

Discussion Paper Series – CRC TR 224

Discussion Paper No. 473
Project B 04

Shaking Up the System: When Populism Disciplines Elite Politicians

Emmanuelle Auriol¹
Nicolas Bonneton²
Mattias Polborn³

November 2023

¹Toulouse School of Economics

²University of Mannheim

³Vanderbilt University

Support by the Deutsche Forschungsgemeinschaft (DFG, German Research Foundation)
through CRC TR 224 is gratefully acknowledged.

Shaking Up the System: When Populism Disciplines Elite Politicians*

Emmanuelle Auriol[†], Nicolas Bonneton[‡], Mattias Polborn[§]

August 21, 2023

Abstract

This article studies the behavior of rational voters who, although aware of the limitations of populist leaders, consider supporting them strategically. We present a moral hazard model of electoral accountability in which elite politicians are both office- and policy-motivated and face the risk of being replaced by elite or populist candidates. The optimal retention strategy depends on the policy implemented by the incumbent in the previous period and its perceived success, and involves differentiated punishment for a failing incumbent. Rational voters only vote for populists when the chosen policy is both perceived as failure *and* as benefiting the elites. This challenges the simplistic view of the populist vote as mere frustration with the elite.

*We have received useful comments from Roland Bénabou, Konstantin Sonin and Nicolas Schutz. Emmanuelle Auriol acknowledges TSE-IASST funding from the French National Research Agency (ANR) under the Investments for the Future (Investissements d'Avenir) program, grant ANR-17-EURE-0010. Bonneton gratefully acknowledges financial support from the German Research Foundation (DFG) through CRC TR 224 (Project B04).

[†]Toulouse School of Economics

[‡]University of Mannheim

[§]Vanderbilt University

1 Introduction

A backlash against the ruling elites has led to the rise of populist parties and politicians throughout the Western world in the last two decades. The political elite is increasingly perceived as out of touch with most regular voters, and thus, many voters favor political outsiders who propose simple and drastic policies to achieve prosperity for the common people. Yet, because these populists often have no governing experience and a limited understanding of complex policies, electing a populist government can be costly for the average voter, raising the puzzle of why voters are increasingly tempted to try a populist cure that appears worse than the disease of an out-of-touch elite.

The rise in populism has attracted considerable attention among both economists and political scientists.¹ Much of the existing literature, at least implicitly, comes from the point of view that populism offers “false solutions to voters’ real problems,” and aims to understand which types of voters support populists and why. What has so far been neglected is to analyze the effects of the populist threat on the behavior of mainstream political parties and politicians, in particular, what it does to their incentives to implement policies that are in their voters’ best interest. Our model takes a first step in this direction. It shows that occasionally voting for populists can be optimal even from the perspective of a *rational* voter, who is aware of the populists’ competence deficiencies.

The threat of political alternation – that is, the replacement of the existing government by another one led by a different party – is the voters’ primary tool to incentivize the incumbent government to act in the voters’ interest. These incentives derive from two separate benefits of holding office that incumbents want to avoid losing. First, they enjoy the perks of office, whether they are financial or ego-rents. Second, for private or ideological reasons, incumbents care about what policies are implemented, and being in office allows them to shape policy.

The size of both the first and the second benefit is influenced by different factors, such

¹Excellent reviews include [Berman \(2021\)](#); [Guriev and Papaioannou \(2022\)](#); [Mudde and Kaltwasser \(2017\)](#); [Müller \(2017\)](#).

as the incumbent's salary, or the degree of polarization between mainstream parties. When one of these benefits decreases, the incumbent's apprehension of losing the next election also decreases. If, for instance, the mainstream parties become similar in their policy preferences, then the fear of losing the ability to set policy is diminished. This makes it more difficult to discipline an elite politician, so that incumbents may put their convictions and personal agendas ahead of the voters' best interest. In this setting, threatening to replace the incumbent with a populist candidate can serve as an additional incentive for him or her to avoid losing re-election. This is because elite politicians strongly dislike the anticipated policies implemented by populists, making incumbents from mainstream parties more averse to being replaced by a populist than by another elite politician. Thus, the option to vote for a populist enables voters to impose a harsher punishment on elite politicians.

Whether providing stronger incentives is actually desirable for voters is, perhaps surprisingly, ambiguous. On the one hand, a stronger incentive means that the incumbent is less inclined to follow his own policy preferences when that is against the voters' interest. On the other hand, it is possible that a populist threat renders elite politicians too eager to stay in power, leading them, in some states of the world, to favor policies that do not "look suspicious" over ones that are objectively better for both the politician and the electorate.

We analyze these effects in an infinite period moral hazard model of electoral accountability. In each period, the representative voter selects an incumbent, which can be either an elite politician, or a populist. An elite incumbent chooses one of two available policies, based on a state of the world that is observable for the incumbent, but unobservable for voters. In some states of the world, elites and voters have aligned interests, while at other times, their interests are in conflict. Thus, elite politicians may abuse voters' lack of information to implement their favorite policy. In contrast, populists commit to implementing the "non-suspicious" policy (i.e., a policy that does not seem to benefit the elite), disregarding the state of the world.

As an example for the "suspicious" policy and the type of conflict between voters and elite

politicians that we have in mind, consider the question of whether the government should give aid to another country facing a financial crisis (e.g., Greece in 2009). If it is known that the state of the world is such that not helping the foreign country would lead to a massive financial crisis with significant contagion, both the elite and (most) voters agree that such an outcome should be avoided by providing aid. Similarly, if it were known that the foreign country would be able to handle the situation without significant contagion to the rest of the world, then the elite and voters would agree not to bail out the other country. However, we may also find ourselves in a third state of disagreement in which not providing aid may result in significant losses for some national banks, but without major impact on the national economy. In this case, elite politicians (who are likely closely connected to the owners of the lender banks that a bailout helps) may prefer a bailout, while the representative voter has the opposite preference. Intuitively, the fact that the elite prefers a bailout in more states of the world than the voters makes a bailout a suspicious policy.

Since voters cannot observe the state of the world, they don't know whether, if the elite incumbent chooses the suspicious policy, this is because it is really in their common interest to do so, or whether they are in the disagreement state and the incumbent is self-serving. The challenge for them is to make sure that the incumbent implements the voters' preferred policy even in the disagreement state. Voters can condition their retention decision on the policy chosen by the incumbent, as well as an informative but imperfect signal about the success of the policy. We are interested in the incentive effects of various retention rules that specify under which conditions (regarding the combinations of implemented policy and signal) the incumbent is reelected, and when he is replaced by either another elite politician, or by a populist.

The first-best for the voters is that only elite politicians serve as incumbents, and are properly incentivized to choose the voters' preferred action even in the disagreement state. Thus, in the first-best, incentives are provided only by the threat that the incumbent is replaced by another elite politician. Interestingly, this solution can be implemented by two different

retention strategies: One in which an incumbent is always replaced if the voter receives an unfavorable signal, and another one in which the incumbent is only replaced if he chose the suspicious action and the signal is bad.

The two first-best retention strategies are incentive-compatible in overlapping, but somewhat different, parameter sets. The more forgiving retention strategy (the one that only punishes the incumbent after choosing the suspicious action and a bad signal) has the advantage, relative to the harsher retention strategy, that it generates more job security for the incumbent, and thus a higher continuation utility from behaving well in the disagreement state. However, it also has the disadvantage that it may incentivize “false populism” — that is, the incumbent secures his reelection by avoiding the suspicious elite-preferred policy even when it is in all agents’ objective interest.

When the first-best cannot be implemented, the “populist threat” may be a useful tool to incentivize incumbent elite politicians with a harsher punishment than being replaced by another elite politician. After all, the populist will implement, in expectation, worse policy, lowering the incumbent’s utility. A harsher punishment is useful in those cases where the incumbent is tempted to go with the elite-preferred policy against the voters interest. In this case, we show that any optimal reelection strategy takes the form of differentiated punishment: If the incumbent’s policy was non-suspicious, the voter replaces the incumbent after a bad signal with another elite politician. But if the incumbent’s policy was suspicious and the signal is bad, then the replacement will be a populist.

The optimal reelection rule thus conflicts with a common view of the populist vote as an unsophisticated desire to “get rid of the bums,” i.e., an unconditional dissatisfaction with the performance of establishment politicians and a subsequent desire to get rid of them. Rather, in any optimal incentive scheme, a populist victory requires both dissatisfaction with the incumbent’s performance, and the suspicion that the elite benefited from the crisis.

Providing stronger incentives through the threat of populist replacement may be problematic because it can induce the incumbent to “pander” (i.e., avoid the suspicious action even

when it is actually in both the voters' and the incumbent's interest). Thus, the parameter set under which elite politicians can be optimally incentivized through the populist threat is different, but not a superset of the set of cases for which incumbents can be incentivized through the threat of replacement by another elite politician.

Selecting a populist as an office-holder is indeed costly for voters because the populist does not condition his action on the state of the world. In fact, it is possible that, looking only at one given period, voters would be better off with an elite politician who follows his personal agenda (i.e., always chooses the policy that she prefers) than with a populist; yet the voters' optimal retention strategy calls for electing the populist. This is because electing a populist is an investment where the long-term benefit of having a well-incentivized elite outweighs the short-term cost of dealing with an incompetent incumbent for a limited time.

2 Related literature

Our paper contributes to the literature, pioneered by [Barro \(1973\)](#) and [Ferejohn \(1986\)](#), on how voters can induce politicians to behave well in office, by conditioning reelection on their behavior and the voters' information about the appropriateness of their action. To the best of our knowledge, the existing literature considers the effects of threatening replacement by one (often exogenously-given) type of opponent. In the classical political agency models, the incumbent is only office-motivated, so the type of replacement is immaterial for his utility. In contrast, for the (in part) policy-motivated elite incumbents in our model, it matters whether they are being replaced by another elite politician or a populist. All elite politicians dislike the expected policy implemented by populists, and therefore, loathe being replaced by a populist rather than by another elite politician. This effect, which is new to the literature, means that the option to vote for a populist enables voters to impose differentiated (i.e., harsher) punishments on elite politicians.

In [Acemoglu et al. \(2013\)](#), "populism" is defined as policy positions that are considerably

more left-wing than those that the median voter actually desires.² In their model, voters worry that some politicians are open to being bribed by right-wing interest groups, and politicians overcompensate in their policy choice to counteract that perception. A similar behavior – namely, mainstream politicians choosing excessively populist actions in order to ensure reelection – is also sometimes a danger in our framework. But the causation channel is different. In their model, as well as in the classical literature on pandering (e.g., [Canes-Wrone et al., 2001](#); [Maskin and Tirole, 2004](#)), pandering arises because the politician wants to influence the voter’s belief about the politician’s type. By contrast, in our model, there is no asymmetric information about any politician’s type or ability, and as such, the motivation that leads to pandering is a different one.

A substantively important and well-founded premise of our model is that, in the words of [Carnes and Lupu \(2023\)](#), “Politicians everywhere are significantly better off than the people they govern.”³ The difference in education, wealth and occupation between voters and the political elite implies that they may disagree about policy. The elite is better able to decipher the complexity of the world, but cannot necessarily be trusted to use this information to implement policies that are good for the common people ([Gilens, 2012](#)). This conflict of interest is at the heart of the moral hazard problem studied in this paper.

Most of the empirical literature on populism (see [Berman, 2021](#); [Guriev and Papaioannou, 2022](#) for excellent reviews) focuses on which voters are most likely to vote for populists, and under which conditions they are most likely to do so. Triggers discussed in the literature include globalization and trade shocks that affect jobs (see, for example, [Rodrik, 2021](#)), but also, fake news, inequality, economic crises, automation, or immigration. We see our theory as complementary to this empirical literature in that it provides a step toward a better understanding of how different factors, and especially their interactions, affect the electoral success

²We refrain from addressing the difficult conceptual issue of which parties and candidates should be classified under the (often pejorative) populist label.

³As [Carnes and Hansen \(2016\)](#) state, “If millionaires [in the U.S.] were a political party, that party would make up just three percent of the country, but it would have a majority in the House, a filibuster-proof supermajority in the Senate, a 5-4 majority on the Supreme Court, and a man in the White House.”

of populism.

In our framework, rational support for populism arises only under very specific conditions. First, the environment must be such that voters worry that the threat of replacement by another establishment party is insufficient to motivate the current incumbent to act in the voters' interest. Factors that generate such an environment are a diminished policy contrast between establishment parties, as well as an increase in political complexity (e.g., due to globalization, or a proliferation of “fake news” that make signals harder for voters to interpret; see Section 6). Second, even in such an environment, a populist success requires not just that voters are unhappy with the incumbent's performance, but also that they suspect that the current incumbent's policies unduly favored the elite, which refers to the notion of trust in the elite (Agranov et al., 2023). Thus, our theory highlights the complementarity between different determinants of the rise of populism.

The theoretical political-economy literature on populism focuses on the costs of the populist vote. It views populists as demagogues who cater to voters' short-term desires, for instance with unsustainable redistributive policies, at the cost of long-term prosperity (Bernhardt et al., 2022). Other articles stress the intellectual limitations of the populist electorate; one reason why some voters are attracted to extremist political programs is their simplicity (Levy et al., 2022). In contrast, our representative voter is rationally using the populist threat to address a moral hazard problem, even though she is aware of the costs of electing a populist.

We see these explanations of the populist vote as complementary; in practice, differential voting behaviors among different voter types co-exist. Rational support for populists describes only a, possibly rather small, subset of those voters who (sometimes) vote for populists. A richer structure of our model could allow for some group of voters who sincerely prefer the populist position, while a second group of voters is always aligned with the preferences of elite politicians. As long as neither group constitutes a majority of the electorate and there is an intermediate group with the same preferences as described for “the voter” in our model, this richer model is equivalent in outcome to our model, in that the intermediate group (i.e., the

median voter) decides who wins the election. Since the class of voters who completely embrace populism is generally too small to win elections on its own - to do so, it must be joined by more moderate voters with a merely strategic attraction to populism, and this is where our theory is important.

3 The model

We consider an infinite horizon model with discrete time, where one period is interpreted as the time between two elections (e.g. 4 years). All agents maximize their discounted expected payoff, where the discount rate is denoted β .

Players and actions. The agents in our model are a large pool of identical “elite” politicians, by convention “he”, and a representative voter, by convention “she”. As explained in the introduction, the politicians in our model should be interpreted as representatives of a political class that are more capable of recognizing the correct policies than voters are, but that also have different preferences from voters.

At the beginning of each period, the representative voter elects an incumbent for the current period. The incumbent can either be a member of the set of elite politicians or a nonstrategic populist (we will explain the actions of the populist shortly). After the election, the politician in office chooses between two policies denoted E and M .

Political preferences. The representative voter’s and the elite politicians’ preferred policy depend on the current state of the world $w \in \{w_M, w_D, w_E\}$, which is drawn from the distribution (p_M, p_D, p_E) , at the beginning of each period. When the state of the world is w_M , everyone prefers policy M , and when the state of the world is w_E , everyone prefers policy E . In contrast, in the disagreement state w_D , voters’ and politicians’ interests are in conflict, as elite politicians prefer E , while the representative voter prefers M .⁴ Intuitively, in the disagreement state w_D , politicians prefer the “elite” policy E , while the representative

⁴In the example from the introduction the elite was inclined to bail out the foreign country even in some states in which voters would prefer no bailout.

voter would prefer the “mass” policy M . In contrast, we can think of w_E and w_M as states in which all agents’ interests are aligned and clearly call for the policy corresponding to the state to be implemented.

Payoffs. Every politician gets a payoff, π , in every period in which his preferred policy is implemented, and zero otherwise. In addition, the incumbent politician receives a per period “ego-rent” payoff ϕ , which captures how he values being in power. For politicians who are out of office, this payoff is zero.

An incumbent politician’s discounted expected utility (before observing the state of the world) can be written as follows: $U = \phi\lambda_\phi + \pi\lambda_\pi$, where λ_ϕ and λ_π are the sum of discounted expected probabilities to be in power (from this period onward), and of having his preferred policy implemented, respectively. The endogenous objects λ_ϕ and λ_π are functions of the parameters values, and the strategies of the representative voter and of all politicians.

Voters receive a payoff of $\nu > 0$ in every period in which their favorite policy is implemented (and a payoff of 0 when the other policy is implemented in that period).

Information. There is common knowledge about agents’ objective functions, the probability distribution of states, and current and past policies. In addition, the incumbent observes the realization of the state of the world w , while the representative voter does not.

Instead, before the next election, the voter receives a binary signal regarding whether the implemented policy corresponded to the voter’s preferred policy. Specifically, if the policy matched the state of the world (from the voter’s perspective), then the signal is “good” with probability α and “bad” with probability $(1 - \alpha)$. In contrast, if the wrong policy was chosen, the signal is always “bad.” Note that this implies that a voter who received a good signal knows that the incumbent implemented the correct policy, while a bad signal is consistent with both correct and incorrect policy. Only if $\alpha = 1$, a bad signal necessarily means that a bad policy was chosen. More generally, higher values of α correspond to a better quality of voter information (or alternatively, lower complexity of the considered policy).

Political programs. The fundamental issue in our model is the conflict of interest be-

tween elite politicians and voters. Can voters, who do not know the state of the world, and thus the appropriate policy, nevertheless incentivize the incumbent elite politicians to implement policies, in each period, that reflect the interests of the electorate?

Formally, define a political program, \mathcal{P}_i , as a triple that specifies the implemented policy for each state of the world (w_M, w_D, w_E) . The following programs are useful to define

1. *The voter's ideal program* $(w_M, w_D, w_E) \longrightarrow (M, M, E)$. The politician implements the representative voter's preferred policy in every state in the world.
2. *The "populist" program* $(w_M, w_D, w_E) \longrightarrow (M, M, M)$. The politician implements the mass policy M , irrespective of the state of the world.

We are interested in conditions under which voters can incentivize elite politicians to voluntarily implement the voter's ideal program (M, M, E) . Elite politicians cannot commit ex-ante to follow their program. They can (and will) choose opportunistically to break their promises if it is in their best interest. Thus, the voters must choose programs that are self-enforcing, i.e. programs that politicians are committed to and have no interest in reversing, even if they can.

Unlike traditional politicians, populists implement the populist agenda, which is to choose the M policy, regardless of the state of the world. This promise is easy to verify as voters watch the policy being implemented. One possible interpretation of this behavior is that populists, like voters, are not informed about the state of the world and can therefore credibly promise to implement policy M (an uninformed citizen systematically chooses M over E as soon as $p_E \leq \frac{1}{2}$). Alternatively, there are people with radical preferences who are willing to implement the mass program at any cost for ideological reasons.

Because implementing the populist program does not require any special ability to observe the state of the world, we assume that, in every election, the voter can elect the populist program, if she wants to. Furthermore, we assume that, in each election, the voter can choose among (at least) two elite politicians, namely the previous period's incumbent and some other

elite candidate.⁵

Timing. In each period, the following sequence of events plays out:

Step 0: The representative voter elects a ruler. She can reelect the current incumbent who follows the program \mathcal{P}_i , or vote for another candidate which follows any program \mathcal{P}_j .⁶

Step 1: If the ruler is an elite politician, he observes the realization of the state of the world $w \in \{w_M, w_D, w_E\}$, and chooses a policy in $\{E, M\}$. If the ruler is a populist, he implements M irrespective of the state of the world.

Step 2: The representative voter observes which policy has been chosen and gets the binary signal, "good" or "bad", regarding the match between state and implemented policy, as described above.

Pure Markovian strategies. The strategy of the representative voter, denoted σ , can be conditioned only on information produced in the last period. This assumption is justified by the fact that we should think about a period in the model as usually 4 or 5 years (i.e., one election period). It would therefore be unrealistic to assume that voters can commit to condition their vote today on actions and events that occurred a long time ago. Furthermore, we assume that the voters do not have the commitment power to randomize (i.e., to reelect the incumbent after a given policy-signal combination with a probability that is strictly between 0 and 1). Intuitively, while our model formally describes the electoral process as the decision of a representative voter, it is useful to think of her as a proxy for a multitude of (moderate) voters who are decisive in choosing the candidate who wins an election. Coordinating an electoral strategy among such a large group that elects a particular politician with a specific non-degenerate probability (i.e., strictly between 0 and 1) would be very complicated, and so we assume that it is not possible.

⁵We do not explicitly model the supply of candidates. We simply assume that there are many different candidates who are willing to run for the election. In other words, the representative voter can always find another elite politician, or a populist.

⁶Clearly, in the first period, the representative voter do not have the option of reelecting the incumbent.

That is, the range of the *election strategy* S consists of the pure actions: reelection, alternation with the election of a new elite politician, election of a populist. Formally,

$$\sigma : \left(\text{Incumbent } \mathcal{P}_i, \text{Policy} \in \{E, M\}, \text{Signal} \in \{good, bad\} \right) \longrightarrow \text{Reelection or new ruler } \mathcal{P}_j.$$

As is standard in many models of informational asymmetry between voters and incumbents, voters cannot condition their reelection strategy on their realized payoff. A justification for this is that voters observe their payoff with substantial delay.⁷

We assume that the politician in power, if ousted, will never return to power after failing to win re-election. This assumption has no bite since there is a large pool of elite politicians. Considering a small number of qualified candidates, or equivalently considering political parties, rather than individuals, would not change our results. It would simply reinforce the representative voter's desire to elect a populist. It is indeed harder to motivate politicians to behave well when they can return to power after losing an election, as shown in in Appendix C.2 where we consider a two-party version of our model in which there are a moderate left party and a moderate right party.

We are mainly interested in whether there is a (subgame perfect Nash) equilibrium in which the incumbent can be successfully incentivized to consistently implement the representative voter's preferred policy. We, therefore, start by identifying the set of parameters and the strategy for which the voter gets her favorite policy in each period.

⁷Alternatively, we can reinterpret the signal in the model in the following, mathematically equivalent, way. At the end of each period, the voter gets an intrinsic payoff, $\Pi_v > 0$ with probability α ; and zero otherwise. Implicit in this formulation is that policies are complex and their effects uncertain, i.e. even if the politicians dutifully implement the preferred voter policy, there is no guarantee that the voter will get a high payoff. In this case, ν can be interpreted as the voter's expected payoff from her preferred policy, $\alpha\Pi_v$. In this interpretation of the model, we essentially assume that the incorrect policy is never successful, while even a correct policy may fail to deliver a success with probability $1 - \alpha$.

4 Efficient political alternation

In this section, we identify the set of parameters and the strategies for which the representative voter’s ideal program can be implemented in every period. Observe that the voter’s ideal program cannot be implemented by a populist, so the first best outcome requires that only well-incentivized elite politicians are in power.

Given our assumptions on information, a good signal implies that the voter’s preferred policy has been implemented. In this case, the incumbent should (and, in equilibrium, is going to) be reelected. Potentially reasonable strategies (i.e., those that may allow the representative voter to get her preferred policy in any state of the world) therefore just differ in what happens to the incumbent, conditional on E and M , when the signal is bad.

Thus, we consider the following two strategies for the representative voter when the signal is bad: $F_1 : (M, E) \rightarrow (A, A)$ and $F_2 : (M, E) \rightarrow (R, A)$ where A is alternation, i.e., replacement by another elite politician, and R is reelection.⁸ Strategy F_1 boils down to reelect the incumbent if and only if the signal is good. Strategy F_2 is more forgiving in that it reelects the incumbent also if the signal is bad, but the policy choice was M . As we will show, there are settings in which F_1 is more useful than F_2 , and others where the reverse is true.

We restrict our attention to the conditions under which all traditional politicians implementing the preferred policy of the representative voter constitute an equilibrium. Even if these conditions are met, other equilibria may nevertheless exist.⁹ The multiplicity of equilibria in our framework is due to the strategic complementarities of politicians’ strategies: If future incumbents misbehave, this will increase the ruling incumbent’s payoff when losing the election, raising his willingness to misbehave.

⁸We do not consider the third, in principle available, strategy $(M, E) \rightarrow (A, R)$ as it is never incentive compatible: if the incumbent is reelected when the policy is E and the signal is bad, then in the state w_D the incumbent chooses always the policy E .

⁹For instance, if $\frac{\beta\alpha}{1-(1-p_D)\alpha\beta} \leq \frac{\pi}{\phi} \leq \frac{\beta\alpha}{1-\alpha\beta}$, one can show that under the strategy F_1 there are two equilibria: the “good” equilibrium where the incumbent implement the voter’s preferred policy, and a “bad” equilibrium where he implements his preferred policy (computations are available from the authors upon request). Politicians’ decisions hinge on what they believe their successors will do. A change in belief can, for a certain range of parameters, change the way they govern. In this paper, we focus on the “good” equilibrium when it exists.

Notation. We denote the utility of the ruling politician if every elite politician – including himself – always selects the preferred policy of the voter, by

$$U^*(\sigma) = \phi\lambda_\phi(\sigma) + \pi\lambda_\pi(\sigma) \quad (1)$$

where $\lambda_k(\sigma)$, $k \in \{\phi, \pi\}$, denotes how the politician’s payoff depends on the electoral strategy σ used by the voter. Note, of course, that U^* depends on the voter strategy σ because it affects the probability of reelection (and thus affects the expected discounted flow of ego-rents). Furthermore, let $U^*(\sigma|w)$ denote the same object, but conditional on the realization of the state of the world w in the current period. Finally, we denote by $U^d(\sigma|w)$ the continuation utility of a deviating incumbent in state w , i.e., one who selects his best one-shot deviation, given the state w .

Strategy F_1 . We start by considering an equilibrium in which F_1 is played and all incumbents implement the voter’s preferred policy. By virtue of equation (1), before observing the state of the world, the discounted expected utility of a well-behaved incumbent (i.e., one who implements E in state w_E , and M otherwise) is $U^*(F_1) = \phi\lambda_\phi(F_1) + \pi\lambda_\pi(F_1)$. Because a well-behaved incumbent is reelected with probability α and has a discount factor β , we have that

$$\lambda_\phi(F_1) = \sum_{i=0}^{\infty} (\alpha\beta)^i = \frac{1}{1 - \alpha\beta}. \quad (2)$$

Furthermore, because all incumbents behave in the same way, the probability that the current incumbent’s preferred policy is implemented in any period solely depends on the realization of the state of the world, independent of who is in power. Specifically, in any period, a politician gets his favorite policy with probability $1 - p_D$. Thus, $\lambda_\pi(F_1) = \sum_{i=0}^{\infty} (1 - p_D)(\beta)^i = \frac{1 - p_D}{1 - \beta}$. The incumbent’s discounted expected utility is therefore $U^*(F_1) = \phi\frac{1}{1 - \alpha\beta} + \pi\frac{1 - p_D}{1 - \beta}$. To check whether the implementation of the voter’s ideal program is incentive-compatible under F_1 , we need to compute the incumbent’s payoff when deviating, holding constant the other politicians’ strategies.

First, observe that the incumbent has no incentive to misbehave in states w_E or w_M under election strategy F_1 , as his policy preferences are aligned with the voter's, and choosing the correct policy also increases the incumbent's reelection probability.

Second, if the state of the world is w_D , and he is well-behaved (i.e., chooses policy M), his continuation utility is $U^*(F_1|w_D) = \phi + 0 + \alpha\beta U^*(F_1) + (1 - \alpha)\beta\pi\lambda_\pi(F_1)$, where the last term captures the discounted expected payoff of not being in power.

In contrast, if the incumbent deviates and chooses E , he gets policy utility π in the present period, but is not reelected. Therefore, this deviation generates a continuation utility of $U^d(F_1|w_D) = \phi + \pi + \beta\pi\lambda_\pi(F_1)$. It is optimal for the incumbent to behave well if and only if $U^*(F_1|w_D) \geq U^d(F_1|w_D)$,¹⁰ which, upon replacing $\lambda_\phi(F_1)$ by its value from equation (2) and simplifying, is equivalent to

$$\frac{\pi}{\phi} \leq \frac{\alpha\beta}{1 - \alpha\beta}. \quad (3)$$

Equation (3) states that the incumbent will behave well under reelection strategy F_1 if $\frac{\beta\alpha}{1 - \alpha\beta}\phi$, which is the discounted value of the ego-rent when the incumbent is always well-behaved, is larger than π , the incumbent's instantaneous benefit from implementing his preferred policy over the voter's. A higher policy payoff π makes it more difficult to convince the politician to go against his own policy preference and implement the voter's optimal policy instead. On the other hand, a higher ϕ or a higher time discount factor β , makes it easier to induce good behavior because the politician is more interested in the future benefits of the position.¹¹ The parameter ϕ can be interpreted as the politician's salary, benefits and ego rents, associated with being in power. Since elite politicians (from the two traditional parties) have similar preferences for policy choices, it also measures the utility benefit of being in power for one traditional political party compared to the other traditional party. Thus, a higher ϕ reflects more polarized traditional parties, while a lower ϕ reflects a situation with convergent

¹⁰For the if-direction, observe that an incumbent can only deviate in one period because he is replaced with probability 1 after a deviation.

¹¹That is, the right-hand side of equation (3) is increasing in the discount factor β , while the left-hand side is decreasing in ϕ .

party interests, where alternation has less bite.

The left-hand side of equation (3) is also increasing in α : As the signal becomes more accurate, good behavior is rewarded more often and it becomes easier to incentivize the incumbent. Conversely, when signal accuracy decreases, we observe an increase in political turnover.¹² Eventually, when α becomes too small (i.e., smaller than the critical value $\frac{\pi}{\beta(\phi+\pi)}$ so that condition (3) binds), it becomes impossible to induce elite politicians to behave well with the harsh F_1 strategy. The voter must then explore alternative options.

Strategy F_2 . Strategy F_2 differs from F_1 in that the incumbent is also reelected if he chose M , even if the signal is bad. Intuitively, this strategy has advantages and disadvantages for incentivizing the incumbent relative to F_1 . The advantage is that it affords a well-behaved incumbent a higher continuation utility because it reduces the risk of being replaced (i.e., if the state is w_D , a well-behaved incumbent is now guaranteed to be reelected), and this makes it more attractive for the incumbent to choose policy M in state w_D . On the other hand, it opens the door for some form of opportunistic faux populism, i.e., an incumbent might choose policy M in state w_E because it guarantees reelection, even though both voter and politician would be better off with policy E .

Observe first that, if F_2 works so that all politicians are well-behaved along the equilibrium path, the policy payoffs remain unchanged relative to F_1 , i.e., $\lambda_\pi(F_2) = \lambda_\pi(F_1) = \frac{1-p_D}{1-\beta}$. In contrast, a well-behaved incumbent is reelected unless the state is w_E and the signal is incorrect, so that, relative to F_1 , the ex-ante probability of reelection (i.e., before the state of the world is known) increases from α to $p_E\alpha + (1 - p_E)$. Using the same reasoning as in the case of strategy F_1 , taking into account the increased probability of re-election, appendix A.1 shows that the incumbent is well-behaved in the disagreement state w_D with strategy F_2 if and only if:

$$\frac{\pi}{\phi} \leq \frac{\beta}{1 - (p_E\alpha + 1 - p_E)\beta}. \quad (4)$$

¹²An well-behaving incumbent is eliminated with a probability of $1 - \alpha$ because of an incorrect signal.

Since $\frac{\alpha\beta}{1-\alpha\beta} \leq \frac{\beta}{1-(p_E\alpha+1-p_E)\beta}$, condition (4) is weaker than condition (3) for strategy F_1 . This captures the advantage of punishing the incumbent less often. A well-behaved politician can expect to stay in office for longer, and thus has a higher continuation utility, giving him a stronger incentive to choose M when the state of the world is w_D .

However, we now have to check, in addition, that an incumbent in state E does not want to deviate to play M . Under F_1 , this was no problem because, if the incumbent loses reelection whenever the signal is bad, he increases his reelection probability by playing E in state w_E . As this action also corresponds to his policy preference, it is clearly the optimal choice in state E under F_1 . In contrast, under F_2 , an incumbent who chooses policy E in state w_E still gets a higher policy payoff, but risks his reelection (which he could guarantee by selecting policy M instead). When the state of world is w_E , if all politicians are well-behaved, the incumbent's expected utility is $U^*(F_2|w_E) = \phi + \pi + \alpha\beta U^*(F_2) + (1 - \alpha)\beta\lambda_\pi(F_2)\pi$. If the incumbent deviates, only for one period, by choosing M , he ensures his reelection in the next period and gets utility $U^d(F_2|w_E) = \phi + \beta U^*(F_2)$. This one-shot deviation is unattractive for the incumbent if and only if $U^*(F_2|w_E) \geq U^d(F_2|w_E)$, hence if

$$\frac{\beta(1 - \alpha)}{1 - (p_E\alpha + 1 - p_E)\beta} \leq \frac{\pi}{\phi}. \quad (5)$$

Intuitively, F_2 is protected against the opportunistic subversion of implementing M when E is optimal, if the policy payoff π is sufficiently important for the politician, relative to the office payoff ϕ . Observe that the left-hand side of condition (5) is always smaller than the right-hand side of condition (4), so that there are always some values of π/ϕ such both condition (4) and condition (5) are satisfied. The following Proposition 1 summarizes the results.

Proposition 1 *Implementing the voter's ideal program is incentive-compatible for an elite incumbent if and only if*

1. condition (3) holds, and the representative voter plays F_1 ; or,
2. conditions (4) and (5) hold, and the representative voter plays F_2 .

We now compare the range of parameters for which F_1 and F_2 can implement the voter's ideal outcome. An interesting implication of condition (5) is that, if the ego rent ϕ is too large relative to the policy payoff π (e.g., if politicians' salaries are too high),¹³ then the more forgiving election strategy F_2 is not able to implement the first-best, and only the harsher F_1 may work. Intuitively, the reason is that F_2 always suffers from the opportunism problem. When ϕ/π is large, the politician is tempted in state w_E to implement M in order to insure reelection.

When politicians are motivated primarily by the desire to stay in power, F_1 discourages opportunistic pandering, by punishing all bad signals (in contrast to F_2). The theory thus predicts that greater benefits and privileges for elected officials should be accompanied by higher performance standards and greater turnover of elected officials.

We now turn to the problem of incentivizing the incumbent in state w_D if $\frac{\phi}{\pi}$ is small,¹⁴ so that the politician is tempted to choose E . By guaranteeing reelection whenever M is implemented, and therefore providing a higher discounted expected payoff of ruling, strategy F_2 provides better incentives when the primary concern is about providing incentives in the disagreement state.

However, when $\frac{\pi}{\phi}$ crosses the threshold $\frac{\beta}{1-(p_E\alpha+1-p_E)\beta}$ of condition (4), it becomes impossible to implement the first best because π is too large. Since this threshold decreases in p_E , it is less likely that condition (4) holds (and therefore that F_2 works) if p_E is very small.¹⁵ Politicians then would implement E in state w_D , even if the voter's strategy is F_2 .

To summarize, conditions (4) and (5) imply that F_2 provides the incumbent with incentives for optimal behavior if and only if π/ϕ , the ratio of the incumbent's policy payoff to his office motivation, is neither too low nor too high. It cannot be too high because the incentive to implement policy E in state w_D would be too strong. However, it can also not be too low,

¹³That is, when $\frac{\pi}{\phi} \leq \min \left\{ \frac{\alpha\beta}{1-\alpha\beta}, \frac{(1-\alpha)\beta}{1-(p_E\alpha+1-p_E)\beta} \right\}$.

¹⁴That is, when $\frac{\pi}{\phi} \geq \max \left\{ \frac{\alpha\beta}{1-\alpha\beta}, \frac{(1-\alpha)\beta}{1-(p_E\alpha+1-p_E)\beta} \right\}$.

¹⁵Since $\frac{\beta}{1-(p_E\alpha+(1-p_E))\beta}$ decreases in p_E , deviations to M in state w_E become more attractive when p_E is small because the frequency with which it is necessary to play M in state E in order to stay in power, and thus the expected policy cost from deviating, is small.

because opportunistic populism in state w_E would be too tempting for the incumbent.

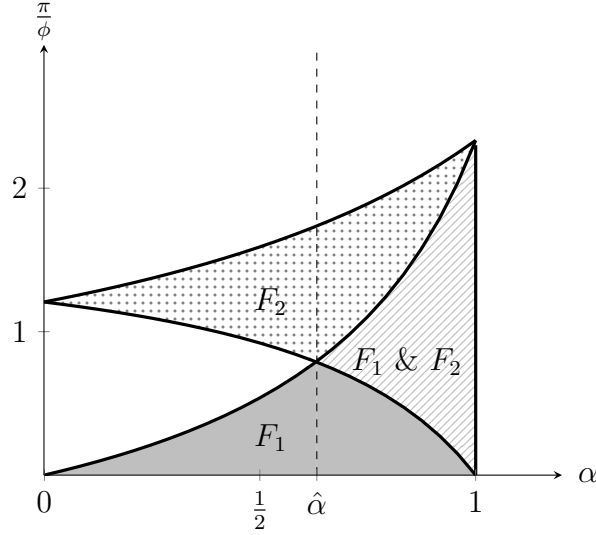


Figure 1: For $p_E = 0.4$ and $\beta = 0.7$, this figure depicts the parameters for which the incumbent can be incentivized to always implement the voter's preferred policy. Dotted area: Only F_2 incentivizes. Dark gray area: Only F_1 incentivizes. Dashed gray area: Either F_1 or F_2 can be used. Elsewhere, no equilibrium that incentivizes correct behavior is sustainable.

The result that π/ϕ cannot be too low potentially sheds light on the interesting phenomenon of comparing the salaries of top executives in the private sector and politicians. While executive compensation in the private sector often accounts for a significant percentage of gross profits, the aggregate compensation that goes to top politicians is generally minuscule relative to the size of the economy. This contrast is puzzling; however, our model shows that, if we want to incentivize politicians to act on their private information, it is not optimal for them to want to keep their job at all costs.

The following Corollary 1 of Proposition 1 compares the regions of the parameter space for which always implementing the voter's ideal program constitutes an equilibrium.

Corollary 1 *There exists a unique $\hat{\alpha} \in (\frac{1}{2}, 1)$ such that always implementing the voter's ideal program is an equilibrium if and only if:*

- $\frac{\pi}{\phi} \in [0, \frac{\beta}{1-(p_E\alpha+1-p_E)\beta}]$ if $\alpha \geq \hat{\alpha}$,
- $\frac{\pi}{\phi} \in [0, \frac{\alpha\beta}{1-\alpha\beta}] \cup [\frac{\beta(1-\alpha)}{1-(p_E\alpha+1-p_E)\beta}, \frac{\beta}{1-(p_E\alpha+1-p_E)\beta}]$ if $\alpha < \hat{\alpha}$.

Proof: See Appendix A.2. □

Figure 1 illustrates Proposition 1 and Corollary 1. There are four areas in the parameter space: only F_1 works, only F_2 works, both F_1 & F_2 work, neither works. In Appendix A.2, we show that there exists a unique threshold $\hat{\alpha}$ (given by the intersection of conditions (3) and (5)), above which strategies F_1 and/or F_2 are able to decentralize the voter's first best policies. Below $\hat{\alpha}$, there is a whole range of the parameters where neither F_1 , nor F_2 work: For α smaller than $\hat{\alpha}$, the parameter set of $\frac{\pi}{\phi}$ so that the elected politician is properly incentivized is not compact. Intuitively, in the area sandwiched between areas F_1 and F_2 , the incumbent's continuation utility under F_1 given the rather harsh punishment probability is not high enough to induce good behavior in state w_D , while, under F_2 , the incumbent opportunistically chooses M in all states, including in state w_E , in order to stay in power. This is a case where the politician's salary, ego-rents and perks are either too low or, more surprisingly, too high, to properly incentivize them. To restore optimality, the politician's salary would have to be substantially increased so as to decentralize the first best with the harsh strategy F_1 , or, alternatively, to be substantially reduced so that staying in power at all costs is no longer attractive under the forgiving strategy F_2 , which can thereby decentralize the first best. This last result comes from the recognition that politicians are motivated not only by the benefits of their office, but also, and sometimes even more so, by the outcomes of the public policies they implement.

Proposition 1 predicts that a decrease in the signal accuracy α , for example, because of the proliferation of fake news, or because political complexity increases (due to globalization and innovation), will lead to a disruption of the voter's strategy. As illustrated in Figure 1 the smaller α , the smaller the set of parameters for which the first best can be implemented. When α is smaller than $\hat{\alpha}$, alternating between traditional politicians is, in many cases, no longer enough to keep them in line. It remains to be seen whether the strategic vacuum created by a shrinking α can be effectively filled by the threat of replacement by a populist.

5 The populist threat

If neither condition (3) nor both conditions (4) and (5) are satisfied, F_1 and F_2 cannot deter opportunistic misbehavior, so that the representative voter must explore alternative voting strategies. The election of a populist who is harmful to the policy interests of traditional elite politicians can be used as a stronger form of punishment. We now analyze under which conditions this provides enough incentives for traditional politicians to behave well.

In Subsection 5.1, we describe the optimal voting strategy employing a populist threat. In Subsection 5.2 we derive the conditions under which the populist threat is an effective way to discipline the ruling elites. Finally, in Subsection 5.3, we characterize the conditions under which the voter finds it beneficial to employ such a strategy that requires her to occasionally vote for a populist, even if she cannot ex-ante commit to a reelection strategy.

5.1 Populism as a differentiated punishment

How can the representative voter discipline an elite incumbent when the threat of replacement by another elite candidate is insufficient? We focus on the mildest form of populist punishment, i.e., replacing an elite incumbent by a populist for exactly one period before returning the helms of government to another elite politician. While specific, analyzing this form of a populist threat enables us to derive the main lessons about the pros and cons of populism. When this punishment efficiently deters elites' misbehavior, the voter always prefers not to reelect the populist because she wants to minimize the frequency at which a populist is in power. In this case, the one-term assumption is not restrictive.¹⁶

Recall that, with an elite incumbent, a good signal implies that the incumbent chose the policy preferred by the representative voter. In equilibrium, the incumbent is then reelected (see Section 4). Hence, any optimal election strategy differs only in what happens after a bad

¹⁶When voting for a one-term populist once is not enough to incentivize elite politician, the representative voter may consider reelecting the populist for more periods. Likewise, the voter could use the realization of the signal α as a coordination device to increase the expected length of the populist punishment. We do not analyze these more sophisticated punishments.

signal. We now show that, among the five strategies that involve replacing an elite incumbent by a populist after a bad signal, only two can be part of an equilibrium.

Lemma 1 *The only electoral strategies that result in the election of a populist and may be used to discipline elite politicians in an equilibrium are $S_1 : (E, M) \rightarrow (P, A)$ or $S_2 : (E, M) \rightarrow (P, R)$.*

Proof: See Appendix B.1. □

Under S_1 , a bad signal leads to replacement by another elite politician if the implemented policy was M , and replacement by a populist if the implemented policy was E . In contrast, under S_2 , the incumbent is only replaced by a populist after choosing E and the voter receiving a bad signal, while an incumbent who chose M is always reelected.

For an elite incumbent who loses the election, a populist successor decreases the continuation payoff relative to another elite politician as successor. Hence, a populist threat increases an elite incumbent's eagerness to be reelected; this has potentially positive and negative consequences for the incumbent's willingness to implement the voter's optimal policy. On the one hand, in state w_D , the punishment for playing E increases, making the incumbent more compliant with the representative voter's wishes. On the other hand, in state w_E , the incumbent's eagerness to win reelection may make it more tempting to play M . Interestingly, Lemma 1 shows that this last concern does not materialize.

A surprising result is that no other strategy than the two described in Lemma 1 can arise in equilibrium. In particular, the strategy of voting for a populist whenever the signal is bad, is a harsher punishment, and thus one might conjecture that it could be useful when the Proposition 1 conditions are violated. However, Lemma 1 shows that it is never optimal.

Intuitively, the voter does not want to punish an incumbent who chose M , but failed to generate a good signal. Replacing him with a populist would just reduce the continuation utility of a well-behaved incumbent without generating any benefit.

Lemma 1 thus pushes back against a common view of the populist vote as an unmitigated

rejection of establishment politicians, and a desire to get rid of them at all costs. The electoral strategies detailed in Lemma 1 are more nuanced in that they eliminate an elite incumbent only if he has failed after choosing an elite-serving policy.

5.2 When populism effectively disciplines elite politicians

In this subsection, we analyze for which parameters S_1 and S_2 incentivize elite politicians to implement the voter's ideal program. We then characterize how populist threats extend the range of parameters in which elite politicians can be incentivized. And finally, we show under which conditions S_1 is preferable to S_2 , and vice versa.

Strategy S_1 . We first consider election strategy S_1 , where a bad signal always leads to the incumbent's replacement. Because a well-behaved incumbent is reelected with probability α as under F_1 , we have $\lambda_\phi(S_1) = \lambda_\phi(F_1)$, as defined in equation (2). To calculate the incumbent's continuation utility from policy, we presume that all other elite politicians are well behaved so that, when an elite incumbent is in power, each politician gets their preferred policy with probability $1 - p_D$ in any given period. In contrast, when a populist is in power, each elite politician gets their preferred policy only with probability p_M . We can therefore express $\lambda_\pi(S_1)$ recursively:

$$\lambda_\pi(S_1) = (1 - p_D) + \underbrace{\beta[\alpha\lambda_\pi(S_1)]}_{\text{reelection}} + \underbrace{(1 - \alpha)(1 - p_E)\lambda_\pi(S_1)}_{\text{other elite}} + \underbrace{(1 - \alpha)p_E(p_M + \beta\lambda_\pi(S_1))}_{\text{populist}}$$

Solving for $\lambda_\pi(S_1)$, we obtain:

$$\lambda_\pi(S_1) = \frac{1 - p_D + \beta(1 - \alpha)p_E p_M}{(1 - \beta)[1 + (1 - \alpha)p_E \beta]}. \quad (6)$$

To check if the incumbent is willing to implement the voter's preferred policy in each state, we need to compute the best profitable deviation in state w_D , holding constant the other politicians' strategy. If he chooses M in state w_D , a bad signal leads to replacement by

another elite politician. Thus, the expected discounted utility in equilibrium is $U^*(S_1|w_D) = \phi + 0 + \alpha\beta U^*(S_1) + (1 - \alpha)\beta\pi\lambda_\pi(S_1)$, where $U^*(S_1)$ is defined by equation (1) for $\sigma = S_1$.

If, instead, the incumbent deviates to E in state w_D ,¹⁷ a populist will be elected in the next period, before being replaced by another elite politician in the following period. Thus, the current incumbent's expected discounted payoff is $U^d(S_1|w_D) = \phi + \pi + \beta\pi(p_M + \beta\lambda_\pi(S_1))$. For an elite incumbent, choosing M in state w_D is optimal if and only if $U^*(S_1|w_D) \geq U^d(S_1|w_D)$, which is equivalent to:

$$\frac{\pi}{\phi} \leq \frac{\alpha\beta}{1 - \alpha\beta} \frac{1 + p_E\beta(1 - \alpha)}{1 - p_E\alpha\beta} \quad (7)$$

Since $\frac{1 + p_E\beta(1 - \alpha)}{1 - p_E\alpha\beta} = 1 + \frac{p_E\beta}{1 - p_E\alpha\beta}$ is greater than 1, the right-hand side of (7) is larger than the right-hand side of (3), implying that strategy S_1 is less susceptible to deviations in state w_D than F_1 . This is intuitive because the punishment for the incumbent is more severe under S_1 , which decreases the expected continuation payoff from policy after a deviation.

The downside of this harsher punishment might be that the incumbent seeks to avoid punishment at all costs. In particular, one might wonder whether it is now more difficult to incentivize the incumbent to implement E in state w_E . It turns out that this concern is unfounded because choosing M over E when the state of the world is w_E is just as bad as being governed by a populist. Intuitively, if an elite incumbent in state w_E chooses E , he receives a positive policy payoff in the current period, and has some chance of being reelected, but also runs the risk of being replaced by a populist. Choosing M instead removes the risk of populist replacement, but at the cost of losing any chance of reelection. Furthermore, the incumbent loses the policy benefit in the present period for sure, while having an elite rather than populist successor is only beneficial if tomorrow's state is not w_M .

Strategy S_2 . The advantage of the S_2 strategy over S_1 is that the (ex-ante) continuation utility of a well-behaved incumbent is greater because the incumbent is re-elected after the w_M and w_D states with probability 1, rather than with probability α . However, as in the case

¹⁷In principle, this deviation is for one period only, even though this does not matter as, following a deviation, the incumbent is not reelected anyway.

of F_2 , S_2 may induce the incumbent to choose M even in state w_E . Furthermore, this problem is now exacerbated relative to F_2 because the punishment is more severe. It is therefore a priori unclear whether S_2 is useful at all. Following steps similar to those detailed above for S_1 , we can establish that strategy S_2 deters misbehavior among elite politicians if and only if the following condition (8) holds (see the proof of Proposition 2 in the Appendix B.2):

$$\frac{1 + p_E\beta(1 - \alpha)}{1 + p_E\beta(1 - \alpha) - \beta} (1 - \alpha)\beta \leq \frac{\pi}{\phi} \leq \frac{1 + p_E\beta(1 - \alpha)}{1 + p_E\beta(1 - \alpha) - \beta} \frac{\beta}{1 - p_E\beta\alpha} \quad (8)$$

Observe that the right hand side of (8) is larger than the right hand side of (4).¹⁸ Thus, if the incumbent under F_2 is a little bit too tempted to implement policy E in state w_D (because $\frac{\phi}{\pi}$ is relatively small), then the populist threat may prompt him to behave: Misbehavior leads to populist replacement, and this leads (in addition to the loss of office rent ϕ) to a reduced probability that the incumbent's preferred policy is implemented in the next period.

On the other hand, there are other cases where using the populist threat S_2 will not improve the situation compared to F_2 . If the critical problem under F_2 is that the incumbent is too tempted to ensure reelection in state w_E by pandering to voters and implementing policy M , then potential replacement by a populist exacerbates this problem: An elite incumbent is now more worried about losing his job after implementing the correct policy in state w_E , which makes pandering even more attractive. Thus, the populist threat is not helpful in this scenario.¹⁹

Putting together the results for populist threat strategies yields the following Proposition 2, which is formally proved in Appendix B.2.

Proposition 2 *The populist threat deters misbehavior among elite politicians if and only if*

1. *condition (7) holds and the representative voter plays S_1 ; or*

¹⁸Since $\frac{1+p_E\beta(1-\alpha)}{1-p_E\beta\alpha}$ is decreasing in p_E , α , and β , the difference between F_2 and S_2 and the difference between F_1 and S_1 are smaller when these variables are larger.

¹⁹Technically, since $1 + p_E\beta(1 - \alpha) \geq 1$, condition (5) is weaker, and therefore easier to meet, than the left hand side condition of (8).

2. condition (8) holds and the representative voter plays S_2 .

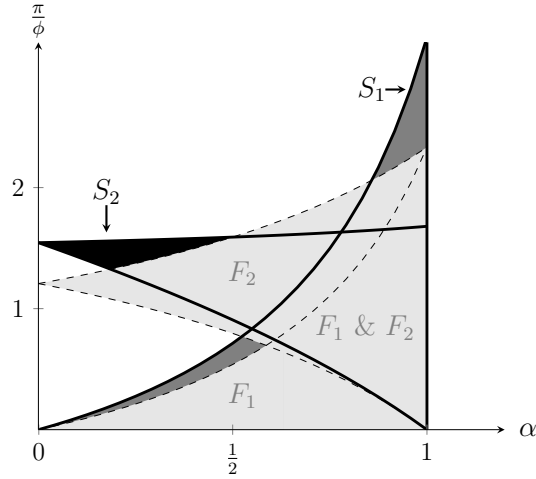


Figure 2: The light gray area (as in Figure 1) shows parameters for which F_1 or F_2 implement the voter's ideal program. The darker gray and black areas, respectively, show parameters for which strategies S_1 and S_2 , respectively, deter misbehavior among elite politicians, while F_1 and F_2 do not. As in Figure 1, $p_E = 0.4$ and $\beta = 0.7$.

Figure 2 illustrates the results of Proposition 2 and compares them with the results of Proposition 1. It shows that it is possible for the populist threat to induce the incumbent to behave well in cases where the electoral strategies F_1 and F_2 fail to do so. The light gray area is one in which the threat of alternation and replacement by another elite politician is sufficient to induce the incumbent to always choose the voter's preferred policy; this is the same area as the Figure 1. The dark gray and black areas show the parameters for which the populist threat (S_1 or S_2) deters opportunistic behavior by elite politicians, while F_1 or F_2 do not. Interestingly, Figure 2 also illustrates that electing a populist over another elite politician is not always the most effective way of incentivizing elite politicians. As shown in Appendix B.4, there exists a non-empty set of parameters for which F_2 sustains an equilibrium in which all elite politicians are well behaved (materialized by the light gray area for $\alpha \leq 0.5$) while S_1 (in dark grey) and S_2 (in black) do not. Finally, in the white areas of Figure 2, none of the strategies work.²⁰

²⁰The voter has then several options. First, she can always put an elite politician in office and accept his bad

5.3 When is it optimal to vote for a populist?

The fact that in some cases S_1 or S_2 can succeed to incentivize elite politicians, while F_1 and F_2 fail to do so, does not necessarily mean that voters should adopt these strategies, as they require to sometimes elect a populist, which is costly for voters. Thus, it is still unclear when S_1 or S_2 are preferable to accepting permanent leadership from a misbehaving elite. We therefore now analyze under what circumstances the representative voter actually chooses to implement S_1 or S_2 .

If state w_D is more likely than state w_E (i.e., if $p_D > p_E$), then poorly incentivized elites are more costly to voters than populists. In this case, the representative voter always chooses to implement the populist threat, i.e. S_1 or S_2 , whenever the threat is effective. By doing so, the representative voter gets a mix of well-behaved elite politicians and populists, which strictly dominates having misbehaving elite politicians or populists only.

In contrast, when $p_E > p_D$, the voter prefers a misbehaving politician to a populist. The question then is whether it is still worthwhile to occasionally vote for a populist to discipline elite politicians. Proposition 3 below summarizes the necessary and sufficient conditions that ensure that the implementation of a populist threat is indeed optimal. We consider subgame perfect Nash equilibrium, meaning that voters cannot commit ex-ante to implement the populist threat; they must be willing to carry out the threat when the time comes.²¹

Proposition 3 *Suppose that the populist threat, in the form of S_1 or S_2 , effectively incentivizes elite politicians. The representative voter implements the populist threat if and only if*

$$p_E \left(1 - \frac{\beta}{1 + p_E \beta (1 - \alpha)} \right) \leq p_D \quad (9)$$

Proof: See Appendix B.3. □

behavior in state w_D . This option is most attractive if p_D is small. Alternatively, the voter can always elect a populist; this option is most attractive when p_E is small. Finally, the voter can try to find stronger forms of punishment for the elite incumbent - for example, by electing the populist for multiple terms. Analyzing which of these options is optimal for given parameters is beyond the scope of this paper.

²¹If voters would be able to commit ex-ante to a strategy (which they arguably can't in practice) then the set of parameters for which voting for a populist is optimal is even larger.

The main takeaway from Proposition 3 is that, even if the voter would prefer to be ruled by a misbehaving elite rather than a populist, if these were the only choices, she may still find it beneficial to vote for a populist candidate when she is patient enough so that (9) holds (observe that the left-hand side of (9) is decreasing in β). Intuitively, voting for a populist represents an immediate cost (because when $p_E > p_D$, even a misbehaving elite politician is more likely to implement the right policy than a populist), but it has the long-term benefit of disciplining elite politicians. Thus, the discount factor β plays a key role in (9): more patient voters are more willing to bear the short-term cost of electing a populist candidate. In the limit, if $\beta = 0$, (9) boils down to $p_E \geq p_D$ – as the voter does not value the long-term benefits of disciplining elite politicians, she simply votes for whoever is better in the current period.²²

The left-hand side of (9) is also decreasing in α , indicating that a higher signal accuracy makes using the populist threat more attractive for the voter. Intuitively, this is because a higher signal accuracy reduces the likelihood of having to elect a populist and, thus, the expected cost of this strategy.

Finally, equation (9) shows that the populist threat is more likely to be optimal for the voter if p_D is large and p_E is small (i.e., the left-hand side of (9) is increasing in p_E). For p_D , this is intuitive because w_D is the state in which elite politicians need to be incentivized. When p_E is large, the cost of electing a populist is high because the populist chooses the wrong policy in state w_E , while elite politicians are aligned with the voter. This makes it more attractive for the voter to just accept that elite politicians misbehave rather than to invest in incentivizing them.

In this section, we have focused on the conditions under which the threat of replacing an elite politician with a populist is not just feasible, but also worthwhile for the voter. Because the populist threat occasionally needs to be implemented, incentivizing via the populist threat does not constitute a first best situation. The reader may therefore wonder whether using any of the alternative programs (i.e., mappings from states to policy) that were not considered

²²At the other extreme, when $\beta = 1$, the representative voter simply considers the overall frequency at which populism occurs, in which case equation (9) becomes $\frac{p_E^2(1-\alpha)}{1+p_E(1-\alpha)} \leq p_D$.

in our analysis so far could improve voters’ welfare. It turns out that this is very rarely the case.²³ In Appendix C.1, we consider parameters such that the voter’s optimal reelection strategy involves using strategies S_1 or S_2 to incentivize incumbent elite politicians as defined in Proposition 3. We show that, for most of these parameters, the representative voter would not be able to increase her expected payoff by voting for a politician following any other program. In these cases, the solution presented by Proposition 2 is the second best for voters.

6 Discussion

Brubaker (2017) observes that, over the last two decades, “we have been living through an extraordinary pan-European and trans-Atlantic populist moment.” This raises the question of why populism has recently flourished when it was not such a problem two decades ago. Why do rational voters now turn to populism? Our theory sheds some light on this issue.

6.1 Policy differences between mainstream parties

If voters feel that mainstream parties have become only different flavors of the same elite consensus, then there is an opening for populists. Our analysis captures this intuition: In our model, a convergence of mainstream parties results in a lower ϕ , and promotes populism as alternation becomes less efficient to discipline elected politicians. Indeed the loss of an incumbent when replaced by another elite politician is ϕ , which we can think of as consisting both of individual ego-rents, and of the incumbent’s valuation of the policy differences between mainstream parties.

The result that too much convergence opens the gate for populists is reminiscent of an older literature on how parties should strategically position to preclude entry by more extreme competitors (Callander, 2005; Palfrey, 1984). Yet, their mechanisms is one of supply-constrained

²³The only exception is when $p_E > \frac{1}{2} > p_D > p_M$. In this case, instead of a populist, a “super-elitist” politician committing to the program $(w_M, w_D, w_E) \rightarrow (E, E, E)$ can be used as a form of punishment for elite incumbents. Intuitively, this is the case because, for these parameters, an extreme form of elitism is less harmful than populism, yet can still serve as a punishment for elite politicians.

extremism: Voters would always be open to entry by candidates that more closely reflect their political preferences. The only factor that might prevent entry is that, when establishment parties are sufficiently differentiated, the potential entrant does not have a path to win the election, and thus stays out. In contrast, in our model, populism is demand-constrained. Voters can always vote for populists, yet rational voters generally prefer the establishment parties over populists (for quality reasons). However, too much convergence may require the populist threat for incentive reasons.

There is strong evidence that establishment parties have ideologically converged in many countries. In Germany, for the first 50 years after the war, the two main parties CDU/CSU and SPD were never in a coalition with each other at the federal level, and almost never at the state level. However, in this century, there are frequent coalitions between all establishment parties. For example, a coalition between CDU and Green party (generally considered to be to the left of SPD) is currently in office in the largest and the third-largest German state. At the same time, the populist AfD has enormously increased voter support.

The French case provides probably the most impressive example of such depolarization between elite parties. The traditionally dominant and opposing parties have essentially collapsed; in the first round of the 2022 presidential election, France's two former major governing parties, the Socialist Party (PS) and the Republicans (LR), received 1.75 and 4.78 percent of the vote, respectively.²⁴

These parties have been replaced by Emmanuel Macron's political movement, Renaissance (RE), which is positioned in the center of the French political spectrum and has siphoned off moderate members from the two previously dominant parties. The lack of a credible challenger from a traditional political camp has led to the rise in power of two populist parties: the far-right Rassemblement National (RN) and the far-left La France Insoumise (LFI), which came second and third, respectively, in the 2022 presidential election and won 87 and 74 legislative seats, respectively, in the subsequent French parliamentary elections. Prior to this

²⁴See [https://www.interieur.gouv.fr/Elections/Les-resultats/Presidentielles/elecresult_presidentielle-2022/\(path\)/presidentielle-2022/FE.html](https://www.interieur.gouv.fr/Elections/Les-resultats/Presidentielles/elecresult_presidentielle-2022/(path)/presidentielle-2022/FE.html).

election, these groups had never exceeded the 20-deputy threshold, the minimum to form a parliamentary group in France.

6.2 Sincere and rational populists

The simplest explanation of populism is that voters turn to populists when they are frustrated with the apparent failure of traditional politicians to improve the voters' well-being. Our theory provides a complementary explanation of the vote for populists that is based on rational and strategic voting by a Downsian "median voter."

As mentioned in the introduction, our model can be understood as a short-hand in which "sincere" populists (who are convinced that populist candidates will always implement a better policy than elite politicians) coexist with rational voters who sometimes, but not always, support populism for the reasons outlined in our model. As long as the sincere populists do not constitute a majority of the electorate, rational voters matter for election outcomes. Thus, our model remains relevant to explain the electoral successes of populism even in a world where only some populist supporters do so for strategic reasons.

We believe that, in practice, a substantial proportion of those voters who are, at least sometimes willing to support populism, do fit our "rational" paradigm. For one, if all support for populism was sincere, then we should observe that the electoral success of populist candidates is relatively constant across elections. In contrast, the presence of strategic voters can account for very sudden and dramatic swings (both up and down) in populist support because they may, as a block, go for the populist in one election, and for an establishment candidate in another one, without changing their fundamental political preferences.

Second, we would argue that we often observe voters with nuanced reactions when it comes to evaluating public policies. As an example, consider the French yellow vests movement, which consisted of a series of populist and grassroots weekly protests over several months. This popular rebellion was triggered by a gas tax increase in November 2018, and at the start

of the movement, more than 70 percent of the French population supported the protests.²⁵ Indeed, although over-represented among the far left and far right, the yellow vests were supported by a large proportion of French people, across the political spectrum (Douenne and Fabre, 2022). Interestingly, a few months later, the larger increases on already high fuel prices due the Ukrainian war did not trigger any major social unrest.²⁶ These two episodes show a differentiated reaction of the population to events that seem superficially similar. The gas tax increase promoted by the French government was seen as unfair and pro-elite, with a disproportionate burden of the increase falling on the working and middle classes, particularly in rural and suburban areas, while the larger increase following the war in Ukraine was understood to be beyond the control of the French government. At least in this case, populism was more successful to rally the middle class after the implementation of seemingly "pro-elite" policies, rather than simply after a negative economic shock unrelated to policy.

6.3 Complexity and information quality

The complexity fueled by globalization and technological progress, as well as the proliferation of fake news on social media, impede voters when assessing whether the ruling elite is implementing their preferred policy. In terms of our model, this development can be seen as a decrease in α , which makes it more difficult for voters to incentivize politicians and increases the likelihood of a populist getting elected.

For example, for European voters, it is more difficult today than before the construction of the EU single market to evaluate the actions of their nationally-elected politicians. The most important EU-level politicians are not elected, but rather determined by the (many) different national governments, so that most decisions at the EU level are made by agents that the respective national government is not directly or indirectly responsible for. National

²⁵<https://www.ifop.com/wp-content/uploads/2019/11/116084-Rapport-CN-SR-N80.pdf>

²⁶The price per liter in November 2018 was less than 1.5 euros for both diesel and gasoline, and the planned increase was 3 cents for gasoline and 6 cents for diesel, which is small compared to the price increase French consumers experienced following the Russian invasion of Ukraine: prices rose by more than 7 cents on a liter of gasoline and more than 14 cents on a liter of diesel to reach nearly 1.9 euros per liter for both after the start of the war.

policies are influenced and shaped by decisions made at the EU level, in addition to decisions made at the national level. This additional level of decision-making renders the evaluation of national public policies more noisy. This lack of transparency has been reinforced by the fact that many elite politicians have, over the years, blamed the EU for unpopular reforms. This strategy ultimately backfired with Brexit and the election of many populist governments across Europe.²⁷

Similarly, as people increasingly get their information from social networks, many observers argue that the deregulation of the information market and the proliferation of fake news on these social media are interfering with democracy (Allcott and Gentzkow, 2017).²⁸ Exploiting the expansion of mobile broadband internet across 398 subnational regions in 33 European democracies between 2007 and 2018, Guriev et al. (2021) show that the rollout of third-generation (3G) mobile telecommunications boosts both left-wing (by 3.6 percentage-point) and right-wing (by 4.6 percentage-point) populist vote share. According to our theory, the problem is not necessarily that fake news that flourish on social medias influence/brainwash people into following populists (although they might for some type of voters). Rather, it adds noise and uncertainty to the flow of information voters get, making it more difficult for them to assess what their elected officials are really doing. Ultimately, this obfuscation should, for incentive reasons, encourage the populist vote.

6.4 The consensus on populism

Despite the conflicts of interest between voters and the ruling elite, there is one point of agreement between elite politicians and voters: they all prefer a situation in which politicians

²⁷Populist governments or coalitions with populists have come to power in Sweden, Italy, Poland, Hungary, the Czech Republic, Slovakia, Austria and Bulgaria. Populist politicians made a dramatic entry into parliament in France in 2022, and are gaining votes in Spain, Germany, Belgium and Holland (see for instance <https://cordis.europa.eu/article/id/434333-populism-s-threat-to-democracy-in-the-eu/fr>).

²⁸For instance, 62 percent of US adults report getting news on social media. See <https://www.pewresearch.org/journalism/2016/05/26/news-use-across-social-media-platforms-2016/>. Two thirds of EU citizens report coming across fake news at least once a week and over 80% of EU citizens report seeing fake news both as an issue for their country and for democracy in general (see Flash Eurobarometer 464 2018 at https://data.europa.eu/data/datasets/s2183_464_eng?locale=en).

do what the people want rather than a situation in which populists are elected. In practice, populism is economically costly as populists tend to implement unsustainable macroeconomic policies, economic nationalism, and protectionism, which are detrimental to growth (for a review on Latin America see [Edwards, 2019](#)). For instance, using a long-term cross-country database, [Funke et al. \(2021\)](#) find that populist governments, whether far left or far right, have a significant and lasting negative impact on a country's growth. Furthermore, it appears that many people are aware of the economic cost.²⁹ So, when a populist is in power, elite and citizens have aligned interests in returning to an equilibrium where traditional politicians implement the voter's preferred policy. Our theory suggests two levers.

First, in line with the theory on information, our analysis shows that the more accurate information voters have about the actions of their elected politicians, the less likely they are to vote for a populist. An obvious solution is to improve the quality of the signal received by voters. This is not an easy task as education seems to be the most efficient way to address the problems posed by increased complexity and fake news.³⁰

Second, if the problem is that the rents of being in power have become too low to properly incentivize elected politicians, upgrading their position may alleviate the problem. It remains to be seen whether, in advanced economies, better paid and more respected politicians are a bulwark against populism, in which case the position of the politician in power should be made more attractive (e.g., through better pay, privacy protection, improved social status). This ultimately is an empirical question beyond the scope of this paper and left for future research.

²⁹For example, a recent U.K. poll shows that one year after Brexit, 56 percent of Britons think it was a mistake. See <https://yougov.co.uk/topics/politics/articles-reports/2022/11/17/one-five-who-voted-brexit-now-think-it-was-wrong-d>.

³⁰Voters appear to be well aware of the problem. For instance, half of EU citizens aged 15-30 say they need critical thinking and information skills to help them combat fake news and extremism in society. See Flash Eurobarometer 455, 2018 at https://data.europa.eu/data/datasets/s2163_455_eng?locale=en.

7 Conclusion

In this paper, we present a rational theory of populism that shows that, under certain conditions, even rational voters who know of the populists' competence deficiencies will find it useful to sometimes vote for populists in order to incentivize elite politicians.

The prospect of being replaced by a populist is a particularly harsh punishment for elite politicians that may induce them to be more reluctant to implement elite-serving policies when this is not in the average voter's interest. On the negative side, the fear of being replaced by a populist may lead to a "faux populism" when the objectively best policy for voters would have been one that looks suspiciously elite-serving.³¹

Finally, while our model focuses only on *strategic* support for populists, there are undoubtedly many voters who sincerely support populists. In this way, we see our paper as complementary to much of the existing literature. Furthermore, because strategic support is particularly volatile over time, our model can account both for large upswings and large downswings in populist vote share.

³¹Our formal model focuses on the conditions under which a reelection strategy that sometimes elects populists is optimal for voters. That means that the populist threat is only employed if the elite incumbent's incentive for faux populism is sufficiently small so that he does not act on it. Alternatively, if behavioral voters employ a reelection strategy like S_2 in a setting where this is insufficient in state w_E to incentivize elite incumbents to choose action E and risk being replaced by a populist, then faux populism will arise in equilibrium.

References

- Acemoglu, D., Egorov, G., and Sonin, K. (2013). A political theory of populism. *The Quarterly Journal of Economics*, 128(2):771–805.
- Agranov, M., Eilat, R., and Sonin, K. (2023). Information aggregation in stratified societies. *University of Chicago, Becker Friedman Institute for Economics Working Paper*.
- Allcott, H. and Gentzkow, M. (2017). Social media and fake news in the 2016 election. *Journal of economic perspectives*, 31(2):211–236.
- Barro, R. J. (1973). The control of politicians: an economic model. *Public choice*, pages 19–42.
- Berman, S. (2021). The causes of populism in the west. *Annual Review of Political Science*, 24:71–88.
- Bernhardt, D., Krasa, S., and Shadmehr, M. (2022). Demagogues and the economic fragility of democracies. *American Economic Review*, 112(10):3331–66.
- Brubaker, R. (2017). Why populism? *Theory and society*, 46(5):357–385.
- Callander, S. (2005). Electoral competition in heterogeneous districts. *Journal of Political Economy*, 113(5):1116–1145.
- Canes-Wrone, B., Herron, M. C., and Shotts, K. W. (2001). Leadership and pandering: A theory of executive policymaking. *American Journal of Political Science*, pages 532–550.
- Carnes, N. and Hansen, E. R. (2016). Does paying politicians more promote economic diversity in legislatures? *American Political Science Review*, 110(4):699–716.
- Carnes, N. and Lupu, N. (2023). The economic backgrounds of politicians. *Annual Review of Political Science*, 26.

- Douenne, T. and Fabre, A. (2022). Yellow vests, pessimistic beliefs, and carbon tax aversion. *American Economic Journal: Economic Policy*, 14(1):81–110.
- Edwards, S. (2019). On latin american populism, and its echoes around the world. *Journal of Economic Perspectives*, 33(4):76–99.
- Ferejohn, J. (1986). Incumbent performance and electoral control. *Public choice*, pages 5–25.
- Funke, M., Schularick, M., and Trebesch, C. (2021). The cost of populism: Evidence from history. Technical report, ECONtribute Policy Brief.
- Gilens, M. (2012). Affluence and influence. In *Affluence and Influence*. Princeton University Press.
- Guriev, S., Melnikov, N., and Zhuravskaya, E. (2021). 3g internet and confidence in government. *The Quarterly Journal of Economics*, 136(4):2533–2613.
- Guriev, S. and Papaioannou, E. (2022). The political economy of populism. *Journal of Economic Literature*, 60(3):753–832.
- Levy, G., Razin, R., and Young, A. (2022). Misspecified politics and the recurrence of populism. *American Economic Review*, 112(3):928–962.
- Maskin, E. and Tirole, J. (2004). The politician and the judge: Accountability in government. *American Economic Review*, 94(4):1034–1054.
- Mudde, C. and Kaltwasser, C. R. (2017). *Populism: A very short introduction*. Oxford University Press.
- Müller, J.-W. (2017). *What is populism?* Penguin UK.
- Palfrey, T. R. (1984). Spatial equilibrium with entry. *The Review of Economic Studies*, 51(1):139–156.

Rodrik, D. (2021). Why does globalization fuel populism? economics, culture, and the rise of right-wing populism. *Annual Review of Economics*, 13:133–170.

Online Appendix

A Efficient political alternation

A.1 Computation of condition (4) for strategy F_2

Under F_2 , the discounted expected payoff from ego rents is³²

$$\lambda_\phi(F_2) = \frac{1}{1 - (p_E\alpha + 1 - p_E)\beta}. \quad (10)$$

The ex-ante expected discounted payoff for the incumbent (before the state of the world is known) if he behaves well is $U^*(F_2)$ defined equation (1) with $\sigma = F_2$. When the state of the world is w_D and the incumbent is well-behaved, he is reelected with probability one, so that his expected discounted utility under election strategy F_2 can be written as $U^*(F_2|w_D) = \phi + \beta U^*(F_2)$. In contrast, if he deviates to E , his expected discounted payoff is $U^d(F_2|w_D) = \phi + \pi + \beta\pi\lambda_\pi(F_2)$. Deviating is not attractive if and only if $U^*(F_2|w_D) \geq U^d(F_2|w_D)$, which is equivalent to $\beta\phi\lambda_\phi(F_2) \geq \pi$, or, $\frac{\pi}{\phi} \leq \frac{\beta}{1 - (p_E\alpha + 1 - p_E)\beta}$. QED

A.2 Proof of Corollary 1

Let's first recap the results. All the politicians are well-behaved constitutes an equilibrium if and only if

$$\frac{\alpha\beta}{1 - \alpha\beta} > \frac{\pi}{\phi},$$

or,

$$\frac{(1 - \alpha)\beta}{1 - (p_E\alpha + (1 - p_E))\beta} \leq \frac{\pi}{\phi} \leq \frac{\beta}{1 - (p_E\alpha + (1 - p_E))\beta}$$

This is point 1 and 2 in Proposition 1. It is next easy to check that, $\frac{(1 - \alpha)\beta}{1 - (p_E\alpha + 1 - p_E)\beta} \leq \frac{\beta}{1 - (p_E\alpha + 1 - p_E)\beta}$ since $1 - \alpha \leq 1$. It is also easy to check that $\frac{\alpha\beta}{1 - \alpha\beta} \leq \frac{\beta}{1 - (p_E\alpha + 1 - p_E)\beta}$ since

³²Note that $\lambda_\phi(F_2) > \lambda_\phi(F_1) = \frac{1}{1 - \alpha\beta}$.

$\alpha\beta p_E \leq 1$. Let

$$a_1 = \min \left\{ \frac{\alpha\beta}{1 - \alpha\beta}, \frac{(1 - \alpha)\beta}{1 - (p_E\alpha + 1 - p_E)\beta} \right\}$$

$$a_2 = \max \left\{ \frac{\alpha\beta}{1 - \alpha\beta}, \frac{(1 - \alpha)\beta}{1 - (p_E\alpha + 1 - p_E)\beta} \right\}$$

If $\frac{\pi}{\phi} < a_1$ then only F_1 can achieve the first-best equilibrium. If $\frac{\pi}{\phi} > a_2$ then only F_2 can potentially achieve the first-best equilibrium. It must however be the case that $\frac{\pi}{\phi} < \frac{\beta}{1 - (p_E\alpha + 1 - p_E)\beta}$ to avoid having the politician adopting a populist behavior. Now if $\frac{\pi}{\phi} \in (a_1, a_2)$ two cases can occur. If $\frac{\alpha\beta}{1 - \alpha\beta} \leq \frac{(1 - \alpha)\beta}{1 - (p_E\alpha + 1 - p_E)\beta}$ then $a_1 = \frac{\alpha\beta}{1 - \alpha\beta}$ and $a_2 = \frac{(1 - \alpha)\beta}{1 - (p_E\alpha + 1 - p_E)\beta}$ so that with $\frac{\pi}{\phi} \in (a_1, a_2)$ neither F_1 , nor F_2 works: the first best cannot be implemented. If $\frac{\alpha\beta}{1 - \alpha\beta} > \frac{(1 - \alpha)\beta}{1 - (p_E\alpha + 1 - p_E)\beta}$ then $a_1 = \frac{1 - \alpha}{1 - (p_E\alpha + 1 - p_E)\beta}$ and $a_2 = \frac{\alpha\beta}{1 - \alpha\beta}$. Since $\frac{\alpha\beta}{1 - \alpha\beta} \leq \frac{\beta}{1 - (p_E\alpha + 1 - p_E)\beta}$ we deduce that $\frac{1 - \alpha}{1 - (p_E\alpha + 1 - p_E)\beta} < \frac{\pi}{\phi} < \frac{\alpha}{1 - \alpha\beta} \leq \frac{\beta}{1 - (p_E\alpha + 1 - p_E)\beta}$ so that both F_1 and F_2 can implement the first-best.

Let $\hat{\alpha}$ be so that $\frac{\alpha}{1 - \alpha\beta} = \frac{1 - \alpha}{1 - (p_E\alpha + 1 - p_E)\beta}$ (i.e., so that $a_1 = a_2$). Solving for this second degree equation, one root is larger than 1, and the other one, which is our solution yields:

$$\hat{\alpha} = \frac{2 + \beta p_E - \sqrt{4(1 - \beta) + (\beta p_E)^2}}{2\beta(1 + p_E)}. \quad (11)$$

It is easy to check that under our assumptions $\hat{\alpha} \in (\frac{1}{2}, 1)$. The condition $\frac{\alpha\beta}{1 - \alpha\beta} \geq \frac{(1 - \alpha)\beta}{1 - \beta(p_E\alpha + 1 - p_E)}$ is equivalent to $\alpha \geq \hat{\alpha}$. The set of $\frac{\pi}{\phi}$ values over which F_1 and/or F_2 implements the first best is compact (i.e. they overlap) if and only if $\alpha \geq \hat{\alpha}$. Symmetrically, if $\alpha < \hat{\alpha}$ then there is an interval of values for π/ϕ for which neither F_1 nor F_2 work. QED

B Implementing the populist threat

B.1 Proof of Lemma 1

There are five strategies, conditional on having an elite politician in power and receiving a bad signal, that entails voting for a populist: $S_1: (E, M) \rightarrow (P, A)$, $S_2: (E, M) \rightarrow (P, R)$, from Lemma 1, and in addition, $S_3: (E, M) \rightarrow (P, P)$, $S_4: (E, M) \rightarrow (A, P)$ and $S_5: (E, M) \rightarrow (R, P)$ where (as previously introduced) P stands for populism, A is another elite politician, and R is reelection. First, note that S_5 is never incentive compatible because it would be optimal for an elite politician to choose E when the state of the world is w_D as it will secure reelection while implementing the preferred elite policy over the voter's one. More interestingly, in what follow we show that S_3 is dominated by S_1 in that whenever the former give good incentive to the incumbent the latter does as well; and the latter involved voting for populist at a lower frequency. Then we are going to show that S_4 is dominated by F_1 .

Step 1: S_3 is dominated by S_1 . If the voter follows S_3 then only when the state of the world is w_D the incumbent has an incentive to misbehave (by choosing E over M). If the state of the world is w_D and the politician is well-behaved, he chooses M so that a populist is then elected in case of negative signal. It implies that with S_3 he gets: $U^*(S_3|w_D) = \phi + 0 + \alpha\beta U^*(S_3) + (1-\alpha)\beta\pi(p_M + \beta\lambda_\pi(S_3))$, where $U^*(S_3)$ is defined equation (1) with $\sigma = S_3$. If however the incumbent deviates by playing E in this period, because a populist is going to be elected next period with probability one, he gets: $U^d(S_3|w_D) = \phi + \pi + \beta\pi(p_M + \beta\lambda_\pi(S_3))$. The conjecture equilibrium is indeed an equilibrium if and only if $U^*(S_3|w_D) \geq U^d(S_3|w_D)$, which is equivalent to $\frac{\alpha\beta}{1-\alpha\beta}\phi + \beta\pi\alpha(\lambda_\pi(S_3)(1-\beta) - p_M) > \pi$. Let's compare this condition with condition (7), which is the condition for S_1 . First, the second term is here multiplied by $\alpha < 1$. Second, since populism arises more often with strategy S_3 , $\lambda_\pi(S_3)$ is smaller than $\lambda_\pi(S_1)$. Hence, for any π which satisfy the condition (7) in S_1 , it also satisfies the one in S_3 : S_1 is more effective than S_3 . Finally, the frequency at which the preferred voter's policy is obtained is higher in S_1 than in S_3 .

Step 2: S_4 is dominated by F_1 . As in step 1, we focus on the conflicting state of the world w_D . If the incumbent is well-behaved in state w_D , he gets $U^*(S_4|w_D) = \phi + 0 + \alpha\beta U^*(S_4) + (1 - \alpha)\beta\pi(p_M + \beta\lambda_\pi(S_4))$, where $U^*(S_4)$ is defined equation (1) with $\sigma = S_4$. Observe that when he is well-behaved, he chooses M , and so a populist will not be elected in case of negative signal. If, however, the incumbent deviates, he gets $U^d(S_4|w_D) = \phi + \pi + \beta\pi\lambda_\pi(S_4)$. The conjectured equilibrium is indeed an equilibrium if and only if $U^*(S_4|w_D) \geq U^d(S_4|w_D)$, which is equivalent to

$$\alpha\beta\phi\lambda_\phi(S_4) + \underbrace{\lambda_\pi(S_4)\pi\beta(1 - \alpha)(\beta - 1)}_{<0} \geq \pi \quad (12)$$

Note that, under S_4 , a well-behaved incumbent is reelected with probability α . Thus, we have that $\lambda_\phi(S_4) = \lambda_\phi(F_1)$ defined in equation (2). Therefore if the condition (12) is satisfied, then the condition (3) is also satisfied. And F_1 restores the first best, while S_4 does not. QED

B.2 Proof of Proposition 2

Point 1. The computations for the case S_1 are in the main text. The only part missing from the proof is to check that if the state of the world is w_E , the incumbent is willing to play E . If he does, he gets: $U^*(S_1|w_E) = \phi + \pi + \alpha\beta U^*(S_1) + (1 - \alpha)\beta\pi(p_M + \beta\lambda_\pi(S_1))$, where the last term captures the fact that, if the incumbent chooses E and the signal is bad, he is replaced by the populist. If, instead, the incumbent deviates (in the present period only), then he gets $U^d(S_1|w_E) = \phi + 0 + \beta\pi\lambda_\pi(S_1)$, as he will lose the election with certainty when choosing M and will then be replaced by another elite politician. The deviation is not profitable if and only if $U^*(S_1|w_E) \geq U^d(S_1|w_E)$ which, after substituting $U^*(S_1)$ defined equation (1) for $\sigma = S_1$, is equivalent to $\pi + \phi\alpha\beta\lambda_\phi(S_1) + \beta\pi(1 - \alpha)(p_M - \lambda_\pi(S_1)(1 - \beta)) > 0$. Substituting $\lambda_\phi(S_1) = \lambda_\phi(F_1)$ defined equation (2), $\lambda_\pi(S_1)$ defined equation (6), and simplifying, we obtain: $\frac{\pi}{1 + p_E\beta(1 - \alpha)} + \frac{\phi\alpha\beta}{1 - \alpha\beta} > 0$. This condition is always satisfied, even if π , the rent from ruling, is set to zero.

Point 2. Observe first that on the equilibrium path the incumbent's expected policy payoff

from playing S_2 does not change relative to S_1 because all elite politicians choose the same policy, and the probability that a populist is in charge is exactly the same as under S_1 (as the populist is only elected after policy E and a bad signal). Thus, we have $\lambda_\pi(S_2) = \lambda_\pi(S_1)$ defined equation (6). Second, the incumbent's continuation utility from holding office is the same as under F_2 , because the incumbent is replaced in the same states. Thus we have $\lambda_\phi(S_2) = \lambda_\phi(F_2)$ defined equation (10). To check when this is an equilibrium, we need to compute the best profitable deviation, given the strategies of the other politicians. First, consider the state of the world w_D , where the incumbent may have an incentive to misbehave by choosing E over M . If he is well-behaved in state w_D , he gets: $U^*(S_2|w_D) = \phi + \beta U^*(S_2)$. If, instead, he chooses to play E , the continuation utility is $U^d(S_2|w_D) = \phi + \pi + \beta \pi (p_M + \beta \lambda_\pi(S_2))$. The politician has no incentive to deviate from S_2 if and only if $U^*(S_2|w_D) \geq U^d(S_2|w_D)$, which, after substituting $U^*(S_2)$ defined equation (1) for $\sigma = S_2$, is equivalent to $\beta \phi \lambda_\phi(S_2) + \beta \pi ((1 - \beta) \lambda_\pi(S_2) - p_M) \geq \pi$. Substituting $\lambda_\pi(S_2) = \lambda_\pi(S_1)$ from equation (2), $\lambda_\phi(S_2) = \lambda_\phi(F_2)$ from equation (10), and simplifying yields $\pi \leq \frac{\beta \phi}{1 - (p_E \alpha + 1 - p_E) \beta} + \frac{\pi \beta p_E}{1 + p_E \beta (1 - \alpha)}$. This is equivalent to $\frac{\pi}{\phi} \leq \frac{1 - p_E \beta \alpha + p_E \beta}{1 - p_E \beta \alpha} \frac{\beta}{1 - (p_E \alpha + 1 - p_E) \beta}$, which is the RHS of equation (8).

Second, as with strategy F_2 , there is a danger with strategy S_2 that the incumbent implements false populism in order to ensure reelection. Given the state of the world w_E , a well-behaved incumbent's continuation payoff is $U^*(S_2|w_E) = \phi + \pi + \alpha \beta U^*(S_2) + (1 - \alpha) \beta \pi (p_M + \beta \lambda_\pi(S_2))$. If, instead, the incumbent deviates by choosing M in order to ensure reelection (only for one period), then the expected continuation payoff is $U^d(S_2|w_E) = \phi + 0 + \beta U^*(S_2)$, where $U^*(S_2)$ is defined equation (1) for $\sigma = S_2$. The equilibrium strategy is at least as good as the one shot deviation if and only if $U^*(S_2|w_E) \geq U^d(S_2|w_E)$, which is equivalent to $\pi \geq \beta (1 - \alpha) \phi \lambda_\phi(S_2) + \beta (1 - \alpha) \pi (\lambda_\pi(S_2) (1 - \beta) - p_M)$. Substituting $\lambda_\pi(S_2) = \lambda_\pi(S_1)$ from equation (2), $\lambda_\phi(S_2) = \lambda_\phi(F_2)$ from equation (10), and simplifying yields $\pi \geq \frac{(1 - \alpha) \beta \phi}{1 - \beta (1 - p_E (1 - \alpha))} + \pi \frac{\beta p_E (1 - \alpha)}{1 + p_E \beta (1 - \alpha)}$. This can be rewritten as $\frac{\pi}{\phi} \geq \frac{(1 - \alpha) \beta}{1 - \beta (1 - p_E (1 - \alpha))} (1 + p_E \beta (1 - \alpha))$, which is the LHS of equation (8). QED

B.3 Proof of Proposition 3

Remember that ν denotes the voter's payoff from her preferred policy, and let λ_ν denote the discounted expected probability that the voter obtains her favorite policy, which depends on the electoral strategy, and on the policy and signal from the previous period (as that influences whether a populist is in power in the current period).

The expected discounted payoff from electing the populist is $\lambda_\nu(S_1|bad, E) = \lambda_\nu(S_2|bad, E)$. That is, it does not matter for this calculation whether S_1 or S_2 is played since both policies, when effective, lead to the same rate of populists in power when the politician chose to implement E and the signal is bad. In order to compute $\lambda_\nu(S_1|bad, E)$, we express it recursively:

$$\lambda_\nu(S_1|bad, E) = \underbrace{1 - p_E}_{t: \text{populist}} + \underbrace{\beta}_{t+1: \text{elite}} + \underbrace{\beta^2((1 - \alpha)p_E\lambda_\nu(S_1|bad, E) + (1 - (1 - \alpha)p_E)\lambda_\nu(S_1|good \text{ or } M))}_{t+2 \text{ onward}}$$

$$\lambda_\nu(S_1|good \text{ or } M) = 1 + \beta((1 - \alpha)p_E\lambda_\nu(S_1|bad, E) + (1 - (1 - \alpha)p_E)\lambda_\nu(S_1|good \text{ or } M)).$$

Solving the system we obtain: $\lambda_\nu(S_1|bad, E) = \frac{1 - p_E^2(1 - \alpha)\beta - p_E(1 - (2 - \alpha)\beta)}{(1 - \beta)(1 + p_E(1 - \alpha)\beta)}$. The voter's expected discounted utility from electing a populist after policy E and a bad signal is $U^*(S_1|bad, E) = \lambda_\nu(S_1|bad, E)\nu$. If, instead, the voter deviates and "forgives" the incumbent (or replaces him with another elite politician), then elite politicians switch to the belief that the voter's populist threat is not credible and will therefore choose policy E in all future periods in which the state is w_D . In this case, the voter's expected discounted payoff from keeping an elite politician after policy E and a bad signal is given by $\frac{1 - p_D}{1 - \beta}\nu$. The representative voter finds it beneficial to implement the populist threat if and only if $U^*(S_1|bad, E) > \frac{1 - p_D}{1 - \beta}\nu$, which is equivalent to $\frac{1 + p_E^2(\alpha - 1)\beta - p_E(1 + (\alpha - 2)\beta)}{(1 - p_E(\alpha - 1)\beta)} \geq 1 - p_D$. After some simplification it boils down to $\frac{p_E(1 - \beta + p_E\beta(1 - \alpha))}{1 + p_E\beta(1 - \alpha)} \leq p_D$, which is condition (9) in Proposition 3. QED

B.4 The populist threat is not always useful to incentivize elite politicians

We show that there exists a non-empty set of parameters for which F_2 sustains an equilibrium in which all elite politicians are well behaved, which requires that conditions (4) and (5) hold, while condition (7) and condition (8) do not hold so that S_1 and S_2 fail to incentivize them. This case occurs if and only if there exists C_1 , with $1 < C_1 \leq \frac{1}{1-\alpha}$, such that:

$$\frac{(1-\alpha)\beta}{1-(p_E\alpha+1-p_E)\beta} \leq \frac{\pi}{\phi} \leq C_1 \frac{(1-\alpha)\beta}{1-(p_E\alpha+1-p_E)\beta},$$

and

$$\frac{\alpha\beta}{1-\alpha\beta} \frac{1+p_E\beta(1-\alpha)}{1-p_E\alpha\beta} < \frac{\pi}{\phi}.$$

The first condition guarantees that F_2 's conditions (4) and (5) are satisfied while S_2 's condition (8) is not. The second condition guarantees that S_1 's condition (7) is not satisfied. It is straightforward that, for any $C_1 > 1$, the set of $\frac{\pi}{\phi}$ for which the first condition is satisfied is non-empty. So the set of interest is non-empty if and only if $1+p_E\beta(1-\alpha) \leq \frac{1}{1-\alpha}$, which is equivalent to $\beta p_E \leq \frac{\alpha}{(1-\alpha)^2}$, and the following condition is satisfied:

$$\frac{\alpha\beta}{1-\alpha\beta} \frac{1+p_E\beta(1-\alpha)}{1-p_E\alpha\beta} \leq \frac{(1-\alpha)\beta}{1-(p_E\alpha+1-p_E)\beta}.$$

It is easy to check that if p_E is small, or if β is small, there are many values of α so that both conditions hold. To see this point consider the limit case $p_E = 0$ then the first condition is always true, while the second is equivalent to $\frac{\alpha}{1-\alpha\beta} \leq \frac{1-\alpha}{1-\beta}$, which is true for all $\alpha \leq \frac{1}{2}$. By continuity there are many cases so that both conditions hold. QED

C Extensions and Additional Results

C.1 Endogeneous political programs

In our model, two programs are offered:

$$-Main (w_D, w_E, w_M) \longrightarrow (M, E, M)$$

$$-Popu (w_D, w_E, w_M) \longrightarrow (M, M, M)$$

that are supplied by elite politicians and populists respectively. Yet, there exist six alternative programs:

$$-\mathcal{P}1 (w_D, w_E, w_M) \longrightarrow (E, E, M),$$

$$-\mathcal{P}2 (w_D, w_E, w_M) \longrightarrow (E, E, E),$$

$$-\mathcal{P}3 (w_D, w_E, w_M) \longrightarrow (M, M, E),$$

$$-\mathcal{P}4 (w_D, w_E, w_M) \longrightarrow (E, M, M),$$

$$-\mathcal{P}5 (w_D, w_E, w_M) \longrightarrow (E, M, E),$$

$$-\mathcal{P}6 (w_D, w_E, w_M) \longrightarrow (M, E, E).$$

Those were discarded from the analysis because, for the set of parameters considered in section 4 and 5, choosing any of these programs at any point in time cannot increase the voter's payoff.

Hence a rational voter will never choose them. There is one exception, however, when $p_E > \frac{1}{2}$ and $p_D > p_M$, there exists circumstances under which the representative voter prefers to punish ruling elite politicians by electing an elitist candidate following $\mathcal{P}2$ instead of a populist $Popu$.

We next provide a formal proof of these statements.

Proof: As a first step, we show that implementing one of the six programs $\mathcal{P}1$ to $\mathcal{P}6$, cannot improve voters' payoff for the set of parameters considered in section 4 and 5. When a program is conditional on the state of the world, it must be incentive compatible, i.e., an elite politician

cannot commit ex-ante on the policy he will implement. In what follow, by implementable we mean that the elite politician has no incentive to deviate while following a given program.

First, if conditions (3) or (4) and (5) are met, then the voter’s payoff cannot be improved as she always gets her favorite policy (i.e., the first best).

Second, if those are not satisfied but either condition (7) holds or condition (8) holds, then the voter faces an alternation of well-behaved elite politicians and populists. In the latter case, we know that when condition (9) holds, the voter prefers to implement the populist threat over having in power a misbehaving elite politician $\mathcal{P}1$ or a populist *Popu* forever (Proposition 3). Indeed $\mathcal{P}1$ describes what an elite politician would do if not (well) incentivized. Hence, this program is not attractive for the set of parameters considered in section 4 and 5. Always implementing $\mathcal{P}2$ is worse than $\mathcal{P}1$ in the sense that it leads to a lower voter’s expected payoff than when the elite politicians are always misbehaving.

Third, observe that if implemented, $\mathcal{P}3$, $\mathcal{P}4$, and $\mathcal{P}5$ trivially lead to a lower voter payoff than the populist program *Popu*. And, if the incumbent politician cannot credibly commit to follow them because they are not incentive compatible, then those programs are weakly dominated by a misbehaving incumbent in every period $\mathcal{P}1$.

Fourth, the program $\mathcal{P}6$, when implementable, is better than populism if $p_E > p_M$ and better than a misbehaving elite politician if $p_D > p_M$. However, as the elite program, this program needs to be incentivized through reelection concerns to be implemented. Given that the politician has an incentive to deviate both in the state w_D and w_M , only an analogous strategy to F_1 can work: replace a politician following $\mathcal{P}6$ by a politician following $\mathcal{P}6$ if and only if the signal is bad. Observe that the range of parameters for which this is an equilibrium is given by condition (3).³³ However, when this condition holds, the first best is implementable, so the voter would be worst off if politicians were to follow the program $\mathcal{P}6$ rather than *Main*.

As a second step, we show that these programs cannot be used as a “better” form of punishment than *Popu* to incentivize elite politicians following an optimal mainstream pro-

³³Indeed, the only thing which changes from F_1 ’s computation is that the frequency at which a politician gets his favorite policy changes from $1 - p_D$ to $1 - p_D - p_M$, a term which cancels out.

gram *Main*. First, $\mathcal{P}1$ is not interesting as a punishment because one cannot punish an elite politician by giving him his favorite policy. Then, we have seen that the program $\mathcal{P}6$ can be interesting when $p_E > p_M$ and $p_D > p_M$. However we must check that punishing an elite politician following the *Main* program with $\mathcal{P}6$, will lead to a better voter's expected payoff. The punishment $\mathcal{P}6$ is more effective than the punishment in F_1 to incentivize the elite politician as, upon losing the election, the elite politician would get his favorite policy less often. The problem is that, as mentioned earlier, the politician following $\mathcal{P}6$ must be incentivized as well. But it is impossible to punish someone following $\mathcal{P}6$ by an elite politician following the program *Main* when condition (3) is not satisfied because the politician following $\mathcal{P}6$ would receive his favorite policy comparatively at a faster rate if he loses the election and is replaced by a well behaving elite politician. So this makes him more likely to deviate than an elite politician in section 4.

Using the same reasoning, we can also trivially discard the programs $\mathcal{P}3$, $\mathcal{P}4$ and $\mathcal{P}5$ as a form of punishment.

Finally, observe that the program $\mathcal{P}2$ can be of interest to the voter under certain circumstances. This is surprising because this program boils down to extreme elitism, which both politicians and voters dislike, and which hurts relatively more the voter than the elite (because in the disagreement state extreme elitism is good for the elite politician but not the voter). This punishment is preferred whenever (i) the extreme elitism program is less harmful than the populist program from voter's view point, that is if $1 - p_E > 1 - p_M - p_D$, which implies that $p_E > \frac{1}{2}$, and (ii) being replaced by an extreme elitist represents a stronger punishment than being replaced by a well behaved elite politician, that is if, $p_M > p_D$. To put it differently, when extreme elitism is enough to discipline the ruling elite, and policy E is very likely to be the good one, then a politician committing to always implement E (i.e., independently of the state of the world) can be used as a form of punishment.

□

C.2 Two mainstream parties

In the main text, we examined the incentives of individual politicians. A similar analysis can be conducted by focusing on the incentives of political parties instead. The key distinction between politicians and parties lies in their long-term considerations. While an incumbent politician who fails to get re-elected typically cannot regain power, a party, particularly in a two-party system like that of the United States, has the potential to return to power in the future. Including a two-party system in our model does not alter the main findings but introduces additional effects. Importantly, in a two-party system, it becomes more challenging to incentivize elite incumbents due to their reduced fear of losing elections. Consequently, there is an increased likelihood of voters leaning towards populist candidates. That being said, the reduced fear of losing elections also means that pandering is less problematic in a two-party system.

To make those points formal, consider a variant of the model in which, instead of a large pool of identical politicians, there are two identical mainstream parties and a populist one. In the first-best, the only qualitative difference is that the expected discounted return of being in power is higher than in the baseline model because there is a probability of returning to power after losing an election. First, we compute the condition under which F_1 is incentive compatible.

Although the intrinsic payoff does not change ($\lambda_\pi(F_1) = \frac{1-p_D}{1-\beta}$ does not change), the sum of discounted probability of being in power changes due to the possibility of coming back to power. Formally, we can express $\lambda_\phi(F_1)$ recursively:

$$\begin{aligned}\lambda_\phi(F_1) &= 1 + \beta\alpha\lambda_\phi(F_1) + \beta(1-\alpha)\lambda_\phi^{op}(F_1) \\ \lambda_\phi^{op}(F_1) &= 0 + \beta\alpha\lambda_\phi^{op}(F_1) + \beta(1-\alpha)\lambda_\phi(F_1)\end{aligned}$$

where $\lambda_\phi^{op}(F_1)$ represents the discounted expected payoff from ruling, while currently being in

the opposition. Solving the system we obtain:

$$\lambda_\phi(F_1) = \frac{(1 - \alpha\beta)}{(1 - \beta)(1 + \beta - 2\alpha\beta)} \quad (13)$$

$$\lambda_\phi^{op}(F_1) = \frac{(1 - \alpha)\beta}{(1 - \beta)(1 + \beta - 2\alpha\beta)} \quad (14)$$

Provided that the representative voter plays F_1 , all politicians being well-behaved is an equilibrium if and only if $\phi + \beta\alpha U^*(F_1) + \beta(1 - \alpha)U^{op*}(F_1) \geq \phi + \pi + \beta U^{op*}(F_1)$, which boils down to, $\phi\beta\alpha(\lambda_\phi(F_1) - \lambda_\phi^{op}(F_1)) \geq \pi$. Replacing by their values from equations (13) and (14) and simplifying we obtain:

$$\frac{\alpha\beta}{1 + \beta - 2\alpha\beta} \geq \frac{\pi}{\phi}. \quad (15)$$

As $\alpha < 1$, this condition is less often satisfied than condition (3): When politicians or parties have a high chance to get back in power after losing an election, it is harder to incentivize them.

We now turns to strategy F_2 . Compared to F_1 , the ex-ante probability of reelection (i.e., before the state of the world is known) increases from α to $\bar{\alpha} \equiv p_E\alpha + 1 - p_E \geq \alpha$. Using an identical reasoning as above we obtain:

$$\lambda_\phi(F_2) = \frac{(1 - \bar{\alpha}\beta)}{(1 - \beta)(1 + \beta - 2\bar{\alpha}\beta)},$$

$$\lambda_\phi^{op}(F_2) = \frac{(1 - \bar{\alpha})\beta}{(1 - \beta)(1 + \beta - 2\bar{\alpha}\beta)}.$$

Provided that the representative voter plays F_2 , all politicians being well-behaved is an equilibrium if and only if $\phi + \beta\bar{\alpha}U^*(F_1) + \beta(1 - \bar{\alpha})U^{op*}(F_2) \geq \phi + \pi + \beta U^{op*}(F_2)$, which boils down to, $\phi\beta\bar{\alpha}(\lambda_\phi(F_2) - \lambda_\phi^{op}(F_2)) \geq \pi$. Replacing by their values and simplifying we obtain:

$$\frac{\beta\bar{\alpha}}{1 + \beta - 2\bar{\alpha}\beta} = \frac{\beta(\alpha p_E + 1 - p_E)}{1 + \beta - 2(\alpha p_E + 1 - p_E)\beta} \geq \frac{\pi}{\phi} \quad (16)$$

Once again, due a reduced fear of losing reelection, this condition is less often satisfied than the condition (4).

Finally, we have to check, that an incumbent in state E does not want to deviate to play M . When the state of world is w_E , if all politicians are well-behaved, the expected utility of the incumbent is $U^*(F_2|w_E) = \phi + \pi + \alpha\beta U^*(F_2) + (1 - \alpha)\beta U^{op*}(F_2)$. If the incumbent deviates, only for one period, by choosing M , he ensures his reelection in the next period and gets utility $U^d(F_2|w_E) = \phi + \beta U^*(F_2)$. This one-shot deviation is unattractive for the incumbent if and only if $U^*(F_2|w_E) \geq U^d(F_2|w_E)$, hence if $\pi \geq \beta(1 - \alpha)\phi(\lambda_\phi(F_2) - \lambda_\phi^{op}(F_2))$, or

$$\frac{\pi}{\phi} \geq \frac{\beta(1 - \alpha)}{1 + \beta - 2(\alpha p_E + 1 - p_E)\beta}. \quad (17)$$

Simple inspection reveals that this condition is more often satisfied than condition (5) showing that pandering is less tempting in a bi-party system.

We have shown that in the two-party case, it is more challenging to incentivize elite incumbents due to their reduced fear of losing elections. As a result, the populist threat remains, and actually becomes even more valuable for voters. Solving for the expressions of second-best conditions is beyond the scope of this paper.