A Theory of Favor Exchange between Politicians and Rich Media Owners

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Overview

Introduction

- over the last years, a substantial number of economists have studied the effects of mass media on economic and political developments ((Prat & Strömberg, 2013) and (Strömberg, 2015))
- people often decide on their vote not only based on the political platforms that candidates announce prior to the electoral contests
- additional components determine citizens' final decision on who to vote for
- mass media and the scheme through which they present the information to the citizens have a pivotal role in the voters' development of political opinion

Media's Effect on the Political Process

- two alternative opinions on media's effect on the political process exist (Strömberg, 2015)
  - media rise the voters' response to policy outcomes and that results improved quality of policy and welfare
  - media have influence via propaganda and capitalize on comprehensible mistakes of voters

Media and Propaganda

- in a wide range of political regimes, the government or other groups can capture media
- result: distorted information flow, limited political accountability, and rise of autocratic regimes via undermining and weakening democratic institutions ((Prat, 2015) and (Enikolopov & Petrova, 2015))
- the country's power holder has two different roles in this framework

Power Holder's Roles

- complete control of the media space and use it to twist and repress every flow of unfavorable information in order to ensure political survival ((Gehlbach & Sonin, 2014) and (Shadmehr & Bernhardt, 2015)), paying the correspondent price ((Petrova, 2008) and (Egorov, et al., 2009))
- capture of the media via a form of favor exchange with their rich owners ((Djankov, et al., 2003) and (Petrova, 2008))

Group of Seven Russian Oligarchs and the 1996 Russian Presidential Elections

- seven powerful Russian oligarchs worked together to re-elect Boris Yeltsin in 1996 Russian presidential elections and subsequently to handle him and his political environment from behind the scenes
- Andrey Fadin (14.11.1996 in Obschaya Gazeta newspaper): “They control access to budget money and practically all investment opportunities in the country. In their hands is the public information resource of the largest TV channels. They formulate the will of the president.” (Vishnepolsky, et al., 2003).

Other Examples

- Alberto Fujimori (Peru) (McMillan & Zoido, 2004)
- 1998-2007 (Argentina) (Di Tella & Franceschelli, 2011)
- Recep T. Erdogan (Turkey) ((Tunç, 2015) and (Yagci & Oyvat, 2020))
- Viktor Orbán (Hungary) (Szeidl & Szucs, 2021)
- Lee Kuan Yew (Singapore) (Guriev & Treisman, 2019)
- advertising allocations that are classified as favors happen often in many democracies, that comprise over 18 % of European Union's population and more than 2 billion citizens worldwide (Szeidl & Szucs, 2021)

Research Question

- what is the factor that drives political leaders to design such systems, undermine the democratic institutions of their countries, and depend so much on such an influential and powerful minority of the society that is delegated by them with extra power?

Introduction

- probabilistic voting model (Persson & Tabellini, 2000) of electoral competition (see (Baron, 1994) and (Grossman & Helpman, 1996)) and institutional design that defines the political competition intertemporarily (Dunning, 2010)
- formal model of a favor exchange system between the president and the rich media owners, who are minority in the society
- president offers favors to media owners and takes in return skewed media coverage that increases his popularity and assists him in winning the elections
- results:
  - this system emerges when president's popularity is low
  - forward-looking presidents refrain from this decision

Setup

- continuum of citizens of mass one
- $Y \in [0, \infty)$ represents the income in the society and $Y \sim \Phi$
- $\Phi(y)$ is the probability that any randomly drawn observation from the society has income smaller or equal to y
- the utility function of every citizen is $u = c + V(g)$ with $V(0) = 0, V^{'} > 0$, and $V^{''} < 0$
- the post-tax consumption of every citizen is

$$c(y) = (1 - t)y \quad (1)$$

  with $t \in [0, 1]$ the common tax rate
- the actual utility that a citizen derives from g depends on y

$$u(y, g) = c(y) + V(g) \quad (2)$$

Setup

- $y^m := Median(Y)$ and $\bar{y} := \mathbb{E}(Y)$
- the income distribution is positively skewed
- $g = t\bar{y}$ is the budget constraint of the president
- $(2) \overset{(1)}{\Longrightarrow} u(y,g) = (\bar{y} - g)\frac{y}{\bar{y}} + V(g)$ and $\frac{\partial u(y,g^*)}{\partial g} = 0 \Rightarrow$
$$g^*(y) = (V')^{-1}(\tfrac{y}{\bar{y}})$$
- **Proposition 1**
richer citizens prefer smaller g because, due to the proportional tax system, they pay a larger share of the tax burden
- $\bar{u} := \int_0^\infty u(y,g)d\Phi(y)$ is the SWF and $\frac{\partial \bar{u}(\bar{y},\tilde{g})}{\partial g} = 0 \Rightarrow$
$$\tilde{g} = (V')^{-1}(1)$$
- **Proposition 2**
$\tilde{g}$ is the socially optimal policy that coincides with the policy desired by the citizen with the average income $\bar{y}$

Setup

- the population is divided into two groups j, the poor $(j = p)$ and the rich $(j = r)$
- δ^j is the share of group j with $\delta^p > \delta^r$ and $\sum_j \delta^j = 1$
- $y^p < y^r$ and $\bar{y} = \sum_j \delta^j y^j$
- g^j is the optimal policy for group j with $g^r = (V')^{-1}(\frac{y^r}{\bar{y}}) < \tilde{g} = (V')^{-1}(1) < (V')^{-1}(\frac{y^p}{\bar{y}}) = g^p$

Political Competition

- two politicians 0 and 1 that suggest g^0 and g^1
- in every period one politician serves as the president and the other as the opposition
- citizen j votes for 0 if

$$u^j(g^0) > u^j(g^1) + \chi^j + \bar{\zeta} \quad (3)$$

- $\chi^j \sim U_{[-\frac{1}{2\kappa}, \frac{1}{2\kappa}]}$ with density κ is the ideological bias towards 1
- χ^p and χ^r are iid
- $\bar{\zeta} = \zeta \pm DC^r$ is the average popularity of candidate 1
- $\zeta \sim U_{[-\frac{1}{2\lambda}+\mu, \frac{1}{2\lambda}+\mu]}$ with density λ
- symmetrical electoral contest $\iff$ $\mu = 0$

Political Competition

- the first president take a decision which persists throughout the infinite horizon game that follows
- the decision is modelled as a dummy $D \in \{0, 1\}$

$$D = \begin{cases} 1, & \text{if the president creates the favor exchange system} \\ 0, & \text{otherwise} \end{cases}$$

Political Competition

- favor exchange system: the president always announces, before the elections, the policy that rich media owners prefer and, in exchange, the latter contribute as a group so as to increase his likelihood of winning the elections (skewed media coverage)
- the distorted information flow of the rich via their media enters the model as a contribution C^r that affects positively the popularity of the president
- $\eta \in \{0, 1\}$ labels which politician is the president
- $\bar{\zeta}$ is

$$\zeta + (-1)^{\eta} DC^r = \begin{cases} \zeta - DC^r, & \text{if politician } 0 \text{ is the president } (\eta = 1) \\ \zeta + DC^r, & \text{if politician } 1 \text{ is the president } (\eta = 0) \end{cases}$$

- the constraint (3) is rewritten as

$$u^j(g^0) > u^j(g^1) + \chi^j + \zeta + (-1)^{\eta} DC^r \quad (4)$$

with $D, \eta \in \{0, 1\}$

Timeline of the Events

- the timing of the game is the following
  1. the first president decides on $D \in \{0, 1\}$ and this value remains the same for the whole game
  2. both candidates announce simultaneously g^0 and g^1
  3. if $D = 1$, the rich group contributes C^r
  4. ζ is realized and all uncertainty is resolved
  5. elections take place
  6. the winner gets his one period payoff π and implements the announced policy

Optimization Problem of Politicians

- the share of votes for candidate 0 $(\Pi_0(\zeta))$ is
  $\Pi_0(\zeta) = \kappa(\delta^p\Delta^p + \delta^r\Delta^r) + \kappa(-1)^\eta DC^r + \frac{1}{2} - \kappa\zeta)$
  with $\Delta^j := u^j(g^0) - u^j(g^1)$
- the probability $P_0 = \mathbb{P}(\Pi_0(\zeta) > \frac{1}{2})$ of candidate 0 winning the elections is

$$P_0 = \begin{cases} \frac{1}{2} - \lambda\mu, & \text{if D=0} \\ \\ \frac{1}{2} + \lambda[(-1)^\eta DC^r - \mu] + \lambda(\delta^p\Delta^p + \delta^r\Delta^r), & \text{if D=1} \end{cases} \tag{5}$$

Optimization Problem of Politicians

- both candidates suggested policy platforms that maximize their probability of winning the elections
- **Proposition 3**
  in case the first president has decided not to create the favor exchange system, both candidates always converge to the socially optimal policy platform $\tilde{g}$
- **Proposition 4**
  in case the first president has decided to create the favor exchange system, before each election, the president announces the policy platform that the rich group prefers, that is g^r, while the opposition insists on $\tilde{g}$

Parameter μ

- $\mu = 0$ (symmetrical elections) means that 0 and 1 have the same popularity
  $\mu = 0 \overset{(5)}{\Longrightarrow} P_{0\{D=0\}} = \frac{1}{2}$
- $\mu > 0$ means that 1 is popular and 0 unpopular
  $\mu > 0 \overset{(5)}{\Longrightarrow} P_{0\{D=0\}} < \frac{1}{2}$
- **Proposition 5**
  parameter μ measures the popularity of both candidates without considering the potential intervention of the rich group with their contribution
- **Proposition 6**
  $\mu = 0$ is translated into symmetrical elections while $\mu > 0$ implies that candidate 0 is relatively unpopular

Optimization Problem of the Rich Group

- the rich group maximizes the expected utility of its members minus the costs
- $$\mathbb{E}U(C^r) = P_0[(1-\eta)u^r(g^r) + \eta u^r(\tilde{g})] + (1-P_0)[\eta u^r(g^r) + (1-\eta)u^r(\tilde{g})] - (C^r)^2 \quad (6)$$
- $\frac{d\mathbb{E}U(C^r)}{dC^r} = 0 \Rightarrow C^r = \frac{1}{2}(-1)^\eta \lambda[(1-2\eta)(u^r(g^r) - u^r(\tilde{g}))]$
- **Proposition 7**
  the rich group contributes
  $$C^r = \frac{1}{2}(-1)^\eta \lambda[(1-2\eta)(u^r(g^r) - u^r(\tilde{g}))] \quad (7)$$

Solution of the Model

- the value function of 0, as the president, is $W_0^{Pr} = \pi + \theta(P_{0\{\eta=1\}} W_0^{Pr} + (1 - P_{0\{\eta=1\}}) W_0^{Op})$
- the value function of 0, as the opposition, is $W_0^{Op} = \theta(P_{0\{\eta=0\}} W_0^{Pr} + (1 - P_{0\{\eta=0\}}) W_0^{Op})$
- $W_0^{Pr} = \frac{\pi[1-\theta(1-P_{0\{\eta=0\}})]}{1-\theta[1+(1-\theta)(P_{0\{\eta=1\}}-P_{0\{\eta=0\}})]}$
- θ is the discount rate

Solution of the Model

- politician 0 decides during the first period to create a favor exchange system if and only if
  $W_0^{Pr}{}_{\{D=1\}} > W_0^{Pr}{}_{\{D=0\}} \overset{(5)}{\underset{(7)}{\Longleftrightarrow}} 1 + \theta(\frac{1}{2} + \lambda\mu) > 0$
- **Proposition 8**
  The first period politician decides to create the favor exchange system if and only if

$$1 + \theta(\frac{1}{2} + \lambda\mu) > 0 \quad (8)$$

Results

- $\mu \geq 0 \Rightarrow (8)$ holds always
  - when 0 has the same popularity with the opposition (or he is unpopular), he establishes the favor exchange system
- $\mu < 0$ (popular 0)
  - the incidence of $D = 1$ increases with μ
  - the less popular the president 0 is, the more likely to establish the favor exchange system is
- $\mu < 0$
  - ${W_0^{Pr}}_{\{D=1\}} > {W_0^{Pr}}_{\{D=0\}} \iff -\frac{1}{\lambda}(\frac{1}{2} + \frac{1}{\theta}) < \mu$
  - a forward-looking (high θ) popular president 0 is less likely to establish the favor exchange system
- the same results hold if politician 1 is the first president

“Sticks” Instead of “Carrots”

- many cases worldwide where power holders pressurized the media with continuous falsified tax controls, violence, imprisonment, and even life threatening
- a president that uses sticks against the rich group would allow the opposition leader to promise carrots and that may alter the political equilibrium

"Informed" and "Uninformed" Poor Voters

- introduction of a second dimension under which the population is divided
- β^j with $j = p, r$ is the share of informed citizens
- $\beta^r = 1$ and $\beta^p \in [0, 1]$
- countries differ in terms of informativeness and this influences the political outcome

A Second Policy Dimension and Targeted Spending

- exogenous rent R
- president claims a share α and uses the rest $(1-\alpha)R$ and the tax revenues to finance targeted public spending towards both groups
- based on the size of α and the targeted public allocation, voters' motivation and the deviation between the suggested platforms may change

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