptualizing Professionalism: Why economics needs sociology. *American Journal of Economics and Sociology*. 58(4).

⁹⁰ Mosco, V. (1996). *The Political Economy of Communication: Rethinking and Renewal*. Newbury Park, CA: Sage. (p.63)

ultimately shape the decisions that they make/will make. To paraphrase Dallas Smythe, it could be said that the money industry was helping to fulfill the corporatist agenda, attracting an audience who would invest in financial products. This industry then, creates an economic consciousness that helps shape discourse on policies to further free markets.

Economic and financial information is available through a multitude of sources. Both have been subject to historical changes. "As political economy has persistently maintained, it is not the pricing system that shapes behaviour and gives direction to the economy, but the wider system of values and of power in which the economy is embedded."⁹¹ This is to say that behavioural economics should be examined rather than solely accepting of traditional efficient market theory. In efficient markets, people acted rationally and their behaviour was predictable. Efficient Market theory has suggested that,

At any given time, prices fully reflect all available information on a particular stock and/or market... no investor has an advantage in predicting a return on a stock price since no one has access to information not already available to everyone else. The nature of information does not have to be limited to financial news and research alone; indeed information about political, economic and social events, combined with how investors perceive such

⁹¹ Ibid., (p 65)

information, whether true or rumored, will be reflected in the stock price. In efficient markets, prices become not predictable but random, so no investment pattern can be discerned. A planned approach to investment, therefore, cannot be successful.⁹²

Behavioural finance was the opposite, as it involved the psychology of investors and their influence on the stock market. People made decisions based on irrational factors such as 'loss aversion' and 'mental accounting', which was to say that they made decisions from their own set of experiences, from collected information, and from their personal emotional perspective. This field of study has argued that people were not nearly as rational as traditional finance theory made it out to be. For investors curious about how emotions and biases drive share prices, behavioral finance has offered some interesting descriptions and explanations. Behaviorists have explained that, rather than being anomalies, irrational behavior was commonplace. In fact, researchers have regularly reproduced market behavior using very simple experiments.⁹³

The rhetorical strategy of offering copious amounts of information so that investors could become self-educated about economics and finance intimates that investors were acting rationally. As stated earlier, this theory

⁹² Retrieved from <http://www.investopedia.com/articles/02/101502.asp>

⁹³ Retrieved from <http://www.investopedia.com/articles/02/112502.asp>

has certain limitations, since financial judgment is swayed by mass media-manufactured information (imagery), the subsequent emotional reaction to the information contradicts the logical, and rational which prevail in efficient market theory. That said, it is very difficult to predict any behaviour, be it rational or irrational. Investors assume that Transnational Media Corporations provide accurate information. Chomsky and Herman have argued that it was, in fact, a case rather of disseminating more disinformation than true information and that consent was manufactured by mass media.⁹⁴

Market reaction to financial information (including information about political, economic, and social events) and the way in which investors have interpreted this information, whether true or rumoured, was reflected in market pricing. The capitalist elite, however, have insider knowledge and selectively choose the information that is made available to TMCs for mass distribution. Consumers are coerced into believing that they are offered an opportunity to be part of the capitalist elite. Investors have also been manipulated and they believe that they are protected by full disclosure of relevant and important financial information and that, at any given time, market prices fully reflected all available information. Furthermore, they believed that checks and balances by regulatory institutions such as the Securities and Exchange Commission, International Organization of

⁹⁴ Herman, E.S. & Chomsky, N. (1988). *Manufacturing Consent: The Political Economy of the Mass Media*. Toronto: Knopf Canada.

Securities Commissions, and the North American Securities Administration Association were in place to protect consumer/investor interests. These regulatory bodies were managed by a board of directors and by committees. Each of these governing boards was comprised of money industry stakeholders. They were governing and protecting themselves by virtue of the fact that they could take their own personal interest into account when they made decisions.

Markets are drawn towards equilibrium. However, financial markets were an anomaly, because they did not deal with known quantities. The theory of reflectivity refers to an unpredictable outcome for which both economic and social sciences cannot have a valid prediction.⁹⁵ The unpredictable variable was the human reaction to the information presented by the money industry. Consumers/investors made choices and reacted to available information. The power of the financial media was in the ability to shape the investors' decision by distributing economic and financial information. There is a myth which surrounds wealth and this is perpetuated by a plethora of information. The net worth of individuals overall has decreased but their debt levels continue to increase. Privatization, greater corporate control and lessened state control through policy changes such as privatization have, therefore, had a negative effect on individual wealth.

⁹⁵ Soros, G. (2002) *Busted: Why Markets Can't Fix Themselves. The New Republic.*

3.5 Psycho-Social Impact

To further explain the impact of the new social system I will draw from theories and experiments by sociologists to demonstrate the importance of reviewing the power of information and images. The audience has been duped by the constant barrage of financial messages. The investors may believe that they were informed and autonomous to make financial decisions but the strong messaging from multiple media sources suggest that the investor was reliant upon the money industry for their production of accurate financial information. These messages have a collective impact on decision-making at a psychological consumer/investor level. This emphasized the impact that the mass media, propagating free market capitalism, had on the control of investors' decisions.

The following will outline an analysis of emotions and financial decisions. When investors felt good about an investment opportunity, they deemed the risks low and the returns high, irrespective of other probabilities that were more objective. Mauboussin and Bartholdson⁹⁶ outlined these ideas in their analysis of emotions and decisions by citing a study performed by neuroscientist Antonio Damasio⁹⁷. Damasio dissected the historical views on rationality and challenged that individual emotions influenced decisions everyday. While working with a patient who was brain damaged, he witnessed that this patient had all of his faculties for rational behaviour:

⁹⁶ The Consilient Observer. (27 January). 3(2).

⁹⁷ Damasio, A.R. (1994), *Descartes' Error: Emotion, Reason and the Human Brain* (xii). New York: Avon Books

attention, memory, and logic, but could not experience emotion, therefore, he could no longer make basic decisions on a day-to-day basis.

His conclusion was that impaired emotion equated with flawed decision making. His later work confirmed this in an experiment that involved a deck of playing cards and a skin-conductive response machine (SCR). Damasio connected his subjects to the SCR and asked them to turn over playing cards from one of four decks. Two of the decks were structured to create gains (in play money) and two were structured to be the losing decks. He queried his subjects to define the difference in the decks. After 10 turns, the subjects were recorded to have had a physical reaction when they were about to turn over a card from the losing deck. After turning over about 50 cards, the subjects communicated that they had a feeling that two of the four decks were higher risk and then it took another 30 cards for them to be able to articulate why. What was learned was that the unconscious knew what was going on before the conscious and even those who could not articulate what was going on, had a physical reaction that guided their decisions. When this experience was repeated on brain-damaged patients, none of the same reactions were recorded. The SCR and articulated responses had no correlation to what was going on, consciously or unconsciously.

This experiment could suggest that repetitive patterns and continuous reinforcement of ideas could shape what Damasio considered to be 'intuitive unconscious thoughts'. These can shape our decisions, and by correlating

this to the money industry, I argue that 'intuitive unconscious thoughts' reinforced the modern capitalist ideals, including the acceptance by investors of higher levels of debt and lower net worth.

Donald MacGregor has researched psychology and financial markets, and has theorized that individuals, as primarily emotional beings, were reactionary to the financial images created by the mass media. Therefore, these images affected their financial judgment. He has performed numerous studies with individual investors; those with and without financial advisors; on financial advisors and their expected market performance; and on imagery and financial judgment. He has suggested that perhaps imagery gave us a perceived ability to project ourselves into the future and see our investments and ourselves in a future context. 'Investors' then engage in abstract idealization, seeing things, such as the stock market and portfolio performance (or in the case of Enron the 401(k) performance), in an optimistic light, somehow believing they would outperform the average investor or financial advisor.

Unfortunately 75% of those interviewed, both investors and advisors, believed that they were able to outperform the average investor. Moreover, the money industry creates a barrage of positive financial images and information, which instills this level of comfort and opportunity. These images, which are most commonly communicated through advertisements, are, by and large, interpreted in the simplest terms. These market images

were not often details of the market conditions but, rather, images that communicated positive and optimistic feelings and emotions. This was why many untrained investors used rationalisation when making their financial decisions.⁹⁸ I would argue that the market systems were so complex that the even financial advisors may fall back on the imagery to guide their financial judgment, because their training was often limited, myopic and based on third-party information, which was assumed to be accurate. Also, financial advisors often extended their basic undergraduate and graduate degrees through finance institution and agencies that were breeding free-market ideology that favoured the money industry in the educational material.

Mauboussin and Bartholdson also reviewed the systems of decision-making by Daniel Kahneman⁹⁹. In that review, they described two systems of decision-making: The first was the 'Experimental System', which was fast, automatic, effortless, associative, and difficult to control. The second system was the 'Analytical System', which was slower, serial, requiring effort and deliberately controlled. The evidence has suggested that society cannot separate emotions from decisions. The Experimental System uses perception and intuition to generate an array of impressions of given objects. These impressions may not be easily verbalized by the subjects and could be considered involuntary. The Analytical System included all judgments

⁹⁸ MacGregor, D.G. (2002), Imagery and Financial Judgment (p.15-22). *The Journal of Psychology and Financial Markets*.

⁹⁹ Kahneman, D. (2002). *Maps of Bounded Rationality: A Perspective on Intuitive Judgment and Choice*. Nobel Prize Lecture presented at Aula Magna at Stockholm University, Sweden.

whether the subject was making a decision or not. This approach demonstrated that impressions could lead to judgments that were not necessarily the most advantageous when considering the information.

Again, the overall synopsis was similar to the previous study. I conclude that mass media shape our impressions and perceptions of financial decisions. This ethnographic approach of 'markets as cultures' furthered what the above empirical psychology study suggested. To further strengthen the argument, I refer to Abolafia, an economist, and his commentary on rationality: "Economists, and in particular financial economists, treat rationality as culturally universal. As such, it is explained as part of human nature. The 'markets-as-cultures' perspective treats rationality as a community based, context-dependant cultural form."¹⁰⁰ Further, "Even in the highly rationalised world of financial markets, conditions of uncertainty, ambiguity and institutionalization elicit adaptation"¹⁰¹. These adaptations are ingrained as investors intuitively filtered through and analyzed the abundance of financial information with the hope of being able to make the correct investment decision. In so doing, the consumer/investor perceives that they could obtain the wealth, success, and financial security offered by the system.

These ideas are not original thought but were inspired by a culmination of information including a multi-disciplinary approach as to why

¹⁰⁰ Abolafia, M.Y. (1998). *Markets as Cultures*. Published in Callon, M. *The Laws of the Markets* (p. 74) United Kingdom: Blackwell Publishers.

¹⁰¹ Ibid., (p. 74)

consumers were mesmerized by money. TMC may have a significant role in manipulating and influencing investors' collective impressions of what wealth means, how they should spend it, and why they should strive for more.

CONCLUSION

It is a precarious time living in North American society especially when free market-based policies have infiltrated many aspects of society's political, social, and economic life. Investor/consumers' belief in capitalism as a free market liberator has shaped ideology and has defined culture as a 'culture of capitalism'. Western society strives towards economic prosperity in a struggle for financial freedom. Capitalism supposedly helps investors attain these goals. Transnational Media Conglomerates (TMC) have helped to create the 'culture industry'. The financial system, in support of expanding capitalism, has, in turn, created the money industry.

Corporate financial institutions are hegemonic systems of control, enforcing the investor's belief in a successful, prosperous financial well-being through capitalism. Post-modern society is shaped by TMC and mass media messages, which enforce the fact that freedom is embedded in capitalism. Mass commercialization and the commodification of products embrace free markets and encourage the consumers to consume at all costs, even when it resulted in debt. Investors trust the financial information that has been created, packaged and propagated. They react to financial media stories by attempting to manage their financial destiny. They believe that they were free to act in their own best interests, that they had the necessary information, and that they were informed to make the best financial

decisions. The money industry not only provided products to leverage existing assets to enable more purchasing power, it also created institutions to support investors when their financial well-being collapsed.

The messages that financial media create and distribute influence consumers'/investors' financial decisions. The 'money industry' is viewed as a filtering method of safeguarding investors' from the collapse of an impure capitalist system, and investors are predisposed to faithfully accept the information disseminated. Corporations that run the TMC were a system of profit and acted as protectors of the messages of capitalism. I have argued that they have unprecedented influence. In order to reverse the vast impact TMCs have had on Canadian and American ideology, investors must understand that hegemony was present and that the information they received furthered a capitalist agenda.

In 1969, Herbert Schiller wrote about the need to reform the U.S. communications system. His words are as relevant today as when they were first written:

Failure to reshape domestic communications to a form, which make room for human development and environment adaptability, can only deepen the disorders already wracking [North] American society. The continuation of the present policy of national hegemony and commercial monopoly in space

communications will accelerate in the international community the disintegrative forces of nationalism and competitive chaos.¹⁰²

Paramount to a complete analysis of the political economy of communications was the need to view the systems from a cross-disciplinary approach to include the social structures of corporations in the manufacturing of culture. One must also consider the psychology of financial judgment where investors' blind trust of imagery and information extended to economic models that included theory of reflectivity in order to truly understand the money industry. Involvement by individual investors' in the money industry has become social praxis and therefore interpretive analyses are important.

The blind belief in the power of capitalism may be leading our economy into an abyss. Steve Liesman from the Wall Street Journal summed this up nicely when he referred to the Enron disaster. "One reason that some look beyond Enron is that a fundamental question remains unanswered: Was the company the imperfect child of a healthy financial system or the perfect product of an unhealthy one?"¹⁰³ The challenge will continue to lie in the difference between being at the top tier with the capitalist elite or at the lower levels struggling to rise up to wealthier levels.

¹⁰² Schiller, H. (1992), *Mass Communications and American Empire* (p. 207-8) (2nd/e). Colorado: Westview Press.

¹⁰³ Jorion, P. (2003), *Investing in a Post Enron World* (p.1): Liesman, S. (2002) *Investors Cast Aside Enron Concerns to Place Focus on Changing Economy*. *Wall Street Journal*

Freedom from coercion in the money industry would mean freedom from manipulation of financial information. This implies that the solution lies in the regulation of the money industry. Education and reliable information for the masses would, therefore, have to come from independent individuals, the state or independent non-profit organizations who were not indoctrinated into and by the system. Their primary purpose would be to uncover and disclose the systemic coercion of the money industry. Once fully disclosed, investors could make informed decisions when investing in the pyramid or 'Ponzi' scheme.

Another possible solution could be a mandatory investors' course that would again focus on the money industry as a system. These would have to be managed by the state or independent non-profit organizations. The course would describe the method of success of the capitalist elite by uncovering the system of selling investments down to the masses. Education and awareness may be the first step in helping investors to identify the risks that they took when they invested in the system.

The key component in making certain that only a few got rich and stayed rich was being in the know first (before the masses of investors were made aware of good or bad corporate information). The success of the capitalist elite lies in their ability to create markets for their products, and the stock market was their exit strategy with the opportunity to sell their stock positions to other consumers/investors. Most investors have not

figured out that the financial system was designed for the masses to play, but not to win.

The book "Investing in a Post Enron World"¹⁰⁴ has shed some insight into the do's and don'ts of investing for the consumer/investor. Jorion has suggested that investors should "do their homework", diversify, sell employer stock as soon as it is allowed, review financial statements, etc. Even if the investors read the available information on prospective investments, analyzed and processed what the information meant and followed the lofty advice of financial advisors, the consumer/investor was still taking a calculated risk. They would always be at risk because they were dependant on the accuracy of the information provided by the money industry.

Regulatory capitalism could potentially safeguard investors from the hegemony of the money industry. With regulatory capitalism, support was given for further privatization and deregulation. "The state retains responsibility for steering, while business increasingly takes over the function of service provision and technological innovation."¹⁰⁵ This new form of capitalism used the state to change policy and the corporations to capitalize on freer markets and regulatory institutions, to supposedly protect the masses against corruption. Unfortunately, deregulation has done little but create more regulation and the illusion of security for investors. In rare

¹⁰⁴ Ibid., (p 1)

¹⁰⁵ Levi-Faur, D. (2005) *The Diffusion of Regulatory Capitalism* (p 15) article in the Journal The Annals, volume 598

instances, the system allows investors to financially 'win', furthering this illusion. This perpetuates the belief in the opportunity of free markets and reinforces the capitalist ideology. Exposure of the 'myth of success' and the myth that consumers/investors operated within a free market system could help to change the way investors acted within the financial markets.

A possible example of current regulatory capitalism was the Sarbanes-Oxley Act of 2002. It has been the most significant piece of legislation to arise from the fall of ENRON. The goal of this piece of US corporate legislation was to improve accountability for the financial managers (or money industry), to shareholders, and restore investor confidence. The act provisions however, are wide in scope and costly for the corporation to follow. They include more stringent accounting; audit and reporting rules, restrictions of inter company loans, top executive account guarantees, and officer and director responsibility for financial reporting. (As well as high penalties and fees for breach of appropriate financial reporting and full disclosure). The full impact, be it positive or negative, will not be known until the system adjusts to the new rules.

Knowledge of the corruption present in the system is more important than access to unbiased information since there is no guarantee that a future investment would have similar odds (in fact, chances are, it will not). If the masses divested, the economy would collapse, and force the hands of the capitalist elite to find another way of making money. Perhaps this is why

the capitalist elite are promoting globalization. Globalization will create new unfettered markets, and the capitalist elite need to pursue new opportunities in those markets in order to perpetuate the system and keep it from widespread disaster.

GLOSSARY

'Capitalism' is defined as "an economic system characterized by private or corporate ownership of goods, by investments that are determined by private decision rather than state control, and by prices, production, and the distribution of goods that are determined mainly by competition in a free market". It is a social, political, economic, and cultural system and I use all aspects in this paper to stress their interconnectedness. Primarily, I will refer to capitalism as an all-pervasive cultural system in Canada and the U.S.¹⁰⁶

'Capitalist elite' is defined for this thesis as a subset of society comprised of business owners who manufacture goods and/or offer services for the culture industry and/or the money industry.

'Consciousness industry' as defined by Dallas Smythe is "Advertising, market research, photography, the commercial application of art to product and container design, the fine arts, teaching machines and related software and educational testing, as well as the formal education system... The mass media are also linked through corporate ties and intersecting markets with professional and amateur sports, the performing arts, comic books, toys, games... Still another dimension of the complex consists of the banking, finance, and insurance industries, which produce and deal information".¹⁰⁷

'Cultural economy' theorists often define cultural and economic as two separate spheres which are converging into one.

¹⁰⁶ Retrieved from <http://en.wikipedia.org/wiki/Capitalism>

¹⁰⁷ Smythe, D. (1981) *Dependency Road: Communication, Capitalism, Consciousness & Canada* (p.5-6)

'Cultural realism' is "the central values of the system as expressed in its artifacts, practices, and institutions. These central values may be thought of as the realization which informs and is implicit in the relations of the components of the system."¹⁰⁸ I refer to cultural realism as a subset of international realism and I include artifacts, practices and institutions and works within the context of the cultural realism as the cultural component of 'maximal realism'. Maximal realism suggests reality is set out by the coveted position in society and is at the helm of power.¹⁰⁹

'Culture of capitalism' is "the concept that people within the society are driven by the rules set by their culture, and believe that these values, attitudes and aspirations are 'normal' for all people in the world. The culture of capitalism promotes: the accumulation of wealth; the business' desire for profit as more important than human rights or environmental issues; the concept that making money (employment) and spending money (consuming) is the way things are; the will to defend values it believes as right; the will to spread influence to those who don't agree or don't conform."¹¹⁰

The 'culture industry' is made up of corporations/businesses that create cultural products: this includes print, television, radio, and the internet as well as all forms of advertising and marketing that make up the images, visuals and sensory perceptions which influence our cultural experiences.

The 'economy' is used from a 'technical' and 'political' perspective and at a macro-economic level, using standard economic, financial and market indicators (such as values, prices and wages, output, demand and jobs,

¹⁰⁸ Ibid., (p 192)

¹⁰⁹ Retrieved from http://en.wikipedia.org/wiki/Realism#Realism_in_philosophy

¹¹⁰ Retrieved from http://en.wikipedia.org/wiki/Culture_of_capitalism

money and interests rates, debt-to-income ratios, disposable income ratio, stock-markets, net worth, etc.) as references. The comparison also views the economic component from a structural perspective by reviewing the institutions of economics as business or industry.

'Financial Media' are corporations who create and propagate financial information through print, television and the internet. Their primary corporate mandate is to deliver financial information about public companies, government stability, and the economic health and wealth of nations and to generate a profit.

'Ideology' is defined as a collection of ideas, a perspective of viewing a system, or a set of ideals proposed by the dominant class.¹¹¹ I refer to the ideology of Canada and the United States ingrained in capitalism, creating capitalist ideology, which dominates society. I argue mass media and mass media corporations further the capitalist ideology.

'Image of wealth' is an individuals' wealth as defined by the quantity of their material assets regardless of their net worth.

'Mass/masses' are a group of society not considered a part of the insider capitalist elite. Also referred to as consumers and/or investors. I use mass/masses and consumers/investors interchangeably.

'Mass media' and 'Transnational Media Conglomerates' (TMC) are used interchangeably with an intonation that they are always corporations/businesses that create messages for the masses with the sole purpose of generating profits for its shareholders. Mass media and TMC

¹¹¹ Retrieved from <http://en.wikipedia.org/wiki/Ideology>

helped to reify capitalism through the creation of their business the 'culture industry' and 'money industry', creating the culture of capitalism.

The 'money industry' is defined as financial media (print, television, internet, etc.) and financial institutions (corporations such as banks, stock exchanges, financial brokers/planners, public companies and corporate experts such as lawyers, accountants, and financial agents). The money industry is a closed system able to dominate consumers through all forms of the media, becoming an enforcer of free markets, and helping to reinforce a capitalist ideology.

'Rationalisation' is defined in psychological terms as a process of constructing a logical method of validating a decision that was originally derived in a different manner of thought process.

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