Chapter 1 – The Big Picture: Media, Development, and Institutional Change

Following the election of President Alberto Fujimori in July 1990, Vladimiro Montesinos was named chief of the *Servicio de Inteligencia Nacional* (*SIN*), Peru's national intelligence service. Prior to this appointment, Montesinos had been a captain in the Peruvian army, an aid to the army chief and prime minister of Peru, and a private lawyer. In his position as chief of *SIN*, Montesinos served as Fujimori's chief advisor and had nearly unlimited power. Indeed, many considered Montesinos to be more powerful than the president in the daily operations of Peru. In addition to repressing political opponents through threats and violence, Montesinos was also involved in embezzlement, bribery, and drug trafficking. The extent and magnitude of Montesinos's corruption became evident in 2000.

In September 2000, a videotape surfaced of Montesinos paying a $15,000 bribe to opposition political leader Alberto Kouri to defect and support Fujimori. Shortly thereafter, political opponents of Montesinos aired the scandalous footage. At first the only television channel in Peru to repeatedly broadcast the video of Montesinos' corruption was Channel N, the only private television channel in the country not on Montesinos' payroll. However, as word of the video spread, other television stations, including those previously under Montesinos' control, began airing the video as well.

In addition to his meeting with Kouri, Montesinos had videotaped himself in meetings with judges, political leaders, and members of the media, bribing them as well. Following the broadcast of the Montesinos-Kouri video these other videos of Montesinos' corruption surfaced and also aired on Peruvian television. These public broadcasts, which became known as "vladivideos," led to the downfall of the Fujimori regime and the end of Montesinos's reign as chief of the *SIN*. Fujimori fled to Japan and Montesinos fled to Venezuela. Eventually, authorities arrested Montesinos who returned to Peru where the government convicted him of the "usurpation of authority" and later for dealing illegal arms.

The fall of Alberto Fujimori and Vladimiro Montesinos illustrates media's potentially pivotal role in checking political abuse. The airing of the vladivideos single handedly led to the demise of Fujimori and Montesinos and their far-reaching web of corruption. The importance of media as a check on government corruption and predation appears even more clearly when one compares the magnitude of the bribes Montesinos paid to judges, politicians, and members of the media.

Economists John McMillan and Pablo Zoido (2004) analyzed these bribes and found that the typical bribe Montesinos paid to a television channel owner was nearly one hundred times greater than the bribe he paid to a politician, which was slightly greater than what he paid to judges. Further, while the typical bribe paid to newspaper owners was less than that paid to the television channel owners, it was still larger than what Montesinos paid to judges and politicians. As McMillan and Zoido conclude, if Montesinos's pattern of bribery tells us anything, it tells us that the strongest threat to government power in Peru was the media.

In addition to highlighting media's role as a check on government actors, the Montesinos story highlights media's potential importance as a mechanism of social change. As mentioned above, the initial video of the Montesinos-Kouri meeting was aired on Channel N, a small private Peruvian cable station, and the only cable channel Montesinos had not bribed. At the time Channel N had a relatively small market share – less than 5% – with a subscription base only in the tens of thousands (Bowen and Holligan, 2003: 332-337). This is probably part of the reason Montesinos did not bother bribing its owners. Despite its small market share, Channel

N's decision to repeatedly show the Montesinos bribery video was the catalyst for the Fujimori government's eventual downfall. Political activists overcame Channel N's small market share by setting up televisions in the streets so that passers-by could see the video. Only because Channel N was free from state interference was it initially able to engage in investigative journalism and expose Montesinos's corruption by airing the video. This suggests that even when the state heavily influences the broader media industry it can still be an important mechanism of change.

Channel N's broadcasting of the Montesinos-Kouri tape initiated a public backlash against the rampant corruption of the Fujimori government. In this sense, the media served as a coordination mechanism for the Peruvian population. The repeated public airings of the vladivideos created common knowledge of the government's corruption leading to a concerted response against such behavior.

To understand the importance of media as a coordination-enhancing institution it is important to recognize that the allegations of rampant Peruvian public sector corruption evidenced in the video of the Montesinos-Kouri meeting were nothing new. Previous accusations, however, often lacked hard evidence, allowing Montesinos to discredit them. As a result, before the public airing of the vladivideos, Peruvian citizens had little incentive to respond in a concerted effort against the Fujimori government's corruption. Any one citizen who considered reacting against the government could not be sure that other citizens would join him. Citizens suffered from a "coordination failure" because they could not be sure what others would do (Weingast 1995, 1997; Harden 1999). One or only a few citizens reacting against the government would have no effect. Further, if only a handful of citizens agitated for change, Montesinos could have easily identified them and would likely have silenced the dissenters.

The public airing of the vladivideos solved this coordination problem by creating common knowledge of Montesinos's corruption. Because of the repeated media broadcast of the tape, Peruvian citizens could be confident that others knew about the government's corruption, and that these other citizens knew that they knew about the corruption, and so on. Further, the bribery payment shown on the video provided incontrovertible evidence of Montesinos's political abuse. The common knowledge created by the public broadcasts of the vladivideos enabled Peruvian citizens to coordinate on a common reaction to the Fujimori government's misdeeds (McMillian and Zoido 2004: 20-21).

Despite the clear importance of media freedom in constraining the predatory inclinations of government officials and generating the common knowledge and coordination required for social and institutional change, only a minority of the world's countries have what could be described as a genuinely free media. Media freedom is the degree to which governments control or influence the content and flow of media-provided information reaching their citizens. Citizens in developed countries often take media freedom for granted and focus on perceived ideological biases in media reporting (see for instance Goldberg 2003 and Kuypers 2002). However, in most of the world the central issue is not reporting bias but a more fundamental issue of state control of the media in general.[1] In countries where the media is not free, the issue is one of the extent and magnitude of state ownership and government manipulation of the media through threats, bribes, and direct and indirect financial pressures.

Freedom House produces an annual *Freedom of the Press* report that measures media freedom in countries across the globe. The Freedom House index measures countries' media freedom by considering their legal environment, which looks at laws, statues, constitutional provisions, and regulations that enable or restrict the media's ability to operate freely in a country; political environment, which evaluates the degree of political control over the content of news media in each country (such as editorial independence, official or unofficial censorship, harassment or attacks against journalists, etc.); and economic environment, which includes the structure of media ownership, media-related infrastructure, its concentration, the impact of corruption or bribery on news media content, and the selective withholding or bestowal of subsidies or other sources of financial revenue on some media outlets by the state. The media considered in the index includes TV, radio, newspaper, and the Internet. On the basis of their total scores Freedom House ranks each country's media as either "Free," "Partly Free" or "Not Free." This ranking provides some means of quantifying the extent to which each country permits the free flow of information and also allows for comparative and trend analysis.

Of course, any attempt to provide an aggregate measure of media freedom will be imperfect and fail to capture all relevant aspects of media that might be important for economic development. For instance, the *Freedom of the Press* report does not take into account the quality of the media or ethical standards of journalists. Despite these imperfections, Freedom House's annual report provides a widely-accepted means of considering media freedom at the global level. Table 1 provides an overview of media freedom by region for 2008.

Region	Status	Number of Countries	Percentage of Regional Total
Sub-Saharan Africa			
	Free	7	15%
	Partially Free	18	37%
	Not Free	23	48%
Americas			
	Free	16	46%
	Partially Free	17	48%
	Not Free	2	6%
Asia-Pacific			
	Free	16	40%
	Partially Free	10	25%
	Not Free	14	35%
Middle East & North Africa			
	Free	1	5%
	Partially Free	3	16%
	Not Free	15	79%
Central and Eastern Europe (former Soviet Union)			
	Free	8	28%
	Partially Free	10	36%
	Not Free	10	36%
Western Europe			
	Free	24	96%
	Partially Free	1	4%
	Not Free	0	0%
TOTAL – GLOBAL			
	Free	**72**	**37%**
	Partially Free	**59**	**30%**
	Not Free	**64**	**33%**

Table 1: Global Press Freedom by Region - 2008[2]

As Table 1 indicates, in 33 percent of the world's countries the media is "Not Free." In another 30 percent of the globe the media is only "Partly Free." North Africa and the Middle East have the lowest levels of media freedom; 79 percent of the countries in these regions are rated as "Not Free." In contrast, countries in Western Europe fair the best in terms of media freedom; 96 percent of the countries in this region have a "Free" media. Further, Western Europe is the only region where a majority of countries have a media rated as "Free." In all other regions a majority of countries is either "Partially Free" or "Not Free." In terms of population, the 2008 Freedom House report found that only 18 percent of the world's inhabitants enjoy a "Free" press. In contrast, 40 percent live under a "Partly Free" press, and 42 percent live under a press that is "Not Free."

To provide some insight into media freedom over a number of years, Table 2 provides time series data for global media freedom between 1990 and 2008.

Survey Year	**Not Free**	**Partially Free**	**Free**	**Total Countries Surveyed**
		Percentage of Total		
1990	46.5	18.2	35.2	159
1991	39.5	21.7	38.9	157
1992	28.4	30.2	41.4	162
1993	28.2	33.9	37.9	177
1994	30.1	33.9	36	186
1995	32.6	33.7	33.7	187
1996	32.1	33.7	34.2	187
1997	33.2	32.6	34.2	187
1998	34.9	29	36	186
1999	35.5	28	36.6	186
2000	35.5	27.4	37.1	186
2001	33.2	28.3	38.5	187
2002	32.8	26.9	40.3	186
2003	35.2	24.4	40.4	193
2004	37.3	24.9	37.8	193
2005	35.6	25.8	38.7	194
2006	34.5	27.8	37.6	194
2007	32	30	38	195
2008	33	30	37	195

Table 2: Global Press Freedom – 1990 – 2008[3]

The data in Table 2 indicate that media freedom, or the lack thereof, has remained relatively consistent over the globe for the past seventeen years. Approximately one third of the world's media has been "Not Free" over this period; a slightly smaller percentage has been only "Partially Free." The data in Tables 1 and 2 illustrate that for most countries in the world media freedom cannot be taken for granted.

The absence of media freedom carries significant costs. This was highlighted in the World Bank's *World Development Report 2002: Building Institutions for Markets*, which dedicated a chapter to the importance of media freedom for economic and human development (2002: 181-192). The topics explored in the chapter included how a free media could reduce corruption, assist in public health efforts, and improve education. Without a free media, achieving these outcomes is dramatically more difficult.

The importance of media as a mechanism for monitoring government and generating institutional change, coupled with the fact that the media in two-thirds of the world is either "Partly Free" or "Not Free," suggests that it is critical to understand the factors influencing the effectiveness of media. The purpose of this book is to contribute to our understanding of media as it relates to economic development and institutional change. Our goal is to analyze the specific factors that constrain the effectiveness of media as a check on government. Further, we explore the process of institutional change and how media serves as a mechanism of change in this process. Our study considers the media in the broadest sense including the press, television, and radio, as well as more recent media mediums, such as the Internet.

We use economic analysis to explore some fundamental questions about media's role in economic development and institutional change. How is the media connected to the fact that some countries adopt policies and institutions that promote economic development while others fail to do so? What factors influence media's effectiveness as a check on government? In what ways does the government manipulate media to constrain its effectiveness as a check on government activities? How does mass media contribute to the evolution of existing institutions and the adoption of new institutions?

Economic development is a vast topic, both theoretically and empirically. We cannot possibly hope to cover all of its nuances or angles. Our goal is to analyze the role mass media plays in the successful adoption of policies and institutions that foster economic progress. We hope this analysis will contribute to our understanding of one of the many ingredients in the complex recipe for economic development.

Economic Analysis of Media and Development

The study of media has a long and varied history. The broader field of "media studies" has historically drawn on tools and methods from disciplines as diverse as sociology, social theory, communication theory, literary theory, cultural studies, and anthropology to study media's various aspects. Political scientists have studied media's role in the context of the formation of public opinion and as a means of informing the electorate (see for instance Bartels 1993; Mondak 1995; Brians and Wattenberg 1996). The subfield of "media economics" is relatively young but has increased in popularity over the past two decades. Media economics applies the tools of economics to study the industrial organization of the media and explores both theoretical and empirical questions including media regulation, ownership structures and market share, intellectual property rights, innovation, and advertising, among other topics (see for instance Albarran 2002; Doyle 2002; Alexander et al. 2003).

We are most concerned with the literature that applies the theories and methods of economics to analyze the connection between media and economic development. This area of research is growing but still in its early stages. The existing literature in this area can be broken in to two general categories. The first category focuses on media's role in negotiating the principal-agent problem that citizens confront vis-à-vis their political rulers. It investigates the media as a mechanism that checks government actors. The second category focuses on the economic implications of different media ownership structures. It examines how the features of the media industry affect economic and human development.

Nobel Laureate Amartya Sen (1984, 1999) was the first economist to discuss the importance of media as a means of checking government. Sen addressed the issue of media in connection to the prevention of famines with a specific focus on India. Sen notes that "a free press and an active political opposition constitute the best early-warning system a country threatened by famines can have" (1999: 181). His basic argument is that a free press, coupled with an open and stable democracy, pressures political actors to prevent famines. The underlying logic is that in a politically competitive environment, political opposition will have the incentive to communicate the threat of famine to the public to weaken support for incumbents. A free media is the main means of communicating this information to the masses. Failure by the party in power to act will cause a political backlash at the voting booth, leading political agents to better serve their citizens.

For Sen, open political competition *and* a free press are both vital for the prevention of famines. To be sure, media's ability to affect social change is the strongest where the media is free and political competition is vibrant. However, the media can also be an important check on government and an instigator of political change where the media is largely unfree and political competition is weak. It is virtually impossible for government to totally suppress the media. At the very least, black market media outlets often persist. As we discuss later in this book, black market media can also help create common knowledge among citizens and coordinate them on political, social, and institutional change. Further, even autocrats have reason to fear the media because of its ability to generate common knowledge about political abuses and, most importantly, to coordinate citizens on responses to such abuse, weakening public support for existing regimes and enhancing citizens' ability to collectively agitate for change. Like the media, political competition in one form or another is omnipresent. Dictators may not face such competition through popular elections. But their position of power is coveted by other aspiring politicos happy to displace them if their support erodes to such a point that displacement is possible. Thus, although autocrats operating in an environment of media suppression have considerably greater latitude to benefit themselves at society's expense, this latitude is not without bounds. In the long run, no government can last that does not have significant support from its citizens and even a hampered underground media can help foment coordinated dissent and rebellion if existing political rulers do not at least minimally satisfy their populations.

Other economists have built on Sen's initial work. Besley and Burgess (2002) provide an empirical test of Sen's hypothesis regarding famine, democracy, and media. Relying on data from the sixteen major Indian states, they explore whether governments are more responsive when there is more political competition and a greater number of newspapers. India's sixteen states provide an interesting case because there is variation among their vulnerability to famine, as well as in their newspaper circulation and political competition.

Besley and Burgess find that Sen's thesis does in fact hold. A "1 percent increase in newspaper circulation is associated with a 2.4 percent increase in public food distribution and a 5.5 percent increase in calamity relief expenditures" (2002: 1435). Further, they find that the greater the circulation of a newspaper, the greater is the government's response to a crisis. They also find that greater levels of public food distribution are associated with greater political competition. Consistent with Sen's hypothesis, Besley and Burgess conclude their analysis by identifying "representative democracy and the development of free and independent regional presses appear as key factors in ensuring protection for vulnerable citizens" (1446).

In a subsequent paper, Besley and Prat (2006) explore how collusion between the government and the media can undermine the effectiveness of media as a check on the behavior of political actors. They conclude that media capture has two major negative effects on the well-being of citizens. First, where the media is captured, the grabbing hand of the state will tend to engage in more rent extraction because political actors are less concerned that they will be "caught" by the public. Second, where government controls the media there will be less political turnover because voters will be unable to punish elected officials due to a lack of information about their ineffectiveness.

While this research focuses on the role of media as a mechanism for monitoring the actions of political actors, a second strand of literature explores the economic implications of various forms of media ownership. Djankov et al. (2003) carried out the main research in this area, which asks: who owns the media? In order to explore this question, the authors develop a dataset on media ownership patterns in 97 countries. The data display two dominant forms of media ownership in the world—state ownership and private ownership in the form of controlling families. The authors use this data to analyze two competing hypothesis regarding media ownership.

The first hypothesis is the public interest, or Pigouvian, theory which argues that state ownership of the media is desirable because information is a public good that exhibits increasing returns. On the one hand, once information is produced it is costly to exclude people from consuming it. On the other hand, although there are high fixed costs to gathering and distributing information, once these initial costs are covered, the marginal cost of distributing information is extremely low.

The second hypothesis of media ownership is rooted in public choice theory. In contrast to the public interest theory of the media, the public choice view contends that state-owned media will tend to manipulate information to benefit those currently in power. This manipulation will skew reported information in favor of incumbents, which prevents voters from making informed decisions. For this reason, the public choice view concludes that private ownership is preferable to state ownership.

Djankov et al.'s analysis supports the public choice view. Specifically, they find that higher levels of state ownership are associated with lower levels of primary school enrollment, lower levels of political rights, and lower levels of civil liberties. Further, countries with higher levels of state ownership of media tend to be poorer and more autocratic, and have higher levels of corruption. These results hold even after controlling for differences in economic development, education, political competition, state intervention in the economy, ethno-linguistic heterogeneity, and latitude.

While the existing literature provides important insights into the connection between media and economic development, it is far from complete. For instance, although it is clear from existing research that media can serve as a check on government, we still lack a full understanding of how media can provide the incentive for officials to adopt policies that are conducive to economic development. Further, while the existing literature discusses the perverse effects of media capture and state ownership of the media, there has been little discussion of how the state actually manipulates media-provided information. Finally, the connection between media and institutional change has yet to be explored. How does media serve as a mechanism that facilitates the process of economic and social change? More specifically, what is the precise channel connecting media, institutional change, and development? Our analysis seeks to fill these gaps.

Is There Consensus for a Free and Privately-Owned Media?

While the existing economics literature points to the desirability of privately-owned media, it would be a mistake to conclude that there is a general consensus on this issue. The appearance of consensus that a private and free media is preferable to state ownership overlooks the fact that several arguments exist for government intervention and ownership of the media. These arguments are very much part of the ongoing debate about the desirability of privately-owned media.

For instance, consider the growing media economics literature discussed at the beginning of the previous section. In exploring the economic aspects of information and the structure of the media industry, some of this literature notes how the unregulated market may fail to provide the optimal amount of information (Doyle 2002). The market failures associated with information and media include the public good and externality characteristics of information and the alleged natural monopoly aspects of the media industry. As with market failure stories for other goods and services, the application of this logic to the media market at least in principle leaves room for government intervention to overcome these market failures.

There is an important tension that emerges from these market failure arguments for government intervention in media. As noted above, to the extent that the market for media does suffer from various market failures there is, at least in theory, some scope for government intervention to serve as a corrective. At the same time, as the literature on media and economic development discussed above indicates, state ownership or regulation of media can lead to many perverse economic outcomes. The question of how much government intervention is desirable in the media industry—if any at all—is therefore still very much open for debate. We will address some of the market failure arguments for government intervention in the media in the concluding chapter.

Traditional political economy, which emphasizes power relations in the economic, political, and social spheres, has also produced a large literature analyzing the media (see for instance, Bagdikian 1990; Golding and Murdock 1997; Herman and Chomsky 1988). This literature tends to be skeptical of media that emerges on the free market. This pessimism stems from the view that two main groups of capitalists—media owners and advertisers—will use media as a tool of manipulating the masses. Those writing in this tradition argue that the media that emerges in a capitalistic system fails to provide a diversity of information, perspectives, and cultural resources to the public.

Solutions to these perceived problems vary widely. Some argue that despite its problems, a private media is still preferable given the alternatives. Others call on the state to play an active role in the media industry. There is again no consensus about the desirable extent of government intervention in the media market, with proposals ranging from government regulation of private media, to subsidies to certain media outlets, to outright state ownership of at least part of the media.

Similar to the media economics literature that emphasizes market failure, the traditional political economy literature also highlights the fact that agreement about the desirability of a free media characterized by private ownership is far from reached. As such, sharpening our understanding of the way media influences economic development, as well as how different ownership structures influence the effectiveness of media in this regard, is critically important.

The Importance of Policies and Institutions for Economic Development

Our main focus in this book is on the role of media in economic development. Both policies and institutions matter for economic outcomes and we will focus on both throughout this book. Given this, it is important to distinguish between policies and institutions and to clarify the connection between institutions and economic development. Institutions can be understood as the formal and informal rules governing human behavior, and the enforcement of these rules (North 1990). Formal institutions include codified institutions that are intentionally designed. Examples would include state-made constitutions, legislation, and formal standards. In contrast, informal institutions evolve over time and are not the result of intentional design. They include, for example, norms, conventions, and what is generally referred to as culture.

Institutions differ from policies in that the former are typically durable and stable over time while the latter can and do change more frequently. The overarching "meta-rules" and structures of a political system would be an example of institutions. The various political choice variables, such as tax rates, spending decisions, etc., made within, and emerging from, those institutions would be examples of policies. Both policies and institutions influence economic development or the lack thereof. As we will discuss throughout this book, the media can play an important role in influencing and reinforcing both institutions *and* policies.

The enforcement of both formal and informal institutions can occur through the internalization of certain norms of behavior, the social pressure exerted on the individual by the group, or the power of third-party enforcers who threaten to use force against individuals who violate rules. Institutions reduce uncertainty by providing a predictable structure in which people can act. In providing the rules of the game, institutions facilitate economic, social, and political interactions. As such, differences in economic outcomes across societies and countries can be attributed to different institutional structures (see Olson 1996). Moreover, changes in institutions, for better or worse, directly influence changes in economic well being.

Nobel Laureate economist Douglass North (1990) is best known for developing a theory of institutions, as well as analyzing the evolution of institutions and the consequences of those institutions for economic performance. Building on North's initial work in this area, a growing number of empirical studies analyze the importance of institutions for economic outcomes. These studies analyze institutional explanations for economic development and compare them with other potential explanations, such as geography, fractionalization, and trade integration.

The most well-known recent empirical work that examines the impact of institutions on economic performance is a series of articles by Acemoglu, Johnson and Robinson (2001, 2002). These authors explore the effect of institutions on income in ex-colonies. Some of these countries, such as the United States, New Zealand, and Australia, exhibit high levels of economic development. Others, such as the majority of countries in Sub-Saharan Africa, display the reverse.

The authors argue that this variation in income across the ex-colonies can be explained by the property rights institutions these countries developed as a result of the different kinds of disease environments that colonizers faced when they colonized them. According to their analysis, the property rights institutions we observe across these countries today were determined by the property rights institutions they inherited from their colonizers. In places like the United States, New Zealand, and Australia, the prevalence of diseases, such as malaria, at the time of colonization was relatively low. Thus, colonizers could settle in these places in large numbers with the intention of staying for a long period of time. Since as inhabitants of these countries colonizers would be subject to the long-run effects of the property rights institutions they created, where they settled more permanently it was in their interest to establish institutions of long-run economic growth, namely well-protected private property rights.

In contrast, in other countries, such as those in Sub-Saharan Africa, diseases like malaria were rampant and posed a serious threat to the lives of colonizers. In these places, colonizers could not settle permanently. This shaped their colonizing strategy in that it created a very short-run time horizon for the colonizers. They sought to get in, extract as many resources as possible, and get out. This led colonizers in these places to establish extractive institutions that poorly protected citizens' private property rights.

The key finding of Acemoglu, Johnson and Robinson's study is that private property rights are the primary determinant of nations' levels of economic development. This is true even after controlling for other potential determinants of income, such as colonizer identity (e.g., British or French), and a variety of geographic variables like latitude, distance from a coast, and climate, which some have argued is responsible for the wealth and poverty of nations (see for instance, Gallup, Sachs and Mellinger 1999; Sachs 2001, 2003).

Building on this work, Acemoglu and Johnson (2005) have gone further in clarifying the type of property institutions that are important for economic development. They point to the fact that there are multiple types of property-protecting institutions that may matter for economic development. On the one hand there are what they call "contracting institutions," such as government courts that enforce private agreements between citizens. These institutions are important because they aim to protect the property rights of citizens vis-à-vis one another. On the other hand there are "property rights institutions," such as constraints on the government's ability to seize citizens' property arbitrarily. These institutions are important because they aim to protect the private property rights of citizens against government predation.

Acemoglu and Johnson's work aims to "unbundle" these two private property-related institutions to see which is more important for economic development. Alternatively, their analysis can be thought of as asking which type of predation—public or private—poses the greater threat to economic development. The conclusion of this study is that "property rights institutions"—institutions that restrain government expropriation—are substantially more important than "contracting institutions"—state-provided institutions to prevent private predation—for nearly all aspects of economic development. State expropriation, not predation by private individuals, is more harmful to economic progress, and thus more important to prevent. Conversely, institutional restraints that prevent government from violating the private property rights of their citizens are the dominant determinant of economic development.

Other empirical research also supports the importance of property rights institutions for economic development. For instance, Rodrik, Subramanian and Trebbi (2004) analyze three possible explanations—geography, trade integration, and institutions—for differences in income across countries. They conclude that the quality of institutions is the most important factor in explaining differences in income. After controlling for institutions, the authors of this study find that geography has a weak direct effect on income while trade integration has no direct effect. The findings of this work further support the original empirical research by Acemoglu, Johnson and Robinson (2001, 2002) in this area concerning the primacy of institutions for economic development. Given the importance of institutions in contributing to economic performance, our analysis focuses on the role media plays in supporting or undermining an institutional structure conducive to development.

The Process of Institutional Change

While the aforementioned literature emphasizes the importance of institutions for economic development, much less is known about the process of institutional change. Given the importance of institutions for economic performance, how do quality institutions emerge where they do not already exist? How do countries currently characterized by poor quality institutions turn the corner toward economic progress and development?

Institutions that exist in the current period are the result of past choices and experiences (North 1990; David 1994; Boettke, Coyne, Leeson 2008). A growing economics literature focusing on institutional "path dependency" emphasizes that the way institutions and beliefs developed in past periods constrains set of feasible choices in the current period (North 1990: 93-8, 2005: 51-2). Denzau and North (1994) and North (2005) place informal institutions, and especially "belief systems," at the core of the process of institutional change.[4] North (2005: 23) notes that "the process works as follows: the beliefs that humans hold determine the choices they make that, in turn, structure the changes in the human landscape." This indicates that if we wish to understand institutional differences and institutional change, we must start with the "mental models" or belief systems guiding individual actions.

In this context, institutional change entails shifts in fundamental belief systems. As Denzau and North (1994) and North (2005) make clear, individuals rely on an incomplete mental model since they cannot know the full range of possible opportunities that currently exist or will exist in the future. As individuals become aware of alternative courses of actions they incorporate those possibilities into their mental model. When new alternatives are introduced, or the relative prices of existing alternatives change, mental models are updated and institutions evolve.

Institutional change is typically gradual and slow. This results in marginal changes to existing institutions as individuals update their mental models and belief systems. However, when mental models and perceptions change drastically, the result can be dramatic institutional change resulting in a new "punctuated" institutional equilibrium. The process of punctuated institutional change involves long periods of slow institutional change punctuated by short periods of significant institutional change characterized by "periods of representational redescription" (Denzau and North 1994: 23). In contrast to gradual changes, which are marginal in nature, punctuated changes represent significant changes in the nature of institutions. The collapse of communism, which few were able to accurately predict, is one example of this logic.

How does a punctuated equilibrium emerge? The process that creates punctuated institutional change begins with a divergence between underlying beliefs and the status quo, or what Denzau and North call the growing gap "between the general climate of opinion and the 'pure' ideology" (1994: 25). Timur Kuran's (1995) discussion of "preference falsification"—when individuals publicly lie about their private preferences—highlights this divergence.

As Kuran point out, once a minimum threshold of people holding certain private preferences is met, even a minor event can lead to dramatic changes in economic, social, and political institutions. One example of this is political revolutions. Central to such revolutions is the activation of "tipping points" for punctuated institutional change. Once the growing gap between actual and public preferences reaches some threshold, a tipping point may be activated making major institutional change possible. After the tipping point is activated and the new punctuated institutional equilibrium is established, the process of slow and gradual change Denzau and North (1994) emphasize reemerges, restarting the process described above.

Understanding the process of institutional change thus entails identifying mechanisms that can change the fundamental belief systems of the members of a society. We argue that media is one such mechanism. Given its potential to reach a large number of consumers, the media has the ability to change fundamental belief systems by making individuals aware of alternative courses of action. As such, the media has the ability to generate changes in perceptions and mental models which may lead to both gradual changes to existing institutions and more dramatic punctuated institutional changes.

The story of the role of media in the downfall of Vladimiro Montesinos that opened this chapter illustrates many of media's characteristics in this regard. In this case, media provided information that allowed individuals to update their belief systems. It also produced common knowledge so that citizens were confident that others were updating their mental models as well. This allowed for widespread coordination around institutional change resulting in the downfall of the ruling regime.

It is important to note that the evolution of belief systems is endogenous and takes place within an existing structure of formal and informal institutions. This existing structure will influence and constrain the evolution of institutions. In order for formal institutions to operate effectively, they must be supported by informal institutions. However, formal institutions—whether supported by informal institutions or not—will influence the evolution of informal institutions.

While informal institutions constrain the effectiveness of formal institutions, existing formal institutions simultaneously influence and constrain the evolution of informal institutions. They do so by establishing and enforcing the formal rules through which individuals are exposed to alternative beliefs and possibilities. To understand this point, consider that dictators expend a great deal of resources controlling the media and dissemination of information in their countries. Their aim is to restrict citizens' awareness to alternative institutional possibilities. If a dictator prevents those living under him from being exposed to alternative forms of economic, political, and social organization, citizens are unable to incorporate those alternatives into their belief systems. Because of this, the evolution of informal institutions, and hence formal institutions, is curtailed.

The Dual Role of Media

In both the theoretical and applied analysis of media that follows, we emphasize the dual role of media. First, the media can influence policies within given institutions. Amartya Sen's work, which focuses on the media as a disciplinary device, captures this aspect. For citizens to effectively discipline officials, they must have access to accurate information regarding their actions. The media can increase transparency regarding the actions of officials. In doing so, the media reduces the cost of information accumulation facing citizens. As a result, citizens are better informed regarding the behaviors and polices adopted by those who rule them. To the extent the media is effective in this regard, there will pressure on officials to consider citizens' welfare in deciding policy.

Second, the media can serve as a catalyst of gradual and dramatic institutional change, and as a mechanism for reinforcing those changes once they take place. As noted above, the process of institutional change involves changes in mental models and belief systems. In presenting alternative information, ideas, and perceptions, the media can serve as a mechanism of institutional change. As we point out above, typically, institutional change is slow and gradual. In other words, changes in mental models and belief systems lead to marginal changes in existing institutions. However, we also observe dramatic "punctuated" changes in existing institutions. These dramatic changes involve significant alterations in the very constitution of institutions. As our case studies discuss, media can play an important role in bringing about both gradual and dramatic changes in institutions. Further, once dramatic institutional change takes place, media can play an important role in reinforcing the punctuated institutional equilibrium. In this regard, the media creates continuing consensus around new institutions contributing to their durability over time.

Note that these two roles are not mutually exclusive and can influence one another. For example, institutional change will influence the feasible set of policies through changes in incentives facing policymakers. Likewise, policies adopted can reinforce or erode existing institutions.

Three Effects of Media on Institutions and Institutional Change

Media can be both a catalyst of institutional change, as well as a means of reinforcing changes once they take place. We identify three specific effects of media on policies and institutions (see Coyne and Leeson 2009):

1. *Gradual effect* – The "gradual effect" of media refers to media's ability to introduce marginal changes by slowly influencing consumer's ideas, perceptions, and information. Since individuals typically update their mental models slowly, the process of institutional change is often gradual. Media can facilitate this gradual change by presenting individuals with information for new mental models—ideas and perceptions that differ from the status quo. As individuals' mental models gradually change, the gap between their desires and existing institutions gradually grows as well, creating pressure for small institutional change. Gradual changes are reflected through citizens' demand for changes in policy or existing institutions. These changes are marginal meaning they do not change the fundamental nature or constitution of existing institutions.

2. *Punctuation effect* – The "punctuation effect" refers to media's ability to facilitate major institutional change. In this role, mass media activates potential tipping points, assisting dramatic institutional change. This in turn influences the set of feasible policies which can be adopted. The process works as follows. If the divergence between private and public preference becomes significant, opportunity for punctuated institution change—rapid and dramatic institutional overhaul—emerges.

   Not all opportunities for punctuated changes lead to actual changes, however. The reason is that dispersed and anonymous individuals cannot always coordinate their beliefs and actions, activating the tipping point required for a punctuation possibility to become reality. For example, opportunities for punctuated change may go unrealized if individuals do not know others share similar private preferences for change. Here, individuals' preference for change remains private preventing the coordination required to seize an opportunity. A "preference gap" that satisfies some minimum threshold is therefore necessary but not sufficient for punctuated institutional change. To be sufficient, society must take advantage of this threshold's satisfaction by activating tipping points—converting opportunity for punctuated institutional change into actual punctuated institutional change—which requires a solution to a "coordination problem." The media can serve as a coordination mechanism converting potential tipping points into actual punctuated changes.

3. *Reinforcement Effect* – The "reinforcement effect" refers to media's ability to reinforce existing punctuated equilibria once they are established. The same capacity of media to generate common knowledge to create change, as per the gradual and punctuated effects, can also reinforce existing institutions. Media can do this by creating common knowledge that supports existing policies and institutions instead of common knowledge that encourages new ones. For example, if a recent punctuated institutional change displaced illiberal institutions with liberal ones and these institutions are working well, this success may be broadcast with individuals' support for the new regime, improving individuals' knowledge that others also view the new institutions favorably, reinforcing the new arrangement.

In the analysis that follows, we place particular emphasis on the various factors that influence these three effects of media on policies and institutions. We emphasize that while a free media is the "first best," even a relatively unfree media can have an important impact on changes in policies and institutions for the better.

In addition to understanding the role of media in policy and institutional change, and hence economic development, our analysis helps to resolve an important tension in the literature on institutions and institutional change. On the one hand, we know institutions change—sometimes dramatically and rapidly. On the other hand, a central characteristic of institutions is their durability. How do we reconcile observed institutional changes with institutional durability? We identify mass media's varying effects, described above, as a specific mechanism that explains institutional change and durability. The media serves as a catalyst of gradual and dramatic change as well as a means of reinforcing existing policies and institutions.

The Outline of this Book

Our examination of media's role in economic development is broad and consists of theoretical, qualitative, and quantitative analysis. Combining these various approaches and methods provides different perspectives on the problem at hand and hence a more complete understanding of our topic of study.

In the next chapter we develop "The Reformers' Dilemma," a theoretical model of the process of policy and institutional change. Drawing on some basic concepts from game theory, we clarify the fundamental dilemma facing policymakers in developing countries. We also model the process of citizen coordination around new conjectures and belief systems. We argue that media can be a coordination-enhancing mechanism around both changes in policy within institutions, as well as gradual and dramatic changes in institutions. We also highlight how media can reinforce changes once they have taken place.

Chapter 3 explores several key factors influencing the dual role and three effects of media discussed above. The first factor is government intervention in the media. As discussed earlier, much of the existing literature on media and economic development has focused either on media as a check on government or on various media ownership patterns. This literature highlights some of the costs and perverse economic outcomes associated with government ownership of media. We contribute to this discussion by identifying the specific ways government manipulates the media and weakens its effectiveness as both a check on government and as a mechanism of change.

We then turn to an analysis of how the legal environment impacts media freedom. Our focus here is on information transparency and the protection of journalists and media employees from direct and indirect coercion. Media quality is the next factor we consider. We focus on the importance of journalist standards and ethics for delivering accurate and timely information to consumers. Finally, we consider the economic factors that influence media. We focus on consumer demand and the importance of a private advertising sector for sustainable media independence. Our contention is that a free media plays an important role in the broader process of economic development. Although even where it is unfree the media can have an important effect on social change, a free media is a first best situation because it is most effective in fully exploiting media's ability to enhance economic development. However, while a free media is necessary for economic development, it is not, by itself, sufficient. Relevant information must be available to media outlets and that information must be reported accurately and ethically.

Finally, consumers must demand certain types of information in order for media to be effective in contributing to economic development.

The next two chapters provide both empirical and qualitative analysis. Utilizing data regarding Eastern and Central Europeans' political knowledge, Chapter 4 statistically analyzes the relationship between media freedom and citizens' political knowledge. Focusing on an environment of democratic political competition, this analysis explores the connection between state ownership of media, political knowledge, political participation, and voter turnout. The main finding is that in countries where government has greater control over the media, citizens are more politically ignorant and apathetic. Chapter 5 complements this empirical analysis by presenting three case studies focusing on media's role in policy and institutional change, as well as in the broader process of economic development. While the statistical evidence in Chapter 4 establishes general patterns, these case studies allow us to trace the casual mechanisms in more detail while paying particular attention to the specific context in which media outlets operate and evolve. These two chapters illustrate the analysis provided in previous chapters.

In the final chapter we conclude by discussing our analysis' implications. In addition to discussing the implications of media for economic development, we provide some clear policy steps regarding the movement toward a free media in developing countries. Because a media free from government manipulation and control is a first best outcome, we focus on providing a policy blueprint for achieving this end. In doing so, we also address some of the concerns regarding "market failures" in media and information markets in developing countries.

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[1] This is not to dismiss the issue of bias but rather to highlight that in many countries the central media issue is one of the extent and magnitude of state involvement in the media. For an economic analysis of media driven biases, see Sutter (2004), Mullainathan and Shleifer (2005), and Gentzkow and Shapiro (2006) examine market-driven news biases.

[2] Source: Freedom House (2008).

[3] Source of data: http://www.freedomhouse.org/uploads/fop/historical/CBGlobal.pdf and Freedom House (2008).

[4] Others exploring the process of institutional change include David (1994), Aoki (2001, 2007), Young (1998), Greif (1994), Greif and Laitin (2004).