



# Media freedom and democracy in the fight against corruption<sup>☆</sup>



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## ABSTRACT

Democratization and media freedom have been suggested as useful tools in the fight against political corruption, but so far their interplay in this fight has received scant attention. We present a game theoretic model which allows for varying quality of media freedom and democratic institutions. The model predicts, among others, that democratization and media freedom are complements in the fight against political corruption. We test our theoretical predictions using differences-in-differences estimations and panel data covering 129 countries from 1980 to 2007. We find evidence of causal effects of democratization and media freedom on corruption, and that the two are complements. Our main results hold after controlling for income, country fixed effects, and continent-specific time-varying shocks.

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## 1. Introduction

Many politicians in office seem to have a tendency to engage in corruption and to appropriate public funds. Democratization is often considered to be a powerful tool in the fight against political corruption (e.g., Treisman, 2000), as regular fair elections give the public the option of removing incumbent politicians from office if significant government malfeasance is discovered. Also media freedom is generally seen as a useful tool (e.g., Brunetti and Weder, 2003), as a free and independent media can play a crucial role in uncovering corrupt behavior and informing the public. We study how the interplay between democratization and media freedom impacts upon political corruption. The main question of interest is whether democratization and media freedom are complements or substitutes in the fight against political corruption. In other words, do we need both a democratic environment with regular fair elections and a free and independent media to curb corruption, or is one of the two enough?

We investigate both theoretically and empirically the relationship between democratization, media freedom and political corruption. In the theoretical part, we present a stylized two-period game between politicians and the people. There are some “good” politicians who act in the people’s best interest and possibly many more “bad” politicians who primarily care about their own revenues. In period one the incumbent politician chooses the level of corruption. The probability that the people observe the true

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level of corruption increases in media freedom. The people then update their belief about the incumbent's type, and they decide whether to support the incumbent or his challenger. The people's decision and the quality of the democratic institutions determine the probability that the incumbent can stay in office in period two. We define democratic institutions to be of high quality if the incumbent is likely to stay in office when supported by the people, but unlikely to stay without the people's support. We find that the equilibrium level of corruption decreases in media freedom and the quality of the democratic institutions. Moreover, democratic institutions are more effective in preventing corruption if the media is free, and media freedom is more effective if democratic institutions are sound. Hence, the model predicts that democratization and media freedom are complements in the fight against political corruption.

In the empirical part we test our theoretical predictions using differences-in-differences estimations and panel data covering 129 countries from 1980 to 2007. Our estimates confirm that both democratization and media freedom have a negative effect on corruption. We argue that these effects are causal. We also find strong joint effects, and document evidence for complementarity between democratization and media freedom. Our main results hold after controlling for income, country fixed effects, and continent-specific time-varying shocks.

Our theoretical part builds on political agency models in the tradition of Barro (1973) and Ferejohn (1986).<sup>2</sup> There are however several noteworthy differences. First, we assume that voting is forward-looking rather than retrospective. Second, we follow Aidt et al. (2008) and Bhattacharyya and Hodler (2010) in allowing for varying degrees of the quality of democratic institutions and, thereby, imperfect democratic institutions. Third, we allow for varying degrees of media freedom and, hence, different probabilities that the people get accurate information about government behavior. Our model is further related to the models of Vaidya (2005) and Besley and Prat (2006), in which the incumbent government can collude with the media or capture it to ensure that corrupt activities are not reported. In contrast to these models, we take the quality of media reporting as exogenous, but focus on how it interacts with the quality of democratic institutions in determining the level of political corruption.

There exists a large empirical literature on the determinants of corruption.<sup>3</sup> Our study is most closely related to contributions focusing on the effects of democracy and media freedom on corruption. Based on cross-country data, Treisman (2000) and Paldam (2002) find evidence that exposure to democracy lowers corruption; Brunetti and Weder (2003) and Freille et al. (2007) find that higher media freedom lowers corruption; and Chowdhury (2004) finds that democracy and media freedom both reduce corruption.<sup>4</sup>

The contribution closest to ours is Adserà et al. (2003). Motivated by a political agency model, they present empirical evidence that democratic institutions and the free circulation of daily newspapers curb corruption in a panel data of around 130 countries and 17 years. From a theoretical perspective, two important differences are that democratic institutions are more explicitly captured in our model, and that our model predicts democratization and media freedom to be complements in the fight against corruption. From an empirical perspective, a first important difference is the use of differences-in-differences estimations instead of pooled OLS. The use of a differences-in-differences design as opposed to pooled OLS allows us to interpret our results as causal effects. A second difference in the empirical part is again our focus on the complementarity between democratization and media freedom in the fight against corruption.

The remainder of the paper is structured as follows: Section 2 presents the theoretical model. Section 3 derives the equilibrium and some testable predictions. Section 4 discusses our empirical strategy and data. Section 5 presents the results. Section 6 briefly concludes.

## 2. The model

There is an economy inhabited by three players: an incumbent president, who is in office for exogenous reasons, a challenger, and the people. Each of the two politicians  $i \in \{1, 2\}$  is a good type  $\theta_i = \bar{\theta}$  with probability  $\alpha \in (0, 1)$ , and a bad type  $\theta_i = \underline{\theta}$  with probability  $1 - \alpha$ . Their types  $\theta_i$  are private information, but  $\alpha$  is common knowledge.<sup>5</sup>

For simplicity, we assume that there are only two periods  $t \in \{1, 2\}$ , and we abstract from discounting. We present a two-period version with discounting as well as an infinite-horizon version with discounting in Appendix A. In each period  $t$  the politician in office  $i$  can decide whether to abstain from corruption, which is in the interest of the people, or to engage in corruption and the expropriation of public funds. That is, he can choose the level of corruption  $c_t(\theta_i) \in \{0, \kappa\}$ , with 0 representing absence of corruption and  $\kappa$  representing considerable corruption.<sup>6</sup>

<sup>2</sup> See Persson and Tabellini (2000, chapter 4) and Besley (2007, chapter 3) for excellent reviews of political agency models.

<sup>3</sup> Early contributions to this literature include Ades and Di Tella (1997, 1999), La Porta et al. (1999), Rose–Ackerman (1999), and Treisman (2000). Bardhan (1997) and Aidt (2003) provide excellent surveys.

<sup>4</sup> Luechinger et al. (2008) find that bureaucratic rents measured with life satisfaction data also depend on institutional and political constraints. Bhattacharyya and Hodler (2010) find that democratic institutions lower the positive effect of natural resource rents on corruption. Goel et al. (2012) look at the relationship between corruption awareness measured with internet searches and corruption. Their results suggest that corruption awareness has similar effects as media freedom. There are also interesting national level studies on the interplay of democracy and media freedom. Ferraz and Finan (2008) measure how publicly released audits of local government expenditures affect electoral outcomes in Brazilian municipalities. They find that the negative effect of reported incidences of corruption on the political incumbent's re-election chances is larger in municipalities with their own local media outlets. Focusing on Spanish municipalities, Costas-Pérez et al. (2012) study how the effects of corruption scandals on electoral outcomes depend on press coverage and judicial charges. Looking at a panel of Indian states, Besley and Burgess (2002) find that political competition and newspaper circulation increase government responsiveness to falls in food production and crop flood damage (but they do not look at the effects on corruption). Complementarily, Choe and Raschky (2011) find that better democratic institutions and more media activity increase the government's response to major cholera epidemics.

<sup>5</sup> Equilibrium behavior is independent of the value of  $\alpha$  as long as  $\alpha \in (0, 1)$ . Hence, it is the same even if good politicians are rare.

<sup>6</sup> Results remain qualitatively unchanged if the low corruption level is strictly positive, or if we allow for multiple corruption levels or even a continuum of them.

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