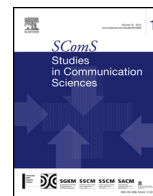




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From propaganda to alarm: International economic news about controlled and free press countries

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ABSTRACT

International news both reflects and affects economic changes. Yet, the impact of press freedom on this relationship was not systematically studied. The present paper analyzed the trends of country mentions in international economic news and their corresponding GDP trends over a period of six years.

Findings identified the different functions of economic news. Controlled press countries were mentioned more frequently in economic news around the world about one month before an increase and after a decrease in their GDP. This time lag reflected the use of economic news as a mean of propaganda to promote the country and strengthen its economy. Free press countries, on the other hand, were mentioned more frequently in economic news a few months before a decrease and after an increase in their GDP. In this case, economic news primarily functioned as a warning system for economic deviance.

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1. Introduction

International economic news plays a significant role in the global economic sphere. It marks raising economic leaders such as China, but also alerts of possible problems, such as the ongoing economic crisis in Europe of 2010. It therefore reflects some of the important positive and negative changes in the world economy, providing a descriptive map for the public to navigate and make further economic decisions. In this way, international economic news not only reflects but also affects the economic reality.

The production of economic news has certainly increased over the last decades, attracting a growing number of readers around the world. The *Financial Times* alone reports of more than two million readers worldwide (*Financial Times*, 2013), including its print newspaper, websites, and mobile applications. This proliferation of what has been considered for many years to be a niche resulted in the diversification of sections in the news (such as business news, financial news, and international economic news), as well as a separation between domestic and international economic coverage (*Wu & Day*, 2005). The following study focuses on international economic news, or in other words, the news coverage of the economy of foreign countries.

A body of empirical studies examined the relationship between economic news and the economic reality, suggesting that indeed economic news not only reflects but may also affect the economy (*Goidel, Procopio, Terrell, & Wu*, 2010; *Lischka*, 2015; *Quiring & Weber*, 2012). This effect was found to be particularly significant when news is negative (*Nadeau, Niemi, Fan, & Amato*, 1999; *Shah, Watts, Domke, Fan, & Fibison*, 1999; *Soroka*, 2006). For example, there were some initial empirical indications that the negative news coverage of some countries such as Spain and Greece during the 2010 economic crisis in Europe preceded further decline of their Gross Domestic Product (GDP) (*Blondheim, Segev, & Cabrera*, 2015).

Since economic news has the power to affect the economic reality, it is reasonable to expect that government, particularly in press controlled countries, would be interested in controlling the economic news coverage. Along the studies looking at the relationship between news and economy, a separate body of studies examines the relationship between press freedom and the economy, suggesting that free press environment is generally associated with positive economic growth of countries (*Alam & Shah*, 2013; *Roll & Talbott*, 2003; *Stiglitz*, 2000). However, up to date the combined relationship of the three dimensions: economic news, economic indicators, and press freedom was not systematically studied.

This paper examined the cross-lagged correlations between GDP trends and the corresponding trends of country mentions in economic news. It combines measurements of all the three dimensions together in order to examine whether the function of economic

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news as reflecting or affecting the economic reality differs across countries with different level of press freedom.

1.1. International news and the economic reality

There is no doubt that news by definition, and economic news in particular, follows the political and economic changes around the world. Yet, there is also empirical evidence to suggest that economic news affects people's attitudes toward the economy, and thus also the economic reality. Although at the beginning scholars questioned this effect (Haller & Norpoth, 1997), more recent studies (Goidel et al., 2010; Lischka, 2015; Quiring & Weber, 2012) found a significant effect of economic news on people's perception, depending on the media used, the length of exposure, the economic reality, and news content. While more balanced reporting correlated with more positive financial evaluations, negative reporting correlated with negative financial evaluations. In fact, Soroka (2006) found that negative economic news have much stronger impact on people's attitudes than positive news.

More specifically, when looking at the news coverage of the economic crisis in Europe, Quiring and Weber (2012) found that economic news served as a dominant source of information for the public, and as an influential factor in justifying economic policies. Lischka (2015) further revealed that both news and public expectations mediate the economic reality. She found that economic indicators are related to news sentiments, which in turn affect public expectations, particularly during recession periods. Eventually, public expectations can forecast the future of real world economy. Hence, there is a common agreement that economic news not only reflects major events, but can also mediate and affect public expectations, investors, and decision makers (see also Mutz, 1992).

Blondheim et al. (2015) analyzed the trends of country mentions in economic news from around the world and their corresponding GDP trends. Looking at the news coverage of the ten most prominent countries in economic news during crisis over a period of four years, they found mainly negative correlation between GDP and news mentions. In other words, a decrease in the GDP of certain countries attracted more news attention toward them, suggesting that news tends to emphasize negative rather than positive economic changes (see also Bennett, 1988; Harrington, 1989; Nadeau et al., 1999; Shah et al., 1999; Wu & Day, 2005). Moreover, they identified three types of relationship between news mentions and GDP trends. For the leading economies, such as the US, GDP trends were temporally aligned with trends of news mentions. For European countries facing the economic crisis, such as Spain, news mentions preceded GDP trends. Finally, for countries with more restricted press, such as China and Russia, GDP trends preceded news mentions. Thus, it seems that the press freedom of countries may have a certain impact on the relationship between their GDP trends and their economic news coverage around the world.

1.2. Economic news and press freedom

Several studies stressed the importance of press freedom in stimulating economic growth (Alam & Shah, 2013; Roll & Talbott, 2003; Stiglitz, 2000). Thus, with some exceptions, such as China, countries with more free press are more likely to show economic growth. This is mainly since press freedom contributes to a more transparent and immediate information flow, which helps foreign investors to make more effective decisions. Thus, economic news in free press countries reflects changes in the economic sphere, and provides the public with a descriptive map for further navigation.

Additionally, in an era dominated by a global and capitalist free market, press freedom was found to significantly reduce corruption (Chowdhury, 2004; Freille, Haque, & Kneller, 2007), and therefore increase public trust in economic institutions. In other words,

economic news in free press countries also functions as the watchdog, alerting on diversions from norms and values of the global economic system. Many empirical studies over the years confirmed this observation, suggesting that economic development and press freedom are closely associated; although cross-lagged correlation analyses indicated that press freedom can also be a result rather than the cause for economic development (Dutta & Roy, 2009; Siebert, 1952; Weaver, 1977; Weaver, Buddenbaum, & Fair, 1985).

On the other hand, in restricted press countries, economic news seems to play a different role. In part it is utilized as an effective mean for governments to shape a desirable economic map for potential investors. Yu (1994), for example, found that although China introduced a free market policy, economic news was increasingly centralized, and more controlled. Huailin and Chan (1998) further revealed that Xinhua News Agency has been responsible to centralize and supervise all economic news of the foreign press in China. These trends have been substantiated in more recent studies (Winfield & Peng, 2005; Yi, 1997). Similar to censoring political events that may damage the reputation of a country, it is very possible that a government with the ability to control the press may limit or delay negative economic news, while promoting and pushing forward positive economic news. Economic news is therefore used in controlled press countries as a means to facilitate the functioning of the economy, ensuring the stability of those in power (Weaver et al., 1985).

Following these observations, it seems that the role of economic news as reflecting or affecting economic change depends on at least two crucial dimensions. First, it depends on the level of press freedom, and second, on whether the news focuses on positive or negative economic changes. Particularly, in controlled press countries, governments would be interested to promote positive economic changes, and delay or censor negative economic changes. In free press countries, on the other hand, economic news would provide a more reliable descriptive map, which reflects economic changes, but in case of the coverage of negative economic developments, could also trigger further negative economic changes.

As there are no studies to date that examine directly the triangular relationship between press freedom, economic indicators, and economic news, it will be fashioned here as four hypotheses. Since the primary role of economic news in free press countries is to warn of a possible negative economic change (Bennett, 1988; Blondheim et al., 2015; Harrington, 1989; Nadeau et al., 1999; Shah et al., 1999; Soroka, 2006; Quiring & Weber, 2012; Wu & Day, 2005), the first set of hypotheses addressed in this paper is:

H1a. Economic news about free press countries would precede negative changes in their GDP.

H1b. Economic news about free press countries would follow positive changes in their GDP.

In line with previous indications of a possible time lag between economic news and GDP trends (Blondheim et al., 2015), and the essentially different function of economic news in controlled press countries as a mean of propaganda (Weaver et al., 1985; Winfield & Peng, 2005; Yi, 1997), the second set of hypotheses addressed in this paper is:

H2a. Economic news about controlled press countries would follow negative changes in their GDP.

H2b. Economic news about controlled press countries would precede positive changes in their GDP.

2. Methods

In order to examine the effect of press freedom on the news-economy nexus this study analyzed the cross-lagged correlations

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