

The 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** 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), Bellodi, Morelli, Nicolo, and Roberti (2023).
- **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 π).
- 2 Elite sends message, politician decides whether to send propaganda. Voter observes elite signal, and propaganda with prob α .
- 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 α small and π large, the politician optimal equilibrium:

- ① *If division is small (λ small)*
 - *There is no propaganda and the elite is fully trusted.*
- ② *If division is large (λ 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 \rightarrow 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

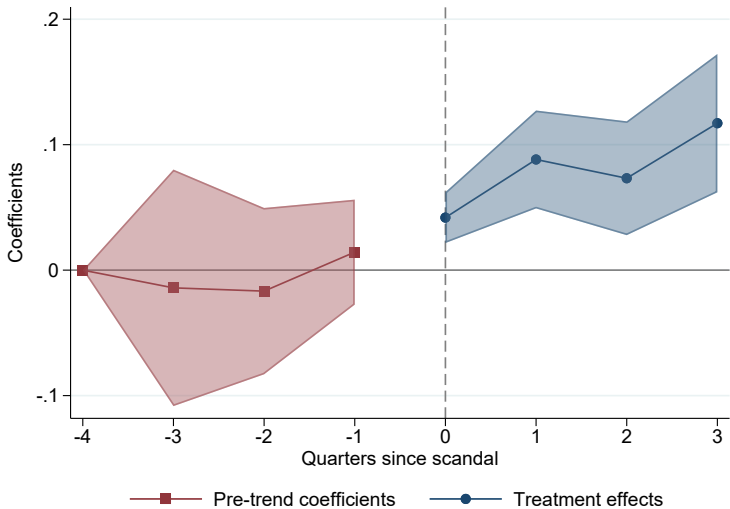
- CBS News Poll – June 7 - 10, 2023
- If Donald Trump is indicted in the matter of his handling of classified documents, would that make you...

| | 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 |

Politician benefits from scandals

- 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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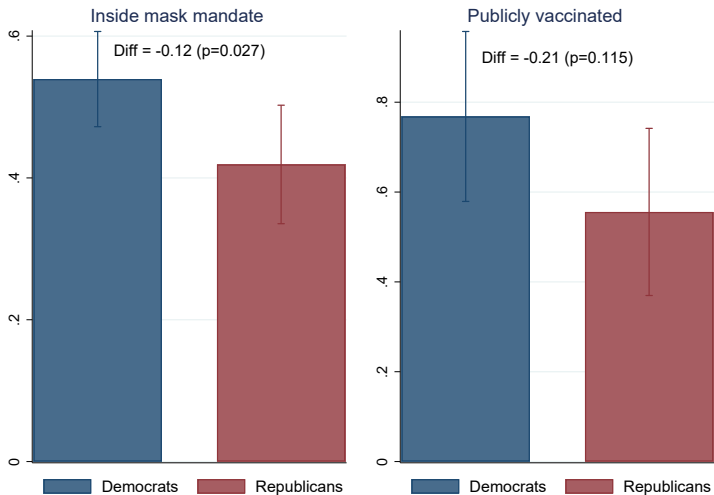
Application 1: Government policy

- **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.

⇓

 - 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 messages to sustain alternative reality which reduces 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)

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.

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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

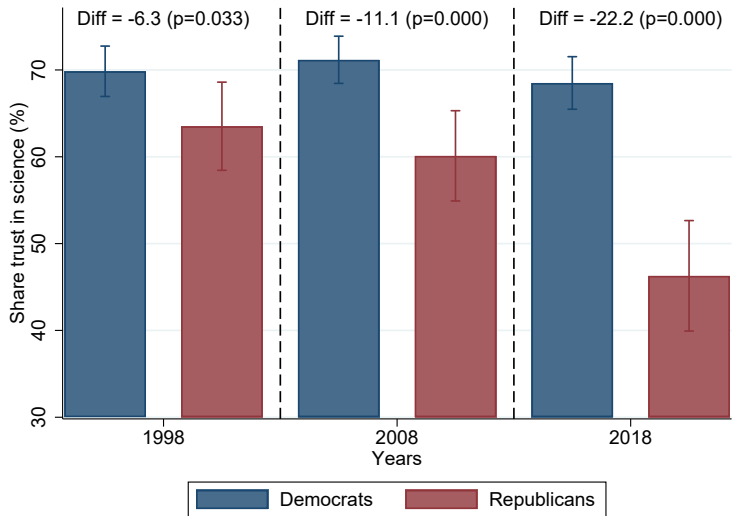
| | Trump share (1) | Trump donors (2) | Other donors (3) |
|-------------------------------|---------------------|---------------------|---------------------|
| Δ pred Dem vote margin | 0.001 (0.001) | -1.07 (1.60) | 1.43 (3.57) |
| Old pred Dem vote margin | 0.001 (0.0006) | 0.402 (0.454) | 5.36***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

▶ Back

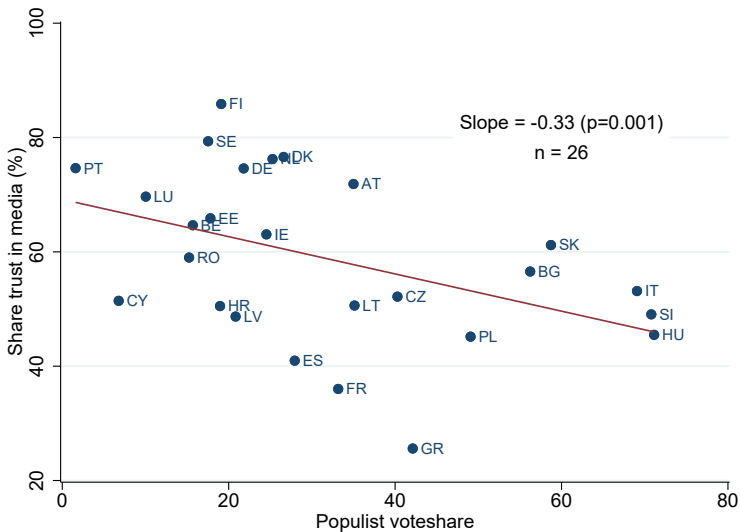
Demand for conspiracy theory

- 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



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 α and γ .
- ③ Voter's preference shock realizes and he decides whether to reelect the politician.

Proposition

If α small, λ 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.*
-
- Contradicting elite increases perception that elite is untrustworthy.
 - Increases demand for new media.

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: χ_f and χ_r

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

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 α small, λ large, and the politician is pro-voter, then the PO equilibrium is such that:

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