

# The Political Economy of Alternative Realities

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June 2023

- 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** 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 alternative reality, he engages with it strategically in Bayesian fashion.
  - He will distrust elite's criticism of politician and vote accordingly.
- Model explains salient facts about politics, media, and non-adoption of best practices.

- Supply of misinformation in politics: Glaeser (2005), Kamenica and Gentzkow (2011), Guriev and Treisman (2020), Ash, Mukand and Rodrik (2021).
- Persuasion and narratives: Galperti (2019), Eliaz and Spiegler (2020), Eliaz, Galperti and Spiegler (2022), Schwartzstein and Sunderam (2021), Charles and Kendall (2022).
- 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 ( $s \in \{0, 1\}$ ).
  - Incumbent politician: may send propaganda ( $p \in \{0, 1\}$ ) to change voter's prior.
- One agent:
  - Voter: continuum of identical members decide 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,  $\theta_c \in \{0, 1\}$ , elite gets an imperfect signal.
  - Examples: uncorrupt or increases prosperity.
- Reality types: AR politician believes elite is AR.

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

**Elite** has reality types  $\theta_r \in \{R, AR\}$ , objective equivalent to

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

**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.

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

## Timing

- 1 Politician's type realized. Voter observes only divisive type, elite also receives signal on common type (correct with prob  $\pi$ ).
- 2 Elite sends message, politician decides whether to send propaganda. Voter observes elite signal, and propaganda with prob  $\alpha$ .
- 3 Voter's 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

*For  $\alpha$  small and  $\pi$  large, the politician optimal equilibrium:*

- ① *If division is small ( $\lambda$  small)*
  - *There is no propaganda and the elite is fully trusted.*
- ② *If division is large ( $\lambda$  large)*
  - *In the reality (R):*
    - *Politician sends propaganda iff pro-voter and bad.*
    - *Elite reports common type truthfully.*
  - *In the alternative reality (AR):*
    - *Politician sends propaganda iff she is pro-voter.*
    - *Elite reports politician bad iff politician is pro-voter.*
  - *Propaganda increases reelection probability of bad pro-voter politician.*



- When disagreement small, no propaganda.
  - Implausible that elite wants to remove good politician b/c disagree.
- When disagreement large, bad pro-voter politician uses propaganda.
  - Because she has both the opportunity and the motive.
- Equilibrium supported by behavior of AR principals:
  - AR elite conspires, always criticizes pro-voter politician.
  - AR politician believes elite is AR → sends propaganda.
  - Voter cannot infer from propaganda that politician is bad: in AR even good politician sends propaganda.
- Once voter believes in the AR, elite criticism benefits politician
  - After propaganda and praise voter learns that politician is bad.

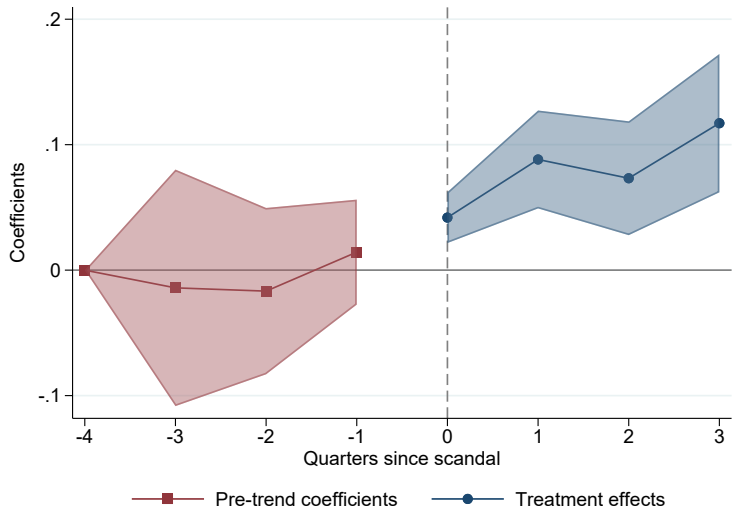
# Trump benefits from indictment

- CBS News Poll – June 7 - 10, 2023
- If Donald Trump is indicted in the matter of his handling of classified documents, would that make you...

	Moderate	Conservative
More likely to vote for him	24%	44%
Less likely to vote for him	13%	3%
Not affect whether you vote for him	63%	53%
Observations	80	408

- We ask if scandals benefit Republican reps among Trump supporters
  - Federal scandals from Wikipedia,
  - Campaign contributions among Trump and other Rep donors.

# Scandal effect: Trump donors' share in donations



# Scandal effect: Donation levels

	Trump share (1)	Trump donors (2)	Other donors (3)
Scandal effect	0.076*** (0.008)	27.26** (11.03)	5.07 (18.02)
Control mean	0.065	16.12	119.0
Observations	3,384	4,372	4,372

► Placebo

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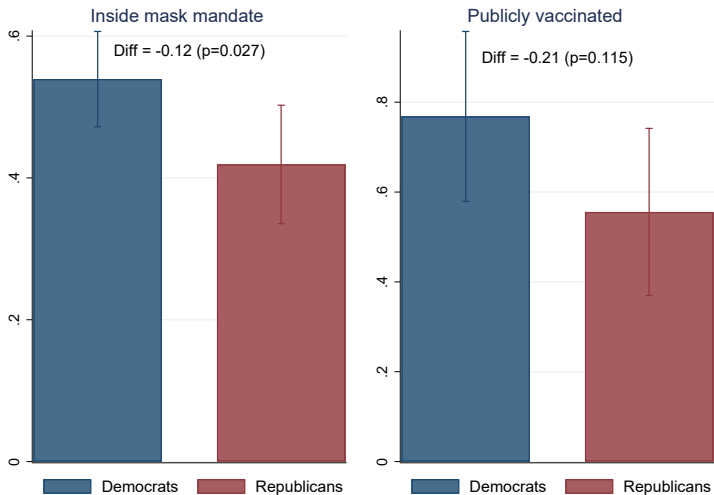
# Application 1: Government policy

- **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:
  - Politician can take harmful action to influence precision of elite signal.
  - Without propaganda: bad politician prefers noisy elite signal.
  - With propaganda: bad politician prefers precise elite signal.

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  - Politician prefers to act against elite consensus.

# Evidence on government policy





## Application 2: New media

- **Salient fact:** non-traditional media, including Fox News, spread and reinforce alternative realities.
- We propose an explanation based on competition for audiences.
  - The lower trust in the elite, the higher the demand for new media.
    - If pro-voter and cannot be part of conspiracy.
  - New media creates demand for itself by strengthening beliefs in alternative reality.
- Implications:
  - Propaganda increase demand for non-traditional media.
  - Non-traditional media amplify effect of propaganda further reducing trust in elite/science.
- Consistent with evidence showing that Fox makes its viewers
  - Social distance less: Bursztyn et al (2020), Simonov et al. (2020)
  - Vaccinate less: Pinna, Picard, and Goessman (2022)

## New media

- Less informative than elite media in the  $R$
- Not part of the conspiracy in the  $AR$

## Objectives

$$U_e = 1_{\{\theta_r=R\}}[\phi\mu_v(\theta_r = R) + 1_{\{s^e=\theta_c\}}] + 1_{\{\theta_r=AR\}}(c\tilde{\theta}_c - \lambda\tilde{\theta}_d)$$

$$U_n = \phi\mu_v(\theta_r = AR) + 1_{\{s^n=\theta_c\}}$$

- Audience-seeking preferences: maximize perceived prob of  $R$  or  $AR$ .

## Timing

- 1 Politician's type realized. Voter observes divisive type, elite and new media also observe the common type.
- 2 Elite and new media send message, politician decides whether to send propaganda. Voter always observes the elite message, the propaganda and new media message with probability  $\alpha$  and  $\gamma$ .
- 3 Voter's preference shock realizes and he decides whether to reelect the politician.

## Proposition

*If  $\alpha$  small,  $\lambda$  large, and the politician is pro-voter, then in the PO equilibrium:*

- ① *Elite and politician behave as before.*
  - ② *New media always reports the politician good after a good signal and mixes after the bad signal.*
  - ③ *Propaganda creates demand for new media.*
  - ④ *New media amplifies the effect of propaganda:*
    - *Increases voter's perception of AR.*
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- Contradicting elite increases perception that elite is untrustworthy.
    - Increases demand for new media.

## Application 3: Endogenous alternative reality

- Why is alternative reality a conspiracy theory?
- Simpler version: elite members have low reputation/lying cost.
- Advantage of conspiracy: explains away more credible evidence.
  - Elite has a “public good” problem: members do not internalize that their lies benefit each other.
    - Low benefit from lying.
  - Conspiracy solves public good problem.
    - High benefit from lying.
- Implication: The more hard evidence presented in media, the more the politician prefers conspiracy to lying cost propaganda.

## Elite

- Finite number of media outlets  $N$ 
  - each influences  $1/N$  share of voters
- If there is a conspiracy, they influence all voters
- Conspiracy has organization cost:  $\chi_o = \infty$
- Lying cost has two components:  $\chi_f$  and  $\chi_r$

$$U_e = c\tilde{\theta}_c - \lambda\tilde{\theta}_d + 1_{\{s=\theta_c\}}(\chi_f + \chi_r) - 1_{\{\text{conspiracy}\}}\chi_o$$

## Alternative realities

- Two potential AR:
  - Lying cost AR:  $\chi_r = 0$
  - Conspiracy AR:  $\chi_r = 0$  and  $\chi_o < \infty$
  - Conspiracy AR is more costly:  $f_c > f_l$

## Proposition

*If  $\alpha$  small,  $\lambda$  large, and the politician is pro-voter, then the PO equilibrium is such that:*

- ① If  $\chi_f$  is small, then bad politician uses lying cost AR.*
  - ② If  $\chi_f$  is medium, then bad politician uses conspiracy AR.*
  - ③ If  $\chi_f$  is large, then no politician uses AR.*
- Implication: Hard evidence may not improve accountability but trigger conspiracy theories.

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- Our model of the political supply of alternative realities implies:
  - ① Alternative reality is spread by bad politicians.
  - ② Alternative reality only spread in divided societies.
  - ③ Alternative reality may make criticism beneficial.
  - ④ Government set policy to contradict elite consensus.
  - ⑤ AR creates demand for new media, which reinforces the AR.
  - ⑥ More credible evidence triggers conspiracy theory AR.
- Limitation: no theory of why voters believe alternative reality.
- Modeling strategic alternative reality can be useful in other domains, e.g., conflict.

# Placebo: competition effect

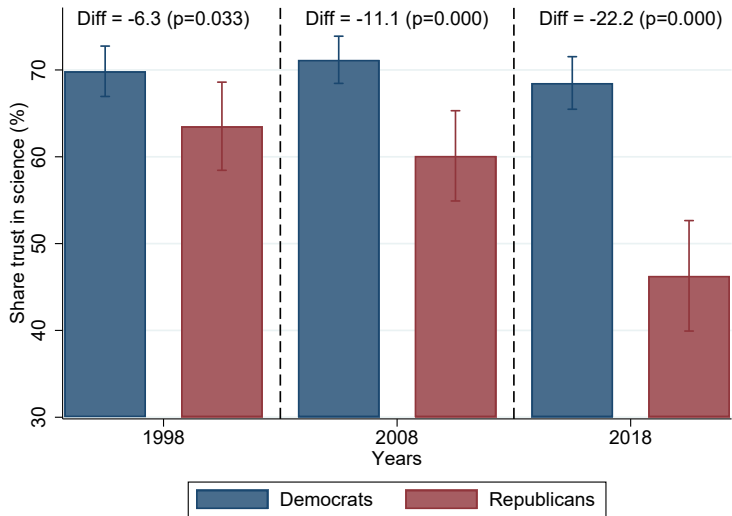
	Trump share (1)	Trump donors (2)	Other donors (3)
$\Delta$ pred Dem vote margin	0.001 (0.001)	-1.07 (1.60)	1.43 (3.57)
Old pred Dem vote margin	0.001 (0.0006)	0.402 (0.454)	5.36*** (1.05)
Constant	0.109*** (0.017)	49.7*** (14.1)	346.4*** (38.2)
Observations	266	296	296

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# 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 hypersensitive 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.

# Republicans' trust in science declined



# Populism and distrust in the intellectual elite

