A Political Theory of Populism

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Populism

- Capturing a variety of related concepts
- Albertazzi and McDonnell (2008):

  "an ideology which pits a virtuous and homogeneous people against a set of elites and dangerous 'others' who are together depicted as depriving (or attempting to deprive) the sovereign people of their rights, values, prosperity, identity and voice"

- Hawkins (2003) about the rise of Chavez:

  "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."

What is Populism?

- Populist policies (not just rhetoric):
  - Budget deficits, mandatory wage increases, price controls, overvalued exchange rates, expropriation of foreign investors / large businesses.
- Costly to businesses, but also costly to the population at large.
- Dornbush and Edwards (1991):

  "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."

Populism vs. Median Voter

- Are these policies what the "median voter" wants?
- Perhaps, but Dornbusch and Edwards's definition and the fact that middle classes and lower middle classes suffer on their populist policies suggests maybe not.
- The fact that populist policies are often to the left of the "median voter" cannot be explained solely by personal biases of the populist politician.
    - such biased politician would fail to be reelected.

Populism and Popularity

- Most populist regimes are "popular," at least for quite a while.
- Popularity of populist regimes even allows leaders to violate constitutional norms:
  - most of Latin American postwar leaders post term-limited (often by one term), but many violated the rules.
  - this should not be the case if they are known to involve highly inefficient policies
- Also interestingly, many of the populist politicians or parties, at least in Latin America, often end up choosing policies consistent with the interests of traditional elites
  - E.g.: PRI in Mexico, the policies of traditional parties in Venezuela and Ecuador, Fujimori's reign in Peru, Menem in Argentina.

Definition

- **Populism = policy to the left of median voter's ideal policy but still popular**

- One-dimensional policy space
- Two points of attraction for politician
    - median voter's preferences
    - elite's preferences, excercised through bribes
    - (personal preferences if partisan)
- Normally, policy should lie between median voter's and elite's ideal points.
- We will argue that there are reasons for policy to be to the left of the median voter— i.e., populist.

A Political Theory

- Major concern of the median voter under weak democratic institutions: a politician is secretly biased to the right or being disproportionately influenced by the elite (e.g., through bribery, corruption or lobbying).
- Relevant for the Latin American context.
- **Main idea:** politicians will move to the left to signal that they are not closet right-wingers or in the pockets of the traditional elites.
- **Result:** moderate politicians will necessarily adopt populist policies and even right-wingers (or corrupt politicians) may adopt such policies.
- **Intuition:** it is the threat of excessive elite influence under weaker institutions that leads to populist policies.

Comparative Statics

- Populism more likely when:
    - value of remaining in office is higher for politicians
    - there is greater likelihood that politicians are right-wingers or corrupt
    - there is greater polarization between the policy preferences of the median voter and right-wing politicians.
    - corruption is "more efficient".

Literature

- Signalling models of elections:
  - Banks (1990), Harrington (1993)
  - Recent models of "honest" (commitment-type) politicians: Callander and Willkie (2007), Kartik and McAfee (2007).
  - Current model more tractable than most of this literature because voters observe noisy signals of policy $\rightarrow$ unique equilibrium and intuitive comparative statics.

- Models of "pandering":
  - Prendergast (1993), Morris (2001), Canes-Wrone, Herron and Shotts (2001), Maskin and Tirole (2004).

- Elite capture of democracy:
  - Bates and La Ferrara (2001), Lizzeri and Persico (2005), Padro-i-Miquel (2007), Acemoglu and Robinson (2008), Acemoglu, Robinson and Torvik (2010).

Policy Space and Voters

- One-dimensional policy space
- Two periods, 1 and 2
- Two groups of voters
    - majority (poor), with bliss point $\gamma^p = 0$
    - minority (elite), with bliss point $\gamma^r = r > 0$
    - results identical if there is a distribution of preferences with median at $\gamma = 0$
- Voters care about policy only
    - Person with bliss point γ gets utility

$$u\left(x_1, x_2\right) = -\sum_{t=1}^{2} \left(x_t - \gamma\right)^2$$

    from policies x_1 and x_2 in periods 1 and 2

- Elections are decided by median voter
    - ... who is poor

Politicians

- Politicians' utility in each period depends on:
    - policy

$$v = -\alpha \left(x - \gamma \right)^2 \; \ldots$$

    - office

$$\ldots \; + W\mathbf{I}_{\{\text{in office}\}} \; \cdots$$

    - bribes

$$\ldots \; + B$$

- Two types of politicians
    - share μ has $\gamma = 0$ ("**moderate**")
    - share $1 - \mu$ has $\gamma = r$ ("**right-winger**")

- We start with $B = 0$

Timing

1. Politician chooses first-period policy $x_1 \in \mathbb{R}$.
2. Population gets a noisy signal $s = x_1 + z$.
3. Median voter decides whether to replace the current politician with a random one drawn from the pool.
4. In the second period, the politician (the incumbent or the new one) chooses policy $x_2 \in \mathbb{R}$.
5. Everyone learns the realizations of both policies and gets payoffs.

Noisy Signal

- Noise z has a distribution with support on $(-\infty, +\infty)$ with c.d.f. $F(z)$ and p.d.f. $f(z)$.
- Density $f(z)$ is assumed to be an even (i.e., symmetric around 0) function, which is everywhere differentiable and satisfies $f'(z) < 0$ for $z > 0$.
    - the density function f is single-peaked
- Noise z is sufficiently high and well-behaved:

$$\left| f'(z) \right| < \frac{1}{\frac{r^2}{2} + \frac{W}{2\alpha}} \text{ for all } z.$$

- implies $\Pr\left(|z| > \frac{r}{4} \right) > \frac{1}{4}$
- implies $f(0) < \frac{2}{r}$
- holds for $\mathcal{N}\left(0, \sigma^2 \right)$ if σ^2 is sufficiently high, i.e., $\sigma^2 > \frac{\frac{r^2}{2} + \frac{W}{2\alpha}}{\sqrt{2\pi e}}$.

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Equilibrium Concept
Period 2

- Perfect Bayesian equilibrium in pure strategies

- In period 2:
    - moderate politician chooses $x_2 = 0$
    - right-wing politician chooses $x_2 = r$
- Median voter prefers to have moderate politician in period 2
    - incumbent reelected if and only if his posterior that he is moderate is at least μ

Period 1: Elections

- Suppose that in equilibrium:
    - moderate politicians choose $x_1 = a$
    - right-wing politicians choose $x_1 = b > a$ (proved in the paper that this is always the case).
- For median voter who gets signal s, posterior probability that politician is moderate equals

$$\hat{\mu} = \frac{\mu f(s - a)}{\mu f(s - a) + (1 - \mu) f(s - b)}$$

    - It exceeds μ if and only if

$$s < \frac{a + b}{2}$$

- The probability of reelection if policy is x equals

$$\pi(x) = F\left(\frac{a + b}{2} - x\right)$$

Period 1: Policy Choices

- Moderate politician maximizes

$$\max_x -\alpha x^2 + W\pi(x) - (1-\mu)\alpha r^2 (1-\pi(x))$$

  - he loses αr^2 in period 2 only if right-wing politician comes to power
  - FOC must hold at $x = a$:

$$-2\alpha a - \left(W + (1-\mu)\alpha r^2\right) f\left(\frac{b-a}{2}\right) = 0$$
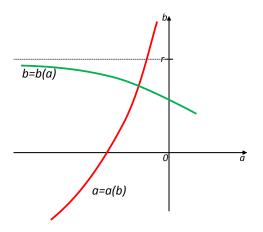
- Right-wing politician maximizes

$$\max_x -\alpha(x-r)^2 + W\pi(x) - \mu\alpha r^2 (1-\pi(x))$$

  - FOC at $x = b$:

$$-2\alpha(b-r) - \left(W + \mu\alpha r^2\right) f\left(\frac{b-a}{2}\right) = 0$$
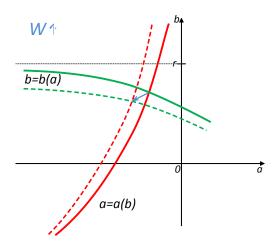
Equilibrium

- Intuition for shapes: related to effects of policies on likelihood ratios.

Solution

- In equilibrium, $a < 0$
    - moving from $x_1 = 0$ to $x_1 < 0$ causes second-order loss
    - but first-order gain due to higher chance of reelection
- $b < r$ for the same reason
- This moves a left even further

- For moderate politicians: a right-wing alternative necessitates populist bias!
- This would be true even if $W = 0$
    - reelection is valuable as it allows to influence second-period policy

Comparative Statics

Comparative Statics (continued)

- Populist bias is stronger if
  - W is higher (i.e., politicians value being in office more)
  - α is lower (i.e., changing political positions is relatively costless for politicians)
  - μ is lower (i.e., moderate politicians are rarer)
- This holds even if W increases or α decreases for only one type of politician
  - e.g., higher W for pro-elite politicians makes them move left
  - and then pro-poor politicians move left as well

Comparative Statics (continued)

- Also, under additional conditions on distribution F, populist bias is stronger if:
  - r is greater (i.e., greater polarization).
  - two competing effects:
    1. benefits from reelection to both types of politicians is greater, which leads to more signaling;
    2. cost of signaling is also higher to right-wingers.
       Additional conditions ensure that the first effect dominates.

- Populist bias would be weaker if elitist politicians could commit to $b = r$

Populism of Right-Wing Politicians

- If $W = 0$, then $0 < b < r$
    - $x_1 < 0$, $x_2 = r$ is dominated even by $x_1 = r$, $x_2 = 0$
    - hence switching to $x_1 = r$ is better even if it guaranteed losing elections

- If $W > 0$, then $b < 0$ is possible
    - if office is very valuable per se, *all* politicians will be populists!

Honest and Corrupt Politicians

- Before, population tried to reelect one type of politicians because of difference in second period policies
    - let us endogenize second period policies

- Assume all politicians have the same policy preferences (moderate = pro-median voter, $\gamma = 0$)
    - but some can accept bribes from the elite, some cannot

- Median voter wants an honest politician in the second period
- What insights do we get?

Bribing Technology

- Assume only the elite can bribe politicians
- Elite knows politician's type and can contract on x_t (unlike the poor who observe neither)
    - so in both periods bargaining is under complete information

- Cost C of bribery (can be equal to zero).
- Of the net surplus from bribing, politician gets share χ
- Then in equilibrium, the politician maximizes the sum of his own and elite's utility

- Share μ of politicians are honest

Timing

1. Politician and the elite bargain over first-period policy $x_1 \in \mathbb{R}$.
2. Population gets a noisy signal $s = x_1 + z$.
3. Median voter decides whether to replace the current politician with a random one drawn from the pool.
4. In the second period, the politician (possibly new) and the elite decide policy $x_2 \in \mathbb{R}$.
5. Everyone learns the realizations of both policies and gets payoffs.

Second Period

- Honest politicians choose $x_2^h = 0$
- If $C < \frac{r^2}{\alpha+1}$, then corrupt politicians choose (after bargaining with the elite)

$$x_2^c = \frac{r}{1+\alpha}.$$

  - for a net bribe of $B_2 = \left(\chi + \frac{\alpha}{\alpha+1}\right) \frac{r^2}{\alpha+1}$

- Median voter has incentives to reelect honest politicians

  - hence signaling

First Period

- Honest politician solves

$$\max_x -\alpha x^2 + W\pi(x) - (1-\mu)\alpha\left(\frac{r}{1+\alpha}\right)^2(1-\pi(x))$$

- Suppose that $C < \frac{r^2}{\alpha+1}$. Then corrupt politicians and elite jointly solve

$$\max_x \left\{ \begin{array}{c} -\alpha x^2 - (x-r)^2 - C + \left(W - \frac{\alpha r^2}{\alpha+1} - C\right)\pi(x) \\ -(1-\mu)\left(\frac{\alpha r^2}{\alpha+1} + \left(\chi + \frac{\alpha}{\alpha+1}\right)\frac{r^2}{\alpha+1}\right)(1-\pi(x)) \\ -\mu r^2(1-\pi(x)) \end{array} \right\}.$$

  - if another corrupt politician is elected, the current decision-makers lose $W + B_2$ as compared to reelection
  - if an honest politician is elected, elite loses r^2

- Algebra is different, but insights are similar to the no-corruption case

Comparative Statics

- Honest politicians engage in more populist policies if
  - W is high (office is more valuable)
  - χ is high (corrupt politicians get more from corruption)
  - μ is low (fewer honest politicians)

- Corrupt politicians (and the elite)
  - will choose $0 < b < r$ if $W = \chi = 0$ (corruption helps move from populist to pro-elite policy)
  - but may choose $b < 0$ if W is high enough (desire to stay in power is too high for efficient bribing)

Does the Elite Benefit from Corruption?

- Yes, because this allows them to influence some politicians
- But there are two adverse effects of corruption
  - honest politicians become populist
  - if office is valuable, even corrupt politicians become populist!
- The elite might be better off from commitment not to bribe (e.g., high C).
- More specifically:
  There exists $\bar{W}$ such that if $W > \bar{W}$, are the elite is better off if it can commit not to bribe.

Populism and Corruption

- Populism causes corruption
  - if politicians have left bias, the incentives of the rich to bribe are higher
- Corruption causes populism
  - if corruption was less common, less need to choose honest politicians
  - hence less need to signal
  - less populism

- Mutually self reinforcing...

Conclusion

- A political theory of populism
  - populism caused by weak institutions and threat of elite dominance
  - used as signal that the politician is not a right-winger or excessively influenced by the traditional elites
  - tractable model and intuitive comparative statics

- Similar reasoning would apply for policy bias in different dimensions depending on the context

- Competing effects if politicians could be extreme left-wingers as well as extreme right-wingers

- Intuitively, results should be similar in infinite horizon (and populist bias should go on for several periods), but analysis is more complicated because of "nonmonotonicities".