The Sound of Silence: Anti-Defamation Law and Political Corruption

Gabriele Gratton

University of New South Wales

September 16, 2011 UNSW School of Economics Workshop: Development Challenges in a South Asian Context
Motivation

- We read newspapers to get information about the conduct of politicians.
- Often we have to take decisions (reelect, impeach, etc.) before this information can be verified.
Motivation

- We read newspapers to get information about the conduct of politicians.
- Often we have to take decisions (reelect, impeach, etc.) before this information can be verified.
- Were the media absolutely free to publish whatever allegation, would you believe in what they say?
- Anti-defamation legislation gives incentives to media to publish only evidence of scandals with a solid ground.
Motivation

- At what cost? What if the laws are so punitive that journalists would not publish some information even when they know it to be true (*chilling effect*)?

- How then to interpret the silence of media? Do they have nothing true to show to us, or they have something so *bad* (and true) they are scared to show it?

  ...*tragedy begins not when there is a misunderstanding about words, but when silence is misunderstood.*

  *Henry D. Thoreau*
Main results

- If in equilibrium there exists a true allegation not worth publishing, then
  1. corruption is larger than without any anti-defamation protection;
  2. any limitation to political corruption relies on the possibility of punishing the politician when the media remain silent.
(Italian) Examples

- Governor Piero Marrazzo resigns in October 2009 for a sex scandal. Newspaper possessed video evidence since the Summer but refused to mention the scandal until the police opened an investigation.
Related Literature (very incomplete)

- Anti-defamation law: Garoupa (1999) and (1999a)
- Principal-agent-supervisor: Antle (1984), Tirole (1986), among others
The model

I study perfect Bayesian equilibria of a model with:
- principal
- media
- politician
politician and scandals

- The politician chooses his level of corruption $c \in [0, 1]$: greatest wrong he is going to commit. Direct payoff: $\gamma c$, $\gamma > 0$. 
politician and scandals

- The politician chooses his level of corruption $c \in [0, 1]$: greatest wrong he is going to commit. Direct payoff: $\gamma c$, $\gamma > 0$.

- The media observes $c$. This is private information the media cannot publish.

- Also, the media observes publishable evidence of scandal $s \in [0, 1]$: with probability $q > 0$, $s = c$; otherwise $s \sim U(0, 1)$.

- If $s \leq c$, the scandal is true.
The media can either publish the scandal ($x = s$) or send the message 'nothing' ($x = \phi$).

Revenue function: $\pi(x) : \{[0, 1], \phi\} \to \mathbb{R}_+, c^2, \pi'(\cdot) > 0, \pi''(\cdot) \leq 0$ and $0 = \pi(\phi) < \pi(0)$. 
The principal commits a priori to a mechanism

\[ e(x) : \{[0, 1], \phi\} \rightarrow [0, 1] : \text{probability of rewarding politician with } r \leq \gamma \text{ if scandal } x \text{ is published.} \]
Trial

- After $e(x)$ is realized and rent (eventually) collected, the politician can sue the firm for defamation.
- Judges assessment of corruption level, $g$.
- Politician wins the trial if $g < x$. He receives $\epsilon \in (0, r)$ if he has been rewarded, otherwise receives $\delta \in (\epsilon, r]$
- Firm is punished $\rho(x) : [0, 1] \to \mathbb{R}_+$, $c^2$ with $\rho'(\cdot) > 0$, $\rho''(\cdot) \geq 0$ and $\rho(0) = 0$.
- 2 kinds of trial:
  1. fair trial: no cost for politician for politician, $g = c$;
  2. biased trial: cost $f > \epsilon$, with probability $1 - \zeta$, $g = c$, otherwise $g \sim U(0, 1)$.
Trial stage

- Probability of politician winning a biased trial if a true scandal $x = s \leq c$ is published: $\zeta s$.

- The politician will sue the firm if and only if he has received no reward and

$$s > \frac{f}{\delta \zeta}.$$ 

- If $f \geq \delta \zeta$, the politician will never incur cost $f$ and no biased trial will occur in equilibrium.
Introduction

The model

Imperfect justice

Robustness check: punishment depending on distance from the truth.

Trial stage

- Probability of politician winning a biased trial if a true scandal $x = s \leq c$ is published: $\zeta s$.

- The politician will sue the firm if and only if he has received no reward and

$$s > \frac{f}{\delta \zeta}.$$ 

- If $f \geq \delta \zeta$, the politician will never incur cost $f$ and no biased trial will occur in equilibrium.

Assumption

$f < \delta \zeta$: imperfect justice
Preliminaries

Proposition

Without any anti-defamation law, all PBEs of the model are characterized by a level of corruption $c = 1 - rq/\gamma$ such that $e(c) = 1$ and $e(x) = 0$ for all $x > c$. All PBEs are equilibria with defamation and there is no equilibrium with chilling.
Define

$$\bar{s} := \begin{cases} 1 & \text{if } \pi(s) > \rho(s), \forall s \in [0, 1]; \\ s \in [0, 1] : \pi(s) = \rho(s) & \text{otherwise;} \end{cases}$$

I use $\bar{s} \in (0, 1]$ as a measure of the stringency of anti-defamation laws.
Imperfect justice

- If \( x > \frac{f}{\delta \zeta} \), then the politician will sue the firm if he has not been rewarded by the principal.
- Define \( s(e(\cdot)) \):

\[
\begin{align*}
  s(e(\cdot)) := \begin{cases}
    1 & \text{if } \pi(s) > s\zeta (1 - e(s)) \rho(s), \\
    s \in [0, 1]: \\
    \pi(s) = s\zeta (1 - e(s)) \rho(s) & \forall s \in [0, 1]; \\
    \text{otherwise.}
  \end{cases}
\end{align*}
\]
Imperfect justice

- If $x > \frac{f}{\delta \zeta}$, then the politician will sue the firm if he has not been rewarded by the principal.
- Define $s(e(\cdot))$:
- If $x > s(e(\cdot))$, then the firm’s expected payoff of publishing is negative.
- The firm will not publish a true scandal $s \leq c$ if

$$s > \tilde{s}(e(\cdot)) := \max \{s(e(\cdot)), f/\delta \zeta\}.$$
Media strategy

Lemma

Define $\hat{s}(e(\cdot)) := \min \{\tilde{s}(e(\cdot)), \max \{\bar{s}, c\}\}$, the optimal strategy for a media firm observing a scandal $s$ and corruption level $c$ is

$$x(s, c) = \begin{cases} s & \text{if } s \leq \hat{s}(e(\cdot)) \; ; \\ \emptyset & \text{otherwise.} \end{cases}$$
Chilling neutralizing mechanism

How can the principal avoid any chilling?

- If $\bar{s}(e(\cdot)) \geq 1$, then all true scandals will be published $\iff e(1) \geq \bar{e} = \max\{\hat{e}, 0\}$,

$$\hat{e} := 1 - \frac{\pi(1)}{\zeta \rho(1)}.$$

**Definition**

A mechanism is *chilling neutralizing* (all true scandals are worth being published) if $e(1) \geq \bar{e}$. 

Gabriele Gratton

University of New South Wales

The Sound of Silence: Anti-Defamation Law and Political Corruption
Chilling neutralizing mechanism

Proposition

There exists a non-empty and bounded set of combinations of $\bar{s}$ and $\bar{e}$ for which the PBE mechanism $e(x)$ is chilling neutralizing. For low enough values of $\bar{s}$, the PBE mechanism $e(x)$ is not chilling neutralizing and there exists a unique PBE such that the equilibrium level of corruption is larger than if there was no anti-defamation protection.
If the anti-defamation law is so stringent that in equilibrium there exists at least one scandal that would not be worth publishing by the media even if true, then the equilibrium level of corruption is larger than without any anti-defamation protection.
Imperfect justice

Robustness check: punishment depending on distance from the truth.

Gabriele Gratton
University of New South Wales

The Sound of Silence: Anti-Defamation Law and Political Corruption
Lemma

Suppose that the mechanism $e(x)$ is not chilling neutralizing. If $e(\phi) = 1$, then no level of corruption $c < 1$ can sustained in equilibrium.
Robustness check

- What if \( \rho(x - g) \), (strictly) increasing and convex for \( x > g \), always continuous and equal to 0 for \( x \leq g \)?
Proposition

Call $\mathcal{N}$ the set of anti-defamation laws such that the PBE of the model has a chilling neutralizing mechanism, then $\mathcal{N}$ is a proper subset of the set of laws. For all laws $\notin \mathcal{N}$, the equilibrium mechanism is such that $e(\phi) = 0$ and the equilibrium level of corruption is equal to $c(e(x)) > 1 - \frac{rq}{\gamma}$. 
Imperfect justice

Proposition

Call $\mathcal{N}$ the set of anti-defamation laws such that the PBE of the model has a chilling neutralizing mechanism, then $\mathcal{N}$ is a proper subset of the set of laws. For all laws $\notin \mathcal{N}$, the equilibrium mechanism is such that $e(\phi) = 0$ and the equilibrium level of corruption is equal to $c(e(x)) > 1 - \frac{rq}{\gamma}$.

Proposition

There is no equilibrium with chilling. There exist anti-defamation laws such that the unique PBE is an equilibrium with defamation but not an equilibrium with a chilling neutralizing mechanism.