

The Role of Media in Economic Development

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Workshop

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The outline of the Talk

- The Role of Media
- Who should own the sector – the two main views
- Summarize the main findings in the media literature
- The benchmarks of a media sector
- Discussing Data
- Discussion of the main reading
- What hasn't been discussed so far?

North-east states and Kashmir



Source: International Press Institute



Nandigram, West Bengal, India - 2007



Media – what role can it play?

- Previous research has stressed on the imperative role of information in generating economic well-being.
- Information improves the efficiency of economic markets by expanding the knowledge base of consumers and assists them in making the right choices in all spheres whether it be political, economic or financial.
- The availability of the information is an important determinant of the efficiency of economic and political markets (Simons 1948, Stigler 1961, Stiglitz, 2000)
- The provider of this information is largely the media sector and therefore it is important for this sector to have a greater reach, good quality and a considerable degree of freedom.



Who should own the Media?

- A critical question?
- How should the media industry be owned – state owned or privately owned?
- Should it be organized as a monopoly or as a competitively?



State ownership

- Theoretical argument
 - A Pigouvian economist believes that government maximizes the welfare of consumers – thus information should be provided by a government owned monopoly.
 - What can be the argument here?



State ownership contd..

- Information is a public good. So, once it is supplied to consumers, it is hard to prevent individuals from accessing it.
- Though there is high fixed cost of setting up a media sector, the marginal cost of providing information is low.
- State ownership protects the public from exposure to 'extreme views' (BBC)



Private ownership

- Government monopoly in the media would distort and manipulate the information reaching the citizens
- Preclude voters from making informed decisions.
- Private and independent media supply divergent views to the public – thus, they enable voters and consumers to choose among political candidates, commodities and securities – with less fear of abuse by unscrupulous politicians, producers and promoters (Sen 1984, 1999; Besley and Burgess, 2000)
- Moreover, competition among media firms assures that voters and consumers, on average, receive unbiased and accurate information (Brunetti and Weder, 2003)

- even Pigouvian economists, who adopt the view of benevolent government, avoid this perspective in the case of media industry (Lewis, 1955; Gunnar Myrdal, 1953)



Impact of Media Freedom on development

- Corruption - In general literature has confirmed that higher press freedom mitigates corruption
- While a two way relationship is possible, literature has identified a causal relation between the two with the direction of causality going from press freedom to corruption (Brunetti and Weder, 2003).
- Acts as an effective liaison between government and the masses and , thus, favors effective public policy implementation (Sen, 1984, 1999; Djankov, Mcleish, Nenova and Shleifer, 2003)



Contd..

- A free media is shown to promote economic development by solving principal (citizens) – agent (the elected officials) problems through the free flow of information (Besley and Burgess, 2001; Besley, Burgess and Prat, 2002; Stiglitz, 2002) – case of India in case of public distribution system
- Lower media freedom has been shown to be associated with lower political awareness and voter's knowledge (Leeson, 2008)
- Promoting socio-political stability (Dutta, Pal and Roy, 2011)



An Ideal Media Sector

- The Critical Attributes (Islam, 2002)
 - Independence
 - Media industry's ability to report information it receives without undue fear of being penalized. No media outlet can be completely independent, even when it is not
 - As Stiglitz points out “Leaks are important because they get otherwise secret information into public domain”
 - Reach
 - How much access do the masses have to the print, electronic or broadcast media?
 - Related to Literacy of a country
 - Culture might affect access to media – some cultures can be less television bound relative to others
 - Dyck and Zingales find that a country's cultural tradition affects diffusion of the press
 - Quality
 - “High-quality media are defined as those with access to and the capacity to report (more or less) objectively on basic economic, social and political information: those that can publish a diversity of views and are accountable for the information they publish” – Islam (2002)

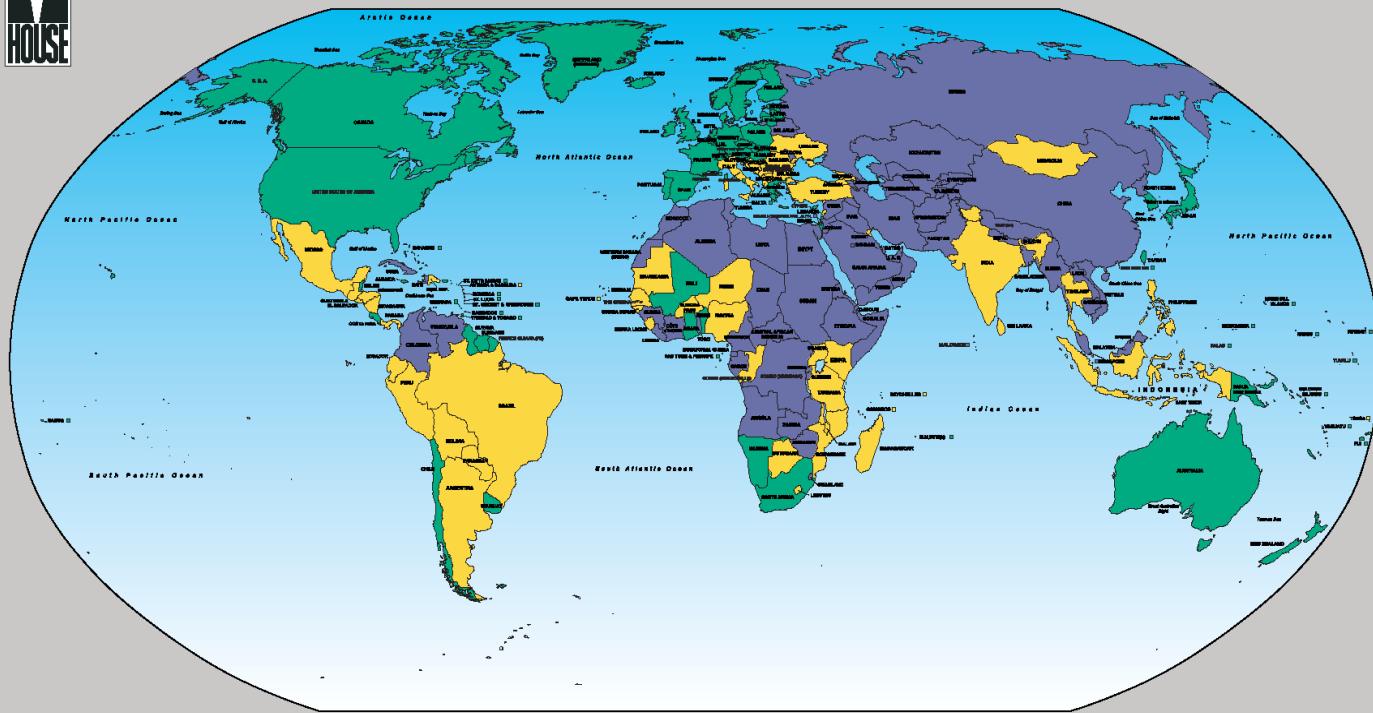


Data

- Freedom of the press
 - Freedom House
 - An index ranging from 0 to 100 with a higher score denoting a less free press. Based on 23 survey questions in an attempt to assess the freedom of the press based on political, legal and economic environment. As Freedom House puts it “the legal environment for the media, political pressures that influence reporting, and economic factors that affect access to information’ (Freedom House, 2004)’.



MAP OF PRESS FREEDOM 2006



The Map of Press Freedom reflects the flow of news and information within and between 194 countries and territories. Universal criteria determine the judgments, starting with Article 19 of the United Nations' Declaration of Human Rights.

Criteria include the legal environment in which the media operate the degree of independence of the news media from governmental ownership and influence economic pressure on news content; and diverse violations of press freedom from the murder of journalists to other extra legal abuse and harassment.

In 2005, there were 1.11 billion people living in countries with free media, representing 17 percent of the world's population. There were 2.57 billion people living in countries with partly free media, representing 40 percent of the world's population. There were 2.79 billion people living in countries with no free media, representing 43 percent of the world's population.

Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media without prior authorization. Article 19, Universal Declaration of Human Rights – UN General Assembly, 1948

Congress shall make no law...abridging the freedom of speech, or of the press...
The First Amendment to the Constitution of the United States

Since 1979, Freedom House has regularly assessed press freedom worldwide. For a full report on freedom of the press, please contact Freedom House/New York.

Freedom House

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Global Trends in Press Freedom

| Year Under Review | 1995 | 2000 | 2005 |
|-------------------|------|------|------|
| Free | 64 | 72 | 73 |
| Partly Free | 63 | 55 | 54 |
| Not Free | 60 | 62 | 67 |
| Total | 187 | 187 | 194 |

SUB-SAHARAN AFRICA

| Rank 2010 | Country | Rating | Status |
|-----------|------------------------------------------|--------|-------------|
| 1 | Mali | 25 | Free |
| 2 | Ghana | 26 | Free |
| 3 | Mauritius | 27 | Free |
| 4 | Cape Verde | 28 | Free |
| | Sao Tome and Principe | 28 | Free |
| 6 | South Africa | 32 | Partly Free |
| 7 | Benin | 33 | Partly Free |
| 8 | Namibia | 34 | Partly Free |
| 9 | Botswana | 39 | Partly Free |
| 10 | Burkina Faso | 41 | Partly Free |
| 11 | Mozambique | 42 | Partly Free |
| 12 | Lesotho | 48 | Partly Free |
| 13 | Comoros | 50 | Partly Free |
| | Tanzania | 50 | Partly Free |
| 15 | Congo (Brazzaville) | 54 | Partly Free |
| | Guinea-Bissau | 54 | Partly Free |
| | Nigeria | 54 | Partly Free |
| | Uganda | 54 | Partly Free |
| 19 | Sierra Leone | 55 | Partly Free |
| 20 | Malawi | 56 | Partly Free |
| | Mauritania | 56 | Partly Free |
| 22 | Kenya | 57 | Partly Free |
| | Senegal | 57 | Partly Free |
| 24 | Seychelles | 58 | Partly Free |
| 25 | Central African Republic | 61 | Not Free |
| | Liberia | 61 | Not Free |
| | Madagascar | 61 | Not Free |
| 28 | Angola | 62 | Not Free |
| 29 | Zambia | 64 | Not Free |
| 30 | Cameroon | 66 | Not Free |
| | Cote d'Ivoire | 66 | Not Free |
| 32 | Niger | 68 | Not Free |
| 33 | Gabon | 71 | Not Free |
| | Guinea | 71 | Not Free |
| 35 | Burundi | 73 | Not Free |
| | Djibouti | 73 | Not Free |

| Rank 2010 | Country | Rating | Status |
|-----------|-------------------|--------|----------|
| 37 | Togo | 74 | Not Free |
| 38 | Sudan | 76 | Not Free |
| | Swaziland | 76 | Not Free |
| 40 | Chad | 77 | Not Free |
| 41 | Ethiopia | 78 | Not Free |
| 42 | Congo (Kinshasa) | 81 | Not Free |
| | The Gambia | 81 | Not Free |
| 44 | Rwanda | 83 | Not Free |
| 45 | Somalia | 84 | Not Free |
| | Zimbabwe | 84 | Not Free |
| 47 | Equatorial Guinea | 90 | Not Free |
| 48 | Eritrea | 94 | Not Free |

| Status | Number | Percentage |
|--------------|-----------|-------------|
| Free | 5 | 10% |
| Partly Free | 19 | 40% |
| Not Free | 24 | 50% |
| TOTAL | 48 | 100% |



Data

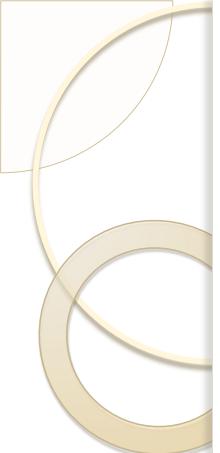
- The legal environment is scored on a 30-point scale, political environment on a 40-point scale and economic environment on a 30-point scale.
- Three categories – Not Free, Partly Free and Free
 - Not Free – 61 to 100
 - Partly Free – 31 to 60
 - Free – 0 to 30



Data (contd..)

- Freedom of the Press

- Several dimensions of potential violations of press freedom are evaluated (Brunetti and Weder, 2003)
- The legal environment category judges laws and criteria that could influence media contents, the ability of journalists' to operate freely and the government's use of regulations to curb media operations.
- *“For instance, 'if private broadcast media are owned by government with no dissent allowed, the rating will be very low' but if 'a government that owns all broadcast media may permit widely pluralist ideas, even active dissent from government positions' then the rating will be more favorable.”* (Brunetti and Weder, 2003; original source - Freedom House, 1997)



Data contd..

- Freedom of the press
 - The *economic environment* includes the structure of media ownership, transparency and concentration of ownership and the impact of corruption and economic institutions on media.
 - considers “*competitive pressures in the private sector that distort reportage as well as economic favoritism or reprisals by government for unwanted press coverage*”(*Brunetti and Weder, 2003*)



Data (contd..)

- Freedom of the press
 - *Political influence over media content captures* “political pressure on the content of both privately owned and government media and takes into account the day-to-day conditions in which journalist work”. It also includes “threats from organized crime” which may lead to self-censorship. (Freedom House; Brunetti and Weder, 2001)



Freedom House data

- Starts from 1980
- The reporting of the data changes in some years
- Need to be careful about the weights attached to the several categories
- Initially starts with qualitative data – moves on to quantitative data
- Should be careful if you are rescaling the data



Other data sources for Media

- Reporters without borders (RWB)
 - Freedom of press implies the amount of freedom enjoyed by journalists – so the focus is narrow
 - But they have now incorporated other factors similar to Freedom House (laws protecting the journalists and freedom enjoyed by news organizations, in general)
 - Some examples of the questionnaire
 - Physical Attacks, Imprisonment And Direct Threats (several sub-components)



Other sources

- The questionnaire was sent to
 - Reporters Without Borders' partner organizations (15 freedom of expression groups in all five continents),
 - to its network of 130 correspondents around the world,
 - and to journalists, researchers, jurists and human rights activists



Other sources

- RWB
 - From RWB 2009

“To compile this index, Reporters Without Borders prepared a questionnaire with 40 criteria that assess the state of press freedom in each country. It includes every kind of violation directly affecting journalists (such as murders, imprisonment, physical attacks and threats) and news media (censorship, confiscation of newspaper issues, searches and harassment).

- *It also measures the level of self-censorship in each country and the ability of the media to investigate and criticize. Financial pressure, which is increasingly common, is also assessed and incorporated into the final score.”*



Problems

- Since they have incorporated more questions over time and have broadened the focus, data over years may not be exactly comparable (but you can expect strong correlations)
- Starts from 2002 – so, at most, you can create a 10 year panel – Freedom House dates back to 1980
- Scores may not always be comparable over years



The Main Reading

- **Media Freedom, Socio-Political Stability and Investment**
 - We hypothesize that a free media enhances socio-political stability which, in turn, helps create a favorable investment climate that attracts investment



The story

Media Freedom →

Socio-political stability → Investment



How can media freedom potentially lead to greater socio-political stability?

1. “Captured” media is likely to be manipulated by governments, and hence used to trigger political unrest that benefits ruling political parties (Engineer 1991, Ch.1)



How?

2. Improves the responsiveness of authorities by making the government more transparent and answerable to the public. This, in turn, reduces chances of social, ethnic and religious conflict
 - Besley and Burgess (2001) - states that have higher numbers of newspaper circulation, electoral turnout and literacy also have more efficient state governments in terms of mitigating the food crisis
 - According to Besley et al. (2002), newspapers, by closing the information gap between the authorities and the masses incentivize the government to act in the interest of the people.



How? (# 2 contd...)

- Information – gap argument –
 - Djankov et al. (2002) show that press freedom decreases corruption and improves civil rights.
 - Strömberg (2004) examines the effect of radios on public spending - number of radio listeners in US counties directly related to obtaining greater relief funds for which they were eligible.
 - “Non-captured” media may also provide an inexpensive and non-violent way of expressing mass grievance which may reduce ethnic, religious and social tensions(Anam, 2002)



How?

3. Unregulated Media → greater ability to disseminate news internationally
 - This dissemination may create external pressure on governments to act less in their own interests and more in the interests of their citizens (Sen, 2000)



How?

- 4. Political participation increases as the media gets freer (Leeson, 2008)
- Implication → greater pressure on authorities as well as politically active society may be able to resolve differences peacefully



How?

- Pal (2011) shows that for four out of seven indicators of socio-political instability there are statistically significant negative correlations between media freedom and socio-political instability.



The Empirical Model

- We follow the methodology of Alesina and Perotti (1996)

$$INV_{it} = \alpha_0 + \alpha_1 SPS_{it} + \alpha_2 X_{it} + Year_t + \varepsilon_{it} \quad (1)$$

$$SPS_{it} = \beta_0 + \beta_1 INV_{it} + \beta_2 Media\ Freedom_{it} + X_{it} + Year_t + \vartheta_{it} \quad (2)$$

- SPS (Socio – Political Stability Index)
 - We apply the method of Principal Components to generate the following index

$$SPS = 0.38 * Ethnic + 0.37 * Extconf + 0.46 * Intconf + 0.28 * Govstab + 0.43 * Law + 0.39 * Milit + 0.30 * Relig$$



Data contd..

- Socio-Political Stability
 - International Country Risk Guide (ICRG)
 - Main index of socio-political stability (*SPS*) is constructed by applying the method of principal components to seven different components of socio-political stability
 - ethnic tension (*Ethnic*), a measure of the degree of tension associated with racial, language or nationality divisions
 - external conflict (*Extconf*), that includes both violent and non-violent foreign actions that may threaten the incumbent government
 - internal conflict (*Intconf*), measuring political violence within a country including civil wars, coups and terrorism
 - government stability (*Govstab*), accounting for credibility of government policies and its ability to stay in office
 - law and order (*Law*), an assessment of the judiciary and popular abidance to the law
 - military in politics (*Milit*), a measure of participation of military in government,
 - religious tensions (*Relig*), a measure of instability arising from religious wars and suppression. Appendix B provides a note on principal components analysis.
 -



ICRG – detailed description

A.1 Socio-Political Instability Components

- *Ethnic Tension* captures any unrest in a country attributable to racial, nationality and language diversities. The score varies from 0 to 6. In all the above cases, as mentioned before, higher scores denote better situation.
- *External Conflict* assesses the influence of foreign action on incumbent government. This may take non-violent forms such as diplomatic pressure, territorial disputes or violent forms such as cross-border conflicts or wars. The index ranges from 0-4, and a higher value indicates lower risk.
- *Internal Conflict* is composed of threat of civil unrest, terrorism or political violence and occurrence of civil war. It captures the extent of political unrest in a country and its potential impact on government functioning. The scoring ranges from 0 to 12.
- *Government Stability* assesses the government's ability to stay in office and perform its declared duties. Its subcomponents are legislative strength of the government, government unity and popular support. The score for this indicator runs from 0 to 12.
- *Law and Order*, as the name suggests, consists of law and order separately. The total score of this range from 0 to 6 with higher values depicting “Low Risk”.
- *Military in Politics* measures the risk associated due to involvement of military in politics is taken as a diminution of democratic accountability and is also seen to be an indication of an internal or external threat. The score for this factor ranges from 0 to 6 points with a higher value indicating “Lower Risk”.
- *Religious Tensions* reflect dominance of the government by any particular religion and suppression of the others and has the potential to initiate civil strife. The score for this factor ranges from 0 to 6, with a higher value indicating “Lower Risk”.



Results

- Media Freedom shows a significant positive correlation with SPS
 - An unit increase in the media freedom score is associated with an increase in the value of the socio-political stability by 0.797
- The correlation coefficient between SPS and Investment is positive and significant
 - An increase in socio-political stability by 1 unit increases investment share in GDP by 4.313 units.

Table 1B: Simple Correlation Coefficients

| | SPS | SPS ₂ | SPS ₃ | Media Freedom |
|------------------|-------|------------------|------------------|---------------|
| SPS | 1 | 0.99* | 0.92* | 0.58* |
| SPS ₂ | 0.99* | 1 | 0.93* | 0.60* |
| SPS ₃ | 0.92* | 0.93* | 1 | 0.51* |
| Investment | 0.41* | 0.41* | 0.34* | 0.45* |

Notes: *(p<0.01)

$$\begin{aligned}
 SPS = & 0.38 * Ethnic + 0.37 * Extconf + 0.46 * Intconf + 0.28 * Govstab + 0.43 * Law \\
 & + 0.39 * Milit + 0.30 * Relig
 \end{aligned}$$

$$\begin{aligned}
 SPS_2 = & 0.39 * Ethnic + 0.39 * Extconf + 0.47 * Intconf + 0.44 * Law + 0.41 * Milit \\
 & + 0.33 * Relig
 \end{aligned}$$

$$SPS_3 = 0.5 * Ethnic + 0.47 * Extconf + 0.57 * Intconf + 0.45 * Relig$$

Table 2: Media freedom, Socio-Political Stability and Investment

| Explanatory Variables | (1) Investment/ GDP | (2) SPS |
|-----------------------|---------------------------|----------------------|
| Investment/GDP | | 0.018*** (0.003) |
| Media freedom | | 0.797*** (0.077) |
| SPS | 4.313* (2.411) | |
| Real GDP per capita | 0.000 (0.000) | 0.000*** (0.000) |
| Population growth | -3.333*** (0.323) | 0.006 (0.014) |
| Education | 0.130*** (0.035) | -0.000 (0.001) |
| Polity | | -0.015*** (0.003) |
| Trade openness | 0.053*** (0.006) | |
| Constant | 12.599*** (4.465) | 1.078*** (0.086) |
| R-squared | 0.419 | 0.454 |

N = 1043. *** p<0.01, ** p<0.05, * p<0.10. Standard errors in parentheses. All regressions include year dummies, not reported.

Notes: Column (1) shows the coefficient estimates of equation (1). An increase in SPS by 1 unit increases investment share in GDP by 4.313 units. Column (2) shows the estimation results of equation (2). The estimate implies that a unit increase in the media freedom score is associated with an increase in the value of the SPS index and hence increases in socio-political stability by 0.797.

Table 2: Alternative Measure of Socio-Political Stability

| Explanatory Variables | (1) | (2) |
|-----------------------|----------------------|----------------------|
| | Investment/GDP | SPS ₂ |
| Investment/GDP | | 0.018*** (0.003) |
| Media freedom | | 0.821*** (0.077) |
| SPS ₂ | 4.852** (2.243) | |
| Real GDP per capita | 0.000 (0.000) | 0.000*** (0.000) |
| Population growth | -3.253*** (0.327) | 0.001 (0.014) |
| Education | 0.128*** (0.036) | -0.000 (0.001) |
| Polity | | -0.013*** (0.003) |
| Trade openness | 0.053*** (0.006) | |
| Constant | 11.925*** (4.084) | 0.998*** (0.089) |
| Observations | 1043 | 1043 |
| R-squared | 0.415 | 0.477 |

N = 1043. *** p<0.01, ** p<0.05, * p<0.10. Standard errors in parentheses. All regressions include year dummies, not reported. Notes: An alternative measure of socio-political stability is used, SPS₂ that excludes government stability. Government stability can have a negative or positive effect on investment. While a more stable government creates a safer business environment, greater instability of government may also signal that the political system actively replaces bad governance with good ones. This may attract investment as well.



Some more data sources

- IREX – Media Sustainability Index (MSI)
 - Legal and social norms protect and promote free speech and access to public information.
 - Journalism meets professional standards of quality.
 - Multiple news sources provide citizens with reliable, objective news.
 - Independent media are well-managed businesses, allowing editorial independence.
 - Supporting institutions function in the professional interests of independent media.
- Very recent data – only covers MENA countries



Answers not found??

- Important Questions

- Reach of media – still quite unexplored! How does reach affect development?
- So far, no concrete econometric analysis on reach and access to media
- Combining reach with literacy??? Why is this important?
- To be able to make informed decisions
- How does the interaction of independence and reach matter? Does it matter at all?
- Develop panel data based on ownership shares for countries. Similar to “who owns the media?” paper
- Governance is another important factor – direction of causation ? Does governance affect media freedom or it is the other way round?
- “The key message is that an independent media can boost economic development by promoting good governance and empowering citizens. It can make economies function better.” (Islam ed., 2002)
- Culture and/or informal institutions and media – both affects each other (Culture data : WVS and/or EVS survey)