

Political Economy of Alternative Realities

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- Contrary to the experts' consensus, most Republicans hold
 - Climate change not human made,
 - 2020 election not free and fair,
 - Government and media controlled by Satan-worshipping conspiracy.
- **This paper** explicitly models coherent but false alternative reality:
 - Members of intellectual elite conspire,
 - Criticize politician about commonly important issue (competence) if disagree about divisive issue (e.g., cultural values).
- Politician chooses whether to supply alternative reality, which partially persuades voter.
- Once voter believes in alternative reality, he reasons about it in a Bayesian fashion.
 - He will distrust elite's criticism of the politician and vote accordingly.
- We argue model explains several salient facts about politics, media, and the non-adoption of best practices.

- Misinformation in politics:
 - Foundational work on the supply side: Glaeser (2005), Besley and Prat (2006), Kamenica and Gentzkow (2011).
 - Explicit models of political misinformation: Guriev and Treisman (2020), Ash, Mukand, and Rodrik (2021).
- Disagreement and polarization in learning: Rabin and Schrag (1999), Gentzkow, Wong and Zhang (2021).
- Populism and identity politics: Bonomi, Gennaioli and Tabellini (2021), Besley and Persson (2021), Levy, Razin and Young (2022).
- **Our contribution:** Theory of strategically-interacting alternative reality used to discredit the elite, implications for politics, media, and adoption of best practices.

Outline from here

- ① Model and main result
- ② Applications
- ③ Conclusion

Principal-agent model with alternative reality

- Two principals:
 - Intellectual elite: continuum of identical members report about competence of politician ($s \in \{0, 1\}$).
 - Politician: may send propaganda ($p \in \{0, 1\}$) to change voter's prior.
- One agent:
 - Voter: continuum of identical members decides on reelection.
- Key modeling idea: principals have “reality” types R or AR
 - AR types have zero objective probability.
 - But: we assume propaganda makes voter's prior of AR positive.
 - AR has real consequences since voter best-responds to it.
- AR is a conspiracy theory:
 - In R, atomistic elite cannot influence voter and messages truthfully.
 - In AR, elite can act collectively and sends message to influence voter.

Politician:

- Divisive: pro-elite or pro-voter, $\theta_d \in \{0, 1\}$, observable to all.
 - Examples: cultural values or economic redistribution.
- Common: bad or good, $\theta_c \in \{0, 1\}$, observable to elite.
- Reality types: AR politician believes elite is AR.

$$U_p = E \cdot 1[\text{reelected}] - f \cdot p. \quad (1)$$

Elite has reality types $\theta_r \in \{R, AR\}$.

$$U_e = 1_{\{\theta_r=R\}} \cdot 1_{\{s=\theta_c\}} + 1_{\{\theta_r=AR\}} \cdot (c\tilde{\theta}_c - \lambda\tilde{\theta}_d). \quad (2)$$

Voter has “mind types”: normal and persuaded.

- Normal has correct beliefs: knows AR does not exist.
- Persuaded (reached by propaganda): puts positive weight on AR.

$$U_v = c\tilde{\theta}_c + \lambda\tilde{\theta}_d + \epsilon. \quad (3)$$

Timing

- ① Politician's type realized. Voter observes divisive type, elite also observes common type.
- ② Elite sends message, politician decides whether to send propaganda.
- ③ Voter observes both messages. His preference shock realizes and he decides whether to reelect the politician.

Equilibrium concept

Perfect Bayesian equilibrium, adopted to voter updating from wrong prior if reached by propaganda.

Proposition

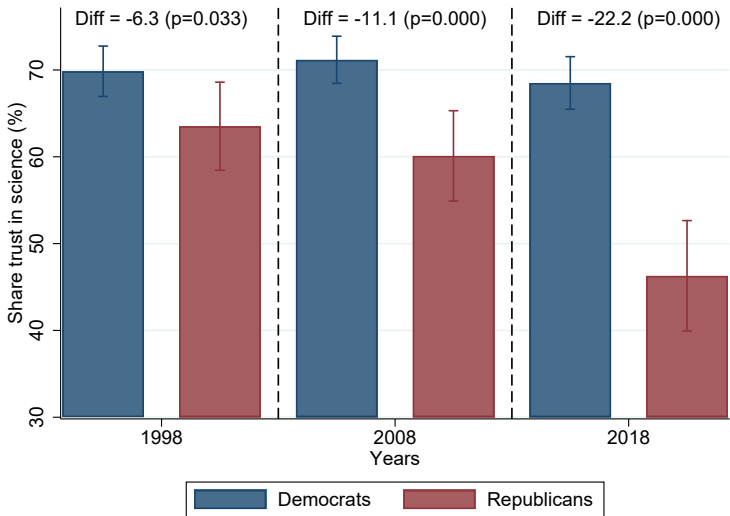
Under some parameter assumptions:

- ① *In the reality (R):*
 - *Politician sends propaganda iff pro-voter and bad.*
 - *Elite reports common type truthfully.*
 - ② *In the alternative reality (AR):*
 - *Politician sends propaganda iff she is pro-voter.*
 - *Elite reports politician bad iff politician is pro-voter.*
 - ③ *Propaganda increases reelection chance of bad pro-voter politician.*
-
- Intuition for why bad pro-voter politician sends propaganda:
 - Bad \Rightarrow discrediting the elite is beneficial.
 - Pro-voter \Rightarrow AR that elite acts against her is believable.

Implication 1: Bad politicians use propaganda

- **Bad** politicians use propaganda and doing so helps them keep power.
- Consistent with Guriev-Treisman notion of informational autocracy.
- Mechanism is new: propaganda works not by praising politician, but by discrediting elite.

Republicans' trust in science declined

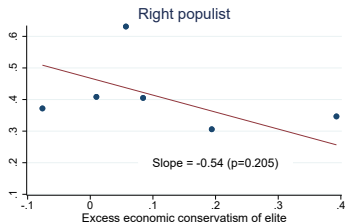
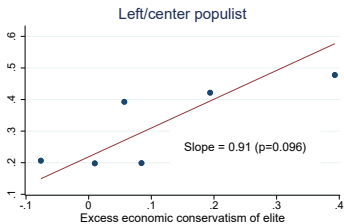
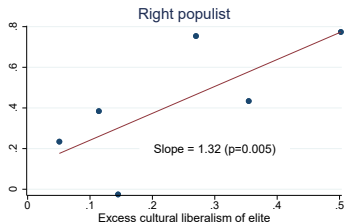
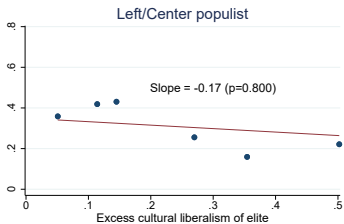


Implication 2: Left- vs right-wing populism

Propaganda only used by **pro-voter** politician.

- When divisive issue is cultural values, elite is on the left
⇒ pro-voter is right-wing.
- When divisive issue is economic redistribution, elite is on the right
⇒ pro-voter is left-wing.

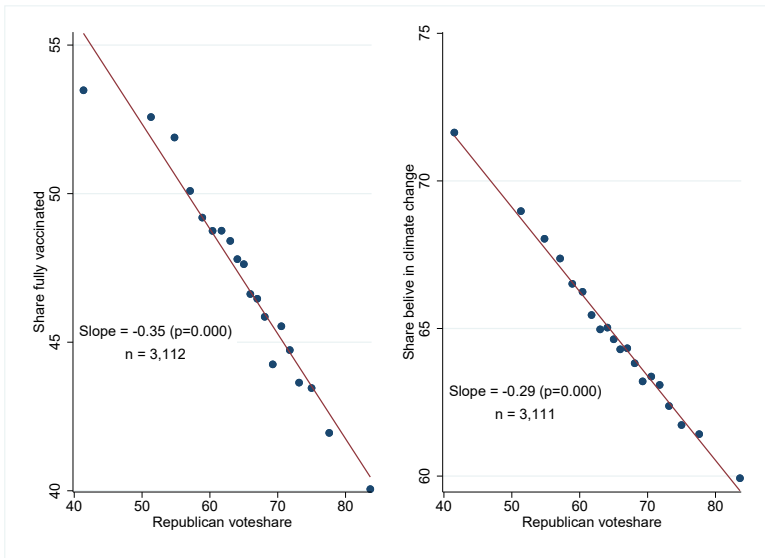
Cultural vs economic division and right- vs left-populism



Implication 3: non-adoption of best practices

- Once elite is discredited, voter will not trust it in other domains.
 - Fearing that in those domains too elite's messages are driven by its interests.
- Propaganda leads to distrust in science and the non-adoption of best practices.

Republicans vaccinate and believe in climate change less



- Also less likely to social distance (Allcott et al 2020).

Outline from here

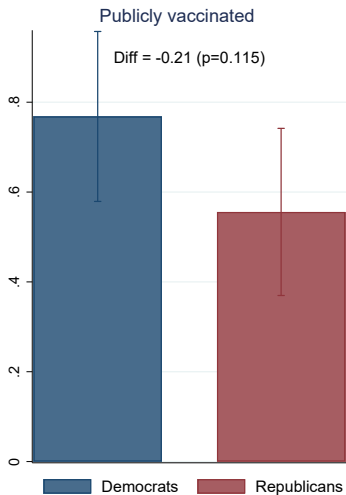
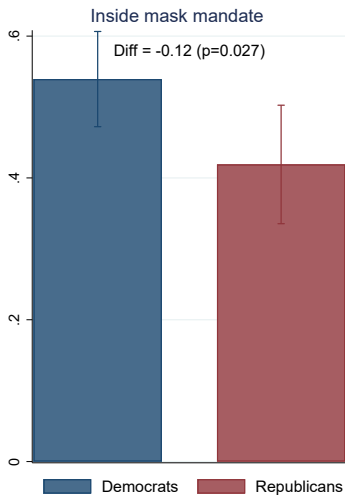
- ① Model and main result
- ② Applications
 - ① Quality of government policy
 - ② New media
- ③ Conclusion

Application 1: Quality of government policy

- **Main idea:** Politician will follow policies that contradict elite consensus even if doing so is universally harmful.
 - To avoid praise from the discredited elite.
- Logic of the model:
 - A new stage requires competence on a new dimension.
 - Acting competently invites praise from elite.
 - Voter may infer that politician's divisive type switched.
 - Politician also part of the conspiracy.
 - Politician prefers to act incompetently.

▶ Model extension

Propaganda and government policy: evidence



Application 2: New media

- **Salient fact:** non-traditional media, including Fox, spread and reinforce alternative realities.
 - Seems unexplained by existing models.
- We propose an explanation based on competition for audiences.
 - The lower trust in the elite, the higher the demand for new media.
 - Especially if pro-voter and cannot be part of conspiracy.
 - New media creates demand for itself by strengthening beliefs in alternative reality.
- New testable implications:
 - Government propaganda fuels demand for non-traditional media.
 - Non-traditional media further reduce trust in elite.

▶ Model extension

Outline from here

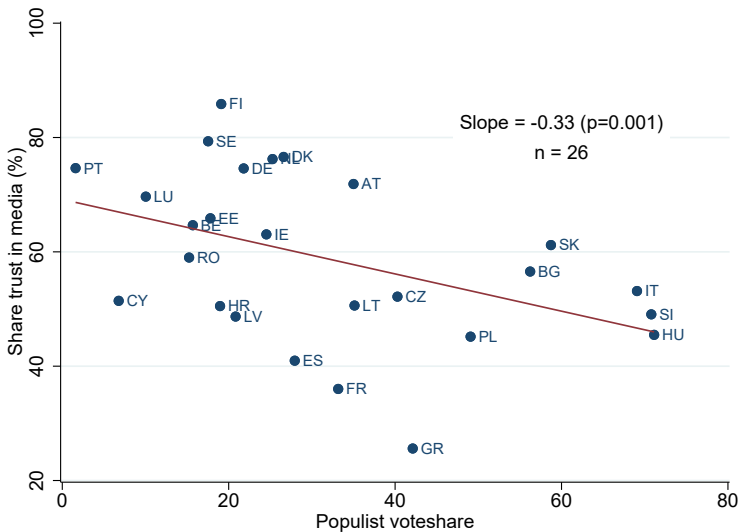
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- Our model of the political supply of alternative realities implies:
 - ① Alternative reality is spread by bad politicians.
 - ② Cultural disagreement predicts right-, economic predicts left-populism.
 - ③ Individual non-adoption of scientific best practices.
 - ④ Governmental non-adoption of scientific best practices.
 - ⑤ Emergence of new media reinforces alternative realities.
- Limitation: model does not explain why voters believe in alternative reality.
- Modeling internally consistent and strategic alternative reality can be useful in other domains.

Demand for conspiracy theory

- We assume propaganda changes prior beliefs.
- Consistent with empirical evidence.
 - Propaganda effects behavior: Yanagizawa-Drott (2014), Adena et al. (2015), Blouin and Mukand (2019), Barrera et al. (2020).
 - Consistent with declining trust in science.
 - Consistent with conspiracy theories: Douglas et al. (2019).
 - In line with oversensitive agency detection.
- Calibrationally more satisfying than Bayesian persuasion.
 - If prior is small then conspiracy theory remains weak.
 - If prior is large then more conspiracies in reality.

Populism and distrust in the intellectual elite



Model of policy requiring competence

- Before election, new issue arises which requires competence, (e.g. Covid containment)
- Politician draws new type dimension: competent vs incompetent.
 - Both elite and voter prefer a competent politician.
- Politician has new action: competent can behave incompetently but not other way around.
- Politician's immigration type may flip with a small probability
 - Risk of elite capture.
- Elite observes new immigration type and competence action, send message on competence.

Proposition

Under some assumptions, if the politician is initially pro-voter:

- ① *First stage unfolds as before.*
 - ② *Second stage, after propaganda:*
 - *Politician always acts incompetently.*
 - *Criticism about competence increases chance of reelection.*
- Intuition: After propaganda praise for competence would suggest elite capture.
 - Corrupt politician seeks conflict with elite to maintain voter's trust.

Model of new media

- New media observes the politician's common type
- Sends a message on common type, more noisy than elite's message.
 - Simultaneously to messages of elite and politician.
- **Key:** New media is only valuable to voter in the AR.
 - In R, traditional media is fully informative.
- Two payoff-relevant types:
 - Honest: has only policy preferences and reputation concerns.
 - Audience-seeker: maximize voter's perception of the AR.
 - Voter believes media is honest, but in truth it is audience-seeker

Proposition

Under some assumptions, if the politician is pro-voter:

- ① *Elite and politician behave as before.*
 - ② *Audience-seeker new media never reports corruption.*
 - *Increases voter's perception of AR.*
 - *Increases low-type politician's reelection chances.*
- Intuition: Contradicting the elite increases voter's perception that elite is untrustworthy, sustaining demand for new media.
 - Helps explain why some independent media lie to support politician.