

Read All About It! Understanding the Role of Media in Economic Development

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I. INTRODUCTION

The question of what factors lead to economic development has been at the center of economics for over two centuries. Adam Smith, writing in 1776, attempted to determine the factors that led to the wealth of nations. He concluded that low taxes, peace and a fair administration of justice would lead to economic growth (1776: xliii). Despite the straightforward prescription put forth by Smith, many countries have struggled to achieve the goal of economic prosperity. One can find many examples – Armenia, Bulgaria, Moldova, Romania and Ukraine to name a few – where policies aimed at economic development have either not been effectively implemented or have failed. If the key to economic development is as simple as the principles outlined by Smith, then why do we see many countries struggling to achieve it?

The development process involves working within the given political and economic order to adopt policies that bring about economic growth. Given that political agents are critical to the process, the development of market institutions that facilitate economic growth is therefore a problem in ‘public choice’. There have been many explanations for the failure of certain economies to develop. A lack of investment in capital, foreign financial aid (Easterly 2001: 26–45), culture (Lal 1998) and geographic location (Gallup et al. 1998) have all been postulated as potential explanations for the failure of economies to develop. While not denying the potential importance of these aforementioned

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factors, we contend that the role of media in developing institutions that facilitate economic progress has only recently begun to receive the attention it deserves.

The first to discuss the importance of media in overcoming public choice problems was Sen (1984, 1999) who raised the issue in connection with the prevention of famines. Djankov et al. (2002, forthcoming) builds on Sen's work, analyzing the ownership structure of media and finds a correlation between state ownership and poverty. The World Development Report 2002, *Building Institutions for Markets*, dedicated a chapter to the importance of media and development¹. The role of media has been studied in terms of its impact on government transparency, accountability (Stiglitz 2002), solving the principal (citizens)-agent (government) problem (Besley and Burgess 2001; Besley et al. 2002), public policy (Spitzer 1993) and corporate governance (Dyck and Zingales 2002). Additionally, many case studies address the state of the media industry in specific countries (for example, see Gross 1996, O'Neil 1997, McAnany 1980, Paletz et al. 1995, Lent 1980). None of these writings, however, combines public choice insights with a theoretical framework explaining the specific variables allowing media to play a role in economic progress.

Economic development is a vast topic, both theoretically and historically, and we do not cover all of its nuances or angles. Nonetheless, we seek to provide some basic conceptual categories for thinking about the role of media in economic development. In particular, we seek to outline under what conditions the media plays a role in the successful adoption of policies aimed at economic progress. Toward this end, some simple ideas from game theory are applied to a topic that otherwise has received more empirical than theoretical attention.

We employ a simple analytical framework to illuminate the process of adopting policies that promote development. In particular, we build on the work of Schelling (1960), who pointed out the difference between games of conflict and games of coordination. We envision a spectrum with pure coordination games on one end and games of pure conflict on the other, with many possible combinations in between. Coordination situations are those where interests are fundamentally aligned, while situations of conflict are those where interests are at odds. The choice of language, for instance, or which side of the road to drive on, provide examples of coordination games. If everyone can form the same expectations or adhere to the same conventions, everyone will be better off. The well-known prisoner's dilemma, in contrast, is a classic game of conflicting interests.

1. This report is available at: <http://www.worldbank.org/wdr/2001/fulltext/fulltext2002.htm>.

Our core thesis is as follows: The media is a key institutional mechanism for achieving a successful policy mix that promotes economic development. The development process – and specifically the adoption of ‘good’ policies – is characterized by a situation of conflict between political agents. Economic development is achieved when potential games of conflict are turned into games of coordination, and a free media is one such means for achieving this. The strategies chosen in a coordination scenario depends critically on agents’ beliefs, so we consider how institutions affect these beliefs.

One important consideration raised by our analysis is the question of causality. More specifically, does causality run from media to development or from development to media? Although we primarily emphasize the role of media in promoting economic development, we must not overlook the role that effective institutions play in promoting an effective media. For example, while an autonomous media encourages political agents to make socially improving institutional changes, it is also true that where such institutional arrangements exist, it is easier for media sources to be autonomous. Thus, the arrow of causality runs in both directions. While acknowledging the complexity of this issue, we nonetheless make an effort to isolate the prevailing directions of causality where possible when discussing the relationship between media-related factors and development.

The course of the paper proceeds as follows. In Section II, we outline our analytical framework in more detail. In Section III, we analyze media as a key mechanism for turning transition games of conflict into games of coordination. Section IV considers some historical examples and how they fit into our framework. We consider successful coordination (Poland, Hungary), continued prevalence of conflict (Ukraine), and coordination around bad beliefs and norms (Bulgaria). Section V closes with some recommendations for how the media can be made an effective tool in developing economies.

II. THEORETICAL FRAMEWORK: FROM CONFLICT TO COORDINATION

We start with a variant of the prisoner’s dilemma – hereafter referred to as the Reformer’s Dilemma – which illustrates part of the basic dilemma facing reformers in developing countries. For simplicity, assume that there are two political parties in the development game – S and L . Furthermore, each of these parties has some representatives who can adopt transition policies or cater to special-interest groups. As *Figure 1* illustrates, the parties do not generally find cooperation regarding the adoption of socially beneficial policy to be a domi-

nant strategy, at least not in the absence of coordination-enhancing institutions. The parties will cooperate less than is socially optimal, hoping to reap personal gains.

Figure 1

The Reformer's Dilemma

		S	
		Adopt Policy	Cater to Special-Interest
L	Adopt Policy	(a,a) X	(0,b) Y
	Cater to Special-Interest	(b,0) Y	(b/2, b/2) Y

The upper left-hand corner payoffs (within each payoff box) represent private payoffs that accrue to the political parties where $b > a > b/2 > 0$. The lower right-hand corner of each box represents the payoff to society as a whole where $X > Y$. When both parties agree to adopt a socially beneficial policy, the payoff to society is maximized as illustrated in the upper left-hand box. We assume that at any given point in time, there are a fixed number of rents available for political agents to offer to special-interests. When one of the parties caters to special-interest groups, the gains accrue to that one party. When both parties cater to special-interest groups – the dominant strategy illustrated by the lower right-hand box – the total gains are divided and each party receives a payoff of $b/2$. The simple logic of the Reformer's Dilemma has numerous institutional analogs in the development setting. Adopting a policy (i.e., cooperating) might consist of fully privatizing certain industries, opening up borders to free-trade, or ceasing special favors or status to certain companies, to name a few readily apparent examples.

We next move to the 'folk theorem', a well-known result in game theory. The folk theorem suggests that a multi-period prisoner's dilemma always has a co-operative solution, provided that time horizons are sufficiently long. The logic here is simple. If individuals hold the appropriate beliefs, cooperation will be a dominant strategy. For instance, non-cooperators must expect to be punished, and for this to be enforced, non-punishers of non-cooperators expect to be pun-

ished as well. If the appropriate conjectures exist, they will be mutually reinforcing and can be shown to enforce cooperation. Defecting now will yield a current return but will be followed by many periods of punishment, with those punishment threats backed in turn by other threats of punishment. In essence, everyone is expecting a very long chain of consequences for any failure to either cooperate or punish.

We do not take the folk theorem as descriptive of reality, given that it typically cites highly complex trigger strategies and long chains of punishment over time. Nonetheless, the folk theorem illustrates a fundamental fact about non-cooperative games: they have significant cooperative elements, *provided* that individuals hold the right conjectures. A game of conflict can become much more like a game of cooperation, again provided that expectations and conjectures are sufficiently healthy and constructive. In other words, for economic development to occur, the populace must hold ‘good’ beliefs and be willing to punish politicians that deviate from those conjectures. We place this simple relationship at the core of our theory of development.

If political parties can coordinate with the populace upon the appropriate conjectures, the Reformer’s Dilemma portrayed in *Figure 1* above can be transformed into a multi-person coordination game, as shown by *Figure 2*, where a is a positive number and where players must choose between good and bad conjectures:

Figure 2

The Coordination Game

		L, S	
		Good Conjectures	Bad Conjectures
Populace	Good Conjectures	a, a	$0, 0$
	Bad Conjectures	$0, 0$	$-a, -a$

Note that obtaining cooperation between political parties is not enough to achieve economic development. The populace must support and accept the policies for them to be effective. Assuming that the parties agree to adopt a policy, they must coordinate with the population on healthy and constructive conjectures that yield positive payoffs as illustrated by the upper-left box. However, it is also possible that the populace and parties may coordinate on bad and de-

structive conjectures, which yield negative payoffs, as illustrated by the lower-right box².

If the parties carry out healthy policies, but the populace does not accept or support them, they will fail to be effective as illustrated by the off-diagonals. If, for instance, the populace fails to respect – i.e., coordinate on – laws regarding private property, then these laws will fail to bind individuals and will be ineffective. Likewise, if a government fails to effectively enforce property rights, the populace *may* coordinate on private property norms, but their effectiveness may be severely limited (see for instance, De Soto 1989).

To visualize the argument, imagine a situation of economic development that has turned into a game of cooperation and coordination. In such a world, individuals – politicians and members of the populace – would be searching for cooperative solutions and a beneficial economic order. It will remain important for individuals to coordinate their expectations around the best equilibrium, but such an equilibrium would prove self-enforcing once in place. The overall task of development will be eased greatly. It is possible, however, that what is the ‘best’ equilibrium for individuals – i.e., one that they prefer – is one which does not promote economic growth for society as a whole, as illustrated by the lower right-hand box. Preferences of the populace for widespread government interventions, social programs, etc., at the expense of policies that yield positive payoffs – for instance, a stable rule of law, private property regime, etc. – in the upper-left hand box, would be such an example.

Only rarely will games of conflict turn into games of pure coordination. More commonly, individuals face decisions with elements of both conflict and cooperation. For instance, if a politician decides to lobby for privatization, this will be viewed cooperatively by some of his allies but will be met with resentment by those who benefit from the current situation. We can think of the development process as lying along a spectrum depending on the relevant elements of conflict and cooperation. A developing economy’s place on this spectrum is a critical factor regarding how well the economy progresses.

Note that this framework is consistent with at least three stylized facts about economic development:

1. Economic development is possible.

This is illustrated by countries such as Estonia, Hungary, Botswana and the Czech Republic, which have developed relatively more quickly than other

2. When we talk about ‘good’ and ‘bad’ conjectures we refer to those policies that either increase or decrease social wealth as measured in dollars. For instance, after World War II, Stalin was able to coordinate Eastern Europe around ‘bad’ conjectures via the use of force. While these measures benefited Stalin and his cronies, the social wealth of Eastern Europe was injured.

countries in similar situations. In these countries, politicians and citizens have coordinated on policies and institutions that facilitate economic progress.

2. Some countries seem never to develop or turn the corner.

These countries never manage to exploit the technologies and beneficial institutions found in other parts of the world. As long as politicians and citizens fail to coordinate on good outcomes, they remain stuck in a trap of underdevelopment, non-cooperative behavior, and unhealthy institutions. That is, remaining on the conflict side of the spectrum does not set self-correcting forces in motion.

3. A free media is a necessary, but not sufficient, condition for economic development.

A free media seems to be correlated with economic development (this is supported by the work of Djankov et al. 2002, forthcoming). All the members of the G-7 (Canada, France, Germany, Italy, Japan, United Kingdom and the United States), which account for approximately two-thirds of the world's economic output, have a free media³. Furthermore, those countries that are considered development 'successes' – Estonia, Hungary, Botswana and the Czech Republic – all have a relatively free media. However, there are many countries that have a free media but remain relatively poor – Costa Rica, Benin, Bolivia, Fiji, Ghana, the Philippines, etc.

While a free media may be an important part of the equation, it is not the only part. Other factors – political stability, a stable economic environment outside of the media industry, quality of the media, education, ideology, interest in politics, willingness to punish ineffective politicians, etc. – in addition to a free media, also play a role in creating economic progress. Stated differently, certain institutions help to facilitate the role of media in achieving positive results. Once established, an independent media may serve to strengthen existing institutions or lead to further development.

III. HOW DOES COORDINATION EVOLVE?

Since we do not have faith in the exact mechanism of trigger strategies behind the folk theorem, we must look for imperfect institutional approximations that achieve similar ends. In other words, we are looking for institutions that in-

3. The media of these countries is 'free' as determined by the Freedom House 'Freedom of the Press Survey', 2003. Russia, a member of the G-8 who participates in a portion of the meetings, but does not participate in financial and economic discussions, has a media which is 'not free' and also has the G-8's smallest economy.

crease the payoffs for individuals to perceive themselves as facing games of cooperation and coordination, rather than games of conflict. In the case of adopting policies that achieve economic development, the media is one such mechanism.

One can view the relationship between politicians and the populace as a variant of the standard principal-agent problem (Besley and Burgess 2001, Besley et al. 2002). An effective media lowers the cost of information to the populace and provides a mechanism to overcome the asymmetry of information between the principal (citizens) and the agent (government). Simply put, an effective media, via increased transparency, increases the payoff of coordination.

Here we have in mind four factors that influence the effectiveness of media as a mechanism for transforming situations of conflict into coordination scenarios. These factors are: media autonomy, the legal structure, the quality of the media, and consumer demand. We do not contend that these are the only factors that matter for the media to be effective in the development process. Rather, they are a few of the major factors that allow the media to act as a coordination-enhancing mechanism. Of course, the evolution of games of coordination is only part of the story, as the conjectures upon which coordination takes place are also of the utmost importance.

1. Media Autonomy

The ability of media sources to act without interference from government is critical in their role as an effective mechanism for transforming games of conflict into situations of coordination. One can consider three main influences on the independence of media sources: market forces, the general economic environment and political pressures.

The first influence is market forces and specifically the profit and loss mechanism as they directly affect media sources. As long as media sources are privately owned, and do not depend on the government for any form of support, there is no escaping the influence of consumers (consumer demand is addressed in more detail in subsection 4). The second influence is the general economic environment. The current state and development of complementary industries – information technologies, delivery outlets, etc. – directly influence the ability of media firms to operate successfully.

Moreover, financing is critical for both the start-up and maintenance of media networks. Therefore, the general economic policies undertaken by governments in developing countries will impact the ability of media firms to operate. In many cases, media firms face the negative economic situation that character-

izes developing countries. Given this, a vicious circle may result where the financial and economic situation is so bleak that the state must support the media. This, of course, limits the ability of media sources to be independent and hence reduces their ability to increase transparency and serve as a coordination-enhancing mechanism.

In such cases, access to foreign direct investment – and hence the ability of foreign firms to invest in the country – is key. For example, Poland's previously state-owned newspaper, *Rzeczpospolita*, was privatized in 1991 and cut off from all state funding. Foreign investment was the key to its survival and development (Carrington and Nelson 2002: 232–233). Another issue is that in developing countries, the advertising sector – a key source of revenue for media sources – is usually dominated by government-purchased advertisements (Carrington and Nelson 2002: 228–229).

The third major influence that must be considered is political pressure. Political influence can take two forms:

1. direct influence on a media source or sources
2. indirect influence on media sources through the structure of the media industry

Both types of political influence may distort the ability of media sources to report accurately and completely on development issues. In the first instance, those in positions of political power influence a media source through direct contact – for example, by forgiving debt/taxes for certain coverage or non-coverage of certain events or issues. This type of influence directly impacts the types of stories covered as well as the way they are communicated to the populace.

In the second instance, the government influences the media indirectly by impacting the structure of the industry. This can occur through state-owned or subsidized media sources, through imposing barriers to entry into the media industry, or through control of related industries including distribution networks and the materials that are used in media production (paper for newspapers, etc.). Barriers to entry decrease the competitiveness of the media industry. The reduction in competition hinders a key check on both abuses by government as well as inaccurate or incomplete reporting by other media sources (Stiglitz 2002).

To illustrate this, consider media licensing. Media licensing is one way of restricting entry and controlling the type of content that is communicated to the populace. For example, after the licensing laws impacting the media in Korea were eased, the number of daily newspapers in Seoul increased from six to seventeen, covering a range of topics (Heo et al. 2000, Webster 1992, Islam 2002). Other regulations can prevent competition in the media industry as well. In Egypt, excessive regulations, as well as limits on the unions that private jour-

nalists could join, forced the journalists to set up their offices offshore (Kassem 2002).

The ability of the media to effectively communicate information to the populace is directly linked with its level of autonomy. Djankov et al. (2002, forthcoming) have found that state ownership of the media is higher in countries that are relatively poorer, have more autocratic regimes and have higher levels of state ownership in other areas in the economy. This makes sense in our framework. A media that is either owned or influenced by the state will fail to change the Reformer's Dilemma into a coordination situation. Considering the direction of causality, there is a circular influence here running between media and development. A regime of well-defined, secure and enforceable property rights must develop to allow for private ownership, foreign investment and freedom from political pressure and influence. Without such a structure, the media will fail to serve as a coordination enhancing mechanism. Once an autonomous media is in place, it serves to further strengthen these underlying institutions by providing transparency regarding violations.

2. Legal Structure

In addition to barriers to entry – which have a legal element – discussed above, here we will focus on the legal structure as it applies to the availability of information and the ability of the media to use that information. Of relevance here are laws that apply to both private individuals and firms as well as to the government regarding the accessibility and usability of information.

Considering the dissemination of information in the private sector first, Dyck and Zingales (2002) argue that information disclosure mandated by government is the most reliable given that it is not affected by selectivity and it is not provided in exchange for something else (p. 119). However, it is critical that such laws be applied consistently and be effectively enforced in order to have the desired effect. Furthermore, as media sources build a reputation of credibility among the populace, the use of informal sources becomes more reasonable as the media network wants to maintain its stock of reputation capital.

Transparency in the public sector requires that information about the government be available to the media and hence the populace. In terms of causality, an effective media requires the development of a legal system, which allows the development of information markets (Krug and Price 2002: 188). However, the legal structure need not be perfectly defined. Once media has access to some degree of government information it will continue to pressure government agents to increase transparency, strengthening previous laws and seeking to

broaden the scope of such laws. The continuous development of these information markets in turn relies on fast and easy access to public information. Developing countries which have made the most progress – specifically those in Central and Eastern Europe – have effectively undertaken media privatization and policies which allow the media industry to take hold through the development of information markets (Carrington and Nelson 2002: 243).

The existence of laws that allow government officials to delay the availability of information stymies the ability of the information market to develop and function. In doing so, these laws make it difficult for media firms to establish and maintain themselves in the economy. Openness and availability of information, in stark contrast, fosters an environment of competition between media sources to obtain and report that information quickly, accurately and effectively. There is an inherent check in such an environment because information is readily verifiable by other media sources. Hence, those who lie or misrepresent the facts will be weeded out more quickly in an environment of openness and transparency.

3. *Quality of Media*

Assuming that media autonomy and a stable legal system allowing for reasonable access and dissemination of information exist, yet another key factor is the quality of the media. Even in the most developed countries, there are instances where major media sources have difficulty maintaining and monitoring quality – the Jayson Blair plagiarism case at *The New York Times* in May 2003 is one example. The environment in developing countries is even more difficult in this regard.

In developing countries, it is often difficult to find well-trained employees to staff media firms. This difficulty ranges from the business management of the firm, to journalists lacking skills on how to interpret and report information, to editors, analysts and researchers who are not trained to efficiently and accurately find and analyze information. Even with complete independence and a stable and favorable legal structure, an inability to accurately gather and report information will greatly weaken the ability of the media to serve as a coordination-enhancing mechanism. It may also lead to the misreporting of information, weakening the media as a means of transparency and potentially coordinating consumers around bad conjectures as illustrated in the lower right-hand box in *Figure 2*.

A key solution to this problem is opening the media market to external influences. For this to be an effective strategy, it requires not only the opening of

borders but the prior establishment of a stable legal and property structure such that it is an attractive market to external media sources. Assuming the media market is opened, external influences can occur on several levels. On the one hand, foreign direct investment may serve to overcome the problem of management. Moreover, if foreign journalists, analysts and researchers are able to work in the domestic media industry, they will bring their skill sets with them. Additionally, there is always the possibility of learning ‘on the job’ as illustrated by TV-2 in Russia, which has become a thriving media outlet. Those running TV-2 in the 1990s had little knowledge or experience running a TV station, but through trial and error, along with assistance from foreign consultants, were able to sustain and develop the station (Muchnik and Muchnik 2002: 304–305).

The impact of opening the media industry to outside influences is not limited to those effects outlined above. The very existence of foreign media sources creates an instant environment of competition as well as a model for the local media. Foreign media sources – many of which have an established reputation and credibility – serve as a check on the local media against misreporting. They also serve as an additional source of information to the populace, and hence, increase transparency regarding the activities of the government. When the *New York Times*, *The Wall Street Journal* or *The Financial Times* reports a story, it has instant credibility given the track record of these media outlets. In Korea and Russia, *The Financial Times* is considered more credible than many of the local news sources (Dyck and Zingales 2002: 120). This forces local media outlets not only to recognize the stories receiving coverage from these major outlets, but also to cover them accurately.

4. Consumer Demand

The final factor that we consider is the demand by the populace who consume the media product. Even if the three factors outlined above are favorable, consumers must demand certain information for the media to be an effective means of transforming the initial situation of conflict into a situation of coordination.

Media firms, like all other firms in a market economy, are subject to the forces of profit and loss. Once state funding is removed, the media firms, as agents of consumers, are constrained by their demands. For instance, if enough consumers demand coverage of government corruption or international policy, media sources will adjust their coverage accordingly. To the extent that consumers drive the type of information provided by mass media, the demand for coverage of reform related topics must be indigenous. As countries and the me-

dia market develop and become denser, numerous media outlets may develop which specialize in different niches – politics, business, sports, entertainment, etc. Although it is a distinct possibility, consumer demand need not exist prior to the establishment of an independent media. By introducing new media sources, it is possible that media outlets will generate demand for their products that didn't exist before the introduction of the product or service.

In our theoretical framework (Section II), the situation of policy reform is characterized by a prisoner's dilemma situation. We have postulated that a free media, operating in a favorable legal environment and providing quality information, is one mechanism for coordinating the activities of politicians with the demands of the populace. Consumer demand for information regarding reform is critical to this process because it puts pressure on those in positions of political power who can influence the reform process. In other words, the demand for information regarding politicians' activities is correlated with media monitoring. In addition to increasing the transparency of government activities, media coverage of government officials may potentially weaken the power of special-interest groups. As media develops, more information is provided at a lower cost, which shrinks the gap between the marginal benefit and marginal cost of obtaining information regarding special-interest group activities.

It is important to note that consumer demand, although it may very well keep media sources in business, does not guarantee successful policy adoption and economic development. Assuming that media is an effective coordination mechanism, the populace and reformers must coordinate around good conjectures. If politicians carry out the wishes of the populace but the demands are for policies that are bad for economic development, growth will not be achieved. In short, successful development requires that, in addition to the factors outlined above, indigenous conjectures, ideas and demands dovetail with policies that promote economic growth. A large part of the ability of the populace to influence outcomes is determined by the political order and their role in that order. If the populace (because of ideology) and/or politicians (because the political order allows them to) coordinate on bad conjectures, economic development may fail to occur despite a free media.

In fact, the media may strengthen conjectures whether they are good or bad. As highlighted previously (in subsection 3 on media quality), if there is misreporting of information, the media may coordinate consumers around bad policies. Furthermore, there is a tendency for journalists to accept the ideologies that are dominant in the societies they work in and hence strengthen that dominant view (Epstein 1973, Gans 1979, Herman 2002, Sahr 1993). To the extent that the media has this strengthening effect on ideology, those that coordinate on good conjectures may develop more rapidly, while it may be more difficult

for those who coordinate on bad conjectures to switch course. In addition to being free from government interference and facing a favorable legal structure, the effectiveness of media in coordination scenarios requires quality reporting and consumer demand for policies that lead to economic development.

IV. HISTORICAL EXAMPLES

We find historical support for the general framework outlined above. Let us first consider countries that are generally viewed as cases of successful economic development – Poland and Hungary – and show how coordination games arose given the institutional mechanisms from Section III of this paper. Subsection 2 considers the Ukraine, with an unfree media, as an example of an unsuccessful attempt at economic development. In subsection 3 we consider Bulgaria as a case where the coordination problem is at least partially solved through a relatively free media, but politicians and the populace coordinate along bad conjectures and institutions preventing economic development.

1. Successful Cases of Economic Development: The Impact of a Free Media

In 1989, Poland became the first of the Eastern European countries to overthrow its Communist regime. Despite the fact that the country is currently still developing and suffers from high unemployment, low incomes and government corruption, it is considered a success relative to other Eastern Europe transition countries. During the first decade of transition from communism to democracy, Poland's economy had the quickest turnaround, experiencing economic growth in 1992, while Hungary (also generally considered a transition success) experienced double-digit declines in 1991 and began recovering in 1994. Prior to 1989, the media industry – radio, television, newspapers and magazines – in Poland and Hungary were owned and operated by the state. However, both have since developed a strong media industry with relatively favorable privatization, legal structures and journalistic practices (Carrington and Nelson 2002: 232).

Changes in the media industry in Poland can be traced back to 1989 when the licensing process of newspapers and magazines was replaced with a far simpler process. Soon thereafter, the number, quality and readership of publications drastically increased (Goban-Klas 1997: 25). The media industry has continued to develop – today there are about 5500 newspapers and periodicals

on the Polish market, many of which are local or regional⁴. Moreover, the diversity of topics covered has developed, including general news (*Gazeta Wyborcza* and *Rzeczpospolita*), 'light papers' providing entertainment (*Detektyw*, *Skandale*, *Sensacje*, *Kobra*, etc.), magazines aimed at shoppers (*Top*, *Kontakt*, etc.) and music papers (*Magazyn Muzyczny*, *Rock 'n' Roll*, etc.).

The constitution (Articles 14, 54 and 213) bans censorship and provides guarantees of freedom of the press. A law regarding freedom of information was passed in 2001 and has increased access to government documents. The major independent media sources are the daily papers, the *Gazeta Wyborcza* and *Rzeczpospolita*, which have established reputations as being credible and have maintained high demand for their product. *Gazeta Wyborcza* has an average daily circulation of 536 000 copies while *Rzeczpospolita* has a circulation of 306 742⁵. Both publications have overcome the barriers of the economic environment and lack of training through foreign investment (Goban-Klas 1997: 25–26, Carrington and Nelson 2002: 232–235).

Having established themselves as credible news sources, these papers have played a key role as a coordination-enhancing mechanism to solve the Reformer's Dilemma. For example, the *Rzeczpospolita* expanded its economic and political coverage and created the 'green pages', which focus specifically on Poland's economic development in terms of the policies adopted as well as their progress. The paper serves as an information source on the mass privatization, allowing readers to realize the benefits and track the progress of political efforts (Carrington and Nelson 2002: 235).

In short, the media in Poland increased transparency of reform and political activities, lowering the cost of monitoring and understanding the activities of the government. Furthermore, the media served as means by which the government and populace coordinated on good conjectures. The populace was (and continue to be) better able to understand the benefits of privatization and decision-makers knew that their progress toward those ends was being monitored.

Despite its effectiveness in the development process, it is very possible that the media in Poland could have had an even more dramatic impact. In some respects, media autonomy is lacking – largely through indirect political pressures. There are still state-owned television (Telewizja Polska, which operates two stations TVP1 and TVP2, and TV Polonia) and radio (Channels 1 & 2) sta-

4. The number of periodicals is from Osrodek Badan Prasoznawczych Uniwersytetu Jagiellonskiego w Krakowie- Press Research Centre at Jagiellonian University in Krakow, which keeps the electronic database available at the following address: www.media.onet.pl.

5. Source of *Gazeta Wyborcza* circulation: http://www.agora.pl/gw_advertising2/1,44368,1268408.html; Source of *Rzeczpospolita* circulation: <http://www.mercury-publicity.com/germany.html>

tions. Moreover, the state still exerts pressure on those media sources which are critical of the government, as evidenced by the increased number of defamation lawsuits brought by political agents (Freedom House 2003: 126).

While the media in Hungary was state owned under communist rule, it became a center of political debate in the 1970's. The original intent of the Communist Party was to allow debate in order to weaken, and eventually dispose of, the views of the opposition. However, this culture of political debate not only played a role in the eventual erosion of communism, but also allowed the media to carry over some degree of credibility in the post-communist period (Lanczi and O'Neil 1997: 84). There was an established expectation – i.e., consumer demand – among the populace for media coverage and debate of both sides of political issues. Demand for such coverage continued after the fall of the communist regime.

Another important factor in Hungary was the improvement in technology in the 1980's (specifically, satellites and videocassette recorders), which increased contact with the West. This increased connection led to a bigger pool of information as well as the introduction of Western culture and values. The introduction of foreign television programming played a large role in informing the people of Hungary about alternative institutions – political, economic and cultural – available to them (Kovats and Whiting 1995: 101–102). By reducing the cost of information and informing the Hungarian populace about Western institutions, these technological improvements, as well as the Hungarian media sources that benefited from them, laid the groundwork for the coordination around good conjectures during the transition and subsequent development process.

As the Communist Party began to lose power in 1988, the independent media grew substantially. Independent newspapers were able to receive licenses and the law requiring 'official' permission to publish was replaced with a simple registration requirement (Kovats and Whiting 1995: 110). Article 61 of the constitution provides for freedom of expression and press and this is, for the most part, enforced. Like Poland, as the media industry continued to open and become more independent, foreign direct investment played a greater role (Jakab et al. 1991, Kovats and Whiting 1995: 110–111, Carrington and Nelson 2002: 232).

Also like Poland, the current media environment in Hungary is not yet completely free from government involvement in the structure of the industry⁶. The private media (*Nepszabadsag*, with a daily circulation of 250 000, is the most

6. Despite the presence of government interference in both Poland and Hungary, both countries received a ranking of 'Free' from the Freedom House's 'Freedom of the Press Survey'.

popular general news independent daily)⁷ must compete with state-owned and supported television (Magyar Televizio (MTV) and Duna TV), radio (Hungarian Radio) and news services (MTI). Political parties frequently accuse opposition parties of influencing media in their favor. Despite the presence of these state-supported channels, a majority of the country's viewers purchase the major private newspaper (*Nepszabadsag*) and watch the private television stations for their news and information (Freedom House 2003: 91).

Both Poland and Hungary illustrate cases where the media is relatively free and has played a key role in the evolution of cooperative games regarding policy aimed at economic development. There was, and still is, a general framework in place which provides media sources with enough autonomy, legal security, a relatively favorable economic environment and consumer demand such that they play a positive role in the development process. As illustrated above, the success of media required the prior development of certain institutional structures that allowed the media to operate successfully. However, once the media took hold, it served to not only strengthen these structures, but led to further development in new areas. Not only has the media played a role in transforming situations of conflict into coordination, but also access to information has allowed politicians and the populace to coordinate on good conjectures conducive to economic progress.

2. Unsuccessful Attempts at Development: Persistence of the Reformer's Dilemma

Ukraine is a case where development efforts have failed to be adopted and the media has failed to overcome the conflict of interests that characterizes the Reformer's Dilemma. Instead, the efforts undertaken have perpetuated the inability of the economy to progress and the media to overcome the situation of conflict, making coordination on good conjectures extremely difficult.

Ukraine has failed to adopt effective policies aimed at economic development since it gained its independence after the collapse of the Soviet Union in 1991. Rather, under the first president – Leonid Kravchuk – many of the price and foreign trade controls that had been in place were maintained. Furthermore, in 1993, loose monetary policy pushed inflation towards hyperinflationary levels. Since winning election in 1994, Leonid Kuchma has made a commitment to economic reform including lifting some economic controls and maintaining fiscal discipline. However, there is a general lack of transparency

7. Source of Nepszabadsag circulation: <http://www.project-syndicate.org/papers/papers.php4>.

regarding the Ukrainian government illustrated by the lack of a free media. Where widespread corruption, a weak rule of law and excessive regulations are the standard, it is not surprising that the media in the Ukraine is not free⁸.

While the constitution (Article 31) guarantees freedom of the press, these rights are rarely enforced. The print and broadcast media are, for the most part, privately owned but are influenced greatly by the government both through direct and indirect means. In terms of direct interference, the administration provides subscription subsidies, printing privileges and distribution through the state-run postal service to state-run media sources. Furthermore, the administration regularly engages in censorship, issuing instructions (*temniks*) to media regarding coverage or noncoverage of events. The state also controls newspaper distribution and broadcasting transmitters.

Perhaps the most excessive direct interference is the threat of physical abuse that journalists in the Ukraine face. Strong evidence – including a tape-recorded conversation – of President Kuchma's involvement in the beheading of journalist Georgy Gongadze in 2000 is one such example. According to one poll, 78.7% of the people in Ukraine consider journalism to be 'dangerous profession' (International Research & Exchange Board 2002: 144).

Turning to indirect interventions, media sources are the subject of excessive taxes, fire and safety codes and related inspections, as well as unclear licensing procedures (International Research & Exchange Board 2002: 141). This makes entry by new firms and continued operation by current firms more costly than it otherwise would be in the absence of these laws and regulations.

Ukraine serves as one case illustrating the inability to develop institutions that lead to economic development. Moreover, as is often the case in countries in similar situations, the media is a largely ineffective tool in overcoming the Reformer's Dilemma. Both media autonomy and a favorable legal structure are missing. Given the constraints on journalists, the quality of media reporting would be considered low by Western standards. Although the particular circumstances of each undeveloped country are unique, many share similarities with Ukraine. One common theme which runs throughout all of these countries is that at least one – and in most cases many – of the factors described in Section III, which allow media to serve as a coordination-enhancing mechanism, are absent.

8. The status of the Ukraine media as 'not free' was determined by Freedom House (2003: 150).

3. *Coordination on Bad Norms:
Free Media as Necessary but Not Sufficient*

The existence of a free media does not guarantee economic development. While we have argued that a free media is one key mechanism for overcoming the Reformer's Dilemma, there are other factors which play a role as well – political stability, economic environment outside of the media industry, education, literacy, ideology, interest in politics, the desire to punish politicians who fail to effectively serve, etc. Bulgaria serves to illustrate this, as it has a relatively free media industry but has done relatively poorly in terms of economic development.

At the beginning of the post-communist period, there was a proliferation of newspapers in Bulgaria, as one would expect after years of government control of all media content. Initially, political news was diverse as several political parties printed their own papers. However, as time passed, the populace's interest waned and consumer demand dropped for these papers. The drop in consumer demand can be traced to a fall in the general interest in political issues. Bulgarians became disillusioned with the transition process, as they did not see significant changes in their standard of living (Nikolchev 1997: 129, 132).

In terms of magazines, there has been a strong demand for female-oriented publications and erotic magazines oriented toward men. The print market is dominated by gossip, news about celebrities and sexually-oriented material⁹. Attempts to create a current events periodical – similar to *Time* or *Newsweek* in the United States – have been unsuccessful due to a lack of demand (Nikolchev 1997: 129, 133).

The two largest print papers in Bulgaria are owned by the German media group Westdeutsche Allgemeine Zeitung. The *Troud* has a circulation of 45 000 while *24 Chasa* has a circulation of 200 000¹⁰. However, these publications – especially the latter – have been criticized for their 'crude language, tabloid-leaning journalism and sloppy fact-checking' (Nikolchev 1997: 136).

While the focus above has been on the lack of consumer demand for relevant media coverage, it must be clear that the other factors discussed in Section III also influence the media industry in Bulgaria. For instance, there is still widespread government involvement in the broadcast media as evidenced by the state-owned and run television channel – Bulgarian National Television (BNT)

9. Source: The European Media Centre: <http://www.ejc.nl/jr/emland/bulgaria.html>.

10. Circulation data from Radio Free Europe, available at: <http://www.rferl.org/mm/2003/04/14-140403.html>. Compare the circulation of the aforementioned with the circulation of the 'quality' papers – The Banker with a circulation of approximately 10 000 and The Capital with a circulation of approximately 20 000.

– and radio station – Bulgarian National Radio (BNR). However, in 2000, a license was granted to Balkan News Corporation – part of Rudolph Murdoch’s News Corporation – to launch a private station, bTV. Private radio stations have also begun to develop with licensing from the government. As these private broadcasting networks continue to develop, they will offer an alternative news source to the Bulgarian populace.

The case of Bulgaria is one where the media is relatively free, but because of consumer demand, the media has failed to serve as an effective mechanism for coordinating on good norms. Rather, because of the lack of consumer demand for coverage of political and economic issues, there is a lack of transparency around the transition and development process. With an emphasis on entertainment rather than politics and economics, consumer demand has allowed politicians to coordinate around ‘bad’ conjectures and policies that do not lead to economic development – the lower right-hand payoff in *Figure 2*.

V. CONCLUSION

We have argued that successful economic development is characterized by widespread coordination. Toward this end, the development of a free media is critical for shifting games of conflict to games of coordination. We can therefore put forth some general guidelines for the achievement of a free media toward the ends of successful economic development:

1. *Privatize all aspects of the media industry* – Media companies, whether print or broadcast, – as well as any complementary industries – must be completely privatized in order to be effective. Any government involvement will compromise the credibility of the media and provide potential for political influence of coverage.
2. *Open borders to foreign investment and media* – We provided several examples of the importance of foreign investment in helping recently privatized media sources develop. In addition to investment, developing media firms will benefit from outside advice from successful media firms in other countries. Moreover, granting access to foreign media firms provides yet another source of information to the populace and serves as an example for, and a check on, developing domestic media sources.
3. *Consumer demand is critical* – Even if the media is relatively free in a country, a lack of consumer demand will render it largely ineffective as a mechanism for coordinating around norms and policies that lead to economic development. When the populace demands ‘good’ policies from politicians, and is willing to punish them for diverging from these policies, a free media

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can serve as a source of transparency and an ultimate check on the progress in meeting these demands. In this regard, allowing for diverse coverage of topics and sources – both domestic and foreign – that can introduce consumers to new perspectives and provide them with the information they demand is key.

As economics and history teaches us, these guidelines give the best chance for media to serve as a coordination-enhancing mechanism in achieving sustainable economic development.

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SUMMARY

This paper explores the role of media in economic development. In particular, we seek to outline the conditions under which the media contributes to the successful adoption of policies aimed at economic progress. Our core thesis is that successful economic development requires the coordination of efforts by politicians with the interests of the populace on policies that bring about economic growth. However, the nature of the relationship between political actors in charge of reform is characterized by a conflict of interests. The role of media as a key mechanism for transforming these situations of conflict into situations of coordination between politicians and the populace is analyzed. Specifically, we consider four factors – media autonomy, legal structure, quality of the media and consumer demand – and how they impact media as a coordination-enhancing mechanism. Historical examples of the media in developing countries provide further insight into the circumstances necessary for media to be an effective coordination-enhancing mechanism. We consider the impact of a free media in cases where successful economic development has occurred – Hungary and Poland. We also consider the Ukraine as a case where media has failed to overcome the conflict characterizing the reform process, and Bulgaria as a situation where politicians and the populace have failed to coordinate around ‘good’ reforms despite having a free media. Our paper concludes with some policy recommendations regarding the achievement of a free and effective media.

ZUSAMMENFASSUNG

Dieser Aufsatz untersucht die Rolle der Medien in der wirtschaftlichen Entwicklung. Insbesondere interessiert uns, unter welchen Bedingungen die Medien zur Umsetzung von Massnahmen zur Förderung des wirtschaftlichen Fortschritts beitragen können. Unsere zentrale These besagt, dass erfolgreiche wirtschaftliche Entwicklung nur durch die Koordination der Arbeit der Politiker mit den Interessen des Volkes gelingen kann. Die Beziehung zwischen reformwilligen politischen Akteuren ist oft durch Interessenskonflikte geprägt. Wir analysieren, inwiefern die Medien zur Umwandlung solcher Konfliktsituationen in Situationen, in denen die Interessen von Politikern und Volk koordiniert werden können, beitragen. Insbesondere betrachten wir vier Faktoren – die Unabhängigkeit der Medien, die Gesetzesstruktur, die Qualität der Medien und die Nachfrage der Konsumenten – und deren Auswirkung auf die Medien in ihrer koordinationsfördernden Funktion.

Anhand von Beispielen aus Entwicklungsländern sollen tiefere Einblicke in die Bedingungen gewonnen werden, unter denen die Medien die Koordination fördern können. Als Beispiele mit erfolgreicher Wirtschaftsentwicklung betrachten wir Ungarn und Polen. In der Ukraine hingegen konnten die Medien den Konflikt im Verlaufe des Reformprozesses nicht entschärfen, und in Bulgarien konnten sich Politiker und Volk trotz der vorhandenen freien Medien nicht auf ‘gute’ Reformen einigen. Unser Aufsatz schliesst mit einigen Politikempfehlungen zur Freiheit und Effektivität von Medien.

RÉSUMÉ

Cet article explore le rôle des médias dans le développement économique. En particulier, nous cherchons à esquisser les conditions sous lesquelles elles contribuent à l’adoption de politiques visant le progrès économique. Notre thèse principale dit que le succès du développement économique dépend de la coordination des efforts des politiciens avec les intérêts du peuple. Cependant, les relations entre les acteurs politiques chargés de la réforme sont caractérisées par un conflit d’intérêts. Nous analysons dans quelle mesure les médias peuvent contribuer à la transformation de ces situations de conflit en des situations de coordination entre politiciens et peuple. En particulier, nous considérons quatre facteurs – l’autonomie des médias, la structure légale, la qualité des médias et la demande des consommateurs – et leur influence sur les médias dans leur fonction consistant à favoriser la coordination.

Les exemples historiques du rôle des médias dans le développement des pays fournissent des informations sur les circonstances nécessaires pour que les médias puissent faciliter la coordination d'une manière efficace. La Hongrie et la Pologne nous servent d'exemples pour un développement économique réussi. Dans le cas de l'Ukraine par contre, les médias n'ont pas réussi à résoudre le conflit caractérisant le processus de réforme, et en Bulgarie, les politiciens et le peuple ne se sont pas réunis autour des 'bonnes' réformes en dépit de la liberté des médias. Notre article conclut avec quelques recommandations dans le domaine de la politique visant à rendre les médias libres et efficaces.