

## Media as a Mechanism of Institutional Change and Reinforcement

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### 1 INTRODUCTION

A large literature establishes institutions' importance for economic performance (see, Acemoglu, Johnson and Robinson 2001, 2002; Acemoglu and Johnson 2005; Borrmann, Busse and Neuhaus 2006; Davis and North 1971; de Groot et al. 2004; Gwartney, Holcombe and Lawson 2006; North 1961, 1990; North and Thomas 1973; Rodrik, Subramanian and Trebbi 2004).<sup>1</sup> Given this, a central question is how institutions evolve, or do not evolve, for better or worse. What specific mechanisms change institutions or perpetuate them?

Existing discussions of institutional change are insightful but highly abstract (see, for instance, Aoki 2001, 2007; David 1994; Denzau and North 1994; Greif 1994; Greif and Laitin 2004; North 1990, 2005; and Young 1998). This paper identifies and analyzes a concrete mechanism of institutional evolution: mass media. We argue that media can help solve the ‘coordination problem’ that prevents institutional change. It does so by generating and revealing common knowledge about socially-shared beliefs, ideas, and values. However, paradoxically, media’s very ability to do this enables it to reinforce existing institutions under different circumstances, acting as a barrier to change.

We analyze media’s dual role in changing and preserving institutions and identify three effects media has on institutional evolution. First, the media can gradually change institutions by introducing individuals to new ideas, meanings, and alternatives. This process doesn’t fundamentally change existing institutions; it marginally alters them, leaving their essential features intact. We

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1 On the distinction between two views of institutions and development, see Paldam and Gundlach (2008).

call this media's 'gradual effect.' Second, media can drastically change institutions rapidly. This process overhauls existing institutions by allowing individuals to seize potential tipping points for major social change. We call this media's 'punctuation effect.' Finally, once a new institutional regime is established, the media can reinforce new institutions. This process strengthens existing institutions. We call this media's 'reinforcement effect.'

To illuminate these effects media has on institutions we consider communism's collapse in Poland and Russia. In both cases institutional change occurred at first gradually via media's 'gradual effect,' then rapidly and dramatically via media's 'punctuation effect,' and finally the new institutional equilibrium was strengthened and perpetuated via media's 'reinforcement effect.' In our case studies we pay special attention to the factors that influenced media's ability to either alter or reinforce institutions in each particular case.

Our analysis helps resolve an important tension in the literature on institutions and institutional change. On the one hand, we know institutions change—sometimes dramatically and rapidly. On the other hand, a central characteristic of institutions is their durability. How do we reconcile observed institutional changes with institutional durability? We identify mass media's varying effects, described above, as a specific mechanism that explains institutional change and durability.

## 2 THE PROCESS OF INSTITUTIONAL CHANGE

Existing institutions result from past choices and experiences (North 1990; David 1994; Boettke, Coyne and Leeson 2008). As the literature on institutional path dependency emphasizes, the way institutions developed constrains present choices (North 1990: 93–8, 2005: 51–2). Denzau and North (1994) and North (2005) place informal institutions, and especially mental models, at the core of the process of institutional change in the face of this dependency. North (2005: 23) notes that 'the process works as follows: the beliefs that humans hold determine the choices they make that, in turn, structure the changes in the human landscape' (2005: 23). This suggests institutional change requires shifts in individuals' beliefs and mental models.

Individuals rely on incomplete mental models since they can't know the full range of opportunities available to them (Denzau and Grossman 1993; Denzau and North 1994; and North 2005). As they become aware of new meanings, perceptions, and opportunities they update their mental models. These updates, or 'periods of representational redescription,' are the engine of institutional change and can, under certain circumstances, result in dramatic 'punctuated' changes to existing institutions, leading to new ones (Denzau and North 1994: 23).

The process that creates punctuated institutional change begins with a divergence between underlying beliefs and the status quo, or what Denzau and North call the growing gap ‘between the general climate of opinion and the ‘pure’ ideology’ (1994: 25). Timur Kuran’s (1995) discussion of ‘preference falsification’—when individuals publicly lie about their private preferences—highlights this divergence.<sup>2</sup>

As Kuran points out, once a minimum threshold of people holding certain private preferences is met, even a minor event can lead to dramatic changes in economic, social, and political institutions. One example of this is political revolutions. Central to such revolutions is the activation of ‘tipping points’ for punctuated institutional change. Once the growing gap between actual and public preferences reaches some threshold, a tipping point may be activated making major institutional change possible. After (or more accurately, as we discuss below, if) the tipping point is activated and the new punctuated institutional equilibrium is established, the process of slow and gradual change Denzau and North (1994) emphasize reemerges, restarting the process described above.

### 3 MEDIA AS A MECHANISM OF INSTITUTIONAL CHANGE AND REINFORCEMENT

#### *3.1 Media’s Three Effects on Institutions*

Since individuals typically update their mental models only slowly and gradually, institutional change is typically slow and gradual. Mass media facilitates this gradual change by presenting individuals with fodder for new mental models—ideas and perceptions that differ from the status quo. As individuals’ mental models gradually change, the gap between their desires and existing institutions gradually grows as well, creating pressure for small institutional change. For instance, as we discuss below, in Poland and Russia an underground media informed individuals about alternatives to the existing institutional regime, encouraging gradual institutional change. We call this media’s ‘gradual effect’ since it refers to media’s ability to introduce marginal institutional changes by gradually influencing its consumers ideas, perceptions, and information.

If the disconnect between private and public preferences becomes significant, opportunity for punctuated institutional change—rapid and dramatic institutional overhaul—emerges. But not all opportunities for punctuated change lead to actual punctuated changes. The reason for this is straightforward.

2. On the political economy of ideological change, see Twight (1993).

Dispersed and anonymous individuals can't always coordinate their beliefs and actions, activating the tipping point required for a punctuation possibility to become reality. For example, opportunities for punctuated change may go unrealized if individuals don't know others share similar private preferences for change. Here, individuals' preference for change remains private preventing the coordination required to seize an opportunity. A 'preference gap' that satisfies some minimum threshold is therefore necessary but not sufficient for punctuated institutional change. To be sufficient, society must take advantage of this threshold's satisfaction by activating tipping points—converting opportunity for punctuated institutional change into actual punctuated institutional change—which requires a solution to the coordination problem described above.

Mass media can solve this coordination problem and activate potential tipping points, making it an important mechanism of institutional change. The easiest way for people to overcome coordination problems is to communicate with each other. But simply communicating is not enough. Since widespread adoption of a behavior requires reciprocation, each person must be confident others will respond in kind. Common knowledge entails each person knowing the relevant information, but also knowing that others know that information, and those other people knowing that others know this information, and so forth. When common knowledge exists, people are confident that everyone involved shares some core information and expectations.

Given its unique ability to reach many people at once, mass media is an important means of creating common knowledge. Alexis de Tocqueville clearly recognized this. 'Only a newspaper' he wrote, 'can put the same thought at the same time before a thousand readers ... A newspaper is not only able to suggest a common plan to many men; it provides them with the means of carrying out in common the plans that they have thought of for themselves' (1835–1840: 517–518).

More recently, Coyne and Leeson (2004) and Leeson and Coyne (2007) have discussed how media can coordinate citizens around certain sets of conjectures for economic reform. As Webster and Phalen point out, 'it is likely that people watching a media event know that a vast audience is in attendance. Such awareness is part of the event's appeal, and the media are generally eager to report the estimated worldwide attendance' (1997: 120). In other words, mass media not only informs individuals directly; it also informs them about others' beliefs and information, creating common knowledge. If the 'preference gap' threshold discussed above is satisfied, this common knowledge activates a potential tipping point leading to punctuated institutional change.

For example, as Kuran points out, one person's small act of dissent can encourage others to dissent as well (1995: 250). Such 'bandwagoning' can lead to fast and dramatic institutional changes. Media is critical to this process

because it creates common knowledge of small acts of dissent against existing institutions. Media consumers become aware of the act of dissent and also that all other media consumers are aware of it too. In this way, media broadcasts individuals' preference gaps to others, enabling them to become aware of others' gaps, facilitating widespread dissent that leads to radical institutional change. This is media's 'punctuation effect,' which facilitates major institutional change per the process described above. In this role, mass media activates potential tipping points, assisting dramatic institutional change.

Paradoxically, the same common knowledge-creating capacity of mass media that can catalyze institutional change can also reinforce existing institutions, preventing such change. In this role, media has a 'reinforcing effect' on punctuated institutional equilibria once they've been established. Media can do this by creating common knowledge that supports existing institutions instead of common knowledge that encourages new ones. For example, if a recent punctuated institutional change displaced illiberal institutions with liberal ones and these institutions are working well, this success may be broadcast with individuals' support for the new regime, improving individuals' knowledge that others also view the new institutions favorably, reinforcing the new arrangement.

### *3.2 Factors Influencing Media's Three Effects*

Several factors influence the relative strength of media's three effects on institutions. One is the size of the gap between private and public preferences. When this gap is large, media's punctuation effect will be strong and mass media can catalyze institutional change by permitting individuals to take advantage of the tipping point that exists. In contrast, when the gap between private and public preferences is small, media's gradual and reinforcement effects will be strong. When private and public preferences align, there's no incentive for dramatic institutional change and media contributes to marginal changes of existing institutions and their reinforcement.

Media's ownership structure is another important factor influencing the relative strength of media's three effects. An existing literature explores how state-owned media can generate perverse economic outcomes (Djankov et al. 2003; Leeson and Coyne 2005; Leeson 2008). It finds that where government owns mass media, rulers use it to reinforce their power. However, the reinforcement effect can have the unintended consequence of driving a wedge between private and public preferences. If the resulting preference gap is broadcast through media, this may ultimately lead to punctuated change, removing existing rulers from power. In this way, by controlling the media to preserve their power, governments can sew the seeds of their own demise.

In contrast, where the media is privately owned and entry is free, it represents a wide variety of views and ideas. Here, the divergence between private and public preferences is smaller since individuals can publicly voice their true preferences. Punctuated institutional change is therefore less likely.

Finally, conditions outside the media can influence the relative strength of the three effects discussed above. The media does not operate in isolation; economic and political conditions affect it as well (Leeson and Coyne 2005). As we discuss below, mass media facilitated institutional change in Poland and Russia partly because of external conditions that encouraged rulers to placate the opposition to preserve their power. Unintentionally, this created an opportunity for the media to generate a new punctuated equilibrium displacing existing institutions. In both cases, media allowed citizens to seize opportunities that political and economic conditions created.

## 4 EVIDENCE OF MEDIA AS A MECHANISM OF INSTITUTIONAL CHANGE AND REINFORCEMENT

### *4.1 Method and Case Selection*

We use comparative case studies of Poland and Russia to illuminate our theory. This method allows us to isolate specific events and aspects of media that illustrate its three effects on institutions. We consider Poland and Russia for several reasons. Poland is the largest of the eight former communist countries to join the European Community. Further, it is generally considered a successful transition country. Russia was at the center of the USSR and largest of the successor states. Relative to Poland, it has not successfully transitioned to democracy or capitalism (Leeson and Trumbull 2006). Finally, and perhaps most important, both countries underwent significant but different institutional changes following communism's collapse creating a useful 'natural experiment' to explore media's effect on institutions.

### *4.2 Poland*

Our analysis of Poland's media begins in 1945. Following the Yalta Agreement in February of that year, a new Polish government was established. The first postwar elections occurred in January 1947. The communists won and maintained power until 1990 (Goban-Klas 1994: 52–53).

Similar to Russia and other communist regimes, media played a central role in sustaining and operating Poland's government (Naumann 2004: 1). The new government quickly became Poland's largest publisher. In 1945 it introduced a

bill limiting private media printing and a year later nationalized paper mills and printing plants. Soon thereafter, government centralized control over newsprint and paper allocation. By 1949 it controlled the distribution of all newspapers and magazines (Goban-Klas 1994: 54). The Ministry of Information and Propaganda, established in 1944, continued under the new Polish government. As Goban-Klas notes, ‘since the late 1940s and early 1950s the [Polish] media policy had two goals: to win support from a hostile population for Communist rule in Poland and to emulate Soviet propaganda’ (1994: 73). In terms of our framework, government used mass media to reinforce the punctuated equilibrium of 1945 that formed the new government.

Though officially the 1952 Polish constitution guaranteed press freedom, in practice government controlled all aspects of Polish media. The state trained and appointed journalists and media employees and dictated topics media outlets could cover. Government officials censored and edited media stories and editorials. State control of media encompassed newspapers, magazines, radio broadcasts, films, popular books, textbooks, stamps, and songs. Government enforced its censorship laws and media regulations with the threat of imprisonment or death. Consequently, most journalists were careful to communicate the party line and refrained from criticizing the state.

Although government severely constrained free speech, in the 1970s a robust underground press emerged. The Russian underground phenomenon of *samizdat* (i.e., ‘self-publication’) was an important aspect of life in Poland. In addition to illegal copies of books and pamphlets, underground publishers printed weekly and biweekly newspapers. For example, the biweekly paper, Robotnik, which first appeared in 1977, aimed to ‘convey the truth, since the official press did not fulfill this role; on the contrary, it was full of lies and slanders’ (quoted in Goban-Klas 1994: 156). Hundreds of other independent paper emerged in the 1970s covering a wide range of topics. As Millard notes, ‘the gathering strength of the underground press provided alternative sources of information not only on current politics but also on key events in Polish history and access to literary works frowned upon by the regime’ (1998: 88).

The underground media gradually facilitated institutional change by contributing to the growing gap between individuals’ actual and publicly-stated preferences. It created common knowledge around alternative ideas and communicated planned and actual acts of dissent. For example, the underground media played an important role in coordinating worker strikes the Solidarity dissident movement orchestrated. The gradual effect of marginal institutional changes continued through the late 1980s. For instance, the Gdańsk Agreement of 1980 between workers and government introduced marginal changes including the formation of civil groups independent of the communist government and increased freedom of speech in printed material.

A year later the communist government imposed martial law to crack down on dissent; this remained in effect until 1983. The consequently growing divergence between private and public preferences reached a potential tipping point in 1988. Following another series of worker strikes, government realized that to retain power it needed to deal with the still banned, yet very influential, Solidarity movement. To do this it reached out to Lech Wałęsa, co-founder and leader of Solidarity. In addition to his role with Solidarity, Wałęsa had been arrested under martial law in 1981 and awarded the Nobel Peace Prize in 1983 for his anti-communist efforts.

Government's goal was to incorporate Wałęsa as a minor political player to pacify the Solidarity movement and prevent future worker strikes. To do so it agreed to a live televised debate between Wałęsa and Alfred Miodowicz—president of the state trade unions—to discuss the country's problems. In this regard, the media proved critical in activating the tipping point created by the large preference gap—itself largely the product of Poland's underground media, discussed above—by creating common knowledge about the alternatives the Solidarity movement offered.

The debate bolstered Wałęsa's reputation as a leader, nationally and internationally, and illustrates media's power to transform opportunity for institutional change into actual institutional change. As Goban-Klas writes, 'without the television opportunity, he [Wałęsa] probably could not have returned so quickly and smoothly to the Polish political scene as a popular, undisputed leader with whom the majority of Poles could identify' (1994: 201). Wałęsa's popularity remained intact and he was elected the President of Poland in 1990. Much to government's consternation, the televised debate didn't silence the opposition movement. On the contrary, Wałęsa's success led to more calls for institutional reform, contributing to a new punctuated equilibrium.

A series of 'roundtable talks' beginning in February 1989 followed the Wałęsa-Miodowicz debate. Like the debate, government intended these talks to placate the opposition movement. They included government members and key opposition leaders from the Solidarity movement. The talks, which lasted until April 1989, covered topics such as reform of the judicial and political system, the role of trade unions, and government regulations on mass media, among others. The parties agreed to changes in the political system including free elections to choose members of a new bicameral legislature and a president to serve as chief executive. This marked the end of communist rule in Poland. These punctuated institutional changes constituted a fundamental shift in Poland's economic, political, and social institutions.

After the new punctuated equilibrium was established, the media also had an important reinforcement effect. For example, consider the case of *Rzeczpospolita*. In the early 1990s government privatized the formerly state owned

*Rzeczpospolita*. The independent paper quickly expanded its economic and political coverage and created ‘green pages,’ which focused specifically on Poland’s economic development, reporting on new policies and their progress. The paper was an important information source during the mass privatization efforts, allowing readers to track reform progress and realize its benefits (Carrington and Nelson 2002: 235).

The process of Polish media privatization was also an important contributor to the reinforcement effect. This process reduced government influence in the media industry. For example, government simplified its previously complex media licensing process. Further, the law permitted foreign media ownership and investment providing a critical source of funding to newly independent media outlets. This was especially important given the difficult economic conditions facing media outlets in the early 1990s. By the mid-1990s the rate of foreign ownership of Polish daily newspapers was over 55 percent. These dailies accounted for 70 percent of total circulation at the national level (Goban-Klas 1997: 27; Gulyas 1999: 69, 2003: 89, 97). This allowed the media to reinforce Poland’s new punctuated equilibrium and prevented a subsequent divergence between private and public preferences.

#### 4.3 Russia

Our analysis of Russian media begins with the rise of the Soviet Union in the early 1920s. The media was central to the Soviet propaganda system. Lenin understood media’s power to coordinate many people and facilitate institutional change; so, he regulated the press after the Bolshevik Revolution. Lenin viewed newspapers as tools for collectivist propaganda and organization (Hollander 1972: 15–16; Mickiewicz 2000: 89–90). Echoing Tocqueville, he noted that ‘a newspaper is not only a collective propagandist and collective agitator, but also a collective organizer’ (quoted in Rogerson 1997: 337). Stalin and Khrushchev continued Lenin’s legacy, using mass media to communicate official news, educate and instill ideology, and present an idealized view of Soviet life.

Government created a complex monitoring system to oversee the media. It established the Chief Administration for Literary and Publishing Affairs in 1922, renamed the Chief Administration for the Protection of Military and State Secrets in 1957. This administration reviewed and approved all printed materials and monitored all media outlets (Hopkins 1970). In terms of our framework, government established control over media to reinforce the punctuated equilibrium that emerged with the Soviet Union’s rise.

Despite official control of mass media, *samizdat* emerged and was prevalent in the post-Stalin USSR. This involved the underground production and distribution of a wide range of media including political and social commentary, full length manuscripts on a variety of topics, and art and poetry

(Hollander 1972: 183–186). The underground media provided alternative ideas to those the state disseminated through official media.

One of the most popular underground publications was the *Chronicle of Current Events* (*Khronika Tekushchikh Sobytiy*). Published every two months, each issue of the *Chronicle* began with the United Nations General Declaration on Human Rights that all individuals have a right to freedom of convictions and expression. The *Chronicle* was ‘a clearly defined journal of dissent .... providing a forum for the exchange of information about political protest’ (Hollander 1972: 184). The *Chronicle* and myriad other underground literature contributed to the gradual divergence between private and public preferences. According to Downing, for example, ‘*Samizdat* media had no dramatic, instant impact: they represented a gradual burn into the deep fabric of power’ (1996: 76).

In addition to this gradual effect on institutions, other factors, such as declining economic conditions and the continued war with Afghanistan, created pressure for reforms. Mikhail Gorbachev, who assumed power in 1985, introduced political reforms (*glasnost*) and economic and social ones (*perestroika* and *uskoreniye*). The reforms’ goal was to reestablish the communist party’s power by addressing the growing dissent resulting from the factors noted above.

Changes in existing media laws were a key aspect of these reforms (Mickiewicz 2000: 94–98). In August 1990 the Russian government created a media law that provided a foundation for free speech and expression. The law prohibited censorship and barred government from shutting down media outlets (e.g., newspapers and broadcasting outlets) except by court order. It also provided a formal process for registering newspapers and broadcasting. This allowed much of the media to move above ground, which was critical to the punctuated institutional change that occurred shortly thereafter. This chain of events highlights the importance of outside factors in influencing media’s three effects. According to Sparks, ‘The media was able to take advantage of this opening [created by the reforms] to act more independently’ (2008: 14). Indeed, because of the space these changes in media laws associated with broader reform created, media contributed to a new punctuated equilibrium.

The freed media critically reported on Soviet economic, political, and social circumstances. Although the underground media had long addressed these issues, the above ground media had a greater reach making it a more effective common knowledge creator. ‘Newspaper editors ... distinguished their papers from the standardized fare’ by publishing ‘stories sharply critical of the armed forces, the KGB, and previous Soviet regimes’ (Mickiewicz 2000: 96). Media-created common knowledge of dissent accelerated movement toward a tipping point for punctuated institutional change. By 1990 government had lost much of its power over the economy, social networks, and associations. The 1991 coup attempt by members of the Communist Party revealed the instability of existing political institutions. A series of USSR member state referendums on

independence led to the Soviet Union's dissolution in 1991. Russian media played an important role in contributing to the gradual divergence of private and public preferences, and in realizing a new punctuated equilibrium in 1991. Eroding economic, political, and social conditions were important factors giving media the space to create the common knowledge required to activate the tipping point necessary for this change.

Relative to Poland, Russia has been less successful in its post-communist transition. In part, this is because the Russian media, unlike Polish media discussed above, failed to reinforce democratic and market institutions. A key difference in the two cases was the privatization process. Recall that in Poland media were quickly privatized including through foreign owners. In contrast, in Russia the privatization process transferred several major media outlets to politically-connected oligarchs (e.g., Boris Berezovsky and Vladimir Gusinsky). This failed to sever the connection between Russian media and state. While the media was technically privatized, 'the majority of media holdings are part of larger financial-industrial groups and money in Russia is still made through political connections.' As a result, 'political, economic and media interests go closely together' (de Smaele 2006: 49). This indirect government influence prevented Russian media from developing as an independent check on punctuated political institutions.

A related issue was Russia's economic contraction in the 1990s. While all transition countries, including Poland, experienced an economic downturn when communism collapsed, Russia's was more severe than most (Leeson and Trumbull 2006). This downturn put financial pressure on newly independent media outlets. In response, many media outlets sought government assistance. The subsidies and loans government provided allowed it to exert indirect influence on the media (see de Smaele 2006: 47). As Leeson and Coyne (2005) discuss, financial support is one means government uses to indirectly manipulate the media for its own purposes. This was the case in Russia. As Zassoursky notes, for instance, 'at the height of the economic crisis of 1992, the alliance between the government and the 'democratic' mass media ... became even closer thanks to the development of a system of subsidies and economic assistance' (2004: 16). The combination of oligarch-owned media and indirect state manipulation in Russia meant media could not reinforce liberal political and economic reforms as it had in Poland.

## 5 CONCLUDING REMARKS

Our analysis leads to three conclusions. First, mass media is a concrete mechanism of institutional change. Media facilitates small and gradual institutional change by supplying media consumers with fodder for updates

to their mental models. As their mental models slowly evolve, individuals create pressure for marginal institutional changes leading to what we called media's 'gradual effect' on institutions. Under different circumstances, media also facilitates large and rapid, or 'punctuated,' institutional change. As an increasing number of individuals' mental models increasingly diverge from the status quo, some 'preference gap' threshold is met, creating a tipping point for major institutional change. However, to activate such tipping points society must overcome a coordination problem. By broadcasting information about others' private preferences, mass media creates common knowledge about desire for institutional change, facilitating coordinated action that helps bring it about. The result is a punctuated institutional change establishing a new institutional equilibrium.

Second, and paradoxically, mass media is also a mechanism of institutional reinforcement. The very common knowledge-creating capacity of mass media that facilitates institutional change, can, under different circumstances, lead media to thwart institutional change by strengthening the status quo. Here, the media creates common knowledge, but it does so around activities and beliefs that support existing institutions rather than those that encourage new ones.

Finally, our analysis helps resolve a long-standing tension in the literature on institutions and institutional change. As this literature points out, on the one hand, we observe institutional change—sometimes rapid and radical change. On the other hand, typically we do not; in fact, a defining characteristic of institutions is their durability. Our argument about media as a mechanism of institutional evolution, and in particular its differing effects on institutions—under some circumstances catalyzing change, under others reinforcing the status quo—helps explain institutional durability but also how institutions can change dramatically in only a little time.

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## SUMMARY

We argue that mass media is a mechanism of institutional evolution and identify three important effects media has on institutions. The ‘gradual effect’ involves media contributing to marginal changes in existing institutions. The ‘punctuation effect’ involves media catalyzing rapid institutional overhaul. The ‘reinforcement effect’ involves media contributing to the durability and sustainability of punctuated institutional equilibria. Our analysis identifies a paradoxical relationship between mass media and institutions wherein media both changes and reinforces existing institutions. This finding resolves a tension in the institutional literature that defines institutions by their durability but recognizes we observe (sometimes rapid and radical) institutional change. Case studies from the collapse of communism in Poland and Russia illustrate our argument.