A POLITICAL THEORY OF POPULISM*

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When voters fear that politicians may be influenced or corrupted by the rich elite, signals of integrity are valuable. As a consequence, an honest politician seeking reelection chooses "populist" policies—that is, policies to the left of the median voter—as a way of signaling that he is not beholden to the interests of the right. Politicians that are influenced by right-wing special interests respond by choosing moderate or even left-of-center policies. This populist bias of policy is greater when the value of remaining in office is higher for the politician; when there is greater polarization between the policy preferences of the median voter and right-wing special interests; when politicians are perceived as more likely to be corrupt; when there is an intermediate amount of noise in the information that voters receive; when politicians are more forward-looking; and when there is greater uncertainty about the type of the incumbent. We also show that soft term limits may exacerbate, rather than reduce, the populist bias of policies. *JEL* Codes: D71, D74.

I. Introduction

There has recently been a resurgence of "populist" politicians in several developing countries, particularly in Latin America. Hugo Chávez in Venezuela, the Kirchners in Argentina, Evo Morales in Bolivia, Alan García in Peru, and Rafael Correa in Ecuador are some of the examples. The label *populist* is often used to emphasize that these politicians use a rhetoric that aggressively defends the interests of the common man against the privileged elite.[1] Hawkins (2003), for example, describes the rise

1. The *American Heritage Dictionary* defines *populism* as "a political philosophy supporting the rights and power of the people in their struggle against the privileged elite." See http://ahdictionary.com/word/search.html?q=populism.

of Chávez in Venezuela in these terms, and writes: "If we define populism in strictly political terms—as the presence of what some scholars call a charismatic mode of linkage between voters and politicians, and a democratic discourse that relies on the idea of a popular will and a struggle between 'the people' and 'the elite'— then Chavismo is clearly a populist phenomenon."

Given the high levels of inequality in many of these societies, political platforms built on redistribution are not surprising. But populist rhetoric and policies are frequently to the left of the median voter's preferences, and such policies may arguably harm rather than help the majority of the population. In the context of macroeconomic policy, Rudiger Dornbusch and Sebastian Edwards (1991) emphasized this "left of the median" aspect of populism and wrote:

> Populist regimes have historically tried to deal with income inequality problems through the use of overly expansive macroeconomic policies. These policies, which have relied on deficit financing, generalized controls, and a disregard for basic economic equilibria, have almost unavoidably resulted in major macroeconomic crises that have ended up hurting the poorer segments of society. (p. 1)

We offer a simple model of populism defined, following Dornbusch and Edwards (1991), as the implementation of policies receiving support from a significant fraction of the population, but ultimately hurting the economic interests of this majority.[2] More formally, populist policies are those that are to the left of the political bliss point of the median voter but are still receiving support from the median voter. The key challenge is therefore to understand why politicians adopt such policies and receive

2. We focus on left-wing populism, which has been particularly prevalent in twentieth-century Latin America. In the United States, in addition to left-wing populism of the Democratic presidential candidate William Jennings Bryan or the Louisiana Senator Huey "Kingfish" Long, a distinctive right-wing populism has been prevalent (e.g., Norris 2005). Right-wing populism typically combines anti-elitism with some right-wing agenda (e.g., anticommunism in the case of Wisconsin Senator Joseph McCarthy or the states rights agenda of the Alabama governor and presidential candidate George Wallace, or small-government conservatism in the case of the Tea Party these days). A model combining left- and right-wing extremists and different types of populist policies is presented in Section V.A.

electoral support after doing so. Our starting point is that, as the examples suggest, the economies in question feature high levels of inequality and sufficiently weak political institutions. These enable the rich elite (or a subset thereof) to have a disproportionate influence on politics. In fact, in many of these societies political corruption and political betrayal, where politicians use redistributive rhetoric but still end up choosing policies in line with the interests of the elite, are quite common.[3] This implies that voters often distrust politicians and believe that they may adopt a rhetoric of redistribution, leveling the playing field and defending the interests of the common man, but then pursue policies in the interests of the elite. This makes it valuable for politicians to signal to voters that they are not in the pockets of the elite.

In our model, an incumbent politician chooses a policy x on the real line and obtains utility from remaining in office and potentially from bribes from a lobby representing the elite. We assume that an incumbent politician can be of two types: (1) honest, or (2) corrupt (short for corruptible). While ex ante all politicians have the same policy preferences coinciding with those of the median voter, the bargaining between a corrupt politician and the rich elite makes this type of politician's *effective bliss point* biased away from that of the median voter and thus introduces preference heterogeneity among politicians. More specifically, we normalize the bliss point of the median voter and of both types of politicians to 0. An honest incumbent not facing reelection—for example, because of term limits—will choose policy at his bliss point, that is, 0. A corrupt incumbent not facing reelection will bargain with the lobby, which will lead to a policy to the right of the median voter's bliss point, that is, $x > 0$.[4] If staying in office for the next term is possible, the policy choice of both types of politicians will be affected by reelection considerations.

We also assume that voters observe a noisy signal s of the policy x of the incumbent (capturing the fact that the exact nature

3. Examples of politicians and parties using populist rhetoric but then choosing policies in line with business and elite interests include the Partido Revolucionario Institucional in Mexico, the policies of traditional parties in Venezuela and Ecuador, Fujimori in Peru, and Menem in Argentina, as well as arguably Putin in Russia.

4. The reason for this is similar to the divergence of platforms in citizen-candidate type models, (e.g., Wittman 1973; Calvert 1985; Osborne and Slivinski 1996; Besley and Coate 1997).

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and implications of policy are often difficult to ascertain at the time), and decide whether to reelect him for a second term or replace him with a new politician. The median voter's main concern is that the politician may in truth be corrupt and will implement a right-wing policy in his second term.

Our main result is that to signal that he is not captured by the lobby, an honest politicians chooses populist policies to the left of the median voter's bliss point, that is, $x < 0$. Moreover, a corrupt politician also chooses a policy to the left of his effective bliss point, and may even choose a policy to the left of the median when the value of political office for him is sufficiently high. What produces the left-wing (populist) bias in politics is precisely the *strength* of right-wing groups—that is, their ability to influence politicians. Fearing the reelection of a corrupt politician, voters support politicians choosing policies to the left of their preferences, which can loosely be interpreted as policies that are not in their best interest as in our definition of populism.[5] Thus, our model suggests that the rich may be worse off precisely because of their ability to bribe politicians. In particular, the anticipation of such bribes to corrupt politicians changes the political equilibrium toward more left-wing policies in the initial period, which is costly to the elite. This again highlights that the underlying problem leading to populist politics in this model is the weakness of democratic institutions and the potential nonelectoral power of the elite.

In addition to providing a novel explanation for the emergence of populist policies and leaders, our model is tractable and leads to a range of intuitive comparative static results. First, policies are more likely to be populist (or will have greater left-wing bias) when the value of reelection to politicians is greater, because in this case all types of politicians will try to signal their independence to voters by choosing left-wing policies. Second, populist policies are also more likely when bribing is less costly or more difficult to detect, and when the rich elite has a greater incentive to spend to influence corrupt politicians. Third, the populist bias of most politicians also increases when the fraction of corrupt politicians in the population is greater.

5. In a model of right-wing populism, a similar logic would encourage policies biased to the right. In particular, voters with right-wing views may support policies to the right of their bliss point because they may be afraid that some politicians are secret left-wingers or even communists. See Section V.A.

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Fourth, provided that the rents from office are not too large, greater polarization in society—meaning a bigger gap between the political bliss points of the median voter and the rich lobby—makes politicians more willing to adopt policies away from their bliss point to gain electoral advantage.

In applying these insights to the Latin American context, it is necessary to confront the issue of soft term limits. Most Latin American presidents of the postwar era have been term limited, but many have been able to use constitutional referendums and other means to stand for a second term or significantly increase their powers. For example, Colombian President Álvaro Uribe changed the constitution and was elected for a second term in 2006. Bolivian President Evo Morales got approval for a new constitution with relaxed term limits in January 2009. In February 2009, a constitutional amendment allowing Venezuelan President Chávez to completely avoid term limits was approved. In Ecuador, Rafael Correa won approval to extend his term in office. In October 2009, the Nicaraguan constitutional court declared executive term limits to be unconstitutional, allowing President Daniel Ortega to run for a second term. We discuss the implications of soft term limits in greater detail in Section IV.B and show that these may exacerbate the populist bias of policies.

Our article is related to a number of literatures. First, there is now a sizable literature on signaling in elections. Formal models that incorporate the cost of betrayal and signaling concerns into the platform choice by a politician seeking his first election date back to Banks (1990) and Harrington (1993). Callander and Wilkie (2007) consider signaling equilibria in elections in which participating politicians have different propensities to misinform voters about their true preferences. Kartik and McAfee (2007) study a spatial model of elections in which some types of candidates might be committed to fulfill their campaign pledge, and voters have preferences over candidates' character. A political position is then a signal to voters about character, and in consequence, a candidate might win on an unpopular platform over an opponent who caters to the median voter's preferences.

Second, our article is also related to several other works that use models in which politicians or decision makers have private information and are judged on the basis of performance or messages that they send. Prendergast (1993) shows that workers have an incentive to conform to the opinions and expectations

of their superiors. Morris (2001) studies political correctness using a model of communication incorporating related insights. Canes-Wrone, Herron, and Shotts (2001) and Maskin and Tirole (2004) use similar ideas to show why leaders or elected officials may pander to the electorate (see also Martinelli 2001; Martinelli and Matsui 2002; Heidhues and Lagerlof 2003; Laslier and Straeten 2004; Alesina and Tabellini 2007; Schultz 2008). In Hodler, Loertscher, and Rohner (2010), the incumbent uses inefficient policies to increase the information asymmetry and thus improve his chances of reelection (which is similar to strategic ambiguity in Alesina and Cukierman 1990 and optimal transparency in Prat 2005 and Fox 2007). Smart and Sturm (2006) characterize an equilibrium in which both good and bad politicians always choose a policy that signals they are not biased, even when they know this policy does not serve voters' interests. These papers do not discuss or derive populist bias in politics.

Binswanger and Prufer (2009) use a similar model, enriched with heterogeneous priors and level k reasoning, to discuss political pandering and the implications of direct and indirect democracy. They show that indirect democracy can lead to "populism" defined very differently than here—meaning that politicians, conditional on their information, still put positive weight on the prior beliefs of voters. This is also similar to Frisell (2009), who refers to politicians as populist when they follow the median voter's preferences (which they know, e.g., from an opinion poll) rather than their own (imperfect) signal about the optimal policy. He shows that when the value of office to the politician is sufficiently high, there exists a unique equilibrium with the politician pursuing populist policies. In this model, in contrast to ours, the populist policy is equally likely to be to the left or the right of the median voter's bliss point. In addition, the framework we present is more tractable than many of the models used in past work, including those discussed in this and the previous paragraph, because voters observe noisy signals rather than choices (thus making our model a mix between signaling and signal jamming). A major advantage of our framework is that it leads to a unique equilibrium and a rich set of comparative statics.

Third, our article is also related to various models of political agency. Austen-Smith and Banks (1989), Grossman and Helpman (1994, 2001), Besley (2005, 2006), and Persson and Tabellini (2000) present several different approaches to political agency and the selection of politicians of different competencies

(see also Caselli and Morelli 2004; Messner and Polborn 2004; Mattozzi and Merlo 2007; and Acemoglu, Egorov, and Sonin 2010).[6]

Fourth, our work is related to the emerging literature on the elite capture of democratic politics. Acemoglu and Robinson (2008) and Acemoglu, Ticchi, and Vindigni (2011) emphasize how a rich elite may be able to capture democratic politics and prevent redistributive policies. Bates and La Ferrara (2001), Lizzeri and Persico (2005), and Padro i Miquel (2007), among others, construct models in which certain forms of democratic competition may be detrimental to the interests of the majority. Acemoglu, Robinson, and Torvik (forthcoming) analyze a model of endogenous checks and balances. They show that in weakly institutionalized democracies, voters may voluntarily dismantle checks and balances on presidents as a way of increasing their rents and making them more expensive to bribe for a better organized lobby. None of these papers notes or analyzes the possibility of populist (left of the median) policies.

Finally, this article is also related to a few others investigating aspects of populist politics and the causes of left-wing policies in developing countries. Sachs (1989) discusses the populist cycle, where high inequality leads to policies that make all groups worse off (because voters are shortsighted). Alesina (1989) emphasizes how redistributive policies are captured by special interest groups. Di Tella and MacCulloch (2009) provide evidence that poorer countries have more left-wing governments and link this to corruption and develop a model in which corruption by bureaucrats signals to voters that the rich elite are not fair, and the voters, who are assumed to directly care about fairness, react to this information by moving to the left. Di Tella and MacCulloch's focus is thus closely related, but their model and explanation are very different from ours.

The rest of the article is organized as follows. Section II introduces our basic model. In Section III, we analyze the equilibria of the model and study the comparative statics. In Section IV, we focus on the impact of term limits on the extent of populism. Section V discusses three extensions of the basic model. Section VI concludes. The Online Appendix contains the proofs of the results stated in the text.

6. Also related is Diermeier, Keane, and Merlo (2005), who develop and estimate a dynamic model of the careers of U.S. congressmen.

II. MODEL

Our economy is populated by a continuum of citizens and a pool of politicians. The policy space is represented by $\mathbb{R}$, and we interpret policies less than 0 as left-wing or favoring the poor (e.g., higher taxation or more public goods), and policies greater than 0 as right-wing or favoring the rich. There are two periods, $t = 1, 2$, and in each period there is a politician in power who chooses policy $x_t \in \mathbb{R}$. Citizens only care about policy outcomes. In particular, we assume that the utility of citizen i is given by

$$(1) \qquad u_i(x_1, x_2) = -\sum_{t=1}^{2}(x_t - \gamma_i)^2,$$

where γ_i is taken from a distribution $G(\cdot)$ which is symmetric around 0 (which thus also corresponds to the bliss point of the median voter).[7] These preferences imply that each citizen is averse to deviations from his bliss point, and are single-peaked and satisfy the single-crossing condition. The assumption that there is no discounting is adopted to save on notation (see Section V.C). With this notation, *social welfare* (total utilitarian welfare of the citizens) in period t is given by

$$(2) \qquad U_t = -x_t^2 - Var(\gamma).$$

Politicians care about total welfare as well as rents from being in office and potentially about bribes. Each period a politician in power gets additional utility $W \geq 0$. A share μ of politicians is honest and cannot be bribed; a share $1-\mu$ of politicians may be corrupted by a lobby (special interest group), in which case they also get utility from bribes. The utility of a corrupt politician is given by

$$(3) \qquad \begin{aligned} v(x_1, x_2) = \\ \sum_{t=1}^{2}\left\{\alpha U_t + W\mathbf{I}_{\{\text{in office at } t\}} + (B_t - K)\mathbf{I}_{\{\text{accepted bribe at } t\}}\right\}. \end{aligned}$$

Here, U_t is social welfare at time t given by equation (2), $\alpha > 0$ is the weight that the politician places on social welfare (relative to the weight placed on money and rents from office, normalized

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7. Most of our results apply for any $G(\cdot)$, in particular, when society consists of two groups, the rich and the more numerous poor (which is the model considered in the working paper version).

to 1),[8] W is the utility from being in office, and B_t is the bribe that he may receive at time t. Finally, K is the total cost of accepting a bribe (resulting, e.g., from the possibility of getting caught) and will be used for comparative statics (all of our results apply with $K = 0$). The utility of an honest politician is identical except that it does not feature the last term. In what follows, when we write out the utility of a politician, we drop the constant term $Var(\gamma)$ for brevity.

We also assume that there is a lobby with bliss point $b > 0$ (for bias):

$$w(x_1, x_2) = -\sum_{t=1}^{2} \beta(x_t - b)^2,$$

where β is the weight that lobby places on policy (relative to money). The bias b can be thought to reflect the preferences of the rich elite, for example, the average of the top kth percentile of the distribution $G(\cdot)$, where crucially $k < 50$, meaning that the lobby always represents the preferences of a minority of citizens. The lobby can bargain with a corrupt politician over the current period's policy, and obtains a share $1-\chi$ from the joint surplus (after the cost of bribery K is subtracted).

At the end of the first period, there is an election deciding whether to reelect the incumbent politician, or to elect a new one randomly chosen from the pool of potential politicians.[9] In particular, we model this by assuming that at the end of the first period there is a challenger of unknown type running against the incumbent. Prior to the elections, voters receive a noisy (common) signal $s = x_1 + z$ about the policy x_1 chosen by the incumbent in the first period, where z has a distribution function F with density f. Our interpretation for why voters observe a signal rather than the actual policy is that both the exact nature and the (welfare) implications of policies take time to be fully realized and understood and also depend on (potentially unobserved) conditions. Voters use this signal to update their priors about the politician's type and vote on the reelection of the incumbent politician.

8. The parameter α will also be high when the lobby is small relative to total population, because bribes are specified as per capita payments from the members of the lobby to the politician.

9. Clearly, the median voter theorem applies in this case and the reelection decision will reflect the preferences of the median voter.

Clearly, it will be optimal for them to retain the incumbent politician only if their posterior that he is honest is higher than the probability that a randomly chosen new politician is honest, μ.

The timing of events is therefore as follows.

(1) The politician in power at time $t = 1$ and the lobby bargain over x_1 (if the politician is corrupt), and the politician chooses policy $x_1 \in \mathbb{R}$.
(2) Voters receive the signal $s = x_1 + z$.
(3) Voters vote, and decide whether to replace the current incumbent with a random one drawn from the pool of potential politicians.
(4) The politician in power at time $t = 2$ (the incumbent or newly elected politician), if corrupt, bargains with the lobby over x_2. The politician chooses policy $x_2 \in \mathbb{R}$.
(5) All agents learn the realizations of x_1 and x_2, and payoffs are realized according to equations (1) and (3).

We look for a pure-strategy perfect Bayesian equilibrium of the game (in undominated strategies) and impose that when indifferent, voters reelect the incumbent.[10] We next impose the following assumption, which will be useful in establishing well-defined unique best responses.

ASSUMPTION 1. The variable z has a normal distribution $\mathcal{N}(0, \sigma^2)$ with variance σ^2 such that

$$(4) \qquad\qquad \sigma > \max\left\{\frac{W}{4\alpha b}, b\right\}.$$

This assumption imposes that there is sufficient noise in the observation of policies to ensure the convexity of the politicians' maximization problems. Here W captures the benefits of a politician from being in office and should not be too large relative to the disutility that a politician incurs if he chooses the bliss point of the lobby, αb^2. We impose Assumption 1 throughout without explicitly specifying it.

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10. The requirement that the perfect Bayesian equilibrium should be in undominated strategies is for the usual reason that in voting games, nonintuitive equilibria can be supported when voters use weakly dominated strategies.

REMARK 1. Assumption 1 is not necessary for our main results but simplifies the exposition. In the working paper version, we impose the less restrictive assumption that the density $f(z)$ has full support on $(-\infty, \infty)$, is symmetric around 0, is strictly single-peaked, and satisfies $|f'(z)| < \frac{(\frac{W}{\alpha})+b^2}{2}$ whenever $|z| < b$.

III. ANALYSIS

We start our analysis with the second period and proceed by backward induction. In the second period, when no longer facing reelection, an honest politician will choose his bliss point, $x_2^h = 0$ (h stands for honest). A corrupt politician, on the other hand, will bargain with the right-wing interest group and, as long as the surplus from bribing exceeds K, the equilibrium policy x_2^c (c stands for corrupt) is determined from maximizing the sum of their utilities. This implies that they maximize

$$\max_{x_2^c \in \mathbb{R}} \left\{ -\alpha (x_2^c)^2 - \beta (x_2^c - b)^2 \right\},$$

which yields

$$x_2^c = \frac{\beta}{\alpha + \beta} b.$$

This equation corresponds to the *effective bliss point* of a corrupt politician, which differs from his personal bliss point because of bargaining with the lobby. Naturally, a higher α, which corresponds to a greater weight on social welfare in politician's preferences, implies a policy closer to the politician's political bliss point. As a consequence, the second period joint utility of a corrupt politician in power and the elite is

$$W - \frac{\alpha\beta}{\alpha + \beta} b^2 - K.$$

Without the bribe, the politician and the interest group would get $W - \beta b^2$ (because in this case $x_2^c = 0$). This means that bribing in the second period will occur if and only if

$$(5) \qquad K < \frac{\beta^2}{\alpha + \beta} b^2,$$

with bribe B_2 given by

$$-\alpha\left(x_2^c\right)^2 + B_2 - K = \chi\left(\frac{\beta^2}{\alpha+\beta}b^2 - K\right),$$

where the left-hand side is the utility of the corrupt politician and the right-hand side equates this to χ times the joint surplus of the relationship between the politicians and the rich lobby. Rearranging this, we obtain:

$$(6) \qquad B_2 = \left(\chi + \frac{\alpha}{\alpha+\beta}\right)\frac{\beta^2}{\alpha+\beta}b^2 + (1-\chi)K.$$

Interestingly, the effect of the intensity of politician preferences α on the bribe is non-monotonic: The bribe reaches its maximum at $\alpha = \beta\frac{1-\chi}{1+\chi}$; for lower α, the bribe is smaller because the politician is very cheap to persuade, and for very large α, the politician is too hard to bribe, hence in the limit the bribe vanishes. The bribe is also monotonically increasing in β: A lobby that cares more about the policy is naturally willing to pay more to secure this policy.

The next proposition summarizes the second period policy choices (proof in the text):

PROPOSITION 1. If (5) does not hold, then both types of politicians choose $x_2 = 0$ in the second period.

If (5) holds, then honest politicians choose $x_2^h = 0$, and corrupt politicians choose $x_2^c = \frac{\beta}{\alpha+\beta}b$ in return for bribe B_2 from the lobby given by (6).

We next turn to reelections. If there is no bribing in the second period, the voters are indifferent between the two types of politicians, and therefore reelect the incumbent. Let us first focus on the interesting case where (5) holds. Because $x_2^h = 0$ and $x_2^c \neq 0$ in this case, and because the rich lobby always represents the preferences of a minority of citizens, a majority of voters—including the median one—strictly prefers an honest politician to a corrupt one in power in period 2 (and in fact, an honest politician would maximize social welfare). Because the contender is honest with probability μ, the incumbent will win the election only if the voters' posterior that he is honest is no less than μ.

Let us denote the equilibrium policy that an honest politician chooses in period 1 by $h = x_1^h$, and the policy that a corrupt politician chooses by $c = x_1^c$. Under Assumption 1, we always have

$h < c$ (as the lobby bribes the corrupt politician in its direction). Then, the probability density of signal s when policy x is chosen is given by $f(s - x)$. Given the prior μ, Bayesian updating gives the posterior that the incumbent is honest:

$$(7) \qquad \hat{\mu}(s) = \frac{\mu f(s - h)}{\mu f(s - h) + (1 - \mu)f(s - c)}.$$

Inspection of (7) shows that the posterior $\hat{\mu}$ satisfies $\hat{\mu} \geq \mu$ if and only if

$$(8) \qquad f(s - h) \geq f(s - c).$$

Intuitively, the right-hand side of (7) depends on h and c only through the likelihood ratio $\frac{\mu f(s-h)}{(1-\mu)f(s-c)}$, which must be at least $\frac{\mu}{1-\mu}$ (the corresponding ratio for the contender) if the incumbent is to be reelected; hence $\frac{f(s-h)}{f(s-c)} \geq 1$. Under Assumption 1, (8) is equivalent to

$$(9) \qquad s \leq \frac{h + c}{2}.$$

The incumbent is therefore reelected if and only if condition (9) is satisfied, and the expected probability of reelection for an incumbent as a function of his choice of policy x is

$$(10) \qquad \begin{aligned} \pi(x) &= \Pr\left(x + z \leq \frac{h + c}{2}\right) \\ &= F\left(\frac{h + c}{2} - x\right). \end{aligned}$$

Note that this probability does not depend on the type of the incumbent, only on his choice of policy, as his type is private information and does not affect the realization of the signal beyond his choice of policy.

We now turn to the first-period problem of politicians, given the reelection strategy of voters. If the second period involves no bribing, then in the first period politicians have no reelection concerns because in this case voters are indifferent between the incumbent and the challenger (and we have assumed that when indifferent, they reelect the incumbent). As a consequence, politicians will solve an identical problem in the first period, and thus the solution is the same and involves no corruption either. In the more interesting case where (5) holds, the probability of

reelection of a politician that chooses policy x is given by (10). An honest politician does not accept bribes and thus solves the problem

$$(11) \qquad \max_{x \in \mathbb{R}} \left\{ -\alpha x^2 + W\pi(x) - (1-\mu)\alpha \left(\frac{\beta}{\alpha+\beta} b \right)^2 (1 - \pi(x)) \right\}.$$

Here $-\alpha x^2$ is this politician's first period utility, W is his second period utility if he is reelected (because in this case he chooses $x_2^h = 0$), and $-(1-\mu)\alpha \left(\frac{\beta}{\alpha+\beta} b \right)^2$ is his expected second period utility if he is not reelected (with probability μ the contender is honest and will choose $x_2^h = 0$, whereas with probability $1 - \mu$, a corrupt politician will come to power and choose $x_2^c = \frac{\beta}{\alpha+\beta} b$). Under Assumption 1, this maximization problem is convex and gives the first-order condition

$$(12) \qquad\qquad -2\alpha x - Hf\left(\frac{h+c}{2} - x \right) = 0,$$

where we have defined $H \equiv W + (1-\mu)\alpha \left(\frac{\beta}{\alpha+\beta} b \right)^2$, the honest incumbent's reelection motive—rents from office and a disutility from policy choice if a corrupt politician is elected instead.

A corrupt politician bargains with the lobby both in the first and the second periods. In the first period, bargaining—anticipating the second period choices—gives the following joint maximization problem:

$$(13) \quad \max_{x \in \mathbb{R}} \left\{ \begin{array}{l} -\alpha x^2 - \beta(x-b)^2 + \left(W - \frac{\alpha\beta}{\alpha+\beta} b^2 - K \right) \pi(x) \\[2mm] - (1-\mu) \left(\frac{\alpha\beta}{\alpha+\beta} b^2 + \left(\chi + \frac{\alpha}{\alpha+\beta} \right) \frac{\beta^2}{\alpha+\beta} b^2 + (1-\chi)K \right) \\[2mm] (1 - \pi(x)) - \mu\beta b^2 (1 - \pi(x)) \end{array} \right\}.$$

The first two terms relate to the first period's utilities of the incumbent and the lobby, respectively. If this (corrupt) politician is reelected, then together with the lobby he jointly obtains second period utility $W - \frac{\alpha\beta}{\alpha+\beta} b^2 - K$. If he is not reelected, but another corrupt politician comes to power, their joint utility is $-\frac{\alpha}{\alpha+\beta} b^2 - B_2$ (the same policy is implemented and the lobby pays the same second period bribe, but the current incumbent neither receives the direct benefits from holding office, nor the

bribes, nor pays the cost K). Finally, if an honest politician is elected, the incumbent and the lobby together obtain $-\beta b^2$. The first-order condition of their maximization problem, which is sufficient given the convexity of the problem, is

$$(14) \qquad -2\alpha x - 2\beta(x - b) - (H + R)f\left(\frac{h + c}{2} - x\right) = 0,$$

where $R \equiv (\chi + \mu - \mu\chi)\left(\frac{\beta^2}{\alpha+\beta}b^2 - K\right)$ represents the extra gain for the corrupt politician and the lobby from bribery (which naturally vanishes as K approaches the gain from bribing $\frac{\beta^2}{\alpha+\beta}b^2$).

Because first-order conditions (12) and (14) must be satisfied in equilibrium for $x = h$ and $x = c$, respectively, the equilibrium is now characterized by the following two equations:

$$(15) \qquad -2\alpha h - Hf\left(\frac{h - c}{2}\right) = 0,$$

$$(16) \qquad -2\alpha c - 2\beta(c - b) - (H + R)f\left(\frac{h - c}{2}\right) = 0.$$

Mathematically, the first of equations (15) gives the equilibrium value of the policy choice of honest politicians, h, when corrupt politicians are choosing policy c. Conversely, the second equation corresponds to the equilibrium value of the policy of corrupt politicians when honest politicians are choosing h. Figure I plots these two curves in the relevant region where $h < c$.

Conditions (15) and (16) yield $h < 0$ and $c < \frac{\beta}{\alpha+\beta}b$. For an honest politician, this implies a populist policy choice—that is, to the left of the median voter's political bliss point. This is for an intuitive reason: For an honest politician, a move to the left starting from his political bliss point creates a second-order loss in the first period but delivers a first-order increase in the probability of reelection and thus a first-order expected gain. For a corrupt politician, this logic implies that he also moves to the left of his effective bliss point, $x_2^c = \frac{\beta}{\alpha+\beta}b$—the outcome of his bargaining with the lobby without reelection concerns.

The result that there will be a left bias in policies does not rely on positive benefits from holding office ($W > 0$), though we establish later that higher levels of W increase this bias. This is because even when $W = 0$, politicians still want to be reelected: For an honest politician, this is because otherwise his preferred
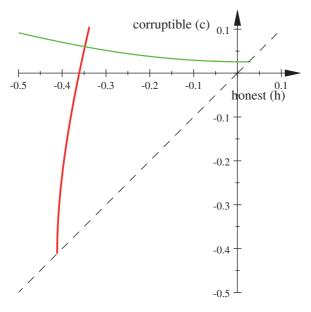
<div align="center">

FIGURE I

Reaction Curves of Honest (Thick) and Corruptible (Thin) Politicians

The parameters are $W = \sigma = b = 1$ and $\alpha = \beta = \mu = \chi = \frac{1}{2}$.

</div>

policy will be implemented with probability less than 1, and for a corrupt politician, because by failing to get reelected he forgoes the bribe, which he values (provided that $\chi \neq 0$).

   Inspection of Figure I also provides a more detailed intuition for the results and the uniqueness of equilibrium. The reaction curve of honest politicians is upward-sloping, while the reaction curve of corrupt ones is downward-sloping. Formally, these statements follow from differentiating left-hand sides of (15) and (16) with respect to h and c. The key observation is that the median voter will decide whether to reelect the incumbent politician depending on whether $\frac{f(s-h)}{f(s-c)}$ exceeds 1. A politician may ensure that he is reelected with an arbitrarily large probability if he chooses an extreme left-wing policy, but this is clearly costly as the policy would be very far away from his bliss point. The relevant trade-off for both types of politicians is therefore between choosing a policy close to their effective (derived) bliss point on the one hand and deviating from their bliss point to increase their reelection probability on the other. By how much this deviation will increase

their reelection probability depends on the expectations of the median voter concerning what types of policies both types of politicians will adopt. Formally, the question is whether a small change in policy will increase $\frac{f(s-h)}{f(s-c)}$ from below 1 to above 1 (which thus requires that $\frac{f(s-h)}{f(s-c)}$ is in some ε-neighborhood of 1). Suppose, for example, that corrupt politicians are expected to choose a more left-wing policy than before. This would make the policies of the two types closer, and it becomes harder for voters to distinguish one type of politician from another (equivalently, $\frac{f(s-h)}{f(s-c)}$ is more likely to be in any given ε-neighborhood of 1). In response, it would be optimal for honest politicians to choose an even more left-wing policy to distinguish themselves and get reelected with a high probability. This is the reason (15) defines an upward-sloping line.

Why is the reaction curve of the corrupt politician downward-sloping? Consider the situation in which honest politicians are expected to choose more left-wing policies. One might have expected that the same reasoning should push corrupt politicians to also choose more left-wing policies. But because $h < c$, a further shift to the left by honest types will make it more likely that the median voter will be able to distinguish honest and corrupt politicians (or more formally, $\frac{f(s-h)}{f(s-c)}$ is now less likely to be in any given ε-neighborhood of 1, and thus a small shift to the left by corrupt politicians is less likely to win them the election). This reduces the potential gains from choosing further left-wing policies for corrupt politicians and encourages them to choose policies more in line with positions that allow them to get a larger bribe.

This discussion ensures the uniqueness of equilibrium. The next proposition summarizes the results presented so far.

PROPOSITION 2. Suppose that (5) holds. Then:

(1) There exists a unique equilibrium (perfect Bayesian equilibrium in pure strategies). In the first period, honest and corrupt politicians choose policies $x_1^h = h$ and $x_1^c = c$ such that $h < c$, and a politician is reelected if and only if $s \leq \frac{h+c}{2}$.

(2) Honest politicians always choose populist policies in the first period, that is, $h < 0$.

(3) Corrupt politicians accept (positive) bribes in both periods.

Proof. See the Online Appendix. ∎

Interestingly, even corrupt politicians who receive bribes from the rich lobby may choose policies to the left of the median in the first period (even though they are internalizing the preferences of the lobby, and as a result, their effective bliss point is to the right of the median). This is shown in the next proposition:

PROPOSITION 3. If W is sufficiently small, then corrupt politicians choose $c > 0$. If W is sufficiently high and $\frac{\alpha}{\beta} > \frac{4}{3}$, then corrupt politicians choose populist policies, that is, $c < 0$.

Proof. See the Online Appendix.   ∎

This result is intuitive. If corrupt politicians receive only small additional utility from being in office, then reelection has limited benefits for corrupt politicians and this makes populist policies jointly too costly for the lobby and the politician, so they will never choose populist policies (in particular, choosing their joint bliss point with the lobby in the first period and not getting reelected dominates choosing a policy to the left of the median). However, conversely, when rents from office are sufficiently large (and β relative to α is not too large), even though corrupt politicians are effectively representing the preferences of the lobby, they will still choose populist policies in the first period so as to increase their likelihood of coming to power and obtaining higher utility from the benefit of holding office.

Rearranging (15) and (16) yields $c - h$, which implies that the populist bias of honest politicians, $p \equiv |h| = -h$, is:

$$(17) \qquad p = \frac{1}{2\alpha} \times H \times f\left(\frac{\beta}{2(\alpha + \beta)}b + \frac{p}{2(\alpha + \beta)}\left(\frac{\beta H - \alpha R}{H}\right)\right).$$

Similarly, we obtain the populist policy bias of corrupt politicians, $q \equiv \left|c - \frac{\beta}{\alpha + \beta}b\right| = \frac{\beta}{\alpha + \beta}b - c > 0$, as:

$$(18) \quad q = \frac{1}{2(\alpha + \beta)} \times (H + R) \times f\left(\frac{\beta}{2(\alpha + \beta)}b + \frac{q}{2\alpha}\left(\frac{\beta H - \alpha R}{H + R}\right)\right).$$

PROPOSITION 4. Suppose that (5) holds. Then, the populist bias of honest politicians, $p \equiv |h|$, and the populist bias of corrupt politicians, $q \equiv \left|c - \frac{\beta}{\alpha + \beta}b\right|$, are both higher when:

(1) W is higher (greater direct utility from holding office);

(2) K is lower (greater gains from the election for corrupt politicians because bribing is more efficient);

(3) χ is higher (corrupt politicians have higher bargaining power vis-à-vis the lobby);

In addition, a lower share of honest politicians, μ, increases the populist bias of honest politicians p, and there is a threshold $\bar{\chi} \in [0, 1]$ such that for $\chi < \bar{\chi}$, a lower μ decreases q, and for $\chi > \bar{\chi}$, a lower μ increases q.

Proof. See the Online Appendix. ∎

A higher W makes both politicians value reelection more; they thus engage in more signaling (by choosing more populist policies). A lower K increases the joint utility of the lobby and the incumbent in case of reelection, and this makes corrupt politicians choose more left-wing policies, which in turn induces honest politicians to do the same. A higher χ makes holding office more valuable for corrupt politicians. This again makes them seek office more aggressively by choosing policies that are more left-wing, and honest politicians respond by also shifting their policies to the left. Because they were already to the left of the median voter, this increases the populist bias of honest politicians. A lower μ, which corresponds to politicians being more corrupt on average, also increases p for two reasons. First, this implies that the population's prior is that corrupt politicians are the norm, not the exception, and this increases their incentive to signal their type; and second, a lower μ increases the likelihood that they will be replaced by a corrupt politician and reduces their future utility if not reelected, also encouraging signaling. The effect of μ on corrupt politicians' decisions is ambiguous, however. On the one hand, a lower μ makes the lobby less willing to support populist policies today because if the current incumbent is not reelected, the next politician is still likely to be corrupt. On the other, a lower μ increases a corrupt politician's desire to get reelected, which makes him more willing to pool with the honest type. The first effect is likely to dominate if χ is low, that is, when the lobby gets the lion's share of surplus from corruption, and the latter is likely to dominate when χ is high.

The next proposition provides additional comparative static results:

PROPOSITION 5.

(1) For a small (close to 0) value of office W, an increase in polarization b increases the populist bias of honest politicians, p.
(2) An increase in the variance of noise, σ^2, decreases the populist bias of both honest and corrupt politicians, p and q.

Proof. See the Online Appendix.   ∎

The first part of this proposition shows that, provided that W is not too large, greater polarization in society—meaning a bigger gap between the political bliss points of the median voter and of the lobby—increases the populist bias of honest politicians. The intuition for this result is simple: With greater polarization, the benefit from reelection to both types of politicians is greater, encouraging more populist policies in the first period. However, the result is not unambiguous (hence the need for the condition that W should be small) because of a countervailing effect: Greater polarization also makes it more difficult for corrupt officeholders to masquerade as honest ones, which also decreases the need for honest politicians to choose populist policies. If the signal is sufficiently noisy and if politicians do not care too much about office, the second effect is dominated.[11]

The second part, in turn, shows that greater noise reduces the populist bias of both honest and corrupt politicians. This result turns out to be unambiguous only because of Assumption 1. As noted in Remark 1, this assumption is not necessary for our results, and can be replaced by weaker assumptions such as the one provided in Remark 1. Under these weaker assumptions, the effect of greater noise on populist bias turns out to be nonmonotonic; an increase in noise first increases and then decreases populist bias, which is also intuitive. When there is little noise,

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11. When rents from office are large, there will be more populism for any degree of polarization (Proposition 4), and further polarization will not have a major impact on populist biases.

politicians only have limited incentives to bias policy as voters are unlikely to confuse the two types of politicians. When there is too much noise, on the other hand, because the resulting signal is often very different from the actual policy, incentives to signal by biasing policy are again limited.

Our discussion so far suggests that the potential corruption of politicians empowers the organized lobby to secure policies that are more favorable to their interest. However, it also reveals that there is a powerful countervailing effect: The fact that the lobby will be able to influence politics leads to equilibrium signaling by incumbents by choosing more left-wing policies. In fact, honest politicians will then choose populist policies to the left of the preferences of the median voter. This raises the possibility that the lobby's ability to bribe politicians may actually harm itself (by creating a strong left-wing bias in the first period). The next proposition shows that when χ is sufficiently large (so that the politician receives the majority of the rents from bribery) or when K is sufficiently large (so that costs of bribery are high), the lobby is worse off when it is able to bribe—as compared to a hypothetical world where it can commit to not influencing politics via bribes.

PROPOSITION 6. There exists $\bar{K} < \frac{\beta^2}{\alpha+\beta}b^2$ such that for any cost of corruption $K \in \left(\bar{K}, \frac{\beta^2}{\alpha+\beta}b^2\right)$, the lobby is worse off relative to a situation in which bribing is not possible (in an environment in which $K > \frac{\beta^2}{\alpha+\beta}b^2$, bribing does not occur in equilibrium). Furthermore, there exists $\bar{\chi} < 1$ such that if $\chi > \bar{\chi}$, the lobby is worse off relative to a situation in which bribing is not possible.

Proof. See the Online Appendix. ∎

Intuitively, when K is close to $\frac{\beta^2}{\alpha+\beta}b^2$ or when χ is close to 1, the net gain to the lobby from bribing politicians is limited. Nevertheless, the anticipation of such bribery shifts the first period policies of both honest and corrupt politicians to the left, making the lobby and the elite it represents worse off. Proposition 6 is important as it shows that weak institutions, which normally empower the lobby, may in the end create sufficient policy distortions so as to make it worse off, because of the endogenous response of democratic policies—even if democracy works only imperfectly.

IV. TERM LIMITS

In this section we study term limits. A naive reasoning might suggest that term limits, by reducing the incentive to signal to voters to get reelected, may improve voter welfare. In this section, we show why this reasoning is not fully correct. We first study hard term limits (which cannot be violated) and then turn to soft term limits, which make it more difficult but not impossible for an incumbent president to get reelected. As our discussion in Section I made clear, soft term limits might be a better approximation to the term limits relevant in Latin America.

IV.A. *Hard Term Limits*

It is straightforward to see that with (hard) term limits restricting them to a single term, politicians will set policy equal to their effective bliss point. Term limits will have three effects on social welfare, as given by equation (2), in this case. First, the policy choice of honest politicians in the first period will be closer to the average bliss point of voters. Second, the policy choice of corrupt politicians will generally be further away from their bliss point (except in the unlikely case where without term limits, they would have chosen such extreme populist policies to the left of the median voter's bliss point). Third, the likelihood of an honest politician in the second period will be lower (because poor voters would lose the ability to select only politicians who are likely to be honest).

The next proposition shows that social welfare may be higher or lower under hard term limits. Interestingly, this is true even when the third effect of term limits above is shut off by considering μ close to 1.

PROPOSITION 7. Social welfare can be higher or lower under hard term limits. For W sufficiently small, an increase in W makes it more likely that social welfare is higher without term limits. Moreover, for any $W > 0$, for μ sufficiently close to 1, social welfare is higher under term limits, whereas when $W = 0$, for μ sufficiently close to 1, it is lower under term limits.

Proof. See the Online Appendix.   ■

Intuitively, as μ tends to 1, the populist bias of honest politicians, p, disappears when $W = 0$ because they are not afraid of losing the election as the next politician is also very likely to be

honest. However, whenever $W > 0$, p remains bounded away from 0 even as $\mu \to 1$ because of the presence of rents from office, and this persistent populist bias implies that social welfare is higher under term limits.

IV.B. *Soft Term Limits*

The examples discussed in Section I show that many politicians in Latin America are subject to soft term limits, meaning that they are limited to a single term of office, but this is often violated if the politician is sufficiently popular. Here we discuss the implications of this type of soft term limits and show that, under certain circumstances, they may increase rather than reduce the populist bias of policy.

Recall that in our baseline model the incumbent politician is reelected if the posterior that he is honest is at least μ. Suppose now that the incumbent is reelected if this posterior is at least v. Soft term limits can be modeled by assuming that $v > \mu$; a value of v equal to μ means no term limits, a value of 1 designates hard term limits as already discussed in Proposition 7, and intermediate values correspond to soft term limits which can be overcome by sufficiently popular politicians. As v declines, term limits become softer. In what follows, we also allow $v < \mu$, which can be interpreted as a form of incumbency advantage.

Once again, in any equilibrium, $h < c$, and we use this fact in the expressions that follow. The citizens' posterior that the incumbent is honest equals $\hat{\mu}$ given by (7). Therefore, the incumbent is reelected when

$$\frac{\mu f(s - h)}{\mu f(s - h) + (1 - \mu)f(s - c)} \geq v,$$

or equivalently when

(19)
$$\frac{f(s - h)}{f(s - c)} \geq \eta,$$

where

$$\eta \equiv \frac{v}{(1 - v)} \bigg/ \frac{\mu}{(1 - \mu)}.$$

Clearly, η is an increasing function of v for all $\mu \in (0, 1)$. As v increases from 0 to 1, η goes from 0 to $+\infty$ (and it equals 1 for

$v = \mu$). From Assumption 1, this implies that the incumbent will be reelected if

$$(20) \qquad s \leq s^* = \frac{h+c}{2} - \sigma^2 \frac{\ln \eta}{c-h},$$

which immediately implies that, as it may have been expected, a higher v, corresponding to tougher term limits, makes reelection less likely for any given h and c. The reason the effect of term limits on populism will be ambiguous is that a higher v also affects h and c. Intuitively, soft term limits increase the hurdle that an incumbent needs to pass to get reelected, and this may encourage more signaling and thus more populist policies by both honest and corrupt politicians.

As in the baseline model, we can show that there is a populist bias for both honest and corrupt politicians (i.e., $h < 0$ and $c < \beta/(\alpha + \beta) \times b$). Our main result in this subsection is summarized in the next proposition.

PROPOSITION 8. In the model with soft term limits, there exists a unique (perfect Bayesian) equilibrium. In this equilibrium, there exists $v^* > \mu$ such that the populist bias of honest politicians, $p = |h|$, is increasing in v if $v < v^*$ and is decreasing in v if $v > v^*$. There also exists $v^{**} < \mu$ such that the populist bias of corrupt politicians, $q = \left| c - \frac{\beta}{\alpha+\beta} b \right|$, is increasing in v if $v < v^{**}$, and it is decreasing in v if $v > v^{**}$.

Proof. See the Online Appendix   ∎

This proposition establishes an inverse U-shaped relationship between populist biases and v. For honest politicians, as v increases starting from μ, populist bias increases. This means, somewhat paradoxically, that soft term limits may lead to more populist policies. Intuitively, soft term limits increase the incumbent's incentives to become popular (to overcome these term limits) and this encourages populist policies. The same reasoning also applies to corrupt incumbents, though their populist bias starts increasing already after v exceeds $v^{**} < \mu$. Ultimately, because sufficiently hard term limits (v simply close to 1) also make it more difficult for the incumbent to get reelected, populist bias of both types of incumbents become decreasing in v.

The following pattern is also interesting: because the populist bias of corrupt politicians peaks at $v^{**} < \mu < v^*$, soft term limits at first create polarization, in the sense that an increase

in ν starting from μ induces honest politicians to choose policies further to the left and corrupt politicians to opt for policies further to the right.[12]

V. EXTENSIONS

In this section, we consider several extensions of the baseline model of Section II.

V.A. *Right-Wing and Left-Wing Extremism*

Motivated by Latin American politics, we have so far focused on a model in which the possibility that politicians may be influenced (bribed) by the lobby creates a populist bias in policies. In practice, fear of left-leaning politicians may also induce a bias to the right in their policies in an effort to signal that they are not secretly left-wing or are not captured by left-wing lobby such as trade unions. In this subsection, we briefly characterize the structure of equilibria when corrupt politicians may be corrupted by either a right-wing or a left-wing group. We show that voters will not reelect any incumbent that generates a signal that is extreme to either side, and that policy will be endogenously biased in the opposite direction from the preferences of the lobby that is more likely to be influential.

Suppose that, as before, with probability μ the politician is honest and has bliss point $\gamma = 0$. With complementary probability $1-\mu$, the politician is corrupt. We assume that each politician may be corrupted by only one type of lobby, or equivalently, that only one type of lobby may be active (and honest politician may correspond to the absence of an active lobby). More precisely, the corrupt type may be corrupted by a right-wing lobby with probability $\mu^r \in (0, 1 - \mu)$, and by a left-wing lobby with probability $\mu^l = 1 - \mu - \mu_r$ (we use indices l and r for left-wing and right-wing groups in this section; thus, c^l and c^r are used instead of a generic c that so far stood for corrupt politician/lobby). Throughout this subsection, with a slight abuse of terminology, we refer to corrupt politicians that can be corrupted by a left-wing (right-wing) lobby as "left-wing" ("right-wing"). We also assume, as before, that the bliss point of the right-wing lobby is $\gamma^r = b > 0$,

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12. The flip side of this is that a modest incumbency advantage, corresponding to ν being a little lower than μ, would reduce polarization.

and we now assume that the bliss point of the left-wing lobby is $\gamma^l = -b$. The assumption that the absolute values of the biases of these lobbies are the same is adopted to simplify notation and algebra and ensures that the median voter is equally averse to either type of corrupt politician. Throughout this subsection, we hold μ fixed and vary μ^l and μ^r so that $\mu^l + \mu^r = 1 - \mu$. This enables us to study how the likelihood that either of the lobbies will influence the politician affects the equilibrium policy biases.

The policy choice in the second period is clear: An honest politician would choose $x_2^h = 0$, a politician corrupted by right-wing lobby would end up choosing $x_2^r = \frac{\beta}{\alpha+\beta}b$, and one corrupted by left-wing lobby would choose $x_2^l = -\frac{\beta}{\alpha+\beta}b$; in the last two cases, the politicians would get a bribe B_2 given by (6). Therefore, the median voter will reelect the incumbent only if the posterior that the incumbent is honest, $\hat{\mu}$, is at least μ. To characterize the first period strategies x_1, let us denote the policy choices of politicians who are either honest, corruptible by left-wing, or corruptible by right-wing groups by h, c^l, c^r, respectively. (In the Online Appendix, we prove that in equilibrium one must have $c^l < h < c^r$). We simplify the analysis here by imposing this property. When the median voter observes signal s, then his posterior that the politician is honest will be

$$(21) \qquad \hat{\mu} = \frac{\mu f(s-h)}{\mu f(s-h) + \mu^l f\left(s - c^l\right) + \mu^r f\left(s - c^r\right)}.$$

The condition $\hat{\mu} \geq \mu$ simplifies to

$$(22) \qquad \mu^l \left(f(s-h) - f\left(s - c^l\right)\right) + \mu^r (f(s-h) - f\left(s - c^r\right)) \geq 0,$$

In the Online Appendix, we show that the set of signals s for which (22) is satisfied is an interval $[s_l, s_r]$, where these thresholds are given by $s_r = s_r\left(h, c^l, c^r\right)$ and $s_l = s_l\left(h, c^l, c^r\right)$ as functions of the policy choices of the three types of politicians. Moreover, $-\infty < s_l < \frac{c^l + h}{2}$ and $\frac{h + c^r}{2} < s_r < +\infty$. This implies that a politician is perceived to be honest and is reelected if the realized policy (signal) is not too extreme in either direction.

For a politician choosing policy $x_1 = x$ in the first period, the probability of reelection is therefore given by

$$\pi(x) = \Pr(s_l \leq x + z \leq s_r) = F(s_r - x) - F(s_l - x).$$

Thus, an honest incumbent solves the problem

$$\max_{x \in \mathbb{R}} -\alpha x^2 + W\pi(x) - (1-\mu)\alpha\left(\frac{\beta}{\alpha+\beta}b\right)^2(1-\pi(x)),$$

which uses the fact that both corrupt types will choose the policy that is $\frac{\beta}{2}\frac{\beta}{\alpha+\beta}b$ away from his bliss point, implying a disutility of $\left(\frac{\beta}{\alpha+\beta}b\right)^2$. The first-order condition for an honest incumbent is therefore

$$(23) \quad -2\alpha x - \left(W + (1-\mu)\alpha\left(\frac{\beta}{\alpha+\beta}b\right)^2\right)(f(s_r - x) - f(s_l - x)) = 0.$$

Our focus on sufficiently high variance σ^2 ensures that the second-order condition is also satisfied.

A left-wing incumbent bargains with the left-wing lobby, and together they take into account that, if the incumbent fails to be reelected, the new politician may be of either type. With probability μ, he is honest, with probability μ^l, he would bargain with the same lobby, and with probability μ^r he would bargain with the right-wing lobby instead and choose $x_2 = \frac{\beta}{\alpha+\beta}b$. This problem can thus be written as

$$\max_{x \in \mathbb{R}} -\alpha x^2 - \beta(x+b)^2 + \left(W - \frac{\alpha\beta}{\alpha+\beta}b^2 - K\right)\pi(x)$$

$$- \left[\mu\beta b^2 - \mu^l\left(\frac{\alpha\beta}{\alpha+\beta}b^2 + \left(\chi + \frac{\alpha}{\alpha+\beta}\right)\frac{\beta^2}{\alpha+\beta}b^2 + (1-\chi)K\right)\right.$$

$$\left. -\mu^r\frac{\beta(\alpha+4\beta)}{\alpha+\beta}b^2\right](1-\pi(x)).$$

Similarly, for a right-wing incumbent, the bargaining problem is

$$\max_{x \in \mathbb{R}} -\alpha x^2 - \beta(x-b)^2 + \left(W - \frac{\alpha\beta}{\alpha+\beta}b^2 - K\right)\pi(x)$$

$$- \left[\mu\beta b^2 - \mu^r\left(\frac{\alpha\beta}{\alpha+\beta}b^2 + \left(\chi + \frac{\alpha}{\alpha+\beta}\right)\frac{\beta^2}{\alpha+\beta}b^2 + (1-\chi)K\right)\right.$$

$$\left. -\mu^l\frac{\beta(\alpha+4\beta)}{\alpha+\beta}b^2\right](1-\pi(x)).$$

The next proposition establishes the existence of a unique equilibrium. To prove this result, we characterize the behavior of the first-order conditions of the previous three maximization

problems and write the threshold signal values above $s_l = s_l(h, c^l, c^r)$ and $s_r = s_r(h, c^l, c^r)$ as functions of policy choices of the three types of politicians. We then show that the equilibrium is determined by a mapping from the space of policies (h, c^l, c^r) into itself, and show that this mapping is (locally) a contraction. This then enables us to establish the following proposition.

PROPOSITION 9. Suppose that σ is sufficiently large. Then there exists a unique (perfect Bayesian) equilibrium in pure strategies. In this equilibrium, politicians choose their preferred policy in the second period. In the first period, the honest, corruptible by left-wing lobby and corruptible by right-wing lobby politicians choose policies h, c^l, and c^r, respectively, and we have $c^l < h < c^r$, $|h| < |c^l|$, and $|h| < |c^r|$ (i.e., an honest politician chooses a policy closer to the median voter's bliss point 0 than either of the corruptible politician types). The incumbent is reelected if the signal s is within a certain interval $[s_l, s_r]$.

Proof. See the Online Appendix. ∎

The next proposition characterizes a number of comparative statics results of the policy choices of the three types of politicians.

PROPOSITION 10. Suppose that σ is sufficiently large. Then:

(1) If $\mu^l = \mu^r$, then honest politicians choose their bliss point h = 0 in the first period, while both left- and right-wing corrupt types choose policies more moderate than they would without electoral concerns, that is, the left-wing politician chooses $c^l \in \left(-\frac{\beta}{\alpha+\beta}b, 0\right)$ and the right-wing politician chooses $c^r \in \left(0, \frac{\beta}{\alpha+\beta}b\right)$. Moreover, $|c^l| = |c^r|$.

(2) As W increases, the policy of honest politician h will move in the direction of the rarer type of lobby (i.e., will decrease if $\mu^r > \mu^l$, increase if $\mu^l < \mu^r$, and will stay equal to 0 if $\mu^l = \mu^r$).

(3) There exist μ' and μ'' where $0 < \mu' < \mu'' < 1 - \mu$ and $\mu' + \mu'' = 1 - \mu$ such that: (a) If $\mu^l < \mu'$ (and thus $\mu^r > \mu''$), then an increase in W leads to lower c^l and c^r; (b) if $\mu^l > \mu''$ (and thus $\mu^r < \mu'$), then an increase in W leads to higher c^l and c^r; and (c) if $\mu^l, \mu^r \in (\mu', \mu'')$,

then c^l increases, and c^r decreases as W increases (i.e., they move in the direction of 0).

Proof. See the Online Appendix. ∎

This proposition establishes several important results. First, when their likelihoods are the same, the two types of corruptible politicians, together with their respective lobbies, choose symmetric policies and honest politicians choose their bliss point $h = 0$. Because both corruptible types would like to masquerade as honest, their policies are closer to the median's bliss point. Second, as one type of lobby becomes less likely, we approach the results from the baseline model. For example, if one lobby is rare, then increasing electoral concerns will make honest politicians move their policies in the direction of this lobby. The same is true for corruptible politicians and their lobbies, but only if one lobby is sufficiently rare. If the lobbies are not too asymmetric in their likelihood, then politicians are rewarded for moderate signals and thus moderate policies, and as a result both corruptible types move their policies in the direction of the median voter's bliss point, 0.

More broadly, these results imply that more extremist policies are more likely to emerge in asymmetric situations where the probability that the incumbent is one type of extremist is (significantly) higher than the probability that he is the other type. In such situations, honest politicians will attempt to signal their type by choosing policies with the opposite bias. If this asymmetry is very pronounced, the most extreme policies will be chosen by the rarer type of extremist (though these policies will also occur more rarely because these types are now rare). They also show how the results presented so far can be easily adapted to the analysis of right-wing populism (in situations where the population fears the takeover of democratic politics by left-wing groups).

V.B. Asymmetric Priors

We have so far limited attention to environments where the prior that the incumbent politician is honest, μ, is the same as the likelihood that a newly elected politician will be honest. In practice, these two probabilities may differ, for example because voters have received additional information about the incumbent. This information may come in the form of news, say, that the incumbent spends time with members of the lobby and/or

enjoys a lavish lifestyle. It may also come in the form of some observable characteristics of the incumbent that are (or at least are believed to be) correlated with political preferences or corruptibility. For instance, a politician born into a rich or aristocratic family may be thought to have pro-lobby (right-wing) preferences, whereas one who spent a decade in jail for antigovernment protests may be viewed as less likely to be pro-lobby. We now investigate how such factors affect the likelihood of populist policies.

Let us denote the prior that the incumbent is moderate by λ. Once again, as $h < c$, we have that the incumbent will be reelected when

$$(24) \qquad \frac{\lambda f(s-h)}{\lambda f(s-h) + (1-\lambda)f(s-c)} \geq \mu,$$

or, equivalently when

$$(25) \qquad \frac{f(s-h)}{f(s-c)} \geq \tilde{\eta} \equiv \frac{\mu}{(1-\mu)} \Big/ \frac{\lambda}{(1-\lambda)}.$$

This is similar to the case of soft term limits, and as in that case, it implies that the populist bias of honest politicians is inverse U-shaped in the ratio $\tilde{\eta}$. The following proposition can then be established using a similar argument (proof omitted).

PROPOSITION 11. Suppose that σ is sufficiently high. Then there exists a unique (perfect Bayesian) equilibrium. In this equilibrium, $h < 0$ and $c < \frac{\beta}{\alpha+\beta}b$. Moreover, there exists $\lambda^* < \mu$ such that the populist bias of honest politicians, $p = |h|$, is increasing in λ if $\lambda < \lambda^*$, and it is decreasing in λ if $\lambda > \lambda^*$.

The results in this proposition are intuitive. If λ is either close to 0 or to 1, the populist bias tends to 0 because there is little uncertainty about the incumbent politician's type and consequently about his chances of reelection. This result also highlights that it is uncertainty about the incumbent's type that encourages populist policies, and as a result, populist bias is greatest when there is little additional information known about incumbents (beyond the prior that he is honest with probability μ).

Another important implication of Proposition 11 is that populist bias is greatest when the incumbent is believed to be somewhat less likely to be honest than average (i.e., at $\lambda^* < \mu$). This is

also intuitive: A politician suspected of being corrupted by the right-wing lobby has more to gain by signaling that he is honest (particularly if his chances to get reelected are not too small).[13] This result also suggests that politicians potentially associated with the lobby (because of their family or educational background) may have particularly strong incentives to adopt populist policies. It further suggests that additional information about an incumbent may make him more or less likely to pursue populist policies. For example, if the prior about the incumbent is around λ^*, any additional information will reduce populist bias, whereas starting from a prior of μ, any additional news suggesting that the incumbent politician has right-wing associations or views will at first increase populist bias.

V.C. Discounting

We have so far suppressed discounting. Suppose now that politicians discount the future with discount factor $\delta \in (0, 1]$. It is straightforward to see that discounting by voters has no effect on the equilibrium and that all of our results hold for any $\delta > 0$. More interestingly, the next proposition shows that populism is increasing in δ.

PROPOSITION 12. The populist biases of both honest and corruptible politicians, $p = |h|$ and $q = \left| c - \frac{\beta}{\alpha + \beta} b \right|$, are increasing in δ.

Proof. See the Online Appendix. ∎

The intuition for this result is simple: Adopting populist policies is costly for both types of politicians but they are willing to do this to increase their chances of reelection. The more forward-looking they are (i.e., the less they discount the future) the more willing they will be to adopt populist policies. This result is also interesting in part because it shows that populism does not arise because voters or politicians are short-sighted or do not care about the future. On the contrary, it is politicians' concerns about future reelection that fuels populism.

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13. The nonmonotonic relationship for populism in Proposition 11 is similar to the nonmonotonic relationship for pandering in Canes-Wrone, Herron, and Shotts (2001), even though the underlying models and key mechanisms differ.

VI. CONCLUSION

In this article, we presented a simple theory of populist politics. Populism refers to (some) politicians adopting policies that are harmful to the rich elite but are not in the best interest of the poor majority either. Such policies, which may, at least on the surface, involve defending the rights of the poor against the elite, establishing redistributive programs, and leveling the playing field, are to the left of the bliss point of the median voter but still receive support from the median because they signal that the politician does not have a secret right-wing agenda and is not unduly influenced by the rich elite or lobbies representing their interests. The driving force of populist politics is the weakness of democratic institutions, which makes voters believe that politicians, despite their rhetoric, might have a right-wing agenda or may be corrupted by the rich lobby. Populist policies thus emerge as a way for politicians to signal that they will choose future policies in line with the interests of the median voter.

We show that honest politicians who are not influenced by the rich lobby will choose policies to the left of the median voter's preferences, and even politicians captured and bribed by the rich elite may end up choosing policies to the left of the median voter. This populist (leftist) bias of policy is greater when the value of remaining in office is higher for the politician; when there is greater polarization between the policy preferences of the median voter and the preferences of the rich elite; when the costs of bribery are lower; and when politicians are more forward-looking. Interestingly, the rich elite may be worse off than in a situation in which institutions are stronger and bribery is not possible (because the equilibrium populist bias of first period policies is more pronounced).

Our article and model have been partly motivated by Latin American politics, where populist policies and rhetoric as well as fears of politicians reneging on their redistributive agenda and being excessively influenced by rich and powerful lobbies have been common. Nevertheless, the ideas here can be applied to other contexts. Our analysis in Section V.A. shows that when voters are afraid of a secret left-wing agenda among some politicians, the equilibrium may lead to right-wing populist policies. Similarly, if bureaucrats are expected to show a bias in favor of a particular group or a particular type of policy, they may have incentives to be biased in the opposite direction to dispel these

notions and guarantee good performance evaluation. Finally, our model has focused on a two-period economy to communicate the basic ideas in the clearest fashion. In a multiperiod setup, politicians may choose biased policies for several periods. Despite the tractability of our basic model, the infinite-horizon extension turns out to be challenging and is an open area for future research.

SUPPLEMENTARY MATERIAL

An Online Appendix for this article can be found at QJE online (qje.oxfordjournals.org).

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