

Institutional Quality Index



Desinformation and the risks for Freedom



2020



“FAKES NEWS” AND THE INSTITUTIONAL SYSTEM

Martín Krause

The concept of institutional quality points to both the formal and informal rules of the game that support greater integration and cooperation among individuals in society, enabling them to pursue their own goals without interfering with the livelihoods of others.

Today, compliance with and respect for such norms is reflected in the decisions we all make regarding whom we collaborate and establish ties with—and with whom we do not—based on social and cultural norms, behavior patterns, contractual arrangements, and, perhaps as a final resort, the use of force by the State and its agencies, which hold a monopoly control over it.

But what means do we have to control such a monopoly power? ¹

The traditional and—at least partially—effective response in numerous modern republics is one proposed by Locke, Montesquieu and other thinkers: the separation and limitation of powers. The separation of power is aimed at ensuring that power will not be concentrated in the hands of any particular individual or group. Such a separation is achieved through a “horizontal” division of powers—the executive, legislative and judicial branches—and a “vertical” division of powers, usually through federalism and decentralization.

The limitation of power is done by establishing constitutional rules for the protection of individual rights, thus providing immunity from potential majority decisions (Bill of Rights), a judicial review process of government actions, renewal of mandates, and other measures.

1. Madison claimed: “Complaints are every where heard from our most considerate and virtuous citizens [...] that our governments are too unstable; that the public good is disregarded in the conflicts in the conflicts of rival parties; and that measures are too often decided, not according to the rules of justice, and the rights of the minor party, but by the superior force of an interested and overbearing majority.” (2001).

2. The classic view of the issue was initially developed by John Locke (1988), who, referring to absolute monarchy, claimed: “... that monarchy being simple, and most obvious to men [...], it was not at all strange, that they should not much trouble themselves to think of methods of restraining any exorbitances of those to whom they had given the authority over them, and of balancing the power of government, by placing several parts of it in different hands” (p. 338).

A key element among this set of mechanisms is the freedom of the press. Widely considered to be the “fourth power,” the press acts as an external control mechanism, so long as it preserves independence and has the freedom to investigate and report on the use of such power. In addition to constituting a basic human right, the free circulation and publication of ideas is a key element of institutional quality, as it allows for the possibility of expressing opinions about the institutions themselves and about the authorities that have been appointed to manage them. Consequently, the freedom of the press is key for the effective control and limitation of the powers that have been granted to government leaders and, thus, the extent to which it is preserved will have a significant impact on institutional quality.

There are numerous factors determining the existence of greater or lesser freedom of the press. Freedom House’s Freedom of the Press Index—included as a component of the IQI—points to the following:

Legal Environment

Do the Constitution or other basic laws contain provisions designed to protect freedom of the press and of expression, and are they enforced?

Do the penal code, security laws, or any other laws restrict reporting and are journalists or bloggers punished under these laws?

Are there penalties for libeling officials or the State and are they enforced?

Is the judiciary independent and do courts judge cases concerning the media impartially?

Is Freedom of Information legislation in place and are journalists able to make use of it?



Can individuals or business entities legally establish and operate private media outlets without undue interference?

Are regulatory bodies able to operate freely and independently?

Is there freedom to become a journalist and to practice journalism, and can professional groups freely support journalists’ rights and interests?

Political Environment

To what extent are media outlets’ news and information content determined by the government or a particular partisan interest?

Is access to official or unofficial sources controlled?

Is there official or unofficial censorship?

Do journalists practice self-censorship?

Do people have access to media coverage that is robust and reflects a diversity of viewpoints?

Are both local and foreign journalists able to cover the news freely and safely in terms of physical access and on-the-ground reporting?

Are journalists, bloggers or media outlets subject to extralegal intimidation or physical violence by state authorities or any other actor?



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Economic Environment

To what extent are media owned or controlled by the government, and does this influence their diversity of views?

Is media ownership transparent, thus allowing consumers to judge the impartiality of the news?

Is media ownership highly concentrated and does this influence content?

Are there restrictions on the means of news production and distribution?

Are there high state-imposed costs associated with the establishment and operation of media outlets?

Do the state or other actors try to control the media through allocation of advertising or subsidies?

Do journalists, bloggers, or media outlets receive payment from private or public sources to influence the content they write or publish?

Does the country's economic situation negatively impact media outlets' dependence on the state, political parties, or other influential actors for funding?

Freedom House's index ranked Cuba last among countries in the region—and 193rd out of the 199 countries—and Venezuela ranked 172nd. The case of Mexico (140th) was noticeable for the number of journalists killed. Reporters Without

Borders reported 10 journalists killed in that country in 2019, 2 in Honduras, 1 in Haiti, and 1 in Colombia. There might be 10 additional cases in Brazil, Mexico, Honduras, Colombia, Chile and Haiti, but they are not considered here because they are under investigation (RSF, 2019). Four are reported to remain jailed in Cuba, Honduras, Peru, and Venezuela.

Top ranking Latin American countries include Costa Rica, achieving a remarkable 13th place, and Uruguay, ranked 38th. As we have pointed out in previous reports, some Caribbean countries have achieved excellent rankings: Saint Lucia, 18th; Barbados, 22nd; Jamaica, 23rd; St. Kitts and Nevis, 29th; St. Vincent and the Grenadines, 30th; Bahamas, 33rd. The Caribbean is home to both extremes: the best and the worst in the region.

Unfortunately, Freedom House has not published a new report on the survey since 2017, and thus—as we explained in the 2020 IQI report—this year we have used the report published by Reporters Without Borders.

The News Media Market

The media, news production and delivery, and the stakeholders involved have all changed significantly over the past few decades. Changes have been so profound that we are still trying to understand what has happened and how the so-called **“public opinion”** takes shape.

A key factor in achieving an institutional framework that will lead to progress and better opportunities for people lies in a public opinion that favors and promotes respect for individual rights, tolerance, and the free expression of ideas while remaining vigilant about the way the elected officials and representatives exercise power.

However, we are yet to understand how “public opinion” develops and changes in response to the various events that take place. For centuries, news reports—and news sources—were primarily local.

Every city and every town had its own newspaper or its own sources of news and rumors before the advent of print media. A profound change initiated in the twentieth century with the emergence of mass media, especially with television and news agencies reporting to the local media. It was a world where reputation and “brands” served a significant role like in any other market. Adding to this effect, some news media developed a model to offer neutrality, independence, and diversity in news coverage, separating the editorial function from news coverage, diversifying opinion columns, and marketing contents separately.

Newspaper editorial lines, however, were not neutral. Influential magazines like *The Economist* expressed support for certain candidates during election periods, but their journalists reported news independently. Even then, political sociologists started wondering in which direction ran the stream of influence:

Is it the media that influence public opinion or does public opinion influence the media through the choices of what media to read, listen, or watch?

Early theories, referred to as “minimal effects models,” posited that influence developed in two stages, from the media to elites, and from elites to the groups they belonged to. The emergence of mass media outlets like television gave rise to the so-called theory of “strong effects,” pointing to a lower number of easily accessible media outlets having, nonetheless, a direct relationship with consumers (Papazian, 2017).

Mass media became major business enterprises having tremendous political power, but, despite the small number of competitors, those in power could aspire only to ingratiate themselves with one of them, but not all. Only totalitarian regimes were able to achieve absolute control over the media, through favors and through force. To a certain extent, the media were fulfilling their institutional role of controlling power by reviewing the actions undertaken by government officials and exposing their shenanigans.

This radically changed with the advent of the Internet. It brought back a diversity of information sources, only this time all of them can offer mass access. In other words, historically there had been thousands of newspapers, but their audiences were only local. They could not reach anywhere beyond that. Today, any newspaper can reach everywhere, although only via certain media that can make that possible, including Facebook, Twitter, Google, Yahoo, Instagram, and others. The diversity of media we use to stay informed has increased exponentially: in addition to the traditional media, we now have videos, chat rooms, blogs, podcasts, and thousands of websites offering all kinds of information. While the advent of the Internet has certainly



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enabled a more diversified supply of information sources, now there is a lack of editorial filters being applied to news, with many being published without the verification process previously undertaken by journalists. Most people are not aware of the difference between an article that has been produced by a journalist using such criteria and an article that has been made in a rush—both seeking to attract more clicks—or we may be just beginning to learn it.

Control on power has been diversified, as it is now, to a considerable extent, also in the hands of citizens themselves: demonstrators in Hong Kong, Venezuela, and Chile upload videos showing the

behavior displayed by security forces; pictures are published showing mansions or other properties that are owned by politicians with rather dubious justifications; all their comments are disseminated, often including those expressing their views candidly. Arguably, the most obvious example of the discomfort this may cause to political power is the case of WikiLeaks, the website that publishes documents associated with the activities carried out by governments or organizations. It drew an immediate response, and its founder, Julian Assange, was subject to persecution, faced an accusation of rape in Sweden, ended up as a refugee for six years at the Ecuadorian

embassy in London, and is currently detained in the United Kingdom as he awaits a decision on the U.S. extradition request, where he would face a charge of “conspiracy” to commit computer intrusion into government systems, carrying a maximum sentence of 175 years in prison.

Today we can see perhaps more clearly than ever before that consumers choose the media they want to get the latest news from—a clearly positive outcome—but they also seem to choose the sources that confirm their preexisting views of the world and of current affairs. This is further supported by Artificial Intelligence, as it identifies our interests and offers what we

want to purchase or hear, leading to the so-called **“echo chambers”** or **“filter bubbles.”**

Such a demand for “confirmation” of our own beliefs, added to the loss of revenues to new competitors, has led traditional media to use algorithms to offer potential readers what they ask for, resulting in a polarization of the media and undermining the previous model that separates news from opinions and provides a diversity of opinions and neutrality in coverage. This has even affected mainstream media outlets (McGinnis, 2019). The so-called “predictive algorithms” have largely replaced the role fulfilled by journalists and editors in deciding what news to investigate and publish, but they do not use any criteria other than the potential appeal among readers and an increased traffic in their websites.

In other words, this seems to have resulted in content being defined more by demand than by supply, and, curiously, this would have led to a decline in reputation and credibility of the media. Social media would give rise to a series of more homogeneous micro networks of people, adding to increased polarization. That is one of the risks posed by democracy in the 21st century. The number of democracies around the globe is unprecedented, but politicians have suffered a loss of reputation due to the increased polarization, resulting in lessened recognition of democratic institutions in many countries.

Shaken by such radical changes, the industry thus constituted the birthplace of **“fake news.”**



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FAKE NEWS

Although fake news has just recently been coined as a term, the concept is not new. It is not very different from **“disinformation,”** which can be defined as information that mimics news media content in form but not in the editorial processes for ensuring its accuracy and credibility, often seeking to discredit an idea, organization, or person, although it may also be aimed at the opposite effect (Lazer et al, 2018).

Disinformation has always been around. On the positive side, **“gossip”** or rumor has been described by evolutionary psychology as fulfilling the role of monitoring cooperative behavior by others; however, **“fake news”** are more akin to false gossip aimed at damaging reputation. The most representative example of the powerful impact of fake news was observed during the 2016 U.S. elections, where fake news concerning Hillary Clinton were spread on social media from identified locations in Russia.



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The issue sparked off serious debate. Gunther et al. (2018) claimed that fake news had a decisive impact on the election, swaying the voting decisions of a set of Democratic constituents. They conducted a survey of those who had voted for Obama in 2012 and included three fake news statements in it. The statements, and the percentage of those who thought they could be probably true, were: that Hillary Clinton was in very poor health (12%), that she had approved weapon sales to Islamic jihadists (20%), and that the Pope had endorsed Donald Trump (8%). Overall, one fourth of respondents thought that at least one of the stories was true, and 45% of that group voted for Clinton. Among those who did not believe any of the stories, 89% voted for her.

It cannot be directly inferred that this was the cause of such voting behavior. Guess et al. (2018) reported that fake news articles accounted for 2.6% of all the news articles read during the election campaign and that they most likely spread among committed candidate supporters on which the articles would not have a significant impact. One of the authors claimed that 6 in 10 visits to fake news websites came from people in the most conservative subset, trying to find claims that were consistent with their preexisting beliefs.³

This is different from issues like the Cambridge Analytica affair, which involved a sophisticated use of information to send propaganda or partial and biased information but not necessarily disinformation. Despite the attention given to this particular case in this context, such a use of technology is likely to increase in the coming election campaigns.

Arguably, in a world marked by increased accessibility and polarization, fake news are more likely to reach mass audiences and spread more easily. This is further driven and intensified by “bots,” which are automated social media accounts designed to simulate real people.⁴ Determining whether an account is a bot or an actual person is very difficult. Lazer et al. (p. 1095) reported that bots are estimated to account for between 9 and 15% of active Twitter accounts, and Facebook has estimated its platform may contain as many as 60 million bots. Nonetheless, Facebook claims that this sort of manipulations account for less than 0.1% of the content shared on the platform.

No long-term studies have been conducted to assess the potential impact of fake news on political behavior. It appears to be limited, but people’s behavior may be reinforced by “Likes” and the variety of content sharing mechanisms. Research has also suggested that the biggest “influencer” of political movements online is made up

3. <https://gen.medium.com/why-fears-of-fake-news-are-overhyped-2ed9ca0a52c9>

4. For their use in election campaigns, see: <https://www.theatlantic.com/magazine/archive/2020/03/the-2020-disinformation-war/605530/?fbclid=IwAR3J3a5ZT2Ihe4yvBxQMO9vi5Dz5A8GdtX5VMXnX5U9yWmSe4O48fMhG5MA>



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of the connections in our contact lists, creating micro-networks of people who support and reaffirm shared beliefs and values on which fake news have little impact (Hutchinson, 2020). This seems to have marked influence on older people, who may lack the digital literacy to identify them or assess the reputation and credibility of the particular media outlets. Nonetheless, it is a skill they will pick up over time, and those younger and more digitally literate will eventually reach old age as well.

Some argue that democracy relies on the existence of open and reasonable political debate, and that would be impossible without the opportunity of sharing basic facts and data. They claim that fake news undermines people's trust in elements like basic data and official statistics, making it difficult to encourage healthy political and economic debate.

But this is questionable for various reasons. First, politicians and candidates for office often make unreliable claims, further making it difficult to build that trust.⁵ Some even attribute particular issues to fake news, when in reality those issues may have deeper causes. Chilean President Piñera, for example, pointed to fake news as the root causes of protests in Chile, claiming that the videos showing human rights violations were fake, that they had been recorded outside Chile, and that they were misleading, but no evidence was found to prove that, and he thus retracted the next day.⁶

Studies have also suggested that the content that goes **“viral”** often does not involve fake news or data, but rather interpretations of facts evoking strong emotions (Guerini & Staiano, 2015).

5. The day following President Donald Trump's State of the Union address, the Washington Post fact-checked twenty claims it regarded as incorrect or false: <https://www.washingtonpost.com/politics/2020/02/04/fact-checking-president-trumps-2020-state-union-address/>

6. https://www.cnnchile.com/pais/pinera-videos-falsos-violaciones-ddhh-condenadas-siempre_20191226/

A study conducted by Papazia (2017) revealed that those who get their news from the Internet hold more critical views of the government than those who get their news from television. But that is very different from claiming that **“institutions”** are weakened or undermined as a result. Polarization in digital media may be resulting in eroded trust in government institutions, but such a correlation is highly questionable. A relatively skeptic view of politics and governments has often been cited as healthy for institutions, so long as institutions are understood as the rules of the game and not as the State itself.

Indeed, the 2018 Edelman Trust Barometer revealed that nearly seven in ten people worry about fake news being used **“as a weapon,”** and the countries showing the highest percentages include Mexico and Argentina (76–80%), followed by Brazil and Colombia (71–75%). Along with the government, the media were found to be the least trusted institution. NGOs and businesses were rated as the most trusted institutions, achieving 47% and 56%, respectively, in the 2019 report.

And yet, **what can we do about it?** This raises a complex issue, as any proposed solution may bring about more problems than it can solve. Any kind of control imposed on fake news will threaten both real news and any kind of opinion or interpretation of facts. People may be easily alarmed at the prospect of censorship this kind of control may raise.

Proposed alternatives may include:



The institutions we currently recognize as the highest standards—which are used to assess countries for the IQI—arose from long development processes: morals, law, the separation of powers, tolerance, respect for civil liberties, property, markets, business partnership, the financial system, international trade.

Scottish philosopher Adam Ferguson (1767), widely known as the father of sociology, affirmed:

“Men, in general, are sufficiently disposed to occupy themselves in forming projects and schemes; but he who would scheme and project for others, will find an opponent in every person who is disposed to scheme for himself. Like the winds, that come we know not whence [...] the forms of society are derived from an obscure and distant origin; they arise, long before the date of philosophy, from the instincts, not from the speculations, of men. The crowd of mankind are directed in their establishments and measures, by the circumstances in which they are placed; and seldom are turned from their way, to follow the plan of any single projector.

Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design.”

Social engineering—the ambition to shape society through formal rules designed by experts, especially if such rules are imposed by the state power—is an extremely dangerous tool that must be considered only as a last resort and, should the occasion arise, it should be used only to curb violence or the use of force and to protect civil liberties.

In any event, we must pay attention to how society constantly devises and promotes alternative solutions, some of which may be successful and many of which may not. This can also be observed in news media. The industry is clearly making efforts to enhance knowledge and produce new insights for developing a reputation and quality assurance model that responds to the new digital media environment.

A case in point is Google’s News Initiative program, which is aimed at ensuring **“that quality news content is recognized across our platforms, that users can readily discover it, and that news partners benefit from creating it.”**⁷ For several years now, it has been conducting fact-checks on the information that is highlighted in Google Search or tagged in Google News, building on the work carried out by a number of data verification organizations.

A novel approach to the situation took shape with the emergence of these kinds of organizations, including FactCheck.org⁸ and AFP Fact Check⁹, and in Latin America:¹⁰ Chile’s Fact Checking,¹¹ developed by the

School of Communication of Pontificia Universidad Católica de Chile; Brazil's Lupa, developed by São Paulo's Folha newspaper,¹² and Aos Fatos¹³; and Argentina's Chequeado y Re-Verso.

Although the number of people looking to use these sites to fact-check news is low, in the long run they may turn into a well-established news quality assurance mechanism and we may reach the point where most people demand fact-checked news stories and follow media that are subject to such controls. Traditional media are starting to offer independent news fact-checking services as a quality standard, which may become a key element to gain back their reputation. And there might be other solutions that we have not even imagined yet. The often mentioned self-regulating order is clearly at work.

Obviously, politics does not want to be left behind. López Obrador's government in Mexico, for example, launched its own fact-checking service (**Verificado Notimex¹⁴**), also mediating disputes over verifications carried out by the various dozens of agencies and media dedicated to fact-checking in that country. The name is similar to that of another fact-checking service operating in the country, VerificadoMx. The decision was not naive, as VerificadoMx arose from a partnership between over 90 fact-checking organizations and media that was created in 2018 (an election year) to fight disinformation, and it has already received numerous awards (**Re-verso is a comparable organization in Argentina**).

The government agency's logo features only the word

in a large font size

7. https://newsinitiative.withgoogle.com/intl/es_419/about/

8. <https://www.factcheck.org/>

9. <https://factcheck.afp.com/>

10. <https://chequeado.com/>; <https://reversoar.com/>

11. <https://factchecking.cl/>

12. <https://piaui.folha.uol.com.br/lupa/>

13. <https://aosfatos.org/>

14. <http://verificado.notimex.gob.mx/>; <https://verificado.mx/>

15. <https://www.poynter.org/ifcn/2019/lopez-obrador-launches-its-own-verificado-and-infuriates-fact-checkers-in-mexico/>

Is it meant to inform or to mislead? ¹⁵

Impact on Institutions

When confronted with any societal problem, some people look to the government to find or demand a solution. **“If your only tool is a hammer, then every problem looks like a nail.”** It is not that they would look at the list cited above upside down, from option 5 to option 1, but simply that option 5 would be the only option. Except that it is not. And it is the most dangerous of all, especially because there are basic rights at stake, including freedom of expression and freedom of the press.

That is why the **“hammer”** should be reserved to protect freedom when it is being threatened by violence or fraud, and it should be left aside as long as there are other possible solutions. And as we have seen, there are. And there will likely be new options available in the future. Nonetheless, the point is not to lay obstacles in the way of potential institutional innovations that may arise from individual initiatives, NGOs, the media, or other stakeholders in the news media industry. López Obrador’s initiative in Mexico involves redirecting efforts to develop voluntary control mechanisms, and it thus perverts positive institutional development.

Institutions, which are the focus of this paper, constitute rules of the game, sets of standards, conduct guidelines and level playing field rules—which may all be formal or informal and which may arise in both the private and the public sectors from resolutions or from court decisions and jurisprudence. Society is taking advantage of the opportunities for choice opened up by the changes taking place in the production and distribution of information. But it has also worried that all those rapid changes have brought about phenomena like fake news, which have negative impacts and undermine the media’s role in controlling power. Furthermore, they may upset the effective functioning of democracy.

The search for solutions is already under way. And the diversity that characterizes our environment will give rise to a selection process that, on a trial-and-error basis, will lead us to find a solution or minimize damages. We should not obstruct, redirect, or misappropriate the process.

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2020 INSTITUTIONAL QUALITY: AN INSTITUTIONAL UPHEAVAL?

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During the last few months of 2019, Latin America went into an unprecedented fit of convulsion. While the IQI covers all countries across the globe, the analysis—and its dissemination—primarily focuses on that region, which has recently witnessed all kinds of protest movements.

We could justifiably claim there was a **“groundswell of protests,”** but pinpointing a common cause or motivation behind that is proving to be anything but easy. Protests in Chile arose from an increase in subway fares in Santiago—although, of course, other components were added later on. Protests in Bolivia were sparked by a blatant attempt at election tampering or fraud. Venezuela has seen continuing protests against the Chavista regime, but they were increasingly less massive over the course of 2019. In Ecuador, protests have been over plans to reduce fuel subsidies. In Honduras, fraud allegations concerning the re-election of President Juan Orlando Hernández in 2017 continued, resurging again in 2019 as a result of the U.S. drug trafficking trial against the president’s brother. In Colombia, protests initially concerned certain economic and tax changes, but later other concerns were added, including education, the implementation of the peace plan signed with the FARC, and the wave of Venezuelan immigrants.

Attempts to find a common cause, nonetheless, can be traced back to the very beginning. As usual, the left wing pointed to income inequality (or wealth inequality, which is different) upon the first surge of protests. And not only that, people also think that the most significant reason behind the peaceful protests in the country is income inequality, as suggested by the December 2019 CEP survey¹—although that suggests that people have accepted that reason after the conflicts, because it did not seem to be among major concerns before. According to CEP’s May 2019 Survey, people’s primary concern was crime, robbery and theft, with 51%, while only 9% of respondents pointed to inequality.²

1. https://www.cepchile.cl/cep/site/docs/20200116/20200116081636/encuestacep_diciembre2019.pdf

2. https://www.cepchile.cl/cep/site/docs/20190612/20190612104953/encuestacep_mayo2019.pdf

The survey revealed a high level of concern over pension, healthcare and education, and a high level of dissatisfaction with the government and political leadership, adding to the sharp decline of trust in institutions after the surge of protests. Oddly enough, while respondents expressed that the cause of protests was inequality, when asked in December about the problems that should be addressed by the government, inequality only rose from 9% to 18%.

If we look at inequality data, the hypothesis appears to be simplistic:

“... indeed, material inequality in Chile has declined significantly over the past few years. Inequality as measured by the Gini coefficient dropped from 0.57 in 1989 to 0.48 in 2013. (13) Labor income gap between the richest 10% and the poorest 10% of the population was 5.3 times smaller in 2000–2011. (14) Chile adds to the various countries in the region showing a clear decline in inequality. Inequality expert and economist Claudio Sapelli affirmed that the Gini index dropped by 8 points in 2000–2015. (15) Correspondingly, the country’s Human Development Index stands at 0.843 (on a zero-to-one scale), accounting for literacy rate, years of schooling, life expectancy at birth, and per capita income. Chile has also notably reduced poverty, with only 8.6% of the population living in poverty according to the 2017 CASEN survey.³

Another hypothesis points to poor economic performance, as growth in Latin America and the Caribbean dropped from 1% in 2018 to 0.2% in 2019⁴; however, Chile and Bolivia have had the best economic performance in the region over the past few years. In 2018, Bolivia’s growth was estimated at 4.8%, and Chile’s was estimated at 4.0%—both well above the regional average.

There is also a hypothesis that points to interference by foreign powers or actions by small radical and violent groups to explain the situation⁵. Such groups arguably exist in all countries, often using any kind of discontent as an excuse to resort to and promote violence—as was the case with the people who burned trains and subway stations in Santiago de Chile—and so do fake news, which are discussed in the other report we published this year. The two factors (small groups and foreign support) may also occur in tandem. The most pressing question, however, is why there are hundreds of thousands of people engaging in such violence, ranging from criminal damages at places like supermarkets to street protests.

All this could boil down to one word:

frustration.

WITH WHAT?

It all depends on the existing expectations, which may vary from one country to another. That is why we can see massive protests both in countries showing the highest institutional quality in Latin America, like Chile, and in those showing the lowest institutional quality, like Bolivia and Venezuela. Discontent in all cases is primarily directed against governments and politicians. It seems inevitable. Over the past few

decades, they have undertaken a growing number of tasks and roles, and thus people hold them accountable for the outcomes to a large extent. The 2019 Edelman Trust Barometer indicated that trust in the government and the press improved slightly compared to the previous year—climbing from 44% to 47% among the general population—but both compare unfavorably with trust in businesses and NGOs, which stands at 56%.⁶

In Chile, governments have long been claiming that the country will soon fall in the category of “developed” country, becoming a member of the OECD elite. And, indeed, the IQI suggests that Chile has achieved a world-class institutional framework, as it has ranked in the higher tiers since the beginning—between 20th and 25th, although it has been going down since 2016. We should keep in mind, nonetheless, that the IQI is a “relative” indicator. This means that ranking in the top spot is no guarantee of perfection. It simply denotes a better performance than the others. New Zealand, Denmark and Switzerland, which are always ranked in the top three spots, are not free of problems.

We would think that their living standards, certainty about the future, and quality of services would also stand at the same level. But that does not seem to be the case. Chile has one of the highest tax burdens in the region. The state has grown considerably in the past few years, but the quality of services does not seem to be on a par with developed countries.⁷ And the same could be said about the strategies to control the violence resulting from protests.

“If we look at the ideas and opinions expressed by citizens on the streets and in the social media, objections seem to be against the abuse and privileges observed in various spheres of social, political and economic life in Chile. Complaints have so far primarily concerned politicians, but that does not mean there is no overt criticism of all kinds of elites. This also seems to be linked with the legitimacy crisis affecting various institutions and actors, including the government, Congress, political parties, and business leaders. Furthermore, we must also consider the levels of political disaffection and widespread distrust, which seem to be fueling public discontent. It appears to be an uncoordinated explosion of a variety of independent demands concerning various aspects of people’s lives—access to healthcare, pension, income, opportunities—that have each led to the same conclusion: there are inequalities.”⁸

3. <http://fppchile.org/es/chile-viaje-de-ida-o-vuelta-cronica-de-una-crisis-institucional/>. The following are the references of the cited text: 13 See: Urzúa, Sergio. “La batalla contra la desigualdad”. Serie informe No. 173, May 2018. Libertad y Desarrollo. <https://tinyurl.com/y63rh2vf>. 14 Larroulet, Cristián. “Chile camino al desarrollo: Avanzando en tiempos difíciles”. Santiago: El Mercurio Aguilar, 2012. 15 See: Executive summary of book entitled “Chile: ¿más equitativo?” written by Claudio Sapeli, available at fppchile.org: <https://tinyurl.com/y5ysslm>.
4. International Monetary Fund (IMF): “Regional Economic Outlook. Western Hemisphere: Stunted by Uncertainty”; October 2019.
5. https://www.oas.org/es/centro_noticias/comunicado_prensa.asp?sCodigo=C-081/19
6. https://www.edelman.com/sites/g/files/aatuss191/files/2019-02/2019_Edelman_Trust_Barometer_Executive_Summary.pdf
7. <https://es.panampost.com/mamela-fiallo/2019/10/23/axel-kaiser-crisis-chile-bachelet/>
8. <http://fppchile.org/es/chile-viaje-de-ida-o-vuelta-cronica-de-una-crisis-institucional/>

Frustrations may arise when expectations remain the same but actual opportunities are reduced, when expectations rise but opportunities decrease, or, as might be the case in Chile, when expectations rise but opportunities remain the same—typical of a transforming society. Chile might as well fit such a description.

“Considering all those points of view and the fact that the situation is still ongoing, we may venture the assertion that we are looking at the confluence of two simultaneous circumstances:

a state of relative deprivation, where expectations have risen significantly and citizens want to reap the benefits from the system;

1

a state of social anomie in certain social sectors that have failed to fully adhere to the existing system of rules and thus readily resort to looting and vandalism at the slightest sign of a lack of rules.”⁹

2

The IQI does not seem to provide a measure of such a gap between expectations and opportunities—or access to actual goods, as considered in the cited report—or to be suitable to offer that. The quality of institutions may vary greatly, but we have constantly claimed that there are more and better opportunities in countries with better quality. As measured by the index, Chile has repeatedly ranked a couple of spots above Portugal, Spain, or France, but it takes time to achieve certain outcomes. Chile’s per capita GDP is valued at US\$15,923, while Portugal’s stands at US\$23,407, Spain’s at US\$30,370, and France’s at US\$41,463 (2018, World Bank). However, it was valued at US\$1,444 in 1985.

The case of Bolivia is certainly different, as inequality and poverty are worse than in Chile, but it has dropped xx places in the IQI since 2004. Dissatisfaction is clearly linked with institutions, as it was fueled by the irregularities and fraud associated with the vote count in the presidential elections held on October 20. But problems began long before that. A 2009 constitutional amendment, adopted during one of Evo Morales's mandates, allows for a single reelection. However, the president lobbied for and was granted the possibility of calling a referendum to strike down term limits. It was held in February 2016, and the proposed change was defeated, with 48.7% voting for and 51.3% voting against it. Shortly after that, Morales appealed to a hardly independent Supreme Court, invoking a violation of his right to participate in government, as specified in Article 23 of the American Convention on Human Rights.¹⁰

Overruling the Constitution, the court's ruling overturned term limits on all public offices. And Morales thus became a candidate again. The election was held on 20 October 2019. The Electoral Management Body ran an exit poll showing Morales in the lead with over ten points over his nearest rival, ruling out a runoff election. But the early returns published, with 83.3% of the votes counted,

had shown a difference of less than 7 points. A few days later, the Supreme Electoral Court announced a final count putting him 10.57 points ahead.

Protests began the next day and continued for several days. On November 10, Morales **“stepped down”** as president and left the country.

“The whole” process points to the poor institutional quality suggested by the IQI performance. In particular, the **“Rule of Law”** indicator shows Bolivia at the bottom, scoring 0,1005 in a ranking of countries ranging from zero to one).

The case of Honduras was not surprisingly similar: a ruler who manipulates the justice system, undermines or washes out its independence, manages to get around limits on re-election, and wins another term in a shady election.

Yet, prospects may be different. Bolivia may undertake an institutional reshaping process that might result in free and fair elections—if it may conceivably aspire to do so. Then comes the most challenging part: achieving and strengthening a true independence of the justice system, respect for rights and property, separation of powers, and deconcentration of power. And Honduras and Nicaragua may do so as well.

Similarly, in early February El Salvador was shaken by a



9. Op. cit, p. 5

10. “Article 23. Right to Participate in Government
1. Every citizen shall enjoy the following rights and opportunities:
(a) to take part in the conduct of public affairs, directly or through freely chosen representatives;
(b) to vote and to be elected in genuine periodic elections, which shall be by universal and equal suffrage and by secret ballot that guarantees the free expression of the will of the voters, and
(c) to have access, under general conditions of equality, to the public service of his country.
2. The law may regulate the exercise of the rights and opportunities referred to in the preceding paragraph only on the basis of age, nationality, residence, language, education, civil and mental capacity, or sentencing by a competent court in criminal proceedings.”

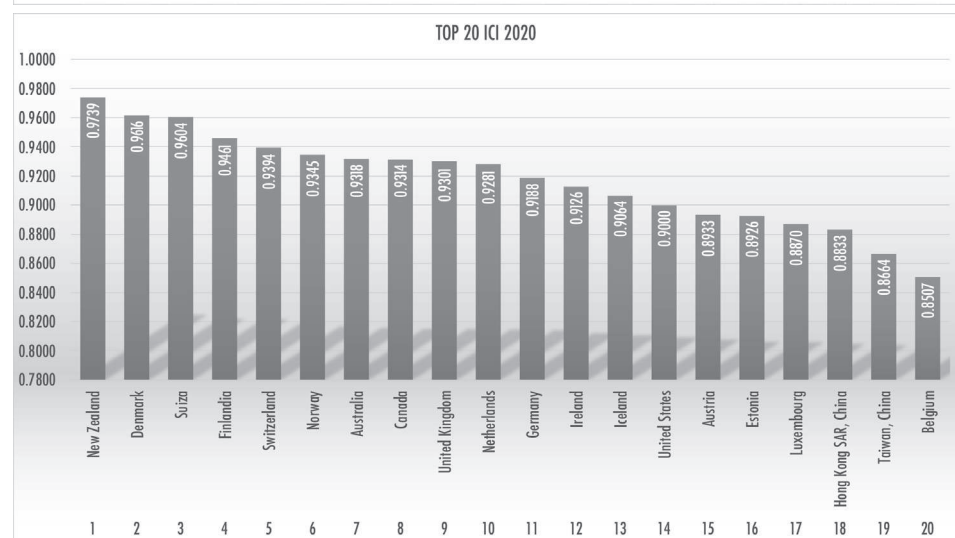
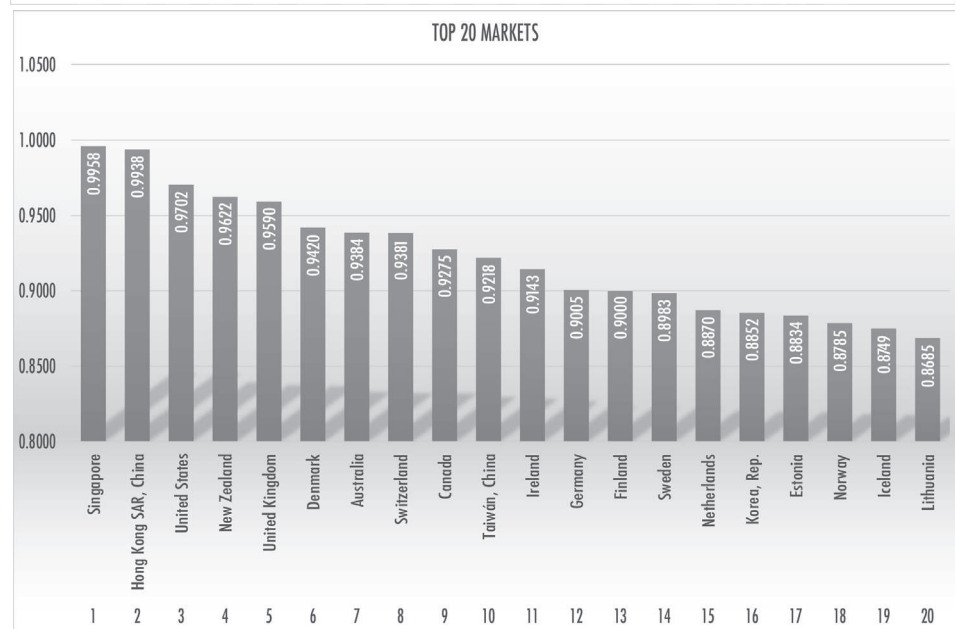
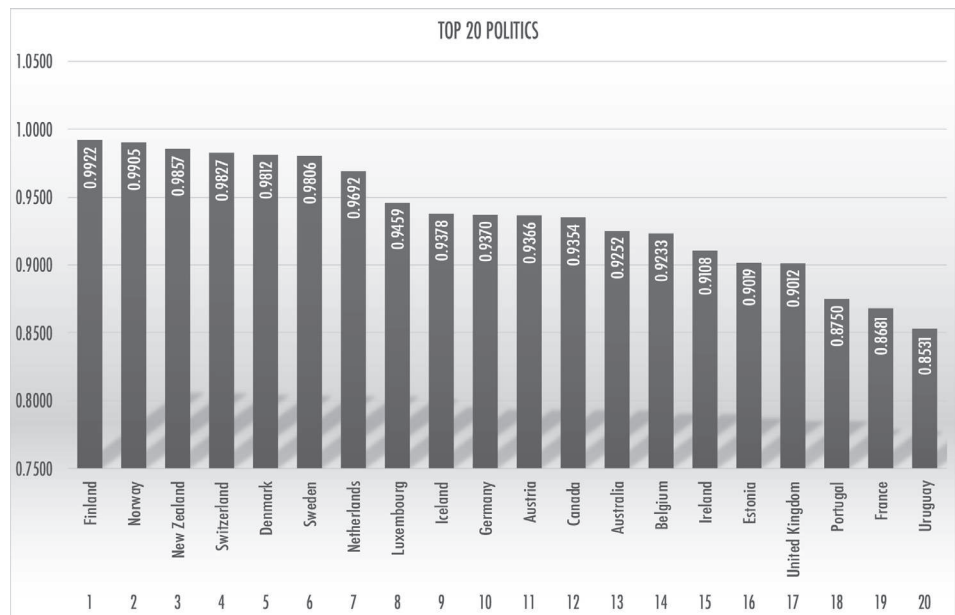
turn of events following a disagreement between the Executive and the National Assembly. The Council of Ministers called an extraordinary legislative session where the National Assembly itself was occupied by the military. The development of such an attack on and deterioration of institutions, violating the separation of powers, is still ongoing at the time of writing this report.

In Chile, the causes of problems are particularly complex, and so are the required solutions, so the risk of solutions deteriorating institutional quality is much higher. Thus, as far as institutional quality is concerned, while there is plenty of room for improvement in the near future in one case, the other is being faced with bleaker prospects and a higher risk. We shall pay attention to their individual developments in 2020.

THE WORLD IN 2020

Changes in institutional quality come about slowly, especially among those ranking at the top. This year was no different. After nearly a decade showing a negative trend down to the sixth-place last year—it ranked first in 2013—Finland has climbed back among the same four top countries that have been leading the IQI from the beginning. This time the top of the ranking looked like this: New Zealand, Denmark, Switzerland, Finland. New Zealand ranked at the top for the fourth consecutive year. Australia came along well, switching positions with the Netherlands, and Iceland regained momentum after suffering a big drop due to the 2008 financial crisis.

The following are the top 20 countries:



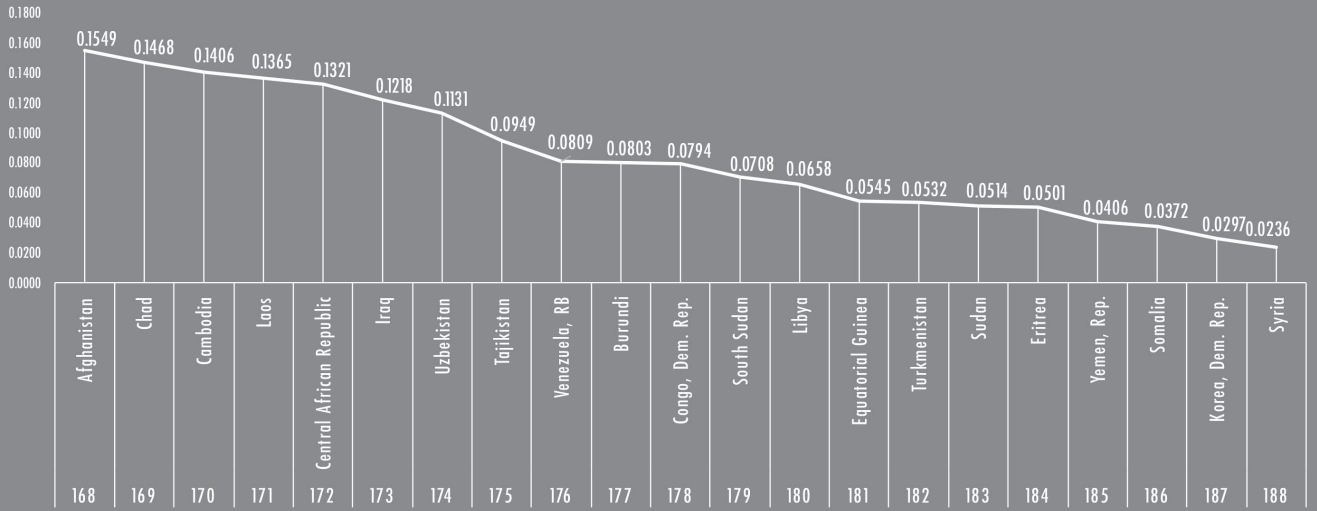
The IQI comprises two subindexes, one for political institutions and the other for market institutions. The former continues to show superiority among Nordic countries, with **Finland at the top**, and a remarkable performance by **Uruguay**, which made it into the top group for the first time. As for market institutions, **Singapore and Hong Kong** remained at the top, and the **United States** climbed to the top three.

As we have frequently cited in previous reports, the Nordic countries—often associated with “**democratic socialism**”—show a truly extraordinary performance in quality of market institutions: **Denmark ranked 6th, Finland 13th, Sweden 14th, Norway 18th, and Iceland 19th.**

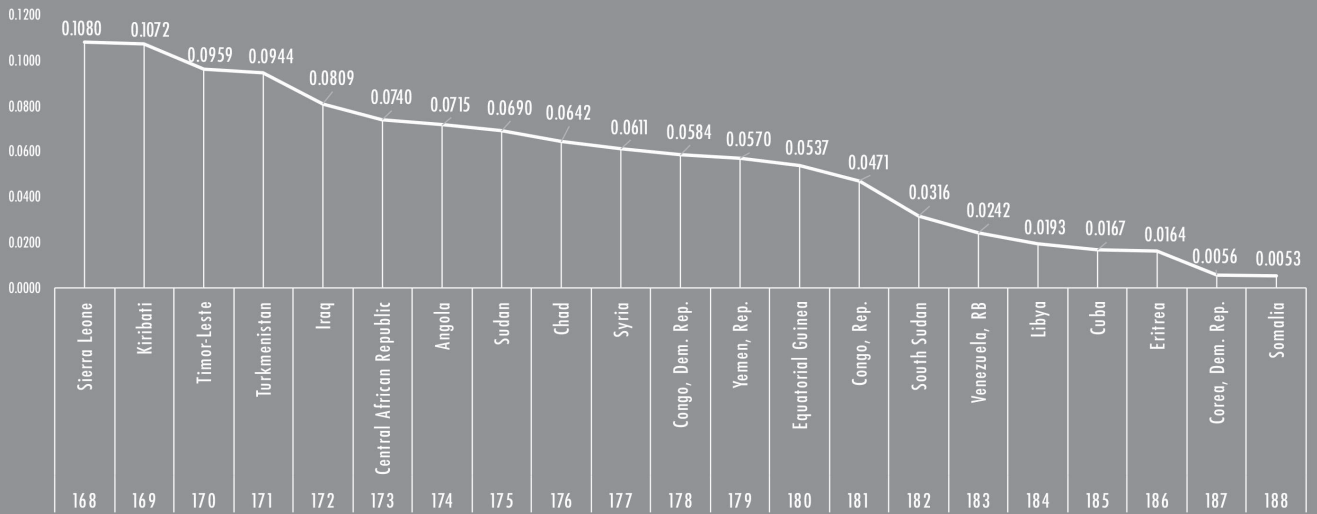
This is also true for the Baltic countries, ranking highly among countries that have done away with communism over the past 30 years: **Estonia ranked 16th** in the IQI, **Lithuania 22nd, and Latvia 29th.** Other former communist countries ranking high in the index include the **Czech Republic (30th), Slovenia (33rd), Georgia (35th), and Slovakia (37th).** These results certainly point to the possibility of institutional change and improvement, considering that countries that have maintained such a system ranked at the bottom of the ranking table: **North Korea has always ranked last (currently 183rd), and Cuba ranked 168th. Notably, China (100th) and Russia (111th),** having given up the essence of the model, still rank far from the countries that have undertaken sweeping reform plans. Both countries have seen improved performance in market institutions scores since then (**with 0.6023 for China, and 0.6056 for Russia**) but they are still far outranked by top countries in quality of political institutions (**0.2899 for China, and 0.1961 for Russia**).

Countries ranking in the bottom 20 are:

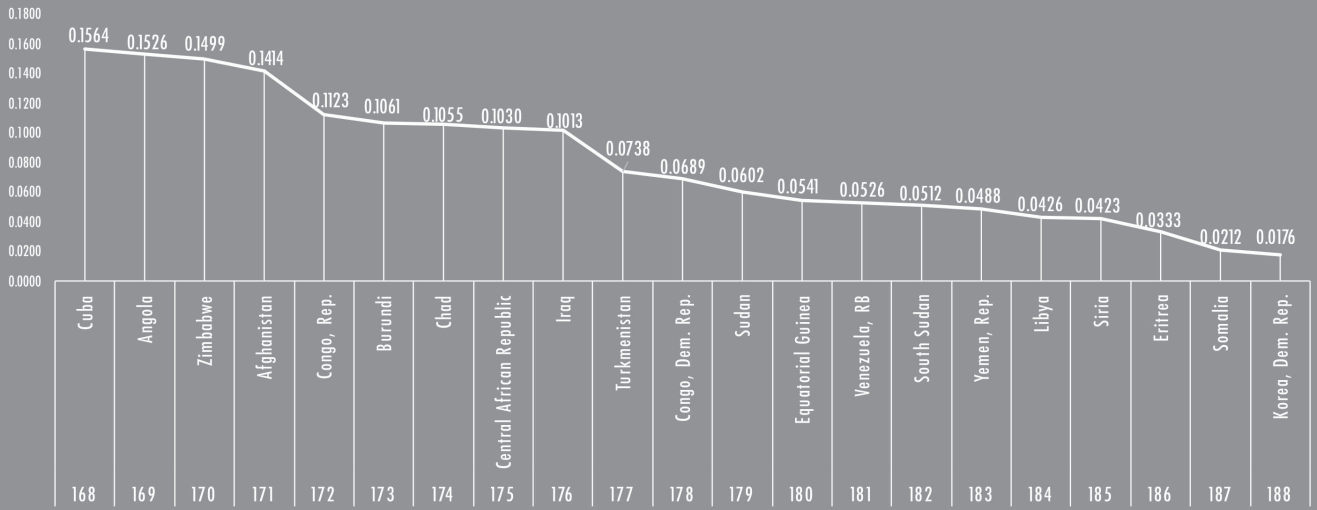
LAST 20 POLITICS



LAST 20 MARKET

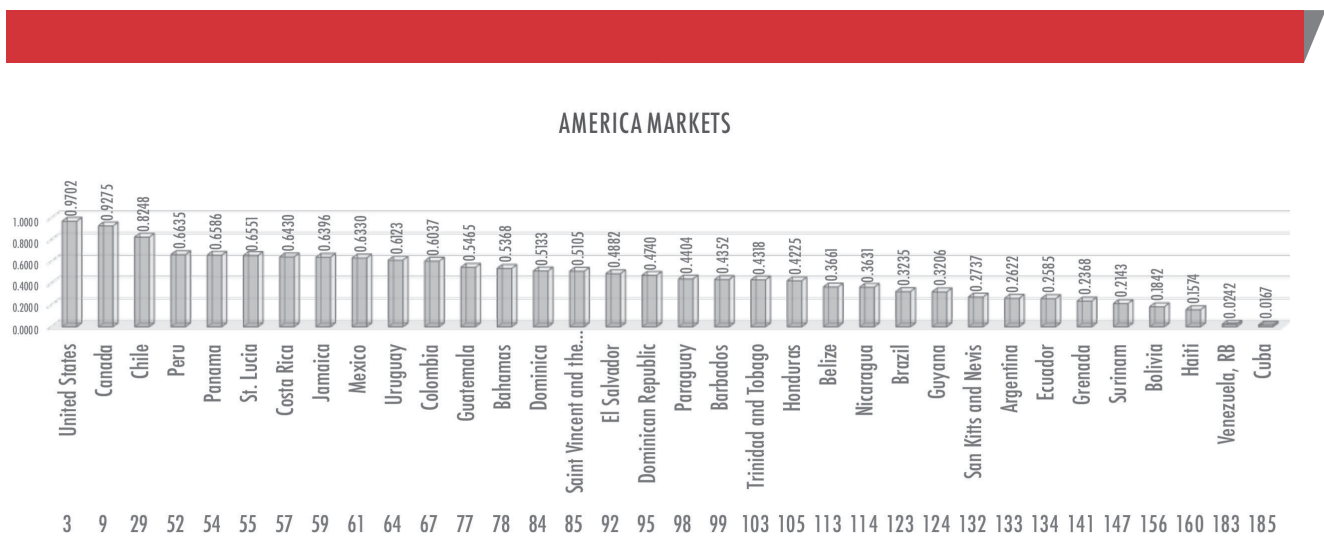
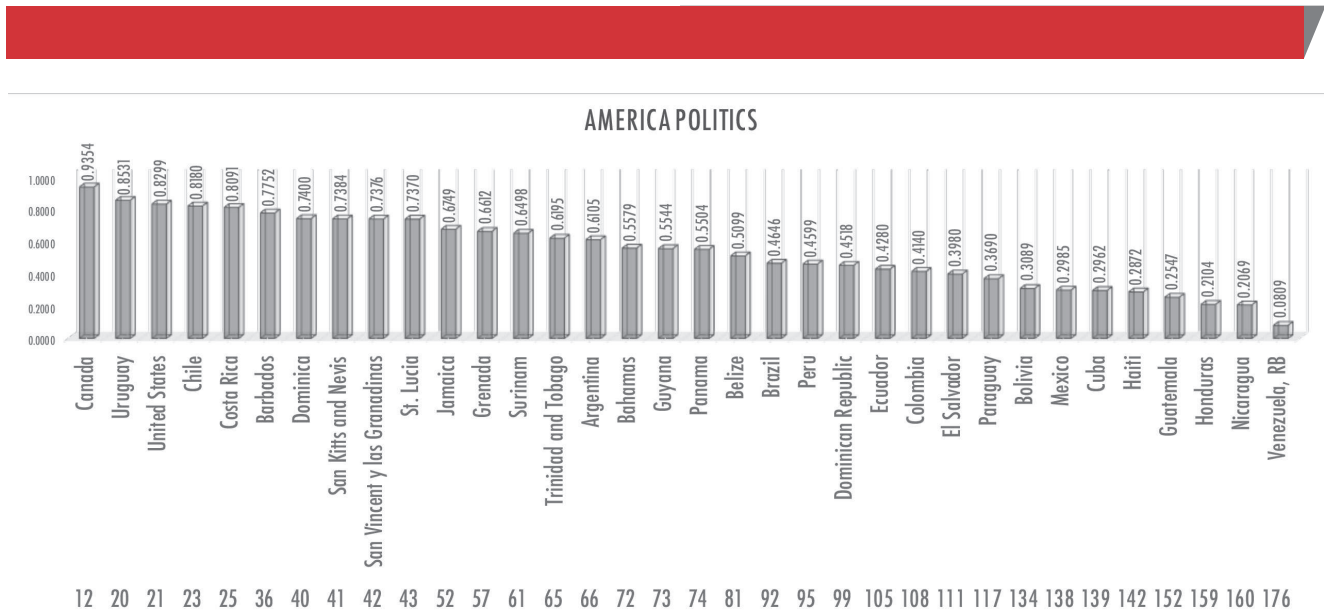


LAST 20 ICI 2020

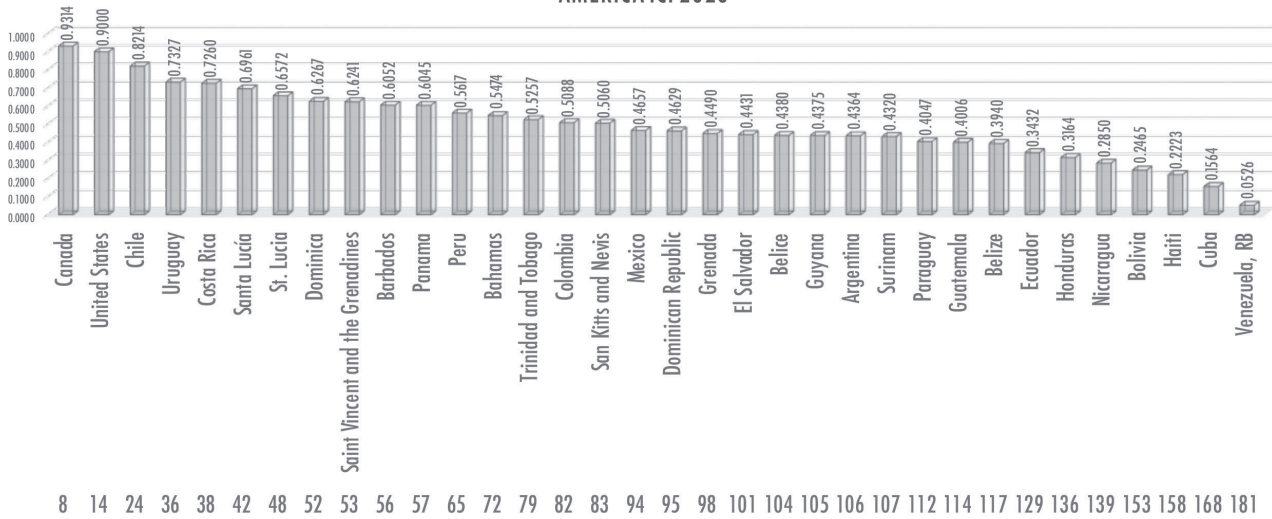


With the exception of **Venezuela**—and with **Cuba** ranking just above the group in the 168th place—they are all **African** and **Asian countries**. Interestingly, if we look at continents geographically, without considering division by countries, **Europe ranks first (0.7450)**, followed by **Oceania (0.5597)**, **America (0.4989)**, **Asia (0.3693)**, and **Africa (0.2194)**. If we look at the Americas separately, **North America** alone outranks Europe, with **0.7648**. **The Caribbean (0.5819)** outperforms **Latin America (0.4424)**.

The following table shows the raking of countries in the Americas:



AMERICA ICI 2020



Earlier in this report we discussed the situation in **Chile and Bolivia**. **Canada and the United States** maintained their positions in the ranking since last year. **And Uruguay, Costa Rica and Jamaica** showed remarkable performance. **Uruguay ranked 36th**, climbing 16 places over the past ten years. Costa Rica has gone up 11 places, and **Jamaica 21**. These results are remarkable because the higher in the table a country is, the more difficult it is to move up in the list, as it gets closer to other countries with very high institutional quality.

Further down in the table, for example, there are cases like **Peru, moving up 14 places** over ten years, followed by **Colombia, advancing 10 places, and Paraguay, climbing 28 places** over the same period. It should be noted, however, that this year the IQI did not list some countries that used to appear in it, including **Bahamas (47th in 2019) and Antigua and Barbuda (73th)**, which leads to a relative upswing of countries ranking below them, even if there is no actual improvement in institutional quality.

Other movements may also be explained by the substitution of Reporters Without Borders' press freedom index for Freedom House's index, the latter of which has not been published since 2017, as is further explained in the methodology annex.



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Institutionally, this year will certainly be of particular importance for countries like **Chile and Bolivia**, and we should keep an eye on other countries having new parties in office, as they may introduce relevant institutional changes, for better or for worse. This includes **El Salvador, Guatemala, Panama, Argentina, Uruguay, and Bolivia (discussed earlier)**, which held elections in 2019, and **Mexico and Brazil**, whose governments have been in office since 2018 but whose impact on changes in the region is strong. Unfortunately, the countries ranking at the bottom of the table (**Haiti, Cuba and Venezuela**) are showing no signs of changes that may raise our hopes. If we want uplifting news, we should look at countries up top: **Uruguay, Costa Rica, Jamaica.**

TABLES

Table 1: IQI Indicators

AMERICA INDICATORS

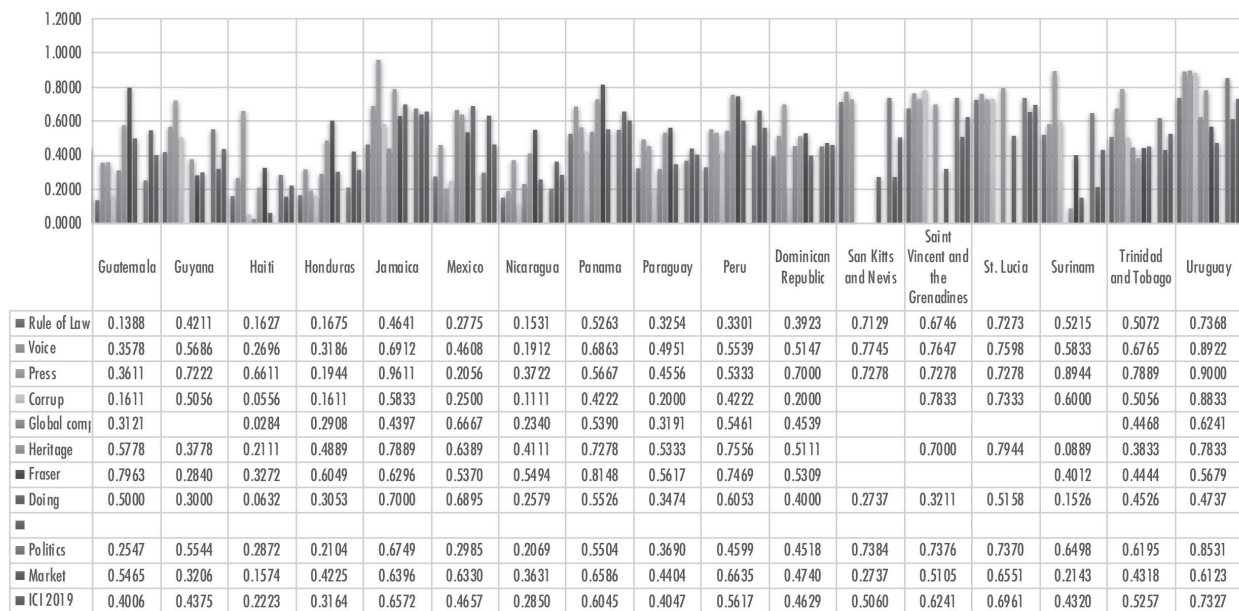
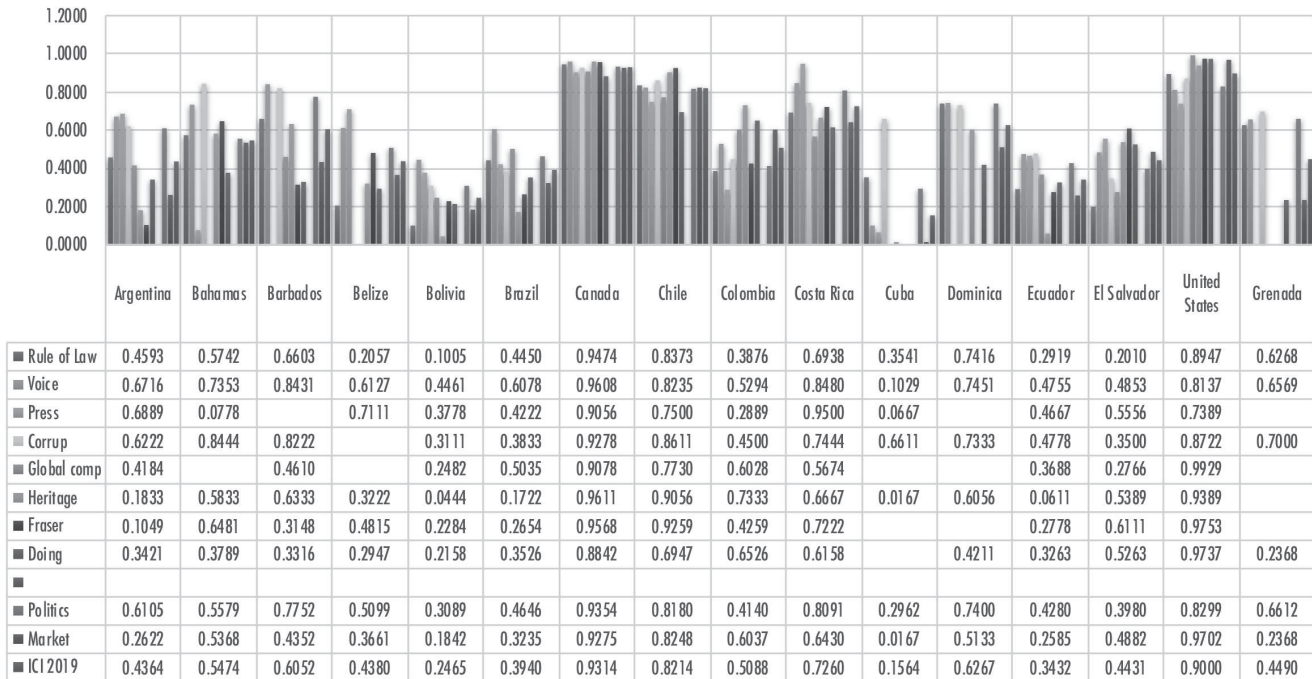
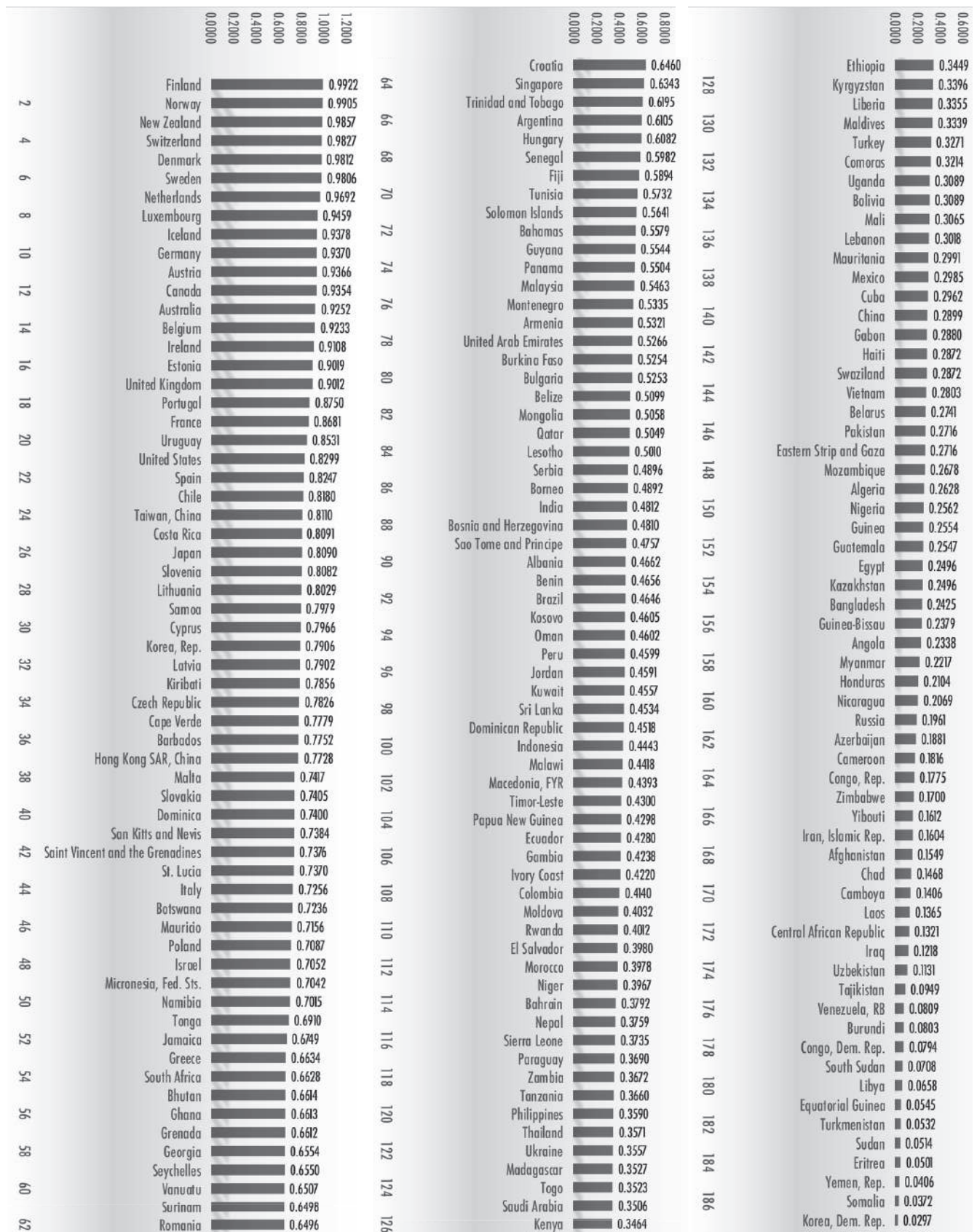
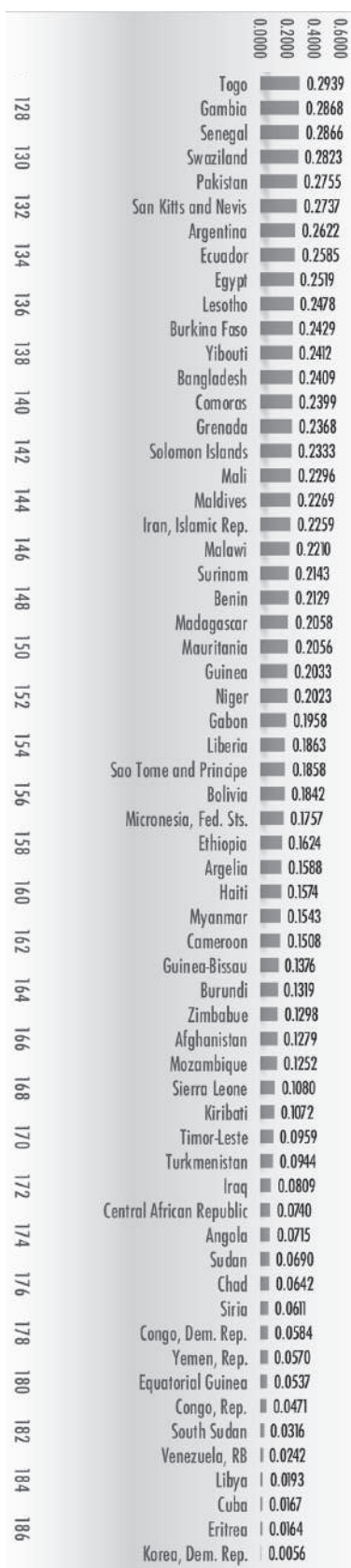
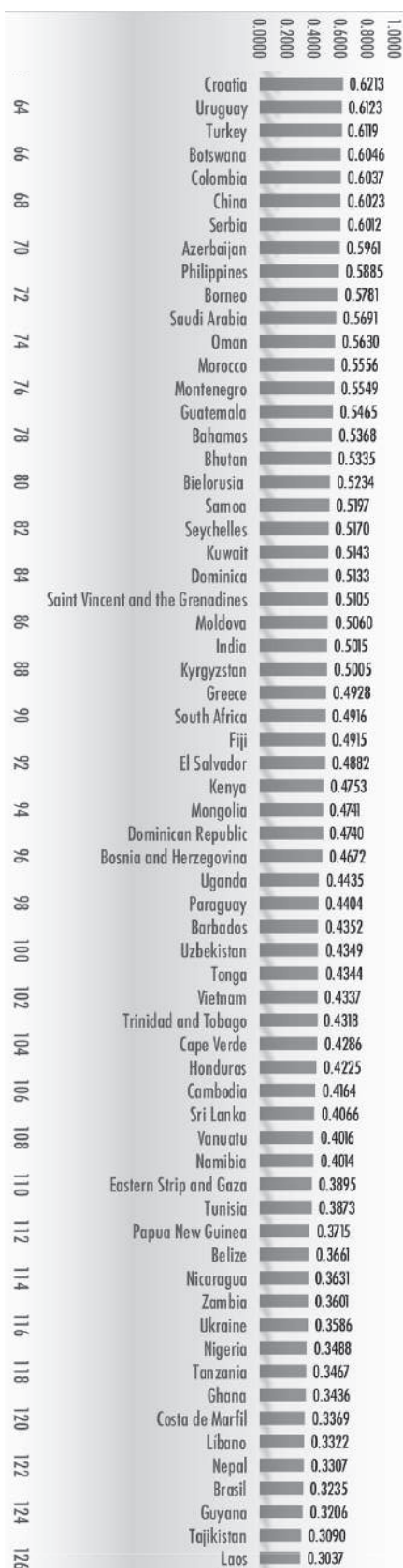
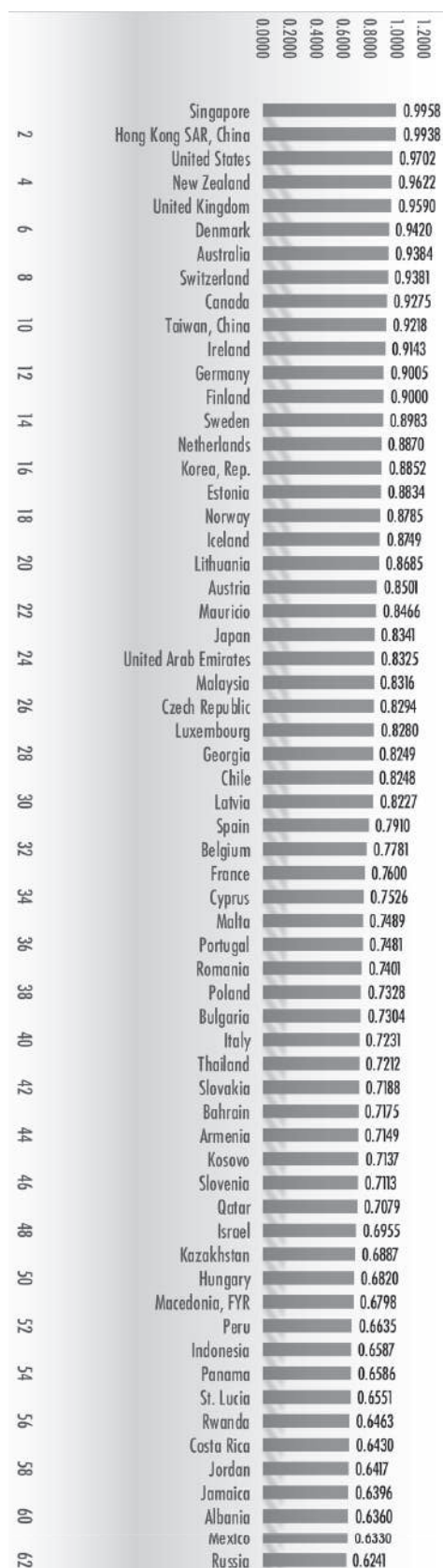
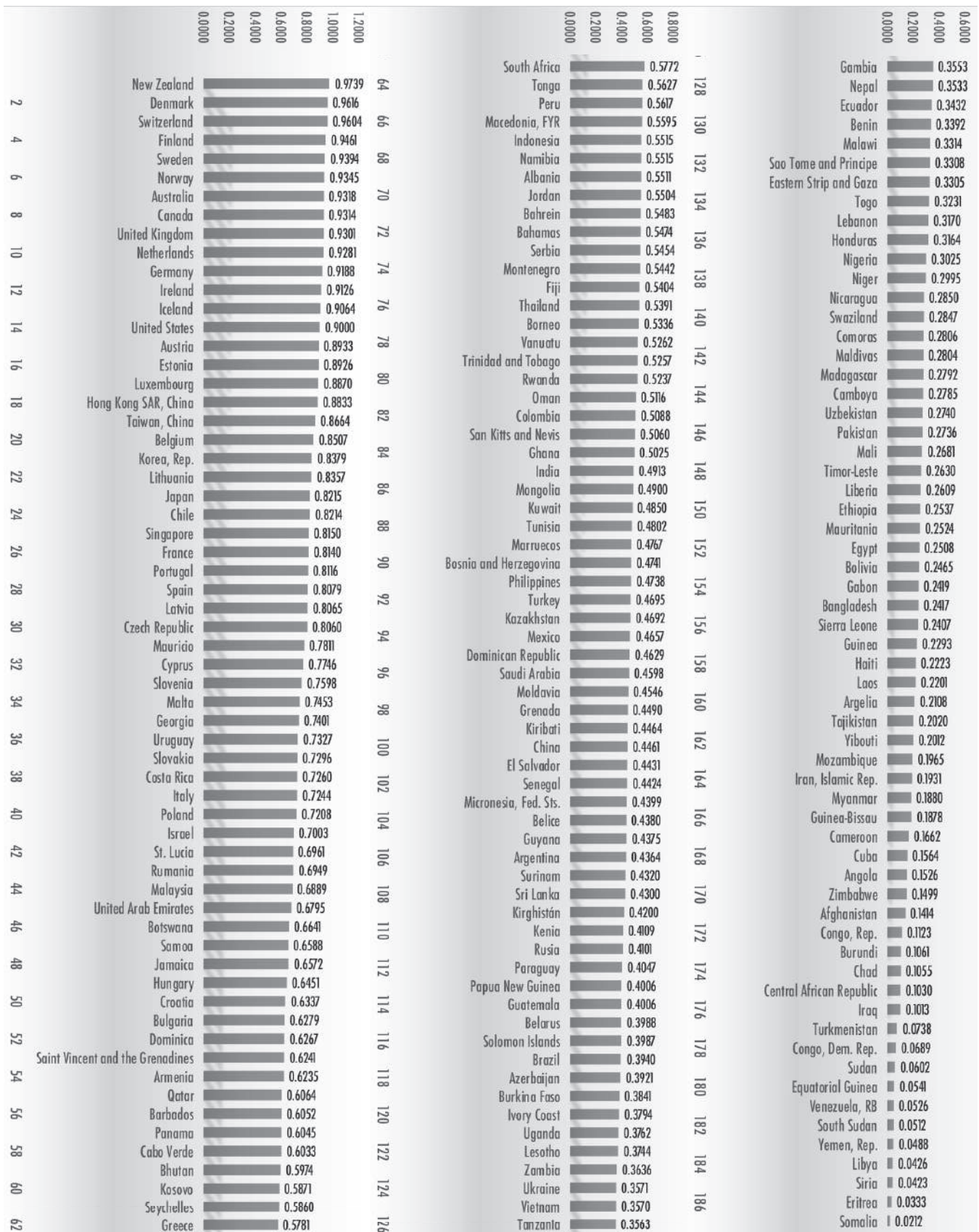


TABLE 2: OVERALL RANKING (Political Institutions)



(Market Institutions)





THE METHODOLOGY OF THE INSTITUTIONAL QUALITY INDEX

Martín Krause

There is a famous quote by Groucho Marx: **“Those are my principles, and if you don’t like them... well, I have others.”** His words could loosely apply to the methodology used for the IQI, and so we are extending an invitation to anyone who wishes to develop a better methodology.

We have abided from the beginning by the **“Occam’s Razor”** principle—traditionally associated with scientific theories—which states that, all else being equal, simpler explanations are more likely to be accurate than more complex ones. This is not to say that the simplest explanation will be the right one, as evidence may point to the more complex one, and it must thus be chosen.

And while the IQI is no theory, but rather a method for assessing institutional quality, the principle may still be applicable: **we have opted for a simple method, arguably the simplest, and we thus extend an open invitation to anyone who may wish to recommend a more complex one.**

Ultimately, the aim is to achieve **“economies”** in knowledge and effort. Results from a more complex approach would need to offer sufficient justification. Assessing institutional quality is certainly no exact science, and we do not expect outcomes to provide any definitive conclusion. We have insisted from the beginning that institutional quality cannot be **“measured,”** as that would require a yardstick against which each country should be compared, and there is no such standard. Nonetheless, we do know which institutions are best to encourage human cooperation and progress in societies. The issue has been addressed by political philosophers, economists and historians alike for centuries. But, arguably, a particularly sensible approach came from the Scottish Enlightenment (Hume, Ferguson, Smith), some of the French classics (Montesquieu, Voltaire, Turgot, Cantillon), and the **“Founding Fathers”** of the American Revolution.

While we are unable to say that a given country scored a clean ten and another one scored a two, we can determine whether some are better than others. In other words, the IQI is a “relative” index. Not even for a country ranking at the top can we say how far or close it is from optimal quality, and we do not strive to measure such a perfect standard. Yet, we believe that a lot can be learned from observing that some countries have ranked at the top for decades and others at the bottom, or that some are moving up while others are moving down, despite the fact that institutional change is inevitably slow.

The IQI is based on eight indicators that were chosen because they may reflect certain aspects of institutional quality.

WHY EIGHT?

Indeed, it is an arbitrary number. We simply selected those that arguably represented the major features of the institutions that best enable individuals to express their preferences and achieve their goals.

There are mainly two pathways to achieve those ends: voluntary exchanges in the market and the way of politics and the State. These two pathways can be found in all modern societies, although certainly at varying levels. And societies have been changing over time. To account for that, the IQI relies on two subindexes, one for political institutions and the other for market institutions. Each one is weighed as 50%, considering that decisions made in both spheres are equally important.

Typically, analysis of institutions and conventional approaches to institutional assessment focus on policy analysis—that is why many often refer to “governance”—but our approach relies on the assumption that neither area may override the other. Indeed, we may arguably make more deliberate—and often more significant—decisions in the market than in politics (ranging from who we marry to what we buy in the supermarket), but we have nevertheless attached the same weight to the two factors, and we further included four indicators in each subindex.

This required identifying indicators that adequately represented specific aspects of our system of institutions, that were developed by renowned institutions (both public and private), that published new data every year, that covered a significant number of

countries, and that had plans for continuity in the future. Unfortunately, for the first time this year one of the indicators used was discontinued.

The quality of political institutions index has so far comprised: the World Bank’s Rule of Law index, a selection of its governance indicators—identified as the Governance Matters series—and its Voice and Accountability Index; Freedom House’s Press Freedom ranking; and Transparency International’s Corruption Perceptions index.

These indicators comprise both quantitative and qualitative data. For example, the name of the “Corruption Perceptions” index denotes the fact that the amount of money lost to corruption cannot be “measured” due to the nature of the issue. There are no precise statistics available on the issue, but we can assess the perceptions experts have of the problem in each country. And the same is true for freedom of the press. Nonetheless, there are data that can be measured, including price indexes (provided that the statistics provided by the state are reliable) and import tariff rates.

Unfortunately, Freedom House’s Press Freedom index has not been published since 2017, and the institution has not replied to our queries as to



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whether they will continue to publish the report or not. Therefore, we decided to replace the index with the Press Freedom Index published by Reporters Without Borders. It is also a renowned index, but it covers 180 countries—compared with the last Freedom House report covering 199 countries. Furthermore, ranking positions will of course be different, reducing the possibility of comparisons with previous years. If the report is published again, we will redo the 2020 IQI to provide better continuity.

The indicators comprising the market institutions subindex are: **the World Economic Forum’s Global Competitiveness index; the Heritage Foundation’s Index of Economic Freedom; the Fraser Institute’s Economic Freedom of the World index, and the World Bank’s Ease of Doing Business index.**

Each indicator has been given the same weight. Although this may seem as arbitrary as giving them different weights, again, we have opted for the simplest solution. However, since the new indicators cover a different number of countries—ranging from 209 for the Rule of Law index to 140 for the Global Competitiveness index—we cannot use each country’s ranking positions directly (e.g., ranking 50th out of 209 countries is not comparable to ranking 50th out of 140 countries), but we must rather use their relative positions as percentages. That is why the indicator associated with each country in the IQI shows its percentage position compared with the other countries.

In addition, we have set a rule providing that, in order to appear in the IQI, countries must also appear in at least four of the eight indicators, with at least one appearance in each subindex. This means that some countries—primarily small countries like Vatican or Monaco, or countries tied to a larger country, like Puerto Rico—will not appear in all regular measures. It also means that some countries may rank lower—although they will more commonly rank higher—because they do not appear in all indexes. That is the case of Cuba, which we have repeatedly discussed in previous reports. As the country does not appear in three economic indicators, it most likely ranks better than if it did. Nonetheless, it meets the established criteria, so we must pay attention to such imperfections.

Finally, as we stated in the 2019 IQI report, we are constantly looking for new indicators that may be more accurate or more up-to-date to be able to offer better quality results.

We shall conclude this report by insisting on the same invitation we made at the beginning. We invite anyone who may find our methodology inadequate to suggest ways to make it better. We will most certainly acknowledge and gratefully accept such contributions.

INSTITUTIONAL QUALITY INDEX 2020

by Martin Krause
Consejero Académico
Fundación Libertad y Progreso

"FAKES NEWS" AND THE INSTITUTIONAL SYSTEM

by Martín Krause

2020 INSTITUTIONAL QUALITY: AN INSTITUTIONAL UPHEAVAL?

by Martín Krause

THE METHODOLOGY OF THE INSTITUTIONAL QUALITY INDEX

by Martín Krause

Its principles are:

Defence of liberal democracy
Freedom and individual responsibility
Respect of private property
Promotion of limited government
Support for the market economy
Primacy of the rule of law
The defence of peace

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