

**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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Bachelor of Arts, Communications Studies, Concordia University, 1995

THESIS SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF ARTS

In the

The School of Communication, Simon Fraser University

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SIMON FRASER UNIVERSITY

Spring, 2006

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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 paper draws from Horkheimer and Adorno's concept of the culture industry and uses 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.<sup>1</sup>*

- 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 has indoctrinated the belief system that is embedded in society by mass media and Transnational Media Conglomerates (TMC). The expansion

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<sup>1</sup> Chomsky, N. Retrieved from [www.thirdworldtraveler.com](http://www.thirdworldtraveler.com)

of a robust financial services industry in recent decades with an infusion of unprecedented amounts of capital and debt into our economic system has changed the landscape of our culture. In analyzing the impact these policies have on one another, I review the power that policy has on the corporate market and the influence financial media information has on the financial decision-making of investors. The cultural and economic are no longer autonomous spheres. They are merging to form parts of a greater whole that now includes culture, the economy, and politics, thereby affecting social spheres and influencing 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 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 describes 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 suggest 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 suggest consumers are subservient to the absolute power of capitalism and that they are controlled by constant entertainment.

Theodore Adorno and Max Horkheimer describe the culture industry as 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'.<sup>2</sup>

I would agree with Dodson's analysis of their work and argue that culture is a shaper of consciousness in our society. Horkheimer and Adorno were greatly influenced by the works of Karl Marx, albeit with occasional opposing views. In contrast to Marx's social theory, Horkheimer and Adorno argue that capitalism is more entwined as part of a revolutionary consciousness making up the fabric of a capitalist society. Marx's theory defines capitalism as an unsustainable economic system on the edge of collapse. They do not argue that the system would inevitably collapse; however, they do contend that the 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 entertainment<sup>3</sup>, is also interwoven into economics and the money industry. Their work on this subject was written in 1944 and it continues to be extremely relevant, but the financial sphere is much more sophisticated and prevalent in 2005 than it was sixty years ago. Throughout their work, Horkheimer and Adorno are concerned that genuine human freedom is

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

<sup>3</sup> 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.

stifled by mass media and the perceived control of the culture industry. They define the totality of the 'culture industry' as a closed system that thoroughly and inescapably dominates the consumer. They further state that the masses are the objects of industry, and that culture is a commodity. The 'culture industry' creates a leveling power of consumer society and the homogenization of culture is achieved through 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 propose 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 extent 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 this type of corporate culture and treatment of individuals was acceptable. Only after the Enron collapse did employees realize they had been immersed so extensively in a corrupt system they actually thought that it was normal business practice.

Horkheimer's and Adorno's core argument that individual freedom in a capitalist system is a 'perceived' freedom controlled by the culture industry. I argue that the same 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 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 see that these are distractions from the true functionality of the economic and social system, which is 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 is offering financial freedom to the masses, when in reality it masks the fact that the system is 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.

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 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.*<sup>4</sup>

- 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, also departed from the East/West schema that characterized US sociology of the media. The polarization engendered by the Cold War affected the divisions within the social sciences of communication."<sup>5</sup>

Karl Marx referred to political economy as "the theoretical analysis of modern bourgeois society".<sup>6</sup> When discussing political economy of communication I am defining 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

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<sup>4</sup> Rowe, J. (2001) *The Promise of the Commons* Earth Island Journal.

<sup>5</sup> Mattelart, A. (1998) *Theories of Communications* (p.93)

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

growing process by which cultural activities became objects of valorization by capital.”<sup>7</sup>

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. These theories will further explain the impact 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, were developed upon by many political economy of communication scholars who define the culture industry as more than an industry that exists alone. They argue that it is a composite of various elements, laws and standards.<sup>8</sup> Political economy of communications contends that the culture industry exist to enforce capitalism.<sup>9</sup>

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, argues

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

<sup>8</sup> Ibid., (p. 99)

<sup>9</sup> Ibid., (p. 99)



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 assets<sup>10</sup>.

Privatization is the catalyst that 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.<sup>11</sup>

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

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

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

and jobs, 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.

From a historical ownership perspective, McChesney and Schiller stress 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."<sup>12</sup> The cultural blend of the economy and the ideology of capitalism perpetuates 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 states:

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

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<sup>12</sup> Ibid., (p. 14) UNRISD Programme Paper Number 11

public has been programmed to accept these conditions in the media, and in the economy overall, is remarkable.<sup>13</sup>

Schiller suggests consumers are 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 continues to incorporate the culture industry with the TMC to outline control and ownership concerns as they are a predominant influencer of society. He also refers 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 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 (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

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

conform.”<sup>14</sup> The rich versus poor dichotomy exists in modern capitalism. Capitalist society favours free markets and corporate freedom over individual freedom.<sup>15</sup>

I argue that 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 helps to further describe this.

## **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 broadly defines 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

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<sup>14</sup> Retrieved from [http://en.wikipedia.org/wiki/Culture\\_of\\_capitalism](http://en.wikipedia.org/wiki/Culture_of_capitalism)

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

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.<sup>16</sup>

In other words, the 'consciousness industry' is all information manufactured by the culture industry and the money industry, which are owned and controlled by corporations. The production and distribution of information by TMC has been categorized as one of the greatest of influencers as their messages are inseparable forms of everyday 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."<sup>17</sup> 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. He emphasizes the following:

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

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

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.<sup>18</sup>

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

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

### **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. 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 of the Frankfurt School included Herbert Marcuse, Erich Fromm, Leo Lowenthal, Jürgen Habermas, Max Horkheimer and Theodor Adorno.<sup>19</sup> Members from the school developed perspectives on contemporary society and culture including analyses of fascism, state monopoly capitalism, the culture industry, and advanced industrial society.

Horkheimer and Adorno's premise is that there is 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 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

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

system that affects and produces its thoughts and mechanism".<sup>20</sup> Thus, culture and economy are correlated to the 'culture industry' and the 'money industry'. Their perspectives draw from experience in Europe and the US and refer to the culture industry that includes both these societies. As a foundation to analyse their essay, it is best to provide an overview of Horkheimer's and Adorno's theoretical relationship to Karl Marx and his social theories. Horkheimer and Adorno shared some Marxist critical thought and agree with the idea that people were selling their labour power. Although they agreed with Marx's theories, 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.<sup>21</sup>

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 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

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

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



labor power, generally someone who does own the land and technology to produce, is a 'capitalist' or 'bourgeois'.<sup>22</sup>

For Marx, ideology refers to the dominant ideas of the ruling class (bourgeois elite) and is a system which supports capitalism. "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."<sup>23</sup> I concur and demonstrate that the money industry emulates the same problem. There is a distortion of financial consciousness and the capitalist elite creates a 'worldview' centered on the idea of wealth. Marx critiques classical economists for referring to capitalism as natural and inevitable.

Horkheimer and Adorno would argue the culture industry is a system of mass manipulation, which promotes commodification of labour and restricts freedom of the masses. This is similar to Marxism. "Under capitalism workers are forced to sell their labor – which Marx regards as the essence of human existence – to the capitalists, who use this labor to accumulate more capital, which further increases the

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

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

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."<sup>24</sup> In Marxist tradition cultures are structured in ways that enable the group holding power, the capitalist elite, to have the maximum control with the minimum of conflict. This is 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 present the values, structure and order.<sup>25</sup>

In the essay "The Culture Industry: Enlightenment as Mass Deception"<sup>26</sup>, Horkheimer and Adorno create a discourse surrounding the culture industry as a culture-centric system for distribution of products using the masses as labourers or commodities. Their essay is a pessimistic critique of the culture industry and modernity. The culture industry is seen as a system supporting capitalism, a method of rationalisation for the masses. The masses are 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

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<sup>24</sup> Singer, P. (1980) *MARX* (p.45) Oxford University Press

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

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

consumerism. Culture can play a critical role in structuring the way people think, feel and act in an organization. With Marx as an 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 often define cultural and economic spheres as two separate entities and create 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 explains that market society is a new social order with emphasis on individualism, rationality, division of labour, commodification and monetarisation. Economics has become a mode of social thought.<sup>27</sup> Given the interconnectedness between culture and economy, I correlate the 'culture industry' and 'money industry' as two parts of the greater sphere. Slater explains,

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

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

inevitable. Members of the Frankfurt 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.<sup>28</sup>

Horkheimer and Adorno argue that the system of social class domination creates a culture where freedom is non-existent. They define 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 capitalist rule of order.<sup>29</sup>

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

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

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

Alan Warde, a culture economy theorist, explains 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."<sup>30</sup> 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.

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<sup>30</sup> 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"

Warde further explains the culturalisation of the economy and presents the problem of perception of consumption as cultural, no longer related to the satisfaction of needs, but rather to symbolic gains. If consumption is therefore deeply cultural, then consumption of financial products is also cultural.

### **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 therefore 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.<sup>31</sup>

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

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

people. By 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 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.<sup>32</sup>

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

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<sup>32</sup> Retrieved from [http://en.wikipedia.org/wiki/Weather\\_derivatives](http://en.wikipedia.org/wiki/Weather_derivatives)



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 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.<sup>33</sup>

Enron was one of many corporate bankruptcies of large public companies recently examined for misleading financial information and false corporate representation. The corporation has no moral or social responsibility, its sole mandate being to attain profitability for its shareholders. Enron is hardly an aberration in an otherwise clean business community. 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.

Enron's corporate representation was a mass public deception.<sup>34</sup> This deception was enabled by the money industry and by the societal belief that there are checks and balances to protect investors. Investors have a belief that the system is 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.

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

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

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

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<sup>35</sup> 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.*<sup>36</sup> – Herbert Schiller

### 2.1 Culture of Control

In "The Culture Industry: Enlightenment and Mass Deception"<sup>37</sup>

Horkheimer and Adorno emphasize the elite over the masses and they demonstrate that power to create culture resides with those who can distribute the messages with a uniformed stamp. They define 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 in civil society as well as political society.

Horkheimer and Adorno explore mass media as a method of manipulating cultural perspectives. This essay challenges social order by demonstrating how the culture industry redefines ideology. Horkheimer and Adorno wrote unequivocally of the totality of the culture industry as a closed system that thoroughly and inescapably dominates society. The authors observed that,

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

<sup>37</sup> Adorno, T. & Horkheimer, M. sup., cit.,

No independent thinking must be expected from the audience: the product prescribes every reaction, not by its natural 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.<sup>38</sup>

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.<sup>39</sup>

The culture industry is the method of keeping the social order, which is being 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

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<sup>38</sup> Ibid., (p.82)

<sup>39</sup> Ibid., (p.79-80)

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. Social dominance and cultural control is inadvertently propagated by mass media. Horkheimer and Adorno state,

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.<sup>40</sup>

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'

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<sup>40</sup> Ibid., (p 100)

(PRC).<sup>41</sup> 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 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."<sup>42</sup>

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."<sup>43</sup> The employees were captivated by the fear of losing their jobs and motivated by the opportunity to be wealthy.

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

<sup>42</sup> *Ibid.*, (p 129)

<sup>43</sup> *Ibid.*, (p 128)

## 2.2 Money Domination and Rationalisation

The money industry is a subset of the culture industry and it is hegemonic. Hegemony then, is the structure within which the financial institutions and corporations work. The corporation is the social group, which can "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 and natural."<sup>44</sup> Consent is given by consumers as they are "captivated by the myth of success"<sup>45</sup> 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 are listed on a stock exchange. In this case the subordinate group (the employees) trade their labour for financial remuneration. This can come primarily in the form of multiple methods of payments and can 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

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

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



unemployment plan). An employee often receives additional compensation by way of options to purchase the company stock at a specific price for a specific time period. In many instances, these ancillary payments are deducted from the employees' pay and are managed by the company. The employees are informed of the value of these payments and are advised whether and when they can withdraw them. Unless the employee/employer agreement is a management employment contract, the employee rarely has opportunity to influence or negotiate the contract. An employee's finances i.e. taxes, health benefits and sometimes contributions to retirement plans, are automatically managed through deductions at source by the company. Stock options were in exchange of labour.

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 were setting the stage for a comfortable retirement.<sup>46</sup>

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

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. This was what Horkheimer and Adorno would describe as employees who fall helplessly victim to what is offered to them.<sup>47</sup> The additional compensation with options may seem 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. 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.<sup>48</sup> A higher share price would intimate self-interest on the part of Enron and a method of control over the employees who have 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. If the corporation had allowed employees to sell their shares, it would have created high volume of

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

<sup>48</sup> Jorion, P. sup., cit., (p.119)

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

As Enron's case study illustrates, the employer can control the social group, in this case control over employees. Ancillary wages, benefits, and bonuses are a perceived method by which employees can attain greater wealth and security. The employee blindly trusts this praxis provided by the corporation who is in fact acting in its own self-interest. The employees are oblivious to the dichotomy (or class struggle) between the corporate elite and themselves because they do not have the choice of self-regulating the deductions. If one works for the company, one must follow the administrative and financial protocol

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<sup>49</sup> Ibid., (p.119)

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 themselves 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. I will refer to regulatory capitalism as an alternative in my conclusion.

Horkheimer and Adorno theorize that the pervasiveness of the culture industry further embraces capitalism. Is 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 is taking place at a subconscious level and the culture industry is creating a state of oppositions, or cognitive dissonance, for and against capitalism. This causes the need for rationalisation and the acceptance of the system, as there are 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."<sup>50</sup> 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,"<sup>51</sup> and "business is their ideology."<sup>52</sup>

The culture industry creates media products to propagate culture as a form of rationalised control of labour and leisure. The "iron system" Horkheimer and Adorno describe is the culture industry as a system that occupies consumers' leisure time, leaving the employee no time to consider resisting the corporate system. Horkheimer and Adorno try to demonstrate how the freedom and liberation of consumers is non-existent and imply the audience is duped. To live in capitalist society individuals must participate in its structure. An example of this is 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 is not open for debate, or negotiation.

Employees have less freedom over these ancillary payments and are not encouraged to understand the nature of the deductions or the

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

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

<sup>52</sup> Ibid., (p 81)

financial management of their plans. It is understood that the company is acting in the best interests of the employees and the employees' rationalisation is that this is 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.<sup>53</sup>

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.

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

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."<sup>54</sup> 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 working together to prop up the biggest corporate scandal in US history.<sup>55</sup> This scandal was analyzed, approved, and promoted to consumers/investors by the money industry stakeholders.

### **2.3 Freedom Defined**

The main entry for 'Freedom' in Dictionary.com refers 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.<sup>56</sup> I refer to freedom as freedom from power of another and the absence of necessity,

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<sup>54</sup> Ibid., (p. 143) Public Affairs

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

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

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 imply a loss of freedom, voluntarily or involuntarily. Economic freedom is sometimes equated with economic power. The term as used by economists usually means the degree to which economic actors are unfettered by governmental restrictions, as in the Index of Economic Freedom.<sup>57</sup>

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 are limited to the options the capitalist institutions offer. Horkheimer and Adorno state, "The whole world is made to pass through the filter of the culture industry"<sup>58</sup> and consumers have freedom to choose what the culture industry has offered. That which is defined as 'monopoly' and 'sameness' is the key

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

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



feature in the repression of freedom. Horkheimer and Adorno relate 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 are 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 remains that the culture industry is interested in people merely as customers - people become objects and surrender to the overall driving force of capitalism."<sup>59</sup> In Horkheimer & Adorno's essay they use terminology to define the culture industry as "the circle of manipulation" and a society "alienated from itself", suggesting that society cannot be free.

Freedom is a word that is often repeated and emancipation for the masses is an admirable quality of 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

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

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.<sup>60</sup>

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 there"<sup>61</sup> and MetLife's "Building Financial Freedom"<sup>62</sup> only serve to embed in the minds of investors the idea that these lofty goals are 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

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

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

<sup>62</sup> Retrieved from [www.metlife.com](http://www.metlife.com)

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 16<sup>th</sup>] 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."<sup>63</sup>

The following demonstrates the employees did not have the freedom to react to the bankruptcy of Enron by selling their stock in their 401(k).

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

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

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.<sup>64</sup>

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 fraud was announced and the stock crashed."<sup>65</sup>

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<sup>64</sup> Ibid., (p 299)

<sup>65</sup> Retrieved from [http://en.wikipedia.org/wiki/Pension\\_fund\\_losses\\_with\\_Enron](http://en.wikipedia.org/wiki/Pension_fund_losses_with_Enron)

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).<sup>66</sup> 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).<sup>67</sup>

## **2.4 The 'Image of Wealth'**

In modern capitalism, wealth is expressed in 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 individuals' wealth explicit of the quality of their material

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

<sup>67</sup> Ibid (p.viii, table 'Enron Cast of Characters and their stock sales')

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 sometimes is 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 that 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 following are interesting Canadian statistics, which demonstrate the relationship between savings, debt, and disposable income.<sup>68</sup> Understanding the difference between assets and liabilities is important to understanding the true wealth of individuals and the impact the media might have on why society chooses to spend and/or save. Although research by economists Saez and Veallhas show that

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

incomes in Canada have remained relatively constant since 1920 (with variances during World War II and during the 1970 inflationary period)<sup>69</sup>, 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 worth<sup>70</sup>.

- 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 respectively<sup>71</sup>.

- 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,

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<sup>69</sup> 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>

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

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

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 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.

Horkheimer and Adorno would critique this trend. 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 will 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 suggests 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.<sup>72</sup>

The values of the culture industry reflect economic interests, not social ones. The foundation of a system that is based on a cultural idea or “idea-system” is ingrained in the motivations of the capitalist elite (in this case the stakeholders of the money industry) and they are dependent on the social class system that the social structure supports.<sup>73</sup> 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 is 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.<sup>74</sup> The mindset is a belief in freedom through capitalism. I suggest that this is 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

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

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

<sup>74</sup> 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.

freedom through wealth accumulation. The money industry embraces this desire and creates financial products to fulfill the consumer/investor need. This time the narrative is so deeply embedded in the overabundance of economic and financial data, propagated primarily through controlled media, that the consumer/investor thinks they are financially enlightened.

## **2.5 Financial Enlightenment**

Horkheimer and Adorno suggest that enlightenment has disappeared and that it is not possible in the culture industry, where the parts are dictated by the whole, and where society is suppressed by, and subservient to, the universality of the financial machine. Therefore, everything is formulated to achieve maximum efficiency in the name of production, and no deviation is possible within the formula. If the formula is followed perfectly, the result is prosperity. This ostensibly gives consumers the edge. Financial media offers what consumers believe 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 can be stated in the money industry. The consumer/investor has no reason to doubt that the information is factual and complete, enabling them to make informed decisions. Such

blind trust of the financial media is extremely harmful, as it endorses hegemony, and restricts 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.<sup>75</sup> In the money industry this would presuppose the fact that investors are 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 is 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 is created to enlighten investors, inform them of financial status and corporate positioning, and allow the investors to be free to make investment choices. Since

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

the system is hegemonic however, the information is only a tool for manipulation because it is entirely biased and self-serving.

Furthermore, there is a presupposition that consumers are 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 Enron share price, further compounding the flawed picture that investors and employees believed to be true.

Social authority is the de facto role of the culture industry and the money industry. Stuart Hall outlines the power that the dominant group flexes while shaping consent of the masses and developed the process so that it appears as justifiable and natural.<sup>76</sup> The money industry will maintain financial dominance, and define market value, stock value, and economic value as long as there is no competing definition of what equates to those values.<sup>77</sup> The money industry can define value and dictate whether a public company is a good investment. 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 are compared. The financial rationalisation

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

<sup>77</sup> 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.

of the money industry evolves as they are constantly redefining what inherent values are in relative terms to today's marketplace.

## 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."*<sup>78</sup>

– 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 state 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."<sup>79</sup> I suggest that commercialization of the opportunity for wealth is causing the dissension of society into a Darwinian society obsessed with money. The money industry has a leveling power over

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

<sup>79</sup> Adorno, T. & Horkheimer, M. sup., cit.,

consumer society and only the strong survive to reach the top capitalist elite. It is not about human survival, but survival as defined by those who are the financially wealthy and reach the top tier of the hierarchy. This can only be attained by participation in the capitalist system. The homogenization of culture is at the hands of the capitalist elite which enables greater commercialization and allows 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.<sup>80</sup>

To Horkheimer and Adorno the concept of commercialisation, commodification and standardization of labour and cultural products reflect the omnipresence of the culture industry in social life. The millions who participate in the culture industry have enabled the

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

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 thoughts about how the system of capitalism is 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 is 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? Horkheimer and Adorno further commodify consumers as buyers and suggest that 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 are divided by income groups into red, green, and blue areas; the technique is that used for any type of propaganda.<sup>81</sup>

The core argument of Horkheimer's and Adorno's essay centres on the culture industry as a tool for mass domination and that commercialisation is 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.<sup>82</sup>

Horkheimer and Adorno believe this is causing the intellectual impoverishment of society, favouring commercialisation over

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

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

individuality and authenticity. This is also similar when referring to the money industry. Various financial products have been sold to investors as defined by their personal investor profile, which determines their level of risk capacity. The definition of risk capacity, or level of risk, is determined by the same industry that sells products/services to the consumer/investor. The culture industry and money industry are made up of corporations. Their priority is based upon making a profit and creating shareholder value at all costs, a priority that does not include the best interests of the consumer/investor.

### **3.2 Commercialising Finance**

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

Transnational Media Conglomerates (TMC) are corporations whose primary assets are media companies who create and propagate information to mass audiences and/or media distribution companies who own 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 is 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 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 are often similar, but various financial institutions market them differently. They often carry similar risk and promise similar returns. Investors believe that they are involved in investment-making decisions because they are choosing from a variety of financial products. Horkheimer and Adorno would

suggest this is just a method of manipulation and that the investors can only choose from that which the money industry has to offer.

Investors idealize the accuracy and validity of available financial information and blindly accept that it is without antagonistic tendencies, because mass media are 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.) are inescapable in our modern world. These products are made accessible to even those who have weak financial status. The financial institutions now offer a myriad of products to serve all financial needs. The bourgeois elite of the post-modern capitalist society are 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.”<sup>83</sup> 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 is that they perceived the management of Enron as exceptional, innovative, and aggressive business people. They were positioned as what 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 is to make profits. They publish analyst reports to this end, and within these reports, they profile their clients (corporations) and project the company target stock price. The investment banking firms use these tools to create an interest in potential investment of the company profiled. The firm then offers investors an opportunity to make an investment in the profiled company. The investment is financing that raises money for the profiled company and makes fees for the investment-banking firm. The money raised for a company enables the company to grow and for that money, the investment bank earns a fee, which often includes stock options at a favourable price. The

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

investment banking firms also orchestrate mergers, acquisitions, and divestitures as well as equity and debt financings. In order to generate this business, investment bankers use 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."<sup>84</sup> The fees that investment-banking firms generate justified having the analyst create favorable reports. It also continued to propagate the illusion of Enron's growth. Analysts' reports are one of the key pieces of investment information investors use to analyze investment buying and selling. The reports can in retrospect be seen as another product of the money industry, one that supports the continued wealth of the capitalist elite over the wealth of investors. Even as the mass consumers/investors continue 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.

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

### **3.3 Structuring Financial Gain**

The hyper-commercialisation of financial goods and services was a necessary structure in a capitalist system, creating 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 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 investor's 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.<sup>85</sup> "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"<sup>86</sup> This was

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

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



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. Raymond Aron expresses a Marxist viewpoint on this subject: "Each man, working in his own interest, contributes both to the necessary functioning and to the final destruction of the regime."<sup>87</sup> 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 the 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 pyramid scheme? Or more importantly, how can you regulate capitalism? Since Horkheimer and

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

Adorno provide no suggestions on emancipation from the culture industry, 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 theory as well as economic theory can best be used to examine political economy of the money industry by first determining the correlation between the two, then by assessing the possible impacts one can have on the other. Dallas Smythe emphasizes the practices and institutions that enforce the realism of the system.

The context of the arts and sciences in any social system is the cultural realism of that system. Cultural realism means the 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.<sup>88</sup>

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

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

Capitalist economists' insist that open markets harness power. Sociologists state that even economically free markets are structured by the particular institutional or sociological context within which they operate.<sup>89</sup> Economists rarely take into consideration sociological implications such as class, corporate structure, ownership, education etc.<sup>90</sup> Both economics and sociology are subject to human condition. From a communications perspective reaction to the media help to shape decisions. To paraphrase Dallas Smythe, it could be said that the money industry is fulfilling the corporatist agenda, attracting an audience who will invest in financial products. The industry creates an economic consciousness that helps shape discourse on policies to further free markets.

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

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

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."<sup>91</sup> This is to say, behavioural economics should be examined rather than solely accepting of traditional efficient market theory. In efficient markets, people act rationally and their behaviour is predictable. Efficient Market theory suggests 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 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

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<sup>91</sup> Ibid., (p 65)

discerned. A planned approach to investment, therefore, cannot be successful.<sup>92</sup>

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

The rhetorical strategy of offering copious amounts of information so that investors can become self-educated about economics and finance intimates that investors are acting rationally. As stated earlier, this theory has certain limitations, since financial judgment is swayed by mass media-manufactured information (imagery), the subsequent emotional reaction to the information

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

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

contradicts the logical, and rational which prevail in efficient market theory. That said it is very difficult to predict behaviours, albeit rational or irrational. Investors assume that Transnational Media Corporations provide accurate information. Chomsky and Herman argue it is a case of more disinformation than true information and that consent is manufactured by mass media.<sup>94</sup>

Market reaction to financial information (including information about political, economic, and social events) and the way in which investors interpret this information, whether true or rumoured, is 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 they are offered an opportunity to be part of the capitalist elite. Investors have also been manipulated and they believe they are protected by full disclosure of relevant and important financial information and that at any given time market prices fully reflect all available information. Furthermore, they believe that checks and balances by regulatory institutions such as the Securities and Exchange Commission, International Organization of Securities Commissions, and the North American Securities Administration Association are in place to protect consumer/investor interests. These

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

regulatory bodies are managed by a board of directors and by committees. Each of these governing boards is comprised of money industry stakeholders. They are governing and protecting themselves by virtue of the fact that they can take their own personal interest into account when they make decisions.

Markets are drawn towards equilibrium. However, financial markets are an anomaly, because they do 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.<sup>95</sup> The unpredictable variable is the human reaction to the information presented by the money industry. Consumers/investors make choices and react to available information. The power of financial media is 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. Net worth of individuals has decreased as 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.

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<sup>95</sup> 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 dubbed by the plethora of financial messages. The investors may believe they are informed and autonomous to make financial decisions but the strong messaging from multiple media sources suggest the investor is reliant upon the money industry for accuracy of financial information. These messages have a collective impact on decision-making at a psychological consumer/investor level. This emphasizes the impact that the mass media, propagating free market capitalism, has on the control of investors' decisions.

The following outlines an analysis of emotions and financial decisions. When investors feel good about an investment opportunity, they deem the risks low and the returns high, irrespective of other probabilities that are more objective. Mauboussin and Bartholdson<sup>96</sup> outline these ideas in their analysis of emotions and decisions by citing a study performed by neuroscientist Antonio Damasio<sup>97</sup>. Damasio dissects the historical views on rationality and challenges that individual emotions influence decisions everyday. While working with a

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<sup>96</sup> The Consilient Observer. (27 January). 3(2).

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



patient who was brain damaged, he witnessed that this patient had all of his faculties for rational behaviour: 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 equates 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 considers 'intuitive unconscious thoughts'. These can shape our decisions, and in correlation to the money industry, I argue that 'intuitive unconscious thoughts' reinforce the modern capitalist ideals, including the acceptance by investors of higher levels of debt and lower net worth.

Donald MacGregor researches psychology and financial markets, and theorizes that individuals, as primarily emotional beings, are reactionary to the financial images created by the mass media. Therefore, these images affect 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 suggests that perhaps imagery gives 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 will outperform the average investor or financial advisor.

Unfortunately 75% of those interviewed, both investors and advisors, believed 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 are not often details of the market conditions but, rather, images that communicate positive and optimistic feelings and emotions. This is why many untrained investors use rationalisation when making their financial decisions.<sup>98</sup> I would argue that the market systems are so complex that the even financial advisors may fall back on the imagery to guide their financial judgment, because their training is often limited, myopic and based on third-party information, which is assumed accurate. Also, financial advisors often extended their basic undergraduate and graduate degrees through finance institution and agencies that are breeding free-market ideology, favouring the money industry in the educational material.

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

Mauboussin and Bartholdson also review the systems of decision-making by Daniel Kahneman<sup>99</sup>. In that review, they describe two systems of decision-making: The first is the 'Experimental System', which is fast, automatic, effortless, associative, and difficult to control. The second system is the 'Analytical System', which is slower, serial, requiring effort and deliberately controlled. The evidence suggests 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 includes all judgments whether the subject is making a decision or not. This approach demonstrates that impressions can lead to judgments that are not necessarily the most advantageous when considering the information.

Again, the overall synopsis is 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' furthers what the above empirical psychology study suggests. To further strengthen the argument, I refer to Abolafia, an economist, and his commentary on rationality: "Economists, and in particular

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<sup>99</sup> 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.

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."<sup>100</sup> He further explains, "Even in the highly rationalised world of financial markets, conditions of uncertainty, ambiguity and institutionalization elicit adaptation"<sup>101</sup>. These adaptations are ingrained as investors intuitively filter through and analyze the plethora of financial information with hope of being able to make the correct investment decision. In so doing, the consumer/investor perceives that they can obtain the wealth, success, and financial security offered by the system.

These ideas are not original thought but a culmination of information and a multi-disciplinary approach to why consumers are 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.

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

<sup>101</sup> *Ibid.*, (p. 74)

## **CONCLUSION**

North American society is living in precarious times, 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 defines 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 are enforcing the fact that freedom is embedded in capitalism. Mass commercialization and commodification of products embrace free markets and encourage the consumers to consume at all costs, even when it results in debt. Investors trust the financial information created, packaged and propagated. They react to financial media stories by attempting to manage their financial destiny. They believe they are free to act in

their own best interests, that they have the necessary information, and that they are informed to make the best financial decisions. The money industry not only provides products to leverage existing assets to enable more purchasing power, it also creates institutions to support investors when their financial well-being collapses.

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 are a system of profit and act as protectionists 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 is present and that the information they receive furthers a capitalist agenda.

In 1969, Herbert Schiller wrote about the need for a reform of 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.<sup>102</sup>

Paramount to a complete analysis of the political economy of communications is 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 extend to economic models that include 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

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



healthy financial system or the perfect product of an unhealthy one?"<sup>103</sup>

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.

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. 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

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<sup>103</sup> 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*

helping investors to identify the risks they take when investing in the system.

The key component in making certain that a few get rich and stay rich is being in the know before the masses of investors are 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 is 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"<sup>104</sup> gives some insight into the do's and don'ts of investing for the consumer/investor. Jorion suggests that investors "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, analyze and process what the information means and follow the lofty advice of financial advisors, the consumer/investor is still taking a calculated risk. They will always be at risk because they are dependant on the accuracy of the information provided by the money industry.

In regulatory capitalism, support is given for further privatization and deregulation. "The state retains responsibility for steering, while

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<sup>104</sup> Ibid., (p 1)

business increasingly takes over the function of service provision and technological innovation."<sup>105</sup> This new form of capitalism uses the state to change policy and the corporations to capitalize on freer markets and regulatory institutions, to supposedly protect the masses against corruption. Can regulatory capitalism safeguard investors from the hegemony of the money industry? Deregulation has done little but create more regulation and the illusion of security for investors. In rare 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 operate within a free market system could help to change the way investors act within the financial markets. The Sarbanes-Oxley Act of 2002 has been the most significant piece of legislations to arise from the fall of ENRON. The goal of this piece of US corporate legislation is to improve accountability for the financial managers (or money industry), to shareholders, and restore investor confidence. The act provisions are wide in scope and costly for the corporation to follow. The new act includes 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

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

as high penalties and fees for breach of appropriate financial reporting and full disclosure. This could be considered regulatory capitalism. The full impact 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 will 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 create fresh markets to perpetuate the system and keep it from catastrophe.

## 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.<sup>106</sup>

**'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".<sup>107</sup>

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

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

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

**'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."<sup>108</sup> 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.<sup>109</sup>

**'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."<sup>110</sup>

**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

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<sup>108</sup> Ibid., (p 192)

<sup>109</sup> Retrieved from [http://en.wikipedia.org/wiki/Realism#Realism\\_in\\_philosophy](http://en.wikipedia.org/wiki/Realism#Realism_in_philosophy)

<sup>110</sup> Retrieved from [http://en.wikipedia.org/wiki/Culture\\_of\\_capitalism](http://en.wikipedia.org/wiki/Culture_of_capitalism)

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, 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.<sup>111</sup> 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.

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

**'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 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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