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*Capture; A euphemism for malfeasance?*

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# ABSTRACT

With the advent of the current crisis, a myriad of questions come to mind. Namely, is the media providing an accurate picture of the situation? Is the state acting in the interest of the masses or the business “elite”? Are the regulatory bodies (such as central banks) forming policies to really boost the economy or just cater to the needs of big “corporations”? A part of these questions can be answered by the level of capture inherent in the specific organizations.

Capture; “a situation where the informants i.e. media, state, financial corporations, regulators become empathetic, attracted, or dependent on the organizations they are supposed to keep check on, in turn resulting in distorted information and policy making in a country” can help explain a moderate part of these questions ( if not most of it).

If it is so easy to answer these rudimental questions, why haven’t various nations been able to do so? Why has capture been a part of the research writings since the soviet times (Kalb, 2010)? The reason is quite straightforward; capture takes various “forms, has unquantifiable motivations, and a convoluted context” (Zúñiga, State capture in Asia pacific , 2019). The entire gamut of problems is with identifying whether there is opportunity for capture and if it’s candidly giving rise to capture. Further convoluting the situation is the interrelationship between the various forms of capture and how they give rise to one-another.

Therefore, with aim to assuage this problem, this paper through the previous published knowledge (available on the internet), some rudimentary natural science and economic concepts:

1. Explains the various types of captures (along with historical examples).
2. Explains complexity (Arthur, 2014) and chaos theory.
3. Analyses the interrelations between various forms of capture
4. Analyses the hypothesis “Can the impact/relationship between the different forms of capture be explained by **complexity theory (**from “Santa Fe institute”)?

# METHODOLOGY

A meta-analysis (of qualitative research)[[1]](#footnote-1) was conducted on papers available at “JSTOR” subsuming topics such as captures in media, state, finance, regulatory, institution and policymaking, and, cognitive capture; coupled with quantitative methods of comparing the same (such as complexity theory, chaos theory, and other econometric models). The papers were examined from various perspectives i.e. their applicability in the year they were published, and the current time period was also gauged. Additionally, the assumptions were tested, and critiques were acknowledged. Nonetheless, only the qualitative information and the yield of the various hypothesis have been presented in this paper.

Therefore, some personal queries, critiques, “apparent” lacunae in assumptions, and prospective future areas of research (with respect to complexity theory; that yet has not been associated with capture) are also presented in the paper.

# LITERATURE REVIEW

## Media Capture

Conceivably an endogenous[[2]](#footnote-2) situation in which “the media becomes overly empathetic, supportive, or dependent (not necessarily financially) on the people they are supposed to regulate” (Stiglitz). Media performs the rudimental function when it comes to assuaging information asymmetry in the market. Further, the fundamental role of media is to gauge the actions of the government and other corporations with the aim of providing accurate and veracious information to the public. However, when captured, media fails to play its “watch dog” role (Stiglitz, Toward a taxonomy of media capture) and ends up proffering filtered, distorted, and wrong information.

In order to mollify this deleterious situation, many constitutions prohibit the ruling parties from making policies that in any way hamper media’s operations (as it is the only link that provides transparency of the happenings). Nonetheless, there is an apposite rebuttal to this, which states that it’s not the mere creation of laws that protect media, but their application.

Some of the potential forms of media capture are:

1. Ownership: One of the most outright forms that can be easily discerned as well as quantified. Additionally, ownership can lead to two forms of capture. Namely, financial (when huge conglomerates buy the media sources so they can influence people’s views and support the political parties that makes better policies for that industry) and state (when the government buys media sources so as to conceal their actions, market their initiatives, or demean their counterparts).

There has been extensive research on whether media’ ownership concentration intensifies capture or extinguishes it. Although inconclusive, the opposing opinions are; the more the number of firms to be paid off, the higher is the cost, in turn yielding democratization of information and decreasing capture and the other one says that when one two organizations hold all the power, they amp up their prices thereby increasing the costs of capture.

Further, the introduction of the web i.e. online journalism, blogs, and other e-news sources were reckoned to assuage the information asymmetry as now this industry would be accessible to anyone (low entry barriers). However, the reality was quite the opposite[[3]](#footnote-3) as the number of free riders increased i.e. it was no longer profitable for the firms to conduct fervent investigations because as soon as they released the findings, the competitors would just copy and claim the findings to be their own. Some of the extant examples could be those of Greece and Italy; where media capture seeded financial, state, regulatory and institutional capture.

1. Monetary stimulus: Incontrovertibly, each organization’s survival is directly associated with its financial performance and in order to improve the finances[[4]](#footnote-4), each media outlet faces a tradeoff; whether to improve the quality of news (with huge efforts) which may or may not mollify the public or to accept bribes and achieve the desire results without any efforts? Additionally, media faces a significant risk of being denied information from the political parties if they refuse to take bribes/act in favor of the party in power.
2. Censorship: The most blatant form of capture that is also supported by the law of many countries (except Russia; where other forms of capture such as ownership, cognitive, and financial incentives prevail). Forbye, media outlets tend to “self-censor” when they fear that the information, they release may adversely affect its business i.e. drive away its advertisers, subscribers, supporters, and other shareholders. An example of the same could be when the media euphemizes its claims against the conditions of the economy, adverse impact of the incoherent policies, or providing information that conforms to their reader’s prejudices just to avoid driving away its subscribers, advertisers, and funders.
3. Cognitive capture[[5]](#footnote-5): In contrast with the other forms, it is extremely tenuous/subtle and almost impossible to quantify. Cognitive capture, in simple terms is “the situation in which an individual’s continuous affiliation, lateral beliefs, empathy, and understanding of a certain group tends to impact their decisions” i.e. a media reporter who has frequent contact with a specific political party may begin to understand and empathize with them. Which in turn yields biased information. This form of capture is lateral and has the highest probability of creeping in for individuals with greater experience.

Additionally, despite having differing opinions a reporter may not state them due to the fear of being eschewed by his/her colleagues. Since this capture is so hard to identify, fully preventing it seems impossible (however, can be assuaged by just acknowledging the fact that it exists). This form is extremely “pervasive” and “unintentional” which makes it the most prevalent and least scrutinized.

Nonetheless, a mollification measure could be to rotate staff from one information department to another i.e. job rotation in the different reporting departments (the drawback being that a finance/political reporter must have significant experience in the field and cannot be expected to pick up the job one day without any prior knowledge of the subject).

A succinct list of the copious research work (Prat, 2006)on media capture is as follows:

1. The higher is the transaction cost between media and government/corporates, the lower is the capture as not only is the media hard to reach, but also very expensive to control. In other words, there is lacunae between the two parties, ergo, deterring the equilibrium capture.
2. Moral hazard and adverse selection are germane outcomes of a media capture, which consequently affects political outcomes (as the public is inordinately driven by the information sought from the media and takes all its decisions accordingly i.e. the voters choose their leader as per the available information and if this information is fabricated it may lead to choosing the wrong candidate).
3. A country with a media sector that is susceptible to bribes or is extremely efficient in playing it’s “watch dog” role has low level of scandals that are out in the open.
4. Biases in the information present can have multiple sources; ranging from the providers inherent beliefs, media house’s reputational concerns to the reporter’s will to provide the public with the information it wants to hear (so as to retain subscribers).
5. Nonetheless, a prospective pitfall of this research lies in the assumption that “information cannot be fabricated”. Imagine if a media house fabricates information that is harmful to the government/corporation’s reputation in order to extort money or advance its own interests. In other words, the possibility of the government being captured by the media has been overlooked.

## Financial capture

Based on a seminal paper, Emmanuel Carré’s research on the financial capture before, during, and after the financial crisis provides some qualitative data (for the first time in the history of financial capture) to explore the hypotheses of two different schools of finance. Financial capture is compendiously defined as “when the central bank deviates from its objective of catering to the public needs and rather complies with the industry’s interests” (Gauvin). Although there are 3 rudimental types of “central bank capture”, namely, self, industry, and political, the most ubiquitous one is industry; a situation in which the central bank starts to prioritize the industry’s demands over the publics.

Impetuous behind the same could come from inherent beliefs (cognitive capture) or direct capture i.e. if the key personnel of the central bank either come from or will go to corporates after this job (also called the revolving door).

Furthermore, the solution to two rudimental questions would help in determining a clear current picture of the capture i.e. is the level of capture increasing? What impact does this capture have on the interest rate of banks? In order to answer these questions, two main schools had the following beliefs[[6]](#footnote-6):

1. The “financial sector interest school” believes that the level of capture has been significantly increasing over time and since the government always puts inflationary pressure on the central banks, the financial sector capture this bank to assuage these pressures (“inflation bias axiom (Gauvin, Financial crisis: the capture of central banks by the financial sector?)”).

This school believes that the level of capture is increasing because of two reasons i.e. post the financial crisis, financer’s have more incentive to capture the central bank as it now possess greater powers than before and after 2009, reduction in inflation was the need of the moment and who better than a financer to do the same?

1. The “Post-Keynesian” or “domestic” school believes that capture is definitely not endogenous/systemic. With beliefs just the opposite of the finance school, it believed that there has been no scrupulous increase or decrease over time rather such capture depended on the structure of the economy.

This school further states that industrial capture was more rampant than the financial capture (during the crisis). Moreover, it hypothesizes that financers wanted lower interest rates before the crisis, no specific rate during the crisis, and high interest rates post the crisis.

In order to test the accuracy of these claims, an “F - index” was created with the data of education/employment of the central bank’s (European central bank, Federal reserve, and bank of England). Dummy variables were used to ascertain the ratio of employees with financial background to the total number of employees. In order to answer the second question, the change in interest rates was compared with the F-index.

Consequently, the results were obtained (following the KISS principle; Keep it simple, stupid proposed by Mishkin (2007) (Gauvin)) concluded that although the level of financial capture has overall increased over the years, there has not been an increase in each individual year. Further, as for the second question, the hypotheses of the “democratic school” proved correct and significant as a U-shaped curve is formed explaining the correlation between the “F-index” and “interest rates”. In other words, the financial sector wants low interests before the crisis and high interest rates post the crisis.

Despite the significant values, this approach is not free form criticism i.e. because the sample size is small, even when one official retires the entire “F- index” change significantly and the fact that a previous career in finance is an accurate indicator for capture.

## STATE CAPTURE

*(In Asia)*

The affiliations (outside the formal job requirements) between the big corporates and political candidates engender an opportunity for this form of capture. An integral element to categorize correspondence as “state capture”, the business “elite” must portray “rent-seeking behavior” (Zúñiga, 2019) i.e. they establish close relations with the state on order to win some favors (from influencing trade decisions in their favor to altering the law and policies of a country).

Nonetheless, other forms of aberrant relationships such as bribery, favoritism, and biases are structurally different in their scope i.e. while the above-mentioned aberrant forms affect the individual, capture affects the entire country. Further, since this capture is so ubiquitous, anti-capture measures must look at the problem holistically (“subsuming the motivation of the capturer, for of capture, and context of the capture”).

The author “Nieves” believes that state, regulatory, financial, industrial, policy and media capture are interrelated, but not in a linearly. Asia being a continent with “crony” capitalism (Zúñiga, State capture in Asia Pacific, 2019), has the highest potential for capture (as “ascribed status” from the family name is given more value than an achieved status; which leads to long lasting relations between the wealthy and powerful families). Forbye, some requisites for this capture are interdependency, rent-seeking behavior, shift of policies from public welfare to that capturer’s welfare (all of which are depicted by most of the “Keiretsu’s in Japan, Chaebol’s in South Korea, and network-based economies in Vietnam”).

Therefore, the expunging measures are not simple as it requires (Zúñiga, 2019):

1. Differentiating between the capturer and captured is not easy; as they share a complicated relationship.
2. Identifying the root cause behind it.
3. The motivation/rent seeking behavior that is causing the capture?
4. What is the lacuna in the country’s policy that is capture?
5. What is the form of this capture i.e. how is it manifested?

Nonetheless, once identified it is the easiest to handle this form of capture by some measures such as; increasing the transparency in policy making, periodically gauging the corruption levels, giving more control to the law rather than the government, educating the public to be on the lookout for captures, increasing the “meritocracy” in recruitments, penalizing the responsible agencies (when detected) and customizing the approach as pet the structure of the economy.

# ANALYSIS

## Inter-relations between the forms of capture

Evidently, there is a significant level of correlation between the above-mentioned forms of capture. An example could be like that of “Fiat in Italy”, where big business conglomerates bought out the media sources, in order to influence the people towards choosing the political party that worked in the industry’s favor by banning car imports. Further there is evidence of it capturing the regulatory bodies to seek loans and grants for IPO’s (Initial public offering). Despite the overt presence of these captures, it is almost impossible to quantify the impact of one on the other.

## Complexity theory

An explanation for this relation could be provided by the “**complexity theory”** (Callaghan)**;** a theory distinct from the Marxian/neo-classical economics that uses deductive logic. This is one step above the endogeneity and dual causality, as it states that not all relations are deterministic or linear, some are more complex, interrelated, and may not be able to be depicted in econometric models.

Additionally, there are multiple theories of **natural science**, economics, and finance that provide support to this phenomenon (mainly, **chaos theory** (Ekeland, 1998); a minimal change in the inputs may lead to colossal changes the output, making the model extremely sensitive).

Therefore, this paper aims to establish a relation between “**complexity theory”** and the interrelations between forms of captures. It tries to explain that there is no linear relation between financial, state, media, policymaking, regulatory or institutional capture, rather there are complex dynamics (no strict axioms that can be applied to derive solutions). Further, unlike game theory and “rational choice theory” (cardinal to economics), complexity theory; which is tortuous and lacks endogeneity, there is no smooth flow of data and it is extremely hard to find the source and impact of an action. This theory goes well beyond the simplistic approach of deductive logic and tries to incorporate feedback loops, chaos theory and overcome the limitation of “**bounded rationality**”.

## SCOPE FOR DISCUSSION

Different researches yield contrasting result about the effect of competition on capture i.e. one view states that the greater the number of competitors in the market, the higher is the cost of paying (as more rent-seekers), so lesser capture; however, the other claims that as the number of competitors increase, each firm has lesser “individual” power to expose the scams/inadequacies which in forth decreases their worth and makes bribes cheaper. Although, both stemming from rational assumptions, one must be wrong (and in order to prove that, an extensive research on the relationship between capture and competition must be conducted country and year wise).

Further, besides the seminal papers, none of the others attempt to link the impact that one form of capture has on the other. Since understanding this is integral to stopping the chain go captures (which have instigated multiple types of crisis), a study about the interrelationships of the same must be conducted. Possibly employing the complexity theory (as it is evident that the relationship shared amongst them is non-linear).

# CONCLUSION

Capture in the country can manifest itself in many ways; mainly via media, finance, state, regulatory, policy, and institutions. Some of the forms can be unequivocal, whereas the others can be abstruse and latent. These forms, their strength, and motivation are rudimentally dependent on the structure of the countries. Although, it is not easy to detect and assuage such captures, Russia has set an exemplar precedent by doing so.

Further, even paragon models of countries are not exhaustively guard them against captures; because, sometimes capture can take such obscure forms that even the captured is unaware of his condition (like in cognitive capture; derived from long associations and empathy with the capturer). Nonetheless, some methods to ameliorate this problem are; greater transparency, stricter imposition of regulations, according law with the highest power in the country, increasing competition (decreasing concentration), public education and empowerment amongst many others.

It can be inferred that all forms of capture share a causal relation i.e. one gives rise to the other. Although, the specifications of the impact remain indeterminable, there are certain theories of economic, organizational behavior, and natural science that help explain this phenomenon (“**complexity theory”, “chaos theory”,** and **“feedback loops”**; as explained in the paper**).**

Lastly, some principal questions that have scope for future research; namely, can an increase in competition reduce capture? Can a theory/model be developed to help differentiate the captured from the capturer (in case of “convoluted” relations)? How related and how much impact do the captures have on one another (with the help of complexity theory)? How much impact does capture have on the economy (in terms of money) and can it be assuaged by the above-mentioned measures?

# APPENDIX

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Author’s name** | **Journal name** | **Type of capture covered** | **Article seminal** | **Criticism** | **Methodology** | **Key findings** |
| Joseph E. Stiglitz |  | Media capture | Yes | “Incoherent assumption that news cannot be fabricated”. | “Qualitative news and market experience to draw inferences”. | “The four rudimental forms of capture are censorship, financial incentives, ownership, and cognitive capture”. |
| Timothy Besley and Andrea Prat | LSE Research online | Media capture | No | “Incoherent assumption that news cannot be fabricated”. | “Basing research on the previous criticisms of media capture”. | “Enabling regulators to protect the media from capture is not feasible as what is the guarantee that they themselves will not be captures”? |
| Oane and Don Kalb | European Journal of Sociology | Financial capture | No | “When drawing similarities between the soviet and financial capitalism, it assumes that similar approaches are still followed today as it was in the soviet period”. | “Qualitive comparison between the two time periods with the help of market knowledge and assumptions about the soviet period”. | “Nomenklatura appropriation is the financialized capitalist way” |
| Nieves Zuniga | Transparency international | State capture | Yes (only for Asia though) | “Each keiretsu, chaebol, network-based company exploits political power (additionally an unsupported assumption that Asia has crony capitalism)”. | “Analyzing numerous companies, their class, how they capture the government, and how the government responds (with the help of published facts)”. | “Capture impacts the entire society while bribes impact the individual”. |
| Samarth Vaidya and Rupayan Gupta | Southern economic journal | Media capture | No | “Assumed without any previous evidence that oligopolies have lesser resources that a market with perfect competition”. | “Econometric models” | “Concentration of media ownership deters more capture as compared to a market with a lot of media competition (on stark contract with the other research papers)”. |
| Andrei Yako | Europe Asia studies | State capture | No | “No criticism as there was no analysis performed (therefore, no assumptions)”. | “Qualitative information about the Russian politics and economy since 1990’s (based on previous research papers and stated facts)”. | “The Russian firms earlier adopted an exit or voice strategy in terms of relations with the state. However, both type of firms recognized the need for a stronger government (Which as achieved in 2004); the state gained full power over the business. Nonetheless, despite this taut practice, there is still scope for state capture”. |
| Emmanuel Carre and Marie-Sophie Gauvin | International Journal of Political Economy | Financial capture | Yes (first paper on financial capture). | “Previous experience (used to gauge capture) in finance does not guarantee a financial capture. Additionally, even if one central bank key employee retires, the impact on the data is massive”. | “Basic statistic models (using regression and dummy variables) along with the employment data of the 3 central European banks”. | “The financial capture of the European central banks has increased over the past years. Further, the financial sector wanted the interest rates to decrease before the crisis and increase after the crisis”. |
| David Pearce | Journal of policy analysis and reform | Complexity theory | Yes (1994) | “No criticism as it is just an explanation of the theory and tools of a phenomenon”. | “Qualitative explanation of “complexity theory” based on assumptions and examples”. | “Although, an altogether new concept (for the economics, as we know it), it is not expected to change the economic theories in toto. It may present new venues and opportunities for developing more efficient models”. |
| David colander, Roland Kupers | Book chapter 8; Complexity and the art of public policy | Complexity theory | No | “No scope for criticism as it just provides an in-depth explanation of the theory”. | “Qualitive explanations with quotes from neo-classical economists”. | “Explains the change in economics with development of markets (that have made understanding relations much more difficulty; as deductive logic can no longer be used). Further, Application of complexity theory in game theory is explained”. |
| David colander, Roland Kupers | Book chapter 7; Complexity and the art of public policy | Complexity theory | No | “No scope for criticism as it just provides an in-depth explanation of the theory”. | “Qualitative explanations, use of quotes (such as Stephen Hawking “I think the next century will be the century of complexity”) to support hypothesis”. | “Referring quantum mechanics to convey that complexity has always been a part of our economy and is just manifesting now. Further concluding by saying that complexity theory goes where standard science can’t” |
| Ernesto Dal Bó | Oxford review of economic policy | Regulatory capture | No | “Gives revolving doors of unemployment (regulators come from a specific profession and obtain jobs post retirement in those professions) and personal characterizes of regulators very less credit for causing regulatory capture”. | “Qualitive as well as econometric models (using easily available data)”. | “It established that the cost of captures is huge i.e. if the regulators become empathetic with firms rather than consumers, it can greatly hamper the “social objective” of regulators and in turn cause net wealth losses”.  “Further, the more secretive the regulatory body the higher is the scope for capture”. |
| Samarth Vaidya and Rupayan Gupta | Southern economic Journal | Media capture | No | “In complete contradiction with Joseph E. Stiglitz’s taxonomy of capture in terms of its finding about the relation between media capture and competition in the market”. | “Basic explanations via axioms of mathematics and economics”. | “Individual firms are weak in exposing the “scams” being conducted by the government and big corporations. When a country has a lot of competitors in the media industry, the bribes to be paid are very small in amount. Hence, concluding that **media competition increases capture”.** |
| Ernesto Dal Bó, Rafael Di Tella | Journal of political economy | “Overall capture” | No | “Believe political party to be an external supervisor in a hierarchy. Whereas, the other papers believe that they play the central role in an economy”. | “Complex econometric models and graphs based on assumptions that contradict those of Stigler 1971 and Peltzman 1976”. | “They have also inculcated the “nasty” favors that the business corporation seek (i.e. when they threaten to resort to violence, harassment, reputation harming rallies against the political parties that refuse such favors) which helps them conclude that even an honest man can be captured via force/threat”.  “Other miscellaneous factors such as society’s beliefs, expectations, judiciary system’s independence, political parties will to come back into power, rewards of making such policies greatly impact the policy making (and who it is in favor of)”. |

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1. 25 research papers were perused and their summary, criticism (in the appendix), further scope, and their possible correlation with natural science theories has been presented. [↑](#footnote-ref-1)
2. Although the endogeneity has been called into question by multiple researchers (many have claimed that the strength of its presence can rudimentally be allocated to the political, legal, and policymaking situation in a country). It has further been hypothesized that capture and form of political leadership are highly correlated (the laxer are the governmental policies, the lower is the capture and vice-versa). [↑](#footnote-ref-2)
3. Introduction of the web was believed by many to reduce the incentive of multiple media organizations to conduct investigations i.e. their costs outweighed the profits (due to frequent free rider behavior). Although this problem could be assuaged by intellectual property rights, these yet remain outside the purview of all the perused research papers. [↑](#footnote-ref-3)
4. Incontrovertibly, the rudimental reason for performing operations in any organization; is the monetary benefits, but all the research papers form a myopic view around this i.e. they fail to subsume the spirit of service, social welfare, CSR, and basic ethics as reasoning for any of the media’s actions. [↑](#footnote-ref-4)
5. Although, it is the subtlest form of capture; it is the most quantitively researched form of capture i.e. be it in economics, finance, media, state or institutions. Multiple proxies have been developed to unveil such a form. Additionally, it is also felt that just acknowledging this form of capture will greatly mollify it’s effects. [↑](#footnote-ref-5)
6. The two beliefs may seem mutually exclusive, but they share a commonality i.e. both of them believe that in general the businessmen want higher interest rates. [↑](#footnote-ref-6)