Economic Imaginaries and Public Knowledge

Aeron Davis

January 2015

Find out more:
gold.ac.uk/perc
@goldperc
Introduction

This paper is the first of a series discussing the economics of public knowledge. The generation and dissemination of shared public knowledge is a foundational element of democracy, markets and wider society. Without it there is no social contract, no political legitimacy, no market transactions and no basis for common decision-making. There is also no sense of shared identity or possibility of a more equal society. Yet, whenever austerity bites, competition is propelled forward or individual choice proclaimed, it is public knowledge which suffers first. Its erosion encourages more of the same and sets in motion a vicious circle of decline. Part of the problem is that the generation of public knowledge is very much an economic endeavour, influenced by political and economic institutions. So is the generation of economically-relevant knowledge itself. Yet, neither mainstream economics nor the political establishment shows much interest in something so taken-for-granted, unquantifiable and immaterial.

The Perfect Storm Eroding Public Knowledge

Currently, public knowledge is under threat as never before. A perfect storm of factors are eroding it in all its forms. One of these is the internet. On the one hand, the web offers an abundance of information, on all manner of topics and from a wide range of sources. On the other, it has undermined the business models upon which public knowledge and cultural production has relied upon. Advertising has steadily migrated away from traditional media. Copyright of content is impossible to enforce which, in turn, deters investment in its creation. The rise of new digital distributors with global power have weakened the hands of many content producers (McChesney, 2014). The second factor is everything that follows from the long march towards neoliberalism in the organisation of our society. Making public knowledge and culture a matter of individual choice means the ‘general intellect’ is not treated as a social or national resource. State-funded knowledge and entertainment increasingly give way to market-funded formats with no incentive to support worthy but unprofitable outputs.

Third, is budget cuts and austerity economics. For mainstream economists and right-wing parties, public knowledge is no different from any other public provision and, consequently, its production is better left to markets than states. For political economists and left-wing parties it is more important to protect the material than the cultural. Real food is more essential than food for the mind. Fourth, is the nature of modern knowledge itself. It is increasingly complex, technical, fast-moving and expanding exponentially. That makes it beyond the comprehension of most people, including those at the centre of decision-making processes. It also means a greater reliance on ‘experts’ and ‘technicians’ with specialist but narrow world views: a world of disconnected information silos which few may access (Engelen et al., 2011).
Fifth is the rise of inequality, concentrated corporate power and the super-rich (Piketty, 2014). It is extreme inequalities which allow the 1% to buy the best forms of specialist knowledge that were once more equally distributed: in accounting and taxation, in law, in economic and financial market research, in public affairs, and in advanced communication technologies. Public institutions cannot match the knowledge-producing and purchasing facilities of big finance and business, let alone offer them to wider publics. Thus the decline of public knowledge and knowledge inequalities are directly related to inequality more generally. Sixth, is the rise of forms of ‘econocracy’ and ‘auditocracy’ (or ‘audit society’, Power, 1997): the rise to the top of economically-oriented leaders in the fields of politics, public administration and business. Across Westminster, Whitehall and big business, general knowledge and experience are giving way to economic knowledge, accountancy and targets. In many ways, forms of public knowledge production do not fit. Outputs of news, culture and specialist research can be easily quantified, but not so the resources involved in their production. The emphasis on increasing quantifiable outputs inevitably erodes the quality and degree of depth in their inputs.

The Erosion of Public Knowledge Provision: A Business Model in Decline

Most obviously, the erosion of public knowledge is observable in the decline and privatisation of institutions and organisations that traditionally generate and circulate it. In the immediate aftermath of the 2010 election, higher education was the first to be subjected to radical marketisation as fees tripled to £9,000 and the government attempted (but failed so far) to securitize the student loan book (McGettigan, 2013). Local library capacity has been cut back significantly as local authorities have been forced to endure drastic cuts. Combined library expenditure has fallen by a third since 2005/6. Expenditure on books and digital content is the lowest it has been for 20 years (Public Libraries News, 2014).

Mainstream news providers in the UK, US and elsewhere have watched audiences and advertising revenues slowly decrease over several decades. But the pace of decline has quickened considerably in the 21st Century, with the rise of online news outlets, news aggregators and digital entertainment. Pew (2012) calculated that the US newspaper industry had shrunk 43% and lost 28% of journalist jobs since 2000. In that time, on average, 15 papers had gone bankrupt each year. In 2011, US newspapers gained $207 million in online advertising but lost $2.1 billion in print advertising. The Guardian, which led the UK press sector in developing its online presence, had gained 60 million unique users by December 2011. But, in the same period, it also saw its pre-tax losses rise to £171 million for the year (Franklin, 2012). Many areas of news, including local, investigative, parliamentary and foreign reporting, have all been particularly hard hit.

In all these areas, institutions and organisations have been forced to adapt to survive, often reducing their product to something that only weakly resembles the services and contents they once produced. One survival strategy is to increase outputs per employee: bigger classes per teacher or academic tutor, more articles or broadcasts per journalist. Davies (2008)
estimated that UK journalists were having to fill three times as much news space as they did in the 1980s. Another strategy involves the deprofessionalisation of knowledge producing sectors and the harnessing of cheap or voluntary labour. So universities have increasingly come to rely on temporary visiting tutors to teach growing numbers of students. Since 2007 two fifths of professionally qualified library staff have been cut while voluntary staff have increased two and a half fold (Public Libraries News, 2014). And news media has become more dependent on the contributions of freelancers, temporary staff, amateur citizen journalists and user-generated content. So to, television production looks to reality TV shows and competitions, made with low cost participants, as a cheap alternative to higher cost documentaries and dramas.

Most concerning of all is the third strategy of public knowledge producers: to become reliant on funding and ‘information subsidies’ from the very sources they are supposed to report on. Academic and regulatory research institutions are pushed to seek out business funds and sponsors which then have a say on published outputs (Monbiot, 2000). Most news reporting outlets (public broadcasters apart) have always been reliant on commercial advertising to heavily subsidise content, thus leaving difficult professional conflicts of interest for journalists (Curran and Seaton, 2009). However, as news organisations struggle they have become increasingly dependent on a range of additional information subsidies – news wire services, recycled material, plagiarised copy from rival publications and, above all, public relations outputs from commercial and political sources.

In the US, according to McChesney and Nichols (2010) there were four times as many public relations practitioners as media editorial staff working in 2008. An estimated 40-50% of newspaper stories began life as press releases, while only 14% originated from reporters. Lewis et al.’s study (2008) of UK news found that 19% of press stories and 17% of broadcasts were entirely or mainly reproduced PR material. 49% of press stories were either entirely or mainly dependent on news wire agency copy. Thus, be it reporting of foreign conflicts (Herman and Chomsky, 2002), scientific research and big pharma (Goldacre, 2013) or climate change (Klein, 2014), public news and information is far from autonomous and objective.

The Free Market Corruption of Public Knowledge in Markets

The breakdown of the economic model of public knowledge has been matched by a similar decline in the creation of specialist, economically-relevant information used by markets, regulators and policy-makers. ‘Big Bang’ in the UK in 1985-6 was intended to create real competition and more efficient trading in the London Stock Exchange. But, instead, it spawned a system whereby international investment banks ended up providing information and advice to both buyers and sellers as well as their own investment arms (Augar, 2000). Market forces encouraged low cost trading and multiple participants but, at the same time, devalued and corrupted the production and dissemination of investment research and market-relevant information. Financial journalists and analysts alike became dependent on the self-interested investor relations material produced by sellers, and the self-serving analysis of
investment banks (Davis, 2007). The degradation of financial market information in the City
was a strong contributory factor to the dot.com boom of the 1990s and the bust that followed
in 2000. In effect, the application of extreme market forces to markets themselves has
resulted in the corruption of market-relevant information within those markets.

It has been a similar story with financial markets in the US and with a series of financial
scandals, bubbles and crises in the US, UK and elsewhere (Lewis, 2011, 2014, Engelen et al.,
2011, Ferguson, 2012). The subprime mortgage bubble, the massive rise of derivatives
markets, the general expansion of the shadow banking sector, the growth of high frequency
trading and the libor scandal, all have much in common. They all involve abundant flows of
low-cost lending, insiders and outsiders, and conflicts of interest. But, they also share
problems associated with the production, dissemination and regulation of market information.
New communication technologies, deregulation and the complexity of modern finance, have
each contributed to massive information inequalities and information corruption across
markets. Not only are outsiders continually disadvantaged, regulators and credit-rating
agencies cannot keep up. They are unable to access what is happening in the shadow banking
sector, in the OTC derivatives market, and in ‘dark pool’ trading centres of finance. Neither
are they able to effectively rate the risks of new financial products nor spot cumulative
market-wide risks building up.

The Corruption of Public Knowledge Used to Inform Economic Policy,
Regulation and Taxation

A comparable set of problems are present when it comes to accounting, taxation and
economic policy. It is the same big four accountancy firms that dominate when it comes to
both auditing companies and offering these same organisations accounting services; and the
same big four that advise governments and tax inspectors on accountancy regulations. It is
the same investment bank managers who get senior positions in government treasuries and
regulatory institutions, before returning to those same investment banks. And the same
esteemed economists who write authoritative reports used in decision-making but which are
paid for by vested interests (Ferguson, 2012, Shaxson, 2012, Murphy, 2013). In effect, the
production of financial and economic information, that is used to inform decision-making on
behalf of the public, is itself riddled with conflicts of interest. This allows tax avoidance by
big business and the super-rich on a massive scale. It also produces regressive taxation
systems that facilitate the continuing transfer of capital from the poorest to the richest 1%.

If accountancy and taxation public knowledge is compromised so are other areas of specialist
information that guide public policy and regulation of the economy. Rich and powerful
individuals and organisations have always had more privileged access to political and
administrative decision-makers (Lukes, 2005). But, they are now advantaged more than ever
because of their influence over the creation of specialist economic and market knowledge
which then becomes used by non-expert politicians and civil servants. As economics, finance
and science become more fast-moving and complex, so we have arrived at a new age of
technical experts and specialist information intermediaries available for hire. These include
lawyers, lobbyists, think-tankers and financiers as well as economists and accountants (Cave and Rowell, 2014). It is the super-rich and large corporations which can now afford to pay for the brightest and most able in these professions and to buy as much expertise and research as is necessary.

Thus, it is financiers themselves, and their many information intermediaries, who have had most input into how the financial sector is regulated since 2007-08. In the US, annual lobbying expenditure from the securities and investment sectors, between 1998 and 2012, amounted to $932 million. From the insurance sector it was $1,700 million (Opensecrets, 2012). In the UK, the Bureau of Investigative Journalism (2012) found that, in 2011, the UK financial sector spent an estimated £92.8 million lobbying the UK Government. They identified 129 organisations engaged in lobbying on behalf of finance. Firms of accountants, lobbyists, PR experts and financiers also directly fund or offer pro bono expertise to all the main parties and their think tanks. In recent years the financial sector has provided over 50% of the Conservative Party’s funds (Peston, 9.2.11). In effect, once again, it is the rich and powerful who are funding or creating public policy information on economic and financial matters. Public policy-making research and analysis has been contracted out to the organisations whose main pursuit is self-interest rather than public interest (Crouch, 2004). Consequently, rational public decision-making on economic and financial matters, based on ‘independent expert research’, results in tainted and partial outcomes, regardless of the party in power.

To conclude, any progressive form of politics and economics, one that values equality and a notion of a shared society, must acknowledge the importance of public knowledge. Public knowledge, in all its forms, must be seen to be a fundamental right, not an additional luxury, and be supported accordingly. Its valuation must resist the tendency to a crude reductionism based on numbers and competition logics. Content creation and authorship needs to be more rigorously upheld by law. The generation of specialist knowledge and public policy needs to be funded by the public purse rather than vested interests. Legal, political and market institutions must operate independently of market forces and partial ‘information subsidies’, when it comes to generating and disseminating wider public information.

*Bureau of Investigative Journalism* (July 2012) Online Site at: [http://www.thebureauinvestigates.com](http://www.thebureauinvestigates.com), London


Klein, N (2014) *This Changes Everything: Capitalism Versus the Climate*, London: Allen Lane


Aeron Davis is Professor of Political Communication and Co-Director of PERC at Goldsmiths, University of London. He is the author of four books and some 50 other publications on politics, finance, media and communication.