

# Manipulating the Media<sup>◇</sup>

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## 1. Introduction

Over one and a half centuries ago Alexis de Tocqueville pointed to the importance of media in creating prosperity: “newspapers,” he wrote, “maintain civilization”. Format: (1835-1840, p. 517). Nearly 170 years later economists are coming to the same conclusion. Most theories of mass media predict important effects of media on society, but few predict the same kinds of effects when it comes to the state’s involvement in providing news.

In economics, the public interest theory of media suggests the desirability of state-controlled media. It maintains that private media are likely to suffer from problems of under-provision owing to the public goods characteristics of information. Furthermore, according to this theory, private media outlets have profit-driven incentives to sensationalize the news, entertaining instead of informing consumers, leading to a less knowledgeable public. In the public interest theory, state-controlled media correct these deficiencies.

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Although they do not necessarily endorse state-provision of mass media, several sociological theories of the media point to similar problems of leaving the media in to the market. Among these approaches is that offered by critical theorists and neo-Marxist writers who fear the concentration of media power in private hands. According to their arguments, market-based media can lead to unhealthy control of society by those in superior economic positions to the disadvantage of those who are not as well off (see, for instance, Bagdikian, 1990; Herman and Chomsky, 1988; Gramsci, 1978).

Against these views is the ‘liberal democratic’ theory of media, which has also received some attention in the sociological literature and elsewhere (see, for instance, Keane, 1991); Curran, 2000; Mill, 1859; Tocqueville, 1835-1840). This theory is rooted in the idea that free speech is critical to the thriving plurality of public opinions that makes democratic liberalism possible. This approach harkens back to Tocqueville in acknowledging the importance of a free press for robust civil society, and to J.S. Mill’s demand that we freely challenge all ideas, or face the crippling effects of dogma.

Somewhat related to this approach is the public choice theory of the media, which contradicts the predictions of the public interest theory. This strand of research has dominated investigations of the media in the economic literature, and it is this approach that we take here. Perhaps strangely, the public choice theory shares with neo-Marxist/critical theory a fear of concentrating information provision in the hands of a few elites, though in the public choice approach, these few are those in political power. According to the public choice theory, where the state has significant control of the media, the temptation for rulers to abuse this power for their own ends is too much to resist. Given the chance, politicians will use their sway over the media to manipulate information reaching the public, serving their private interests at the expense of society. Public choice theory therefore predicts worse social outcomes where the media is more heavily controlled by government.

Although the literature addressing the connection between media and economic outcomes is still small, recent work that considers the effect of media freedom on economic outcomes validates the public choice theory of media against the public interest theory (Besley and Burgess, 2002; Besley and Prat, 2002; Djankov *et al.*, 2003). Djankov *et al.* (2003), for instance, show that where government owns the me-

dia, citizens are poorer, die younger, have higher infant mortality rates, less access to sanitation, there is more corruption, and less developed capital markets. Where media is privately owned, the opposite is true.

To complement this empirical work a small but growing literature theoretically addresses how media structures affect the adoption of policy reforms. Where the media is free it improves government's responsiveness to voter wants (Coyne and Leeson, 2004a; Stromberg, 2004; Besley and Burgess, 2002; Besley and Prat, 2002; Mueller, 1992; Sen, 1984, 1999)<sup>1</sup>. In democracies, the presence of independent media not only heightens voter awareness of important policy issues, it also provides them with accurate information about the behavior of political agents. This enables voters to monitor politicians who are thus made more accountable to the public<sup>2</sup>.

Missing from the literature that discusses media and economic outcomes is research that investigates *how* government manipulates the media where it is unfree. In other words, what methods does the state use to influence the content of media-provided information? Is dependence limited strictly to media outlets, or does it extend to media related infrastructure as well? Are privately owned media outlets free from state influence? If not, how does government influence these media? Djankov *et al.* (2003) note that a number of factors may be important in determining the extent of media manipulation, but except for outlet ownership, do not explore them.

Our first task in this paper is to do this. Using Romania as a case study we find that media ownership, which has received the lion's share of the focus from economists so far, is but one of several determinants of media manipulation. Although state ownership is an important element of media dependence, it is far from the only method government uses to manipulate the media where it is unfree. Furthermore, we find that despite the attention it has received, state ownership of

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1. Van Belle *et al.* (2004) examine the ability of an independent media to compel non-elected policy officials to serve the public's interest. Dyck and Zingales (2002) consider how a free media improves the accuracy of media provided information in the context of corporate governance.

2. Again, Tocqueville seems to have anticipated the economists here. As he put it, "A newspaper is not only able to suggest a common plan to many men; it provides them with the means of carrying out in common the plans that they have thought of for themselves" (1835-1840, p. 518).

newspapers, radio and television stations may not be the most important determinant of media manipulation.

Additionally, we aim to provide concretized evidence that shows how media manipulation affects economic performance. Based on our fieldwork we find that media manipulation destroys information credibility, which in turn destroys the possibility of economic reform and improved economic performance. In other words, we provide direct evidence that political knowledge is the channel through which media dependence impacts economic outcomes. Our results are based on an in-depth case study and do not provide a cross-sectional analysis so they cannot be treated as equally applicable in all cases. Still, they provide a useful first step in explaining how media manipulation works and understanding its connection to economic performance.

The remainder of this paper is organized as follows: Section 2 describes our data. Section 3 describes Romania's political and economic landscape at a glance. Section 4 examines the Romanian media's institutional structure. Section 5 investigates the means that government uses to manipulate the media in this environment. Section 6 examines how media manipulation affects economic performance and Section 7 concludes with the implications of our analysis.

## **2. Data**

The data we use to examine the methods of state media manipulation come from extensive fieldwork in Romania in the summer of 2003. We conducted in-depth personal interviews with approximately 30 Romanian entrepreneurs and political agents in face-to-face conversations. Subjects were requested to engage in semi-unstructured, directed discussions that included questions posed by the authors. These questions were not strictly uniform across subjects, but broadly addressed similar issues concerning Romanian economic reform, subjects' perceptions/experiences regarding the credibility of Romania media outlets including newspapers, radio and television, and their perceptions/experiences regarding the independence of these outlets. This approach had the obvious advantages of flexibility, high rate of response, the ability to control the succession of questions, and the ability to ex-

plore complex issues. Its main drawback was reduced comparability of answers due to non-standardized questions.

We conducted our interviews in three major geographic regions of the country-Bucharest, Arad and Olt-representing both urban and rural perspectives in roughly equal proportions. Political subjects were selected on the basis of relevance and availability. Thus those available political agents who seemed most likely to have insights related to the state's relationship to Romanian media (for instance, the Deputy of the Culture, Arts, and Mass Media Commission) received priority. Interviews with entrepreneurs were selected primarily by reference from other subjects, though some were selected at random. Subjects ranged in age between 29 and 65 and included both men and women.

### **3. Romania's Political and Economic Landscape at a Glance**

To understand the relationship between media manipulation and economic reform in Romania it is important to briefly familiarize oneself with Romania's current political and economic situation. Romania is a lower middle income, developing nation. Its population is around 22.3 million, making it one of the largest countries in Central Europe. This population is about equally divided between urban and rural areas, with slightly fewer inhabitants (about 3% fewer) in the latter (CIA World Factbook, 2004).

While it has progressed somewhat since the collapse of Ceausescu's communist rule in 1989, Romania continues to struggle economically and faces a long uphill journey before it reaches the level of comparatively successful reforming Eastern European economies like Estonia, Poland or the Czech Republic. Romania's per capita GDP (purchasing power parity) languishes around \$7000 and nearly 45% of its population lives below the poverty line (World Bank, 2004; CIA World Factbook, 2004). Its growth rate has fluctuated somewhat since beginning its transition, reaching a low of -13% in 1992 and peaking in 1995 at about 7%. Inflation has been a persistent problem in Romania climbing to its height at over 250% in 1993.

Though it has dropped dramatically from this level, inflation remains a problem and in 2003 was approximately 15% (CIA World Factbook, 2004).

Some privatization has occurred since 1989, however the continuation of these efforts has stalled. Thus while the private sector has grown, the weight of large loss-making public enterprises remains high. In 2001, the private sector employed 62.8% of the work force, primarily in commerce and services (37.5%), agriculture and forestry (17.3%), industry (17.3%) and construction (3.4%) (CIA World Factbook, 2004). Public companies, however, still account for more than 40% of enterprise investment and 75% of all tangible assets. In the agricultural sector, despite some progress, the problem of property titles is not yet fully clarified. This and limited progress in privatizing agricultural companies hold back the consolidation of fragmented land holdings and the development of a viable land market.

The Heritage Foundation/Wall Street Journal *Index of Economic Freedom* (2004) has placed Romania in the category of “Mostly Un-free” every year since 1995 when it began scoring countries. Excessive regulation, bureaucracy, taxation, and rapidly changing laws have created an impossible environment for entrepreneurs and continue to pose serious obstacles to business start-ups and growth (Aligica, Coyne, and Leeson, 2003). Although this fact is widely recognized both inside and outside of Romania, little has been done to improve the business climate. On the contrary, new legislation that deals with issues like regulation tends to exacerbate the problem rather than fixing it.

Politically, Romania is a constitutional democracy and has a multi-party, bicameral parliamentary system. In 2000 the center-left Social Democratic Party (PSD) became Romania’s leading party. In the December 2004 presidential elections the opposition center-right alliance, consisting of the National Liberal Party (PNL) and the Democratic Party (PD) won a surprising victory over the ruling PSD. The current President is Traian Basescu. The Social Democratic Party holds about 37% of the seats in both the Senate and the Chamber of Deputies (CIA World Factbook, 2004). Political corruption is rampant in Romania. In 2002, it was ranked the third most corrupt country in Europe after Russia and Albania (Transparency International, 2003). In addition to addressing economic concerns, if Romania can clean up its political corruption, the international community has agreed to consider Romania’s accession to the European Union in 2007. Given Romania’s failure to bring inflation under control, privatize significant portions of the economy or improve its environment of corruption (among other problems),

however, accession in 2007 seems unlikely. Romania joined NATO in March of 2004.

#### **4. The Institutional Media Structure of Romania**

Although Article 30 of Romania's 1991 constitution guarantees the freedom of media, in practice this freedom is rarely to be found. On the contrary, Romania's media structure is a portrait of state dependence<sup>3</sup>.

Romanian mass media consists of three major components: print media, television and radio. Print media is dominated by private newspapers/tabloids and there are presently over 1500 written periodicals in circulation throughout Romania (National Institute of Statistics, 2001). Although there are no state-owned print media sources, it is not uncommon for local political leaders to purchase local newspapers as means of controlling the information that reaches the public (Media Sustainability Index, 2002: 78). As we discuss below, until recently there existed only one newsprint mill in all of Romania, Letea SA Bacau-a state-owned enterprise. Additionally, although a few very small private distribution networks for print media have emerged in recent years, there effectively remains one distribution network for the entire nation, Rodipet-also a state-owned industry.

There are currently over 100 private television stations in Romania. About 55 % of television-owning households have access to cable television (with most of these households being in urban areas) (IMAS, 2001).

Romanian State Television, or TVR, is the most significant and pervasive mass media outlet in Romania. Indeed, it is the only Romanian television station that reaches nearly every home.

The president and parliament appoint the directors of TVR. This discretion gives government considerable control over the editorial direc-

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3. Free speech was of course ruthlessly suppressed in the Ceausescu era. The description of Romanian media provided here applies the period between the early 1990s and the present in which, nominally at least, the independence of Romanian mass media was guaranteed by the government. The emergence of particular attributes discussed here, of course, occurred in this period but at different times. The National Council of Broadcasting, for instance, came on the scene in 1992, while Rompres, the state-owned distribution network, on the other hand is a relic of Ceausescu's rule.

tion of the station. Unlike its private counterparts, TVR is exempt from paying taxes on the equipment it purchases abroad (Gross, 1996, p. 69). Particularly in rural regions, government-owned channels have significant control over the information available to citizens through television. There are two state-owned national channels that compose TVR-Romania 1 and TVR2, two state-owned international channels-TVRI International and TVR Cultural, and several regional public television channels throughout the country. The most prominent of the regional government-owned channels are TVR Timisoara, TVR Cluj and TVR Iasi.

The state finances public television and radio through a compulsory television and radio tax. This tax preferentially treats government owned media since citizens are more likely to use state run media sources that they have already paid for, than private ones, which they must pay for additionally if they want access to non-government run media (Media Sustainability Index, 2001, p. 180). The National Council of Broadcasting (CNA), a state agency, has the exclusive right to determine entrance into the TV and radio broadcasting industry. CNA governs the distribution of TV and radio broadcasting licenses throughout the country. Over the last decade there have been approximately 1,800 requests made to the CNA for radio licenses; 301 frequencies have been granted (Media Sustainability Index, 2002, p. 80).

The state-owned Romanian Radio operates four national radio channels-News, Culture, Youth and Music, one international channel, and approximately ten local/regional radio programs. As with television, state-owned Romanian Radio dominates the national radio scene. The president and parliament appoint Romanian Radio's directors as they do for TVR.

Finally, there are two primary news agencies in Romania for all three major forms of media. Mediafax, a private news agency, is the largest of these with most media outlets subscribing to at least one of its services. Rompres, the state-owned agency, is the second largest news agency in Romania. It produces about half as many stories per day as its private counterpart (European Journalism Center, 2002).



## 5. The Means of Media Manipulation

Data collected through our fieldwork suggests four specific avenues through which government manipulates media in this environment: (1) *direct* control via outlet ownership, (2) *indirect* control via infrastructure ownership, (3) *indirect* control via financial pressure, and (4) *indirect* control via entry regulation.

### 5.1. Direct Control via State Owned Media Outlets

As Grossman and Hart (1986) point out, ownership bestows control. Thus in the case of explicitly state owned media outlets it is not difficult to imagine how government influences media provided information. These outlets are financed entirely by the state and consequently do not rely upon consumers to remain afloat. Since they are beholden to the state for funding, state owned media outlets have a strong incentive to avoid being critical of the current government. Furthermore, as state owned enterprises, these outlets are run exclusively by government appointed directors who determine both the stories that will be covered as well as the light in which these stories will be conveyed. Politicians in power thus choose directors and editors that will do their bidding, creating heavily biased news.

Government's manipulation of media provided information in this case is obvious. TVR, for example, the preeminent source of Romanian news, is first and foremost recognized as a political tool of the ruling party rather than as a source of credible information. It is widely acknowledged that TVR provided decidedly biased news coverage in the time surrounding the election of 1990 to politically manipulate the outcome. Since 1990, TVR has continued to manipulate information reaching the public. For instance, at the command of recently replaced President Iliescu, TVR has canceled programs that feature members of the opposition (Gross, 1996, p. 67).

Closely related to direct state ownership of media outlets is the ownership of outlets by incumbent politicians. A phenomenon called "Berlusconisation" whereby political leaders purchase media outlets to use for their political purposes has grown substantially in Romania in recent years. This practice received its name from Former Italian Prime

Minister Silvio Berlusconi, who is also a prominent media mogul, and refers to the endowment of media ownership and a political office in the same individual. Although in this case outlets are technically in the hands of private owners, they are not acquired and operated for the purposes of profit, but instead to manipulate information reaching the outlet's audience. In many instances these outlets are not even self-sustaining but are instead cross subsidized by their owners' other businesses that generate profits. Politicians find it worthwhile to keep these media sources operating despite the fact that they often generate monetary losses because of their ability to control information reaching the public (Media Sustainability Index, 2002, p. 82).

Berlusconisation is most pervasive on the local scale in less urban areas where local newspapers and radio stations are struggling financially.

Counties in Romania such as Bacau, Gorj, Brasov, Constanta, Vrancea, and Neamt best exemplify this phenomenon (Media Monitoring Agency, 2003). In Bacau, for example, the mayor owns three out of five local media outlets (Avadani, 2002). In Constanta County the mayor and county prefect together have near complete ownership of media outlets. To make matters worse, Conpress, a media distribution agency for South-East Romania, is owned by the mayor's friend, creating another means for him to control local media (Media Monitoring Agency, 2004, p. 18). Several local BBC affiliate stations were also recently purchased by local Romanian political rulers in an effort to manipulate media provided information in their areas (US Department of State, 2004).

## *5.2. Indirect Control via State Owned Media Infrastructure*

The American journalist A. J. Liebling once said: "Freedom of the press is guaranteed only to those who own one." Liebling's remark is an insightful one because it highlights the importance of who owns the inputs used in media production. If media outlets are privately owned but vital means of production and distribution are monopolized in the hands of the state, government's control over the media remains strong.

Indeed, in Romania, state ownership of media related infrastructure is one indirect method government uses to manipulate the media. For

example, until recently there was only one newsprint mill in all of Romania-Letea SA Bacau-a state-owned firm. The government's monopoly on newsprint gave it direct control over what private newspapers would be able to operate, and through this indirect control over the content of paper-reported news. Letea was recently privatized, however many citizens question the fairness of the process since it ended up in the hands of a politically well-connected Social Democrat who shared the biases of the party governing at the time (Personal Interview, Mona Musca, Bucharest, May 26, 2003).

Similarly, the distribution network for printed media in Romania, Rodipet, is state-owned. Rodipet functions as one of government's strongest structural controls over the printed media industry. The state is able to use its monopoly position over distribution in much the same way that it was able to use its former monopoly position over newsprint to indirectly control what information reaches the public. For instance, after a newspaper owner in Braila with strong connections to the mayor was appointed general manager of Rodipet in his region, Rodipet stopped distributing two competing independent papers in the city (Media Sustainability Index, 2002: 82). Similarly, in Constanta, the local distribution agency, which is owned by the mayor's friend, terminated a newspaper's distribution because it dared to discuss the mayor in a negative light (Media Monitoring Agency, 2004, p. 18). Two notable private distribution networks have emerged in Romania, Hyparion and NDC. However, these remain too small and relatively politically unconnected to challenge the state-owned Rodipet in most places.

### *5.3. Indirect Control via Financial Pressure*

There is great truth in the old adage that one should not bite the hand that feeds them. Where media is independent of government this means avoiding the ire of its customers. Where media outlets rely upon government to remain afloat, however, it means staying on the good side of those who wield political power. By creating an environment in which most private media outlets depend financially upon the state, the Romanian government is able to indirectly control the media. Indeed, Mona Musca, Deputy of the Culture, Arts, and Mass Media Commission inside the Romanian parliament, identifies this as the most perva-

sive method of media manipulation (Personal Interview, Bucharest, May 26, 2003).

Among other taxes, Romanian businesses are required to pay a 19% value-added tax, a 25% tax on corporate profits, and a 52% tax on their gross payroll. In addition to this, media outlets in particular are burdened by a 3-11% advertising tax, which in conjunction with these others makes the profitability of operating in the media business extremely low (Media Sustainability Index, 2001, p. 179)<sup>4</sup>. Romania's generally excessive tax environment creates a situation in which many media outlets cannot afford to stay in business without going in debt to government. ProTV, for instance, Romania's largest private television station, currently owes close to \$50 million in unpaid taxes (Freedom House, 2003, p. 128). In fact, *every* national private television station in Romania is significantly indebted to the government (Romanian Academic Society, 2004). Table 1 illustrates some of this debt as recently acknowledged by the Romanian Ministry of Finance.

**Tab. 1 - Private TV Station Debt to the Romanian Government**

Private TV Station	Debt to State (USD)
Ameron Television SRL	8,506,898
Antena 1 SA	1,925,886
Corporatia Pentru Cultura SI Arta Intact SA	1,708,567
Pro International SA <sup>5</sup>	7,809,797
Rieni Drinks SA Media	1,540,018
Scandic Distilleries SA	1,438,380
Rosul Group SRL	548,216

Source: Ministry of Public Finance, 2004<sup>6</sup>.

4. Pre-1997, media received preferential tax treatment. Media products had the lowest VAT in Romania.

5. It is worth noting that Media Pro owns Mediafax, the largest news agency in Romania.

6. As reported by the Romanian Academic Society (2004).

The government uses media debt to pressure outlets to *not* cover particular stories, to address issues from an angle that will favor those in power, or to give disproportionate airtime to the governing party. The Media Monitoring Agency, for example, monitored the top four Romanian television stations for one week in May 2002 and found that 78% of all political coverage was of ruling party leaders while only 22% covered opposition leaders (2002, p. 26). In a similar study that looked at the period between June 27, 2003 and July 6, 2003, together, then Romanian Prime Minister Adrian Nastase and President Iliescu comprised a full 80% of all political appearances on prime time television news bulletins (Media Monitoring Agency, 2004, p. 5).

Many private media outlets also rely heavily upon state-purchased advertisements to remain in business. Government uses this financial power to pressure media sources to bias reported information such that it favors the governing party. The State Ownership Fund (FPS) decides with which media outlets various state-owned enterprises will contract for advertisements. As a government institution the FPS is able to effectively wield this power to influence media sources in need of advertisement revenue. For instance, the FPS may agree to purchase advertisement space in a newspaper if the newspaper agrees to favor the governing party in its coverage. As Musca stated, “The government buys the obedience of private institutions with these contracts” (Personal Interview, Bucharest, May 26, 2003).

While this fact is widely known, Romanian state agencies frequently hide information from the public to prevent explicit evidence of these unseemly deals from surfacing. As former Romanian Minister of Privatization, Valentin Ionescu, put it: Government illegally withholds information that might reveal “hidden relationships” between itself and private outlets (Personal Interview, Bucharest, May 5, 2003). Such withholding is technically illegal under the Freedom of Information Act passed in late 2001. However, when the state’s interest is at stake the act is typically not enforced.

Regulation forms another important method of financial pressure that government uses to manipulate the media. Romanian political leaders take advantage of the excessive and ambiguous regulations that restrict the general businesses environment in their country<sup>7</sup>. These

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7. On the problems of the Romanian business environment see Coyne and Leeson (2004b).

regulations empower politicians to find real or imaginary financial and operational violations by media outlets that refuse to do their bidding. Alleged violations are then used to financially or operationally strangle unfriendly media sources via hefty fines, raising the cost of compliance so high as to prevent profitability, or outright foreclosure of outlets. Government can also use the threat of infraction to blackmail media sources into biasing news coverage. According to a 2003 survey coordinated by the Center for Independent Journalism that questioned 260 editors and journalists, 53% had been politically pressured to block the publication of certain information in their coverage (Media Monitoring Agency, 2004).

Likewise, ambiguous and constantly changing regulation creates a guise for politicians to “inspect” unfriendly media outlets to obtain sensitive financial and customer information that is then used to squeeze these outlets’ private sources of revenue. In Gorj County, for example, then local Social Democratic Party leader and head of the Gorj County Council, Nicolae Mishie, used the Financial Guard (one of several national regulatory/inspecting bodies) and the Gorj Finance Department to raid the offices of local newspapers in search of information regarding their finances, advertising and subscription contracts. This information was then used to pressure advertisers and subscribers to terminate their business relations with these papers. Similar methods were applied in Neamt by parliamentarian Iulian Tocu, where Tele M TV had recently included several stories highlighting Tocu’s corruption. Using the information he obtained in an inspection, Tocu was able cut Tele M TV’s revenue sources and then used their faltering financial situation to purchase a majority interest in the station. In Constanta County, a local newspaper, *Jurnalul de Constanta*, was subjected to similar treatment after publishing an article that discussed the corruption of the county’s mayor, Radu Mazare. Mayor Mazare used the local regulatory body to inspect the paper ostensibly to check its compliance with the advertising tax. The paper was fined by inspectors for failing to post a timetable on its door (Media Monitoring Agency, 2004, p. 19). Threats by political agents to financially strangle uncooperative media outlets via audits, punitive taxation, or through pressuring their main subscribers have also occurred in the cases of Europa FM, RCS TV, and Alpha TV (Media Monitoring Agency, 2003; see also US Department of State 2004).

#### 5.4. Indirect Control via Entry Regulation

As Djankov *et al.* (2002) point out, politicians benefit by regulating firms' entry into particular industries. In the case of the media industry this is particularly true. By acting as the gatekeeper to the media industry, government can keep out potential media providers who might be hostile towards their policies and throw out existing media producers who do not serve its ends. In this way entry regulation gives government a powerful method of indirectly manipulating mass media.

The Romanian government regulates media entry through licensure. The National Council of Broadcasting (CNA), a council composed of eleven members appointed by the president, government, and parliament, makes licensing decisions for television and radio broadcasting.

The CNA, which was established in 1992, has monopoly power to grant or revoke an outlet's permission to broadcast at any time. In addition, once an aspiring media broadcaster has been granted a license by the CNA it must obtain operating authorization from the Ministry of Communications and Information Technology, which constitutes another politically determined hurdle to entering the broadcasting industry. Through this power to determine what media outlets may and may not enter the media business, government is able to influence information conveyed via broadcast media. For instance, Omega TV was recently shut down by the CNA after a guest appearing on one of its programs was critical of the Romanian government (Media Stability Index, 2002, p. 76).

The appointment procedure of CNA council members is also the subject of political corruption, leading to control over the substance of media-provided programs. According to former CNA councilors Radu Cosarca and Iolanda Staniloiu, "The appointment process" is largely based on "political nepotism" and "corruption" that always leads to a pro-ruling party bias in media<sup>8</sup>. For instance, government leaders appoint their friends to the council, who in turn refuse to grant broadcasting licenses to media outlets that might be critical of the ruling party.

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8. Quotation from Gross (1996, p. 77).

## **6. How Media Manipulation Affects Economic Performance**

Napoleon once said: “If I were to give liberty to the press, my power could not last three days.” Clearly he understood the power of media in checking the abuses of political rulers. Furthermore, Napoleon’s remark suggests that a free media would have made a difference for France’s economy. If he were correct, an independent media would have forced him to change his policies or be thrown from power. This policy difference would in turn have generated a markedly different French economy.

As this line of reasoning indicates, media manipulation primarily affects economic performance indirectly through its impact on which policies are adopted. What policies are adopted is in turn a function of the behavior of those in political power. In transitioning countries like Romania, policy adoption refers specifically to economic reforms.

Policies broadly tend to serve one of two interests: public interests or private ones. Policies that serve public interests are those that generally raise the long run living standard of a country’s entire range of inhabitants, or at least do not disproportionately benefit one small group at the expense of everyone else. Such policies are those typically considered growth enhancing and necessary for economic prosperity. They include, for instance, low inflation, low taxes, transparent regulation, stable rule of law, free trade, etc.

Policies that serve private interests, in contrast, are those generally aimed at privileging a small class of individuals at the expense of the rest of society. In the absence of a mechanism that punishes them for doing so, politicians prefer to create this kind of policy because doing so serves their own interests. By concentrating benefits on special interest groups and dispersing the costs of these benefits on the rest of society, politicians can benefit themselves in terms of money and votes. Similarly, by expanding the size and scope of government activities through the introduction of additional regulations, political agents expand their power, increase the number of bureaucratic positions they can offer to connections and friends, and in some cases preserve the rationale for their own positions of political power. Policies that serve private interests are those typically associated with catering to special interest groups. They include, for instance, tariffs, business regulations and state-granted monopoly status. They can also include policies like



inflation that benefit incumbent politicians by creating a short run boost in economic activity but harm the economy's longer-term growth.

As has been pointed out by others, independent media-provided information increases the transparency of the policy-making process, and accurately reveals to voters which politicians support public-oriented policies and which support private-oriented ones. By correctly informing citizens about politicians' activities, an independent media makes these activities common knowledge and enables voters to effectively monitor politicians at low cost (Coyne and Leeson, 2004; Besley and Prat, 2002; Besley and Burgess, 2002). This creates an incentive for politicians to adopt policies that serve public rather than private interests, as they are aware that if they do not, voters will find out and punish them accordingly at election time. In short, an independent media provides voters with credible information about the behavior of politicians that enables them to monitor these agents.

On the basis of this information, voters are able to punish politicians who serve private interests and reward those who serve public ones.

Where the media is manipulated by the state, however, this mechanism breaks down. The breakdown occurs by affecting the dissemination of credible information. State manipulated media tends to take two specific forms: (1) information withholding, in which the state prevents media outlets from disseminating unfavorable news, and (2) misinformation, in which the state uses its control to bias news in a way that favors incumbent politicians, or to fabricate untruthful news that will favor these actors. If voters do not receive relevant information about the policy behavior of politicians, or receive information about this behavior that is false, then the monitoring capacity of media is compromised and the information it provides cannot be used as the basis for voter punishment. This means two negative things for policy. On the one hand, politicians who refuse to pursue policies in the public's interest will not be effectively weeded out via the election process. Furthermore, if political agents know this, they have an additional incentive to indulge in the creation of policy that serves private rather than public ends.

The harmful effects of media manipulation can be divided into "objective" consequences on the one hand, and "subjective" consequences on the other. The objective consequences of media manipulation are those described above. As a result of state manipulation, less information and/or less accurate information about the behavior of politicians

and political happenings reaches the public, compromising voters' ability to use the media to hold unscrupulous political agents accountable. We call these consequences of media manipulation "objective" because their occurrence is independent of citizens' knowledge about the status of information manipulation in their country. The subjective consequences of media manipulation, in contrast, are those that depend on citizens' awareness of the extent of media manipulation in their country. The primary subjective consequence we have in mind here is what we call manipulated media's "credibility crisis." Voters who are aware that the information reaching them is filtered may lose their trust in media-provided information, discounting even accurate information that reaches them because they can never be certain of its credibility. The subjective consequences of media manipulation thus strengthen its deleterious objective effects described above.

Although the distinction between the objective and subjective consequences of government manipulated media is an important one, it is equally important to appreciate the inextricable connection between the two. Manipulated media's credibility crisis (*i.e.*, its subjective consequences) is a direct effect of the objective consequences of state manipulated media. Without the objective results of media manipulation—less/inaccurate information—there would be no credibility problem for citizens to become aware of (*i.e.*, no subjective consequences).

In the discussion that follows we primarily examine the subjective consequences of media manipulation in the Romanian context. We do this for two reasons. First, much has already been said about the objective outcomes of media manipulation in the literature the deals with mass media and economic outcomes discussed above (see, Coyne and Leeson, 2004; Besley and Prat, 2002; Besley and Burgess, 2002), while relatively little has been said about the subjective consequences of media manipulation. Second, as we elaborate below, the subjective effects of media manipulation—namely, media's credibility crisis—have been particularly important in the case of Romania.

### *6.1. Manipulated Media's Credibility Crisis*

Mass media's dependence upon government in Romania has ruined its capacity to positively influence economic reform by destroying the

credibility of media provided information. Citizens simply do not trust their media. Romanians are interested in both the domestic and international, social, political and economic events that affect their lives<sup>9</sup>. Most receive daily information from television, newspapers and radio. Nonetheless, nearly all the subjects we spoke with were highly disappointed with the quality and reliability of the information available to them (Personal Interviews, May 19, 2003 – June 17, 2003). Several subjects we interviewed generally considered private media sources more reliable than public sources. However, because government indirectly controls private outlets via the methods discussed above, citizens call into question the reliability of private outlets as well. For instance, because Romanians know that government abuses the television and radio licensing procedure to permit entry only to media outlets prepared to do the state's bidding, they generally discount the credibility of these media sources despite the fact that they are privately owned. Citizens are also likely to know the owners of major media outlets as well as their own local outlets (Media Sustainability Index, 2001, p. 185). Thus when local politicians, for example, own and operate media sources, citizens know that they cannot believe much of the information these sources provide.

Similarly, citizens discount information from private media sources because they are aware that government uses financial pressure to manipulate these sources. For instance, several subjects we spoke with were aware of the political pressure that government applies to private media outlets that owe back taxes, like ProTV (Personal Interview, Viorel and Stelian Dobre, Visina Noua, June 2, 2003). For these reasons, citizens consider *both* public and private media sources highly politically dependent (Personal Interviews: Ionel Dobrita, Visina Noua, June 1, 2003; Mioara Radulscu, Visina Noua, June 4, 2003; Aurel Dinga, Buteni, June 13, 2003). A recent national survey of Romanian citizens corroborates our findings in the field (South Eastern Europe Democracy Support, 2002). According to this survey, only 26% of Romanians believe that Romanian mass media is independent.

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9. With a single exception (Personal Interview, Petru Oancea, Buteni, June 15, 2003), every individual we interviewed expressed an active interest in being informed about politico-economic happenings both inside Romania and outside of it.

As Roxana Iordache, a former journalist at *Romania Libera*—one of Romania’s most prominent private newspapers—put it, “all newspapers lie”<sup>10</sup>. Because citizens know this, they steeply discount media-provided information. Our subjects, therefore, were for the most part ‘highly informed,’ but by their own estimations were highly informed with half-truths and outright lies (Personal Interview, Pavel Terpe, Arad, June 17, 2003).

Former *Romania Libera* journalist Tia Serbanescu characterizes this situation as Romania’s “fight against ‘false news’”<sup>11</sup>. The personal experience of two of our subjects in particular illustrates this “fight” (Personal Interview, Ion Dospinoiu and Stoean Mariana, Visina Noua, June 4, 2003). In the village of Visina Noua, a local woman and the village priest started a small Neolithic-inspired pottery workshop for local children to take part in.

The pottery workshop is non-profit and produces Neolithic-style artwork for sale at travel art exhibitions to sustain itself.

Near election time in 2002, the mayor of the commune comprised of Visina Noua and the neighboring village, Visina Vadastra, started a similar pottery facility in Visina Vadastra where he lives. The mayor did this so that it would appear as though he were helping his community and boost his reelection support. His facility produced no pottery. However, to have the desired effect, he needed to show evidence of having produced something. To do this, he compelled the local newspaper to take pictures of the facilities and pottery in Visina Noua and to publish a story passing the pottery, facilities and the idea of the workshop off as his own.

The newspaper complied with the mayor’s demands because it feared the financial pressure the mayor could apply if it did not. For instance, the mayor could trump up charges of tax and regulation non-compliance, squelching the paper’s chances of survival<sup>12</sup>. These sorts of methods have been used by local politicians both in Visina Noua and in other small villages inside Romania.

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10. Quote contained in Gross (1996, p. 116).

11. Quote contained in Gross (1996, p. 116).

12. It is interesting to note that nearly every entrepreneur we spoke to pointed out this problem with his or her own business. The bewildering array of new and always changing taxes and regulations enable government officials to find something they can fine the owner for at any establishment at any time. Thus it is critical to remain on the good side of inspectors.

When the woman and priest who started the facility in Visina Noua confronted the newspaper about the story, the editor informed them that “issue is political” and that they were to drop it immediately. Individuals in the commune from both villages were well aware that the story was fallacious, aimed at hurting the Visina Noua facility and glorifying the mayor for reelection purposes. Frequent occurrences like this leave little doubt in Romanians’ minds about the credibility of their media. They also help explain why citizens widely discount media-provided information.

Our story above illustrates political pressure at the rural level. But the same problems persist in upscale urban areas as well. The subjects we spoke to about media in Romania’s major urban center-Bucharest-felt the same mistrust of Romanian media as the subjects we spoke to in rural areas. And both groups of subjects identified government as the culprit for unreliable information.

For instance, Razuan Beschea, an entrepreneur in Bucharest we spoke with, noted the unreliability of Bucharest newspapers. Specifically, Beschea says that the newspapers publish fallacious stories about EU funds given to the Romanian government to administer to small and medium-sized business start-ups in need of assistance (Personal Interview, Bucharest, May 22, 2003). Beschea states that he has come to discount most everything regarding reform efforts that he reads in the newspaper because of false reports regarding the distribution of these funds.

Newspapers, he maintains, frequently publish stories on new small businesses receiving this aid. However, he says that neither he, nor anyone he knows is aware of anyone who has actually received this assistance. It is difficult to believe that within such a close-knit community of start-up entrepreneurs in his region, no one would know anyone receiving such aid if it were actually being distributed.

Other subjects confirmed Beschea’s claims concerning the reliability of news stories. Of particular interest is one subject’s report of fallacious media coverage regarding the criminal activities of a local bureaucrat near Arad (Personal Interview, Pavel Birau, Buteni, June 14, 2003). According to Birau, a forestry official was recently caught illegally cutting timber from public grounds to be sold abroad-also a criminal offense. The official’s activities were reported shortly thereafter in the county newspaper along with statements that the official was

being imprisoned for his offense. Several months later, Birau says, the forestry official was promoted to chief of police in his town.

Unreliable reporting like this, especially when it directly involves corrupt political agents, leads Birau and others to disregard much of the information conveyed through mass media. A survey conducted by the United States Information Agency (1993) broadly confirms the views of our subjects concerning media reliability. Only 31% of respondents indicated a “fair amount” or greater confidence in the Romanian press and only 45% of respondents had comparable confidence in Romanian television.

As Romanian journalism scholar Nicolae Manolescu put it: “The credibility crisis is evident. People have become accustomed with the lies told by journalists and no longer pay attention to them”<sup>13</sup>. As we noted above, the problems created by this “credibility crisis” are severe indeed. Without reliable information about the activities of politicians, Romanians are unequipped to punish those who refuse to pursue public interested policy.

For instance, several subjects we spoke with indicated that despite their best efforts they could not make informed political decisions at election time based on information they received from mass media. Instead, they said they are forced to evaluate political candidates more or less arbitrarily (Personal Interviews: Viorel and Stelian Dobre, Visina Noua, June 2, 2003; Palica Mitru, Visina Noua, June 3, 2003).

The inability of Romanian voters to make informed political decisions as a result of media’s dependence upon the state has left politicians largely unaccountable to the public. Unable to use media to effectively monitor politicians’ behavior, voters remain relatively powerless to punish political agents who serve private rather than public interests through policy reforms. Knowing this, political agents pursue policies that serve private ends. Thus instead of simplifying business regulations to reduce their number and opaqueness, or accelerating privatization efforts, for instance, regulations grow and privatization efforts are stalled. Although politicians, bureaucrats, and a small number of existing businesses benefit from this, the vast majority of Romanian society and entrepreneurs interested in starting up new firms are harmed.

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13. Quoted in Gross (1996, p. 129).

## 7. Conclusion

Our analysis has three primary implications. First, indirect control of media is just as important, if not more so, than direct state ownership in determining government's ability to manipulate media provided information. Indeed, three of the four methods of state media manipulation considered here—financial pressure, infrastructure control, and entry regulation—are indirect in nature and consistent with privately owned media outlets. Thus the presence of private media outlets is far from sufficient to establish media independence. Even where media infrastructure is privately owned, if government can financially pressure media outlets and infrastructure owners in the ways described above, or can restrict entry into these industries, its ability to manipulate media provided information remains strong.

Second, the general regulatory/tax environment of a country is critical to government's ability to manipulate the media. Where regulations are costly, numerous, ambiguous and ever changing, those in power can use the guise of regulatory infractions to financially and/or operationally choke media outlets and infrastructure owners who refuse to bias reporting or remain silent on issues that reflect poorly on those in power. Additionally, an onerous and ambiguous regulatory environment empowers politicians to blackmail media outlets to do their bidding with the threat of infraction or by obtaining sensitive information the government can use to cut off an outlet's main sources of revenue. Similarly, if taxation is sufficiently high, government can drive media sources into state debt and then use this as leverage to control the content of media reporting.

Finally, the public's perception about media's credibility is crucial to media's ability affect positive economic reform. Where media is dependent upon government, media provided information is not perceived as credible in the minds of voters. Knowing that information is incomplete and inaccurate, voters discount this information and are largely unable to make political decisions that correspond to politicians' pursuit of public or privately interested policy. In other words, voters are unable to effectively monitor political agents. As a result, politicians who pursue privately interested policy may not be forced to change or be rooted out and replaced with those who pursue publicly interested policy. Furthermore, with the knowledge that voters cannot rely upon

media provided information to monitor them, self-interested politicians are encouraged to make policies that benefit a small segment of society at the expense of everyone else. Economic performance in turn suffers.

Although an independent media is not sufficient to create prosperity, our analysis, which supports the work of others, suggests that it is necessary. Efforts to minimize media's dependence upon the state must consider both the direct and indirect channels that government uses to manipulate mass media. Unfortunately, taking the media out of government's hands brings to the surface an entire new set of public choice problems.

Given its strong interest in maintaining control over media, we should not expect to see governments in countries like Romania voluntarily relinquish this control without a fight. The benefits to those in power of retaining the ability to manipulate media provided information is simply too great. This does not mean, however, that improving the climate of media independence through policy is impossible. It 'merely' means that this task is a very difficult one. For this reason and because media independence now appears so important for economic performance, the issue of how to reform mass media in transitioning countries is a critical area of future research.

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*Summary: Manipulating the Media.* (JEL: L3, O12, P3).

This paper investigates the methods that government uses to manipulate the media where it is unfree. Using data from original fieldwork, we provide a detailed anatomy of state controlled media manipulation by looking at Romania's developing economy. We find that outlet ownership is important, but not the only or most significant determinant of media manipulation. Additionally, we find that media manipulation has a deleterious effect on information credibility that destroys the possibility for economic reform and improved economic performance. Our analysis helps to explain why some developing countries turn the corner while others never seem to.