A Political Theory of Populism

Daron Acemoglu (MIT)
Georgy Egorov (Northwestern)
Konstantin Sonin (New Economic School)

Econometric Society, January 9, 2011
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, exercised 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”.

Introduction

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 → unique equilibrium and intuitive comparative statics.

- Models of “pandering”:

- Elite capture of democracy:
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 $\gamma$ gets utility
    \[
    u(x_1, x_2) = -\sum_{t=1}^{2} (x_t - \gamma)^2
    \]
    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
    \[ v = -\alpha (x - \gamma)^2 \]...
  - office
    \[ \ldots + WI_{\{in\ office\}} \ldots \]
  - bribes
    \[ \ldots + B \]

- Two types of politicians
  - share \( \mu \) 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:
  \[
  |f'(z)| < \frac{1}{\frac{r^2}{2} + \frac{W}{2\alpha}} \quad \text{for all } z.
  \]
  - implies $\Pr(|z| > \frac{r}{4}) > \frac{1}{4}$
  - implies $f(0) < \frac{2}{r}$
  - holds for $\mathcal{N}(0, \sigma^2)$ if $\sigma^2$ is sufficiently high, i.e., $\sigma^2 > \frac{r^2}{2} + \frac{W}{2\alpha} \sqrt{2\pi e}$. 
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 $\mu$
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 $\mu$ 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 \( \alpha r^2 \) 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.
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)
  - $\alpha$ is lower (i.e., changing political positions is relatively costless for politicians)
  - $\mu$ is lower (i.e., moderate politicians are rarer)

- This holds even if $W$ increases or $\alpha$ 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 $\chi$
- Then in equilibrium, the politician maximizes the sum of his own and elite’s utility

- Share $\mu$ 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 $x^h_2 = 0$
- If $C < \frac{r^2}{\alpha + 1}$, then corrupt politicians choose (after bargaining with the elite)
  \[ x^c_2 = \frac{r}{1 + \alpha}. \]
  
  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

\[
\max_x \left\{ -\alpha x^2 - (x - r)^2 - C + \left( W - \frac{\alpha r^2}{\alpha + 1} - C \right) \pi(x) 
\right. \\
\left. - (1 - \mu) \left( \frac{\alpha r^2}{\alpha + 1} + (\chi + \frac{\alpha}{\alpha + 1}) \frac{r^2}{\alpha + 1} \right) (1 - \pi(x)) 
\right. \\
\left. - \mu r^2 (1 - \pi(x)) \right\}.
\]

- 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)
  - $\chi$ is high (corrupt politicians get more from corruption)
  - $\mu$ 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”.