The Missing Link

Communication Studies and Economic Growth Theory

Carl-Gustav Linden
Business Reporter, Television News, Finnish Broadcasting Company
Helsinki, Finland
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This paper explores the link between economic development and media in academic literature on economic growth and communication studies. Even though there seems to be an agreement that the media influences economic development it is not widely discussed in mainstream research on economic growth. On the other hand, findings in communication studies just slowly find their way into orthodox economics. The explanation given here is that the focus on economic growth alone is too narrow and needs to be complemented with political economy and behavioural sciences. The implication is that to the welfare of a society need a stronger emphasis on social change, where the role of the media is more acknowledged.

1 Introduction

News can be considered a commodity for public consumption, non-rival information goods: a product shaped by supply and demand.\(^1\) Media reports can also be seen as a marketplace for new ideas, subject to certain economic laws. News as information for consumption, production and entertainment has been the focus on many studies on how market influences the content of news. But the link between news and the market has been much less discussed the other way around: how news relates to economic development. This paper deals with the issue why the influence of news on economic growth has been so neglected in academic research by economists.

This might come as a surprise: after all, the verdict is out that there is a strong correlation between the performance of the media and the welfare of a society as a whole, an axiom defined this way by Freedom House.

A free press plays a key role in sustaining and monitoring a healthy democracy, as well as in contributing to greater accountability, good government, and economic development.\(^2\)

More precise definitions of how the media relates to the economy can be found in early texts on the history of economic development, with references to news as a business in itself closely connected to economic trends in society as a whole.

Widening of markets, the effectiveness of competition, lowering of costs of production, the spread of the price system, the evolution of a sensitive monetary structure

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\(^1\) Hamilton, 2004: 7

\(^2\) <http://www.freedomhouse.org> March 13, 2008
and the development of equilibrium economics. have followed the development of the newspaper.\textsuperscript{3}

The media themselves – or more precisely, the owners of media -- emphasize this point when trying to establish why they are relevant. Consider the following statement of the core values of Dow Jones & Company: “Commit to the Virtuous Circle - excellent journalism, business and people are mutually reinforcing drivers of success.” \textsuperscript{4}

This may sound like pure marketing. A closer look at more recent academic works on economic growth theory indicates that the link has been forgotten or neglected. I don’t want to go into to the old debate that economists only consider facts that they can fit into a model, but one becomes suspicious.

All these questions regarding the media’s role receive limited attention in the academic literature. This is no coincident. The process of diffusion of information plays a small role in economic models.\textsuperscript{5}

Claims regarding non-existence of relevant research are, of course, the easiest way for a researcher to provoke corrections and critique for negligence -- which in this case would be welcome, as it would advance my study. This paper suggests some media-centric ideas on the missing link between economic growth and media performance in academic research on economics and communication.

The two research questions are:

RQ1: Why has there been so little room for media and journalism, or mediation of information in general, in academic research on economic growth?

RQ2: Is it possible to find evidence for the importance of media and journalism in academic research on economic growth?

2 Soft theory versus hard

The absence of media and journalism as agents of change in economic-growth theory can be attributed to a general understanding that the effects are self-evident, but hard to measure. Information is seen as an “invisible part of the economic infrastructure of a nation”.\textsuperscript{6} An additional explanation can be that economists not want to risk entering the swampy area of media studies, a small but disparate scholarly field. Wilbur Schramm, one of the founding fathers of communication science in the United States, and a professor at Stanford, once described the field as "an academic crossroad where many have passed but few have tarried."

It is easy to accept that notion.

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\textsuperscript{3} Innis, 1942: 31  \\
\textsuperscript{4} \texttt{http://www.dowjones.com/TheCompany/CoreValues.htm}, May 15, 008  \\
\textsuperscript{5} Dyck and Zingales, 2002: 108-109  \\
\textsuperscript{6} Chandler and Cortada, 2000: 298
\end{flushleft}
I sat through a five-day seminar in Rome, Italy, in October 2006, where hundreds of experts discussed how communication and development relates. The end result was confusing; the delegates -- from all over the world -- could not even agree on the necessity of free media. The debate on a New World Information and Communication Order that started in the 1970s seems to remain unresolved.

This was surprising. After all, the co-sponsor of the event was the World Bank, where former president James Wolfensohn has said: “A free Press is not a luxury. A free Press is at the absolute core of equitable development.”

In communication research, there have been many studies on economic development and media and a certain amount of literature has been devoted to the subject, especially during the 1950s and the 1960s, until Stanford professor Wilbur Schramm summoned the accumulated knowledge in his book “Mass Media and National Development” (1964), in cooperation with UNESCO. The focus was on how the media -- newspapers, instructional television and radio -- can be instrumental to advancing prosperity in less-developed countries, where information is seen as essential for the mobilizing of human resources into “productive attitudes”.

“In the service of national development, the mass media are agents of social change”, writes Schramm. He underlines that it is about “substantial changes in attitudes, beliefs, skills, and social norms.” Schramm, with his background in journalism education and military propaganda, looks at the media “as watchmen” that “can widen horizons,” “focus attention,” “raise aspirations” and “create a climate for development.” In his book no reference is made to the utilitarian view -- the media as propaganda instruments for campaigns on agriculture, health, literacy and education – and what this may mean for the developed world.

The theoretical ‘home base’ is interesting. Schramm, (1907-1987), a scholar in English literature, had been a director of the journalism school at University of Ohio, where he founded the first doctoral program in communication studies. From there he transferred to University of Illinois in 1947 to work with Fred Siebert and Theodore Peterson as a director at the newly founded Institute of Communications Research. Schramm was also a military consultant on psychological-warfare propaganda during WWII and the Cold War and his academic research on propaganda theory during those years, as his contribution to Four Theories of the Press, was highly influenced by the Cold War and the U.S. global agenda. In the mid-1950s, when he was director of the Institute for Communication Research, he chaired the Defense Secretary’s advisory board on specialized warfare.

The link between development and communication emerged a little earlier with the publication of Daniel Lerner’s “The Passing of the Traditional Society” (1958) that

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7 Speech to the World Press Freedom Committee, Washington D.C., November 8, 1999
8 Schramm, 1964: 33
9 Schramm, 1964: 114
10 Schramm, 1964: 127-132
11 Nerone et al, 1995: 12
deals with modernization in Middle East countries. Important ideas on the “diffusion of innovations” were also put forward 1962 in a book with same name written by Everett Rogers – the father of the S-curve.

Part of the outcome in the mainly quantitative research of that time was not surprising: there is a very high correlation “between the measures of economic growth and the measures of communication growth,” and countries with high economic growth also support more economic daily and business journals. 12

Still, it would be premature to dismiss this early research as out of date as these ideas on social engineering were about to surface later in research on the spread of communication technology and socio-economic development. Schramm published another book on communication and development – “Communication and Change in the Developing Countries” (1967) -- together with Daniel Lerner, another influential academic at MIT and Stanford with a deep involvement in psychological warfare.

To fully understand the context of theories on communication and development one has to dig deeper into the development of the American history of public relations and look at how it derives from military research on propaganda by other intellectual giants such as Walter Lippman and Harold Lasswell.13 The important note is that propaganda was also seen as a means to modernize countries according to a western, American, view on that development. As Schramm put the issue of manipulation of public opinion:

*What are the ethics of using what we know about modern communication to assist in social and economic change, even though we are aware that some people in a country will resist some of the changes that are desirable?*14

### 3 Finding the missing link

How can media studies and traditional economics be connected? One big obstacle is that economists have a difficult task establishing exactly what mix of policy works for economic development. Decades have been lost in the search for a sustainable growth model, where Conventional Wisdom - - massive investments in infrastructure -- has been replaced by new, sequential “Conventional Wisdoms” – from macroeconomic stability and export orientation to property rights, good governance and freedom from corruption. Today, most economists seem to agree that they can’t point to any specific set of policies: under different circumstances you get different results. William Easterly defines the problem in this way:

*Economists are reasonably confident that some combination of free markets and good institutions has an excellent historical track record of achieving development (as opposed to, say, totalitarian control of the economy by kleptocrats). It is just*

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12 Mowlana, 1966: 364


14 Schramm, 1964: 34
that we don’t know how to get from here to there, which specific actions contribute to free markets and good institutions, how all the little pieces fit together, that is how to achieve development.15

One path is to avoid orthodox economics when making connections between media studies and development. Consider the study of political economy, “issues that cannot adequately be addressed by recourse to economic, political, or sociological analysis alone”16. The solutions to growth problems are ultimately political and social, policy choices that still are profoundly influenced by economics. With this comes also the distinction between economic growths as a narrow academic approach, compared with economic development in which a broader societal perspective is considered. This does not mean that traditional economics are out of the picture.

Joseph Stiglitz, the former vice-president of the World Bank, co-received the Nobel Prize for his research on information asymmetries and principal-agent problems -- principals delegating decision-making power to agents -- where there are disparities between, for instance, the actions of managers and the interests of shareholders.

Similarly, in the public sector agency problems may give rise to a disparity between, say, the actions of those governing and those that they are supposed to serve.17

The function of the press -- if it is competitive and acting free from political and commercial interests -- can be to reduce these information asymmetries and help people in different groups identify tradeoffs and respond accordingly, ultimately at the ballot box. In other words, the role of media is to secure that public information is not controlled or distorted by special interests and to promote transparency.

An important insight of modern information theory is that in many respects information is a public good.18

In terms of macroeconomic growth theory this is an important point as “the economy (is) more likely to be stable with a steady flow of information.”19 Stiglitz compares government officials who appropriate information for private purpose -- political or strategic -- with stealing “public property”.

To this one could add another Nobel Prize winner, Amartya Sen, and his research on the value of free information, as one of the freedoms essential for sustainable development. Sen points out that there is little evidence that authoritarian politics actually help economic growth, though one might tend to think that harsh political

15 Easterly, 2007: 4
16 Balaam & Veseth, 2005: 3
17 Stiglitz, 2002: 32
18 Stiglitz, 2002: 28
19 Stiglitz, 2002: 37
systems such as Singapore’s -- an enlightened leadership of a benign autocracy -- make it is easier to coordinate a national economy.

The discipline of economics has tended to move away focusing on the value of freedom to that of utilities, incomes and wealth. This narrowing of focus lead to an under appreciation of the full role of the market mechanism even though economics as a profession can hardly be accused of not praising the markets enough. The issue, however, is not the amount of praise, but the reasons for it.20

In addition to this, Hernando de Soto believe that economists have forgot the real concept of capital, not as a formal property but as formal property representations -- “a conceptual universe” -- where property rights and mediation play an important part in value creation. If the information is missing the capital is dead.

Imagine a country where nobody can identify who owns what, addresses can not be easily verified, people cannot be made to pay their debts, resources cannot be turned into money, ownership cannot be divided into shares, descriptions of assets are not standardized and cannot be easily compared, and the rules that govern property vary from neighbourhood to neighbourhood, or even from street to street.21

Stiglitz, Sen and de Soto look at development from a broader perspective. The important issue is “good governance,” and there is a general understanding among economists that sound institutions are central to development -- and that the role of the media is to monitor their performance.

The development literature shows financial development, investment, and thus growth depending critically on the construction and maintenance of sound institutions – fundamental tasks of government and defining norms of “good government”.22

This is getting close to evolutionary economics and a relatively new concept: the economy of knowledge or social technologies as “the methods and designs for organizing people in pursuit of a goal or goals.”23 In “New Growth Theory,” where Paul Romer at Stanford University is one of the most important fathers, the accumulation of knowledge -- as a basic form of capital -- determines economic development. 24 This is also at the core of new ideas on the innovation and knowledge economies as we know them today. One fine example is another Nobel Prize winner who got the wrong award, for peace instead of economics. Muhammad Yunus of Bangladesh started the microfinance trend with Grameen Bank in the 1970s. Though the amount of innovation – let poor people collaterally loan money to start small businesses -- is not great in itself, the social component – lend the money to

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20 Sen, 1999: 21
21 De Soto, 2000: 15
22 Fan, Morck, Xu and Yeung, 2007: 3
23 Beinhocker, 2007: 61
24 Romer, 1990
women who will spend it with care -- brings a new dimension to economic development.

Later studies on the factors that make one country richer than another also show that physical technology alone cannot explain the differences. If anything, it is social technologies -- the rule of law, property rights, a well-organizing banking system, economic transparency, a lack of corruption, and other social and institutional factors -- that make the biggest difference. The rise of the U.S. economy in the 1990s was first studied as a payoff of massive investments in computing power during the previous two decades, but researchers came to the conclusion that it was innovation in organization and processes that yielded the productivity gains.

Not only do Social Technologies affect the performance of a nation-state, but they also explain differences in performance at the more granular levels of industries and companies.

If the media are instruments for change in social technology, we might get a little closer to the mystery of the missing link between economic development and media. According to Eric Beinhocker, social and physical technology is not enough without a third component: design, turning concepts into reality. This role is played by businesses.

Businesses are themselves a form of design. The design of business encompasses its strategy, organizational structure, management processes, culture, and a host of other factors. Business designs evolve over time through a process of differentiation, selection, and amplification, with the market as the ultimate arbiter of fitness.

The importance of the political economy to economic development cannot be underestimated, but a full analysis is beyond the scope of this paper, which is more a mosaic of ideas or loose ends on how to deal with the missing link.

I also believe that without including behavioural sciences the analysis of media and economic development cannot be complete as, for instance, nationalism or patriotism is a strong factor behind economic growth. Economic nationalism in its most primitive form is about trying to limit ownership of property and jobs to members of the nation, but in a more modern form about coordinating resources. The media have an important role in upholding nationalism near the surface of everyday life; a flag-waving concept which Michael Billig has labelled “the Homeland Daily”.

Despite all the talk of how globalization of media affects the world, creating a global sphere through “the CNN effect”, the reality seems to be that the media are highly national and that “the global village,” “the networked society” or “the globalization of culture” are myths or naïve concepts.

25 Easterly and Levine, 2002

26 Beinhocker, 2007: 16

27 Beinhocker, 2007: 16

28 See Robert Reich, 1991, Liah Greenfeld, 2001, or Eric Helleiner & Andreas Oickler, 2005

29 Billig, 1995: 93
...the mass media are not in the least oriented towards a “world system”, but in fact concentrate upon national markets, whose interests and stereotypes they largely reproduce. 30

This correlates with the fact that media companies, even if they are global corporations, look at markets with a national perspective.

4 The marketplace for ideas

There have been discussions on themes such as innovation journalism and economic growth during earlier InJo conferences. I will try not to repeat much of what has been said and written, but hope to add something new to the debate. But one view repeated in this conference is that news can be seen as a marketplace for ideas. We hear echoes from Schramm, Lerner and Rogers, even if they are not found in the references.

Successful innovation journalism can prosper from focusing collective attention on issues of collective importance for clusters and innovation systems.31

The role of the journalist here is to cover the competition between “key actors, their main ideas, and their interaction” where the winners get to implement their ideas on the market. 32 In this sense, journalists would not be part of the news business but would be part of “other monitoring, accounting and regulatory technologies,” which means that the business press is “part of a transparency market”.33

On of the main flaws in this formula -- a free marketplace of ideas in the libertarian tradition -- is that there is no certainty, but in the short run, on how these key actors and their main ideas will fare in the competition in an ever-changing market, and their inter-action is not necessarily rational or public due to many restraints: legal, regulatory, or plain business secrets. It also does not deal with the issue of power structures in the society. Murphy and Nordfors underline that journalistic integrity should be maintained, but it is not an easy sell. A media-centric perspective would maybe focus on the notion of personal reputation and role perceptions: are journalists willing to engage and invest their most precious capital in others races, and declare the winners, or are they content with monitoring this process or just lie down in their sleeping-watch-dog position -- which in terms of risk-aversion is the only plausible reaction?

James Hamilton, analyzing the function of democracy, believes that the metaphor of news coverage as a marketplace of ideas is not useful as it raises more questions than it answers. Why, for instance, would a marketplace of ideas generate truth?

30 Hafeez, 2007: 25

31 Murphy and Nordfors, 2006: 4

32 Murphy and Nordfors, 2006: 4

33 Kjaer and Slaatta, 2007: 298
And whose truth matters? Though economic models perform well in predicting how information is transformed into news in the marketplace, they do not assess the outcomes of news markets.

*Determining the impact of news coverage on individuals’ political decisions is an empirical field still open to much debate. Evaluating the outcomes of government decisions is even more controversial, since economics is only one of many possible ways to measure social welfare.*

34 Hamilton, 2004: 30

The marketplace of ideas or the Excellence Theory – stating that dialogue between the organization and the stakeholders identifies and resolves problems in their relationship -- can also not be discussed outside the context of public relations as the competition between ideas. This is the foundation for research on public relations. It does not mean that the marketplace of ideas should be dismissed even as a metaphor. New ideas change the society, but a free flow of communication cannot be taken for granted.

5 Conclusions

In the beginning of this paper, two research questions were defined.

RQ1: Why has there been so little room for media and journalism, or mediation of information in general, in academic research on economic growth?

RQ2: Is it possible to find evidence for the importance of media and journalism in academic research on economic growth?

The first question relates to the character of information. Most people -- at least academics in the broader field of political economy -- seem to agree that communication is an integral part of economic development, information as such largely determining economic growth. But information is also called “the invisible infrastructure of the economy,” which indicates that it is difficult to evaluate in economic models. Orthodox economists have probably avoided the soft field of communication research for that reason, though more are trying to introduce communication effects in economic theory. Communication has been treated primarily in asymmetric information models and as a principal-agent problem: the ones who govern have access to less imperfect information than the ones they rule, either in the relations between the management and shareholders of a company, or the public versus political leaders.

The other question relates to societal change and the role of the media. In recent decades, many economists have started to look at the social sciences with more of a cross-border perspective. From the perspective of communication research, work on the connection between information and development has a much longer tradition and has also gained strength in economics. The most important advancements occurred during the 1960s, when a group of eminent scholars with a background both in communication research and military propaganda started to put their

35 Coombs and Holladay, 2007: 75
knowledge into practice, and development communication was born. The outcome of that research was that it brought the importance of communication in social change into a broader academic field, the theory on diffusion of innovations as one example.

As economists have struggled to identify the mechanism for growth, the common knowledge today is that social change have had a much bigger impact on economic development than earlier anticipated. One result is that some economists today make the distinction between physical technology – things and material, and social technology – ideas, patents and laws, where information is a crucial component. To this has been added a design component – for instance the way businesses organize themselves and their strategies in the marketplace. In all these three parts of the development process, information is recognized as having crucial value. The challenge is to validate this connection in universal terms. As argued earlier, the addition of political economy, communication research and behavioural sciences to economics is necessary to establish a dynamic model.

References


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About the Author

Carl-Gustav Linden has been a business reporter since the mid 1980s, working for the Finnish daily Hufvudstadsbladet for fourteen years and as a television reporter for Finnish Broadcasting Company YLE since 2003. He graduated from University of Helsinki (Finland) with a degree in Communication Studies. He is a PhD student at the university specializing in research on business journalism, nationalism and economic growth.

Email: carlgustavl@yahoo.se