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The Good, the Bad and the Populist: A Model of Political Agency with Emotional Voters

BY

COLIN JENNINGS

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**DEPARTMENT OF ECONOMICS
UNIVERSITY OF STRATHCLYDE
GLASGOW**

The Good, the Bad and the Populist: A Model of Political Agency with Emotional Voters

Colin Jennings[*]

Department of Economics, University of Strathclyde

colin.jennings@strath.ac.uk

Abstract

This paper attempts to extend existing models of political agency to an environment in which voting may be divided between informed and instrumental, informed and 'expressive' (Brennan and Lomasky (1993)) and uninformed due to 'rational irrationality' (Caplan (2007)). It constructs a model where politicians may be good, bad or populist. Populists are more willing than good politicians to pander to voters who may choose inferior policies in a large-group electoral setting because their vote is insignificant compared with those that voters would choose were their vote decisive in determining the electoral outcome. Bad politicians would ideally like to extract tax revenue for their own ends. Initially we assume the existence of only good and populist politicians. The paper investigates the incentives for good politicians to pool with or separate from populists and focuses on three key issues – (1) how far the majority of voter's preferences are from those held by the better informed incumbent politician (2) the extent to which the population exhibits rational irrationality and expressiveness (jointly labelled as emotional) and (3) the cost involved in persuading uninformed voters to change their views in terms of composing messages and spreading them. This paper goes on to consider how the inclusion of bad politicians may affect the behaviour of good politicians and suggests that a small amount of potential corruption may be socially useful. It is also argued that where bad politicians have an incentive to mimic the behaviour of good and populist politicians, the latter types of politician may have an incentive to separate from bad politicians by investing in costly public education signals. The paper also discusses the implications of the model for whether fiscal restraints should be soft or hard.

Keywords: Political Agency, Expressive Voting, Rational Irrationality, Democratic Inefficiency, Populism

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1. Introduction

A crucial debate within Political Economics is the extent to which we can assume full rationality on the part of voters. Since Downs (1957), the concept of 'rational ignorance' has been a thorny problem to deal with. The idea is that given the very low probability of determining the outcome of an election, there is very little incentive for voters to become well-informed about the link between policy and outcomes. The concept of rational ignorance became an important component of the 'Virginia School' of public choice. In, for example, Brennan and Buchanan (1980) the idea of voters having great difficulty holding politicians to account became a key contribution to their emphasis on democratic inefficiency and the importance of constitutionally set fiscal restraints. Voters may suffer from 'fiscal illusion' or they may not be cognisant of 'sneaky transfers' to interest groups (Tullock 1983).

This led to a response by the 'Chicago School', particularly by Wittman (1989, 1995). He attempts to dismiss concerns regarding voter irrationality and argues that democratic institutions are, in fact, efficient. He recognised the fact that individual voters are insignificant and that this could lead to individual biases away from what the voter would understand to be correct policy if they were fully informed. But overall, we should expect individual biases to cancel out. In addition, if voters are being fooled why would we expect this to persist over time? To a large extent Wittman was confronting an issue that many political economists had already assumed away. The vast majority of papers in political economics do not worry about the implications of voter insignificance and assume full voter rationality. Nonetheless, while Wittman's contention that a strong version of rationality should be assumed would generally meet with vigorous approval within the economics profession, the emphasis on the efficiency of democracy would not find common consent. Surveys such as Rodrik (1996), Robinson (1998) and Besley (2006, chapter 2) present various explanations for the existence of democratic inefficiency. But, where inefficiency does seem clearly to exist the source of the problem should not be identified as related to voter rationality but rather as the equilibrium outcome of the political game played between strategic agents (or groups of agents).[1] This point is made very forcefully by

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[1] The identification of inefficiency does not imply that it can be eliminated. A debate can be entered as to whether a seeming inefficiency is actually constrained efficient given the various transaction costs that may exist and thus whether there is actually any possibility of efficiency enhancing institutional change.

Rodrik (1996) who after surveying rational models of bad macroeconomic policy writes *'they confirm that we can do better than resort to myopia or irrationality when explaining social phenomena' (p.25).*[2]

Modern political economics has progressed with the construction of models of electoral competition and political agency without having the waters muddied by capricious voter behaviour. Models of electoral competition are open to the criticism that campaign promises are cheap talk and political agency models emerged from the perspective that voters instead decide to vote on the basis of incumbent performance rather then electoral promises. It is within the latter class of models (in political agency) that this paper will lie and Besley (2006) has provided a comprehensive overview of this area of political economics. In these models voters base their decision on the performance of the incumbent, so voting is retrospective and voters update their beliefs regarding the quality of the incumbent according to Bayes Rule. The voters are highly rational. Political agency models deal primarily with valence issues that all voters would agree on, such as efficient use of taxpayers' money, in contrast to distributional battles over tax and spending bundles where preferences are determined by, for example, voter's income. This emphasis on efficiency allows the basic political agency model to ignore distributional struggles and as a consequence voter heterogeneity.

In the baseline political agency approach a two-period model is utilised to explore issues which relate to moral hazard and adverse selection. Moral hazard relates to the discipline effect. Can a low quality incumbent (either in terms of competence or character) be persuaded to give up rents and provide voters with good policy? The incentive to do so is to retain power and enjoy full rents (through poor policy) in the second period. Adverse selection relates to the selection effect. By exposing a low quality incumbent, there is a positive probability that a randomly drawn challenger will be of high quality and provide good policy in the second period. As such, the discipline and selection effects are offsetting. Besley (2006) surveys myriad extensions that have been made to this basic model.

This paper will pick up on one of these extensions. Besley devotes a section to models of pandering/populism. In the baseline model it is the low quality incumbent

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[2] Examples of papers that attempt to provide fully informed, rational explanations for socially undesirable fiscal deficits are Persson and Svensson (1989) and Alesina and Tabellini (1990). Examples of papers which attempt to account for inefficient redistribution are Coate and Morris (1995) and Acemoglu and Robinson (2001).

who faces the decision whether to behave well or not. Besley labels these politicians 'dissonant' as their preferences are not aligned with the interests of the general public. The high quality incumbent is 'congruent' because they are rewarded for doing the right thing which is their desire in any case as their interests are aligned with those of the general public. In reality though voters do not always seem to vote their interests and in this situation it is the good politician who would face a dilemma. Does she give the voters what they want (but which is not in their interests) in order to do the right thing in the second period or do the right thing today and risk not being re-elected and allowing the possibility of a bad politician taking charge in the second period?

This style of problem has been explored in Canes-Wrone, Herron and Shotts (2001), Morris (2001) and Maskin and Tirole (2004). These papers do not deviate from the assumption that voters are fully rational and Bayesian and as a result they emerge with what are arguably quite complicated stories as to why we might observe populism. For example in Maskin and Tirole the idea is that voters decide that a certain policy is one that would be enacted by a bad politician (based on experience) and vote against it. A good incumbent discovers that this policy is, in fact, one that is in the interests of voters but in order to be re-elected must implement the inefficient, but popular, policy instead. But this perspective of pandering/populism does not seem to gel with the general use of those terms in popular publications such as the *Economist*.[3] When used in journalistic articles by economic commentators, 'populism' would tend to identify policies that virtually all economists would recognise as bad. For example, in macroeconomic policy this could be excessively large budget deficits and inflationary finance. In microeconomic policy, it could be excessive protectionism and other market interventions that create deadweight losses which are hard to justify on grounds of equity. Outside economics, populism is a word often invoked in the context of policies of aggression where communities or countries are in conflict. The more efficient, but non-popular policy approach would more often be to work towards peace. So the modern use of the word populism is more often used in a derogatory fashion and refers to the implementation of policies that are popular but almost invariably bad.[4] If such populism is common, the theoretical problem is

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[3] See for example 'The return of populism', *The Economist*, April 12, 2006.
[4] There is, of course, a different use of the term 'populism' in the sense that it stands for movements of the people standing up to powerful elites (see Canovan 1999 and *the Economist* cited above). This perspective treats populism as a term related to distributional conflict and zero-sum outcomes. The

that this would really seem to suggest that a degree of irrationality exists that cannot easily be dismissed through the construction of models that would explain such policies as the equilibrium of a game played between fully rational actors but where the collective outcome is inefficient. Some policies are supported where if the voters were playing a best response we should really expect them to oppose them given the effect of these policies on voter welfare.

But is voting of this sort actually irrational? Perhaps, in a hard sense of the word it is but in a much weaker sense there is a very strong argument that would suggest that it is not irrational. This paper greatly simplifies the analysis of populism by resurrecting the idea of rational ignorance as explored and extended in Caplan (2002, 2007). Caplan extends the idea of rational ignorance to develop the idea of 'rational irrationality'. A crucial finding in Caplan's empirical work is that citizens untrained in economics have systematically biased beliefs with respect to citizens trained in economics. He argues that these biases can be seen in four main areas – anti-market bias, anti-foreign bias, make-work bias and pessimistic bias. He argues that they hold these biases because people desire beliefs and very often these beliefs may run contrary to evidence. Consider, for example, the belief in creationism. Beliefs are a normal good and when their price is low demand for them will be high. The price will be low in situations where if the individual were to alter their belief it would make no or little difference to their material existence. In democratic elections the probability of being decisive is extremely low and as a result changing beliefs is very unlikely to make any difference to the outcome of the election and as a result the life of the individual voter. Furthermore there is, in addition, no incentive to even become acquainted with evidence that would suggest that there is an alternative and more accurate view of the world than the one they currently hold. Rational irrational voters do not possess information that would conflict with their belief system as they have no incentive to acquire it.

Note that rational irrationality differs from rational ignorance in that an ignorant voter cannot be presumed to have a particular opinion. There was no role within rational ignorance for a demand for beliefs. A rationally irrational voter, on the other hand, has an opinion (often very strongly held) because there is a role for a demand for beliefs. When the majority of voters hold biases such as those identified by Caplan

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derogatory use of the term populism, as used in this paper, implies inefficiency and negative-sum outcomes.

it provides a fairly direct rule of thumb for which policies incumbents should enact should they wish to be re-elected. This allows for the common sense understanding of populism as an identifiable policy package that we define as *always* inferior and one which fully rational, instrumentally motivated voters would never select.[5]

A criticism of the model to be developed in this paper is that it will simply turn the discipline and selection effects upside down and in a way which is much less sophisticated than the aforementioned political agency literature on populism which still holds to full rationality and Bayesian updating. While this might be true if we allowed for a simple binary choice of policy (good or bad) as is the norm in the political agency literature, we instead try and capture a more realistic depiction of policy choice and assume that it is continuous and that there is an option for the incumbent to engage in public education of good policy. This introduces a novel perspective to both the seriousness of the inefficiency (for example protectionism, fiscal deficits and violent conflict are not generally either/or issues but rather issues of how much) and to the ways in which government can send signals. One way in which a government can send signals is to engage in costly acts of public education or persuasion regarding the nature of good policy. Romer (2003) forcefully makes the point that education is very important when bad policy is caused by misconceptions. If the source of inefficiency in a model is held to be unrelated to misconceptions then clearly education would be irrelevant because the voters are already fully informed. Like Caplan, Romer argues that misconceptions are real, widespread and thus form a major contribution towards bad policy. As an appeal to the reality of biases both Caplan and Romer point to the clear biases that university students arrive with and which teachers in economics and many other subjects try to correct. Romer emphasises that biases also exist at the higher and perhaps more worrying level of public officialdom and policy-makers.

The model will be further enriched by the presence of expressive voters. These are close cousins of Caplan's rational irrational voters but there is a crucial difference. In the latter, voters hold beliefs but these beliefs are challenged by the voter possessing an understanding that their beliefs may be wrong. So, for example, voters who consider themselves protectionist may change their mind when they understand the law of comparative advantage. Expressive voters as presented in Brennan and

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[5] An important question that remains to be answered is where does the bias come from?

Lomasky (1993) are fully informed but they may not vote their instrumental interest because they know their vote is unlikely to affect the outcome of the election. If expressive voters define themselves as protectionist or religious fundamentalists, an understanding that protectionism or religious fundamentalism is not their in their instrumental interests may have no effect upon their voting for protectionist or fundamentalist positions for the very reason that these voters understand that their vote entails no instrumental consequence. The extent to which voters are expressive is important in determining the effect of information provision in converting voters towards supporting better policies and we will argue that the extent of conversion is also influenced by how radical is the policy change proposal.[6] We label both types of voter 'emotional' and the extent to which these emotional voters are rationally irrational or expressive is central to the analysis. We also hope this richer depiction of voter's types and motivations goes some way to meeting a challenge set by Besley (2006) to incorporate behavioural approaches into political agency modelling. *"Going forward it would be interesting to understand better what the differences are between behavioral models of politics and the postulates of strict rationality supposed here. It would be useful to understand when simple and sensible behavioral rules lead to large policy distortions."* (Besley 2006: 172).[7]

As an explanation for inefficient policies, the depiction of emotional voting in this paper should be viewed as a complement to rather than a substitute for analyses that assume full instrumental rationality and which focus instead on strategic interaction as the source of inefficiency. Consider Acemoglu and Robinson's (2001) discussion of inefficient redistribution. They focus on the inability to form binding commitments as the trigger which leads interest groups to seek transfers inefficiently through market interventions rather than efficiently through cash transfers. Political power comes with maintaining large numbers and inefficient transfers keeps current and future members in the interest group whereas with cash transfers membership of the interest group would decline over time and thus the group would weaken and with it the group's ability to extract transfers. Therefore, inefficient transfers are in the material

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[6] This depiction of expressive voting is a negative one. In section 3 an alternative depiction of expressive voting will be used which is positive. It is based on Brennan and Hamlin (1999) which focuses on voters selecting politicians on the basis of their moral attributes.

[7] A paper that attempts to amend the standard model of electoral competition for an environment in which voting is expressive is Brennan and Hamlin (1998). This paper could be viewed as a similar attempt to amend the standard model of political agency to incorporate expressive voting.

self-interest of the members of the interest group. They apply the model to agricultural, labour market and trade policies.

While this is a theory that would explain a significant fraction of the support for inefficient transfers (namely the members of the recipient group), it also the case that such policies are often supported by a further group of voters who are not members of the interest group and who are actually hurt by such policies. These are the sorts of voters who appear in this paper and it is unlikely that these 'emotional' voters would find cash transfers to interest groups emotionally appealing. Further, it seems likely that where an inefficient policy appears to receive a very large level of support it would seem likely that a large proportion of those supporters are not material beneficiaries of the policy. Evidence for both types of support for protectionism is found in Mayda and Rodrik (2003). In addition to finding support for protectionism from those groups that benefit from it (given the absence of institutional arrangements which would provide for a Pareto superior distribution of surplus), they also find that *'protectionist attitudes go together with a well-defined set of normative attributes. Individuals who favor trade restrictions tend to have high attachments to their neighborhood and community, have a high degree of national pride, and believe that national interest should be paramount in making trade-offs.'* (p.1395) From the perspective of this paper an interesting issue is whether this desire for protectionism would persist if these voters were placed in a position where their beliefs could impinge on their material welfare such as being decisive in determining the outcome of an election. Clearly the support of large numbers of emotional voters who are actually made worse-off by inefficient transfers greatly increases the power of the recipient group. The same sort of analysis might also be applied to conflict, where group identity may provide a source of emotional attachment which provides the large-scale political support essential for the much smaller group of agents who actually do benefit materially from the conflict. Again, we might conjecture that such support would be greatly reduced if the supporters found themselves in a position where their support would be decisive in determining whether their group would engage in conflict or not.[8] So a key implication is that inefficient policies that

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[8] In the case of bad macroeconomic policy, it would seem more difficult to invoke 'emotional' voting as a reason for supporting an irresponsible budget deficit. Myopia would, in fact, seem a more plausible explanation. Nonetheless, myopia does make rational sense when it is recognised that the incentive to be economically well-informed is extremely low when economic outcomes are determined as the

generate emotional attachment (such as nationalism or more generally factionalism of various kinds) have a greater chance of success as they would attract large levels of support both from the relatively small group of individuals who materially benefit from the policy and a relatively large group of individuals who do not. If an interest group can present their cause as emotionally appealing they would be placed in a much stronger political position.

In the next section we outline the basic model. We introduce the setting of the game; we outline the strategies and payoffs for the politicians and voters and outline the timing of the game. We distinguish between three types of politician; the good, bad and populist and discuss in detail the motivation of voters. We start by assuming there are no 'bad' politicians and focus on three possible options for incumbent good politicians – to choose good policy, populist policy, or somewhere in between through education of the public. The welfare effects of these strategies are analyzed and the conditions under which they may emerge are explored. Section 3 restores bad politicians to the analysis and argues that some potential badness is potentially welfare-improving *ex ante* and we look at a possible strategy which allows good and populist politicians to separate from bad ones. Section 4 offers some concluding comments.

2.   The Model

The Setting – We suppose that there is a policy P^S that generates an inefficient social outcome but for the reasons discussed in the introduction and further elaborated upon below would be favoured by the majority of voters. As discussed, this could relate to policies such as heavy protectionism or other deadweight loss creating interventions that would be very hard to justify on equity grounds. In macroeconomic policy it could be an excessively large budget deficit or the policy could be one of pursuing a destructive war. Alternatively, (and more in keeping with the Maskin and Tirole (2004) set-up) the policy could be the status quo approach that was appropriate in the past but exogenous shocks have occurred that render this policy approach currently inefficient. P^S is intended to cover a very broad range of potential inefficient social policies.

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outcome of democratic elections. Later we shall see that where bad policy is associated with weak emotional attachment, the potential for welfare improving policy is greatly increased.

The incumbent government is assumed to have access to information which instructs it as to best policy P^*. Policy is depicted as continuous and increasing from P^S to P^* such that voter welfare (W) is maximised at P^* where a range of policies could be debated as reasonable maximisations of W.[9] P^S may differ depending on the jurisdiction, but the further P^S is from P^* the greater the initial inefficiency. Welfare is increasing in P so $W'(P) > 0$. We may normally expect that slight moves away from P^S towards P* may bring relatively big returns that diminish as policy moves towards P* so that $W''(P) < 0$. We assume that there is a maximum level of tax revenue T that it would be possible for the incumbent government to appropriate.

Politicians – There are three types of politician; good, bad and populist. Let π be the probability that a randomly picked politician is good, κ that she is bad and $1 - \pi - \kappa$ that she is populist. The objectives of these politicians differ. We will start by identifying their objective if they were only to be in power for one period and did not face re-election incentives. In a two-period model this also, of course, identifies the behaviour of the politicians were they to be in power in the second period.

All politicians are assumed to receive an ego rent *E* from being in power. The good politician is concerned with maximising *W* so would select P^* and receive a payoff W^* + *E*. The bad politician (and we mean morally bad rather than incompetent) is motivated to steal tax revenue for personal gain, so would simply steal *T* and receive payoff *T* + *E*. The populist is concerned only with being approved by a majority of the electorate. Clearly the populist would never steal but will wish to set whichever policy is most popular even when he knows it is not welfare-maximising. His payoff to being in power is assumed to be *E*. As we shall see the politicians may be forced to trade-off maximising their single period objective in order to achieve re-election. In this section of the paper we will assume that $\kappa = 0$ so that there are only good and populist politicians. We will relax this assumption in section 3.

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[9] Trained social scientists obviously disagree over the appropriate level of protectionism and other market interventions such as the minimum wage, the appropriate level for budget deficits, whether violent conflict is on some occasions the correct response to a perceived threat and so on. The point made here is that the policy debate amongst experts is very likely to have a much smaller variance than the debate between non-experts and more importantly that the mean opinion is very often (as in Caplan's finding) sharply different between the two groups. So for convenience P^* can be viewed as covering the mean policy that would be recommended by the well-informed although we recognise disagreement amongst this group, whereas P^S can be viewed as the mean policy that would be recommended by the non-informed.

Voters – We allow for heterogeneous voters. We assume that ω are well informed and 1 − ω are rationally irrational. The well informed voters correctly understand the link between policy and outcomes so that they know that P^* maximises their welfare. They are not informed about the identity of the incumbent, but they understand that politicians may behave strategically and based upon the behaviour of the incumbent politician they update their beliefs as to her identity and use this updated information when making their decision to re-elect or not. The rationally irrational voters misunderstand the link between policy and outcomes and believe that P^S maximises their welfare. Their voting strategy is simple. They re-elect if the incumbent politician implements P^S and will vote for the challenger if the incumbent does otherwise. Rationally irrational voters are thus depicted as using a basic rule of thumb with bias. They do not consider the implications as to why a politician may choose an unpopular policy. The justification for assuming this kind of voting behaviour is that rationally irrational voters are not likely to devote much time to considering the political strategy of politicians and the reason why they do not is that their vote is very unlikely to be decisive. Well-informed voters understand that their vote is also unlikely to be decisive, but they became informed about the merits of policy because they were well educated or followed political and economic issues out of personal interest. Rationally irrational voters would become better informed about the link between policy and welfare if they were to be educated about it.

As discussed in the introduction we also allow for expressive voting. Recall that expressive voting is compatible with being well-informed. Voters may experience an inner conflict or tension such that the policy that they know would be in their instrumental interest does not hold a strong expressive appeal. In situations of decisiveness we may be justified in ignoring expressive preferences as we would expect voters to choose their material interests given that they are more likely to be concerned about this than any expressive loss that they may experience. So, for example, if a voter is decisive and understands the law of comparative advantage we might expect them to choose free trade rather than protectionism, or peace rather than war although emotionally protectionism and war may be more appealing to them. But since in most voting scenarios the probability of being decisive is very low, the price of choosing expressively is also very low such that well-informed voters may vote for protectionism or war even though these are policies that they actually know (if they

were being completely honest with themselves) would not be in their material interests.

Some might find that the idea of expressively voting for policy X when the voter knows that Y is better is a rather strong assumption. A weaker version would be that the voter *ex post* rationalises that X is better than Y to suit the emotional attachment to X. As Westen (2007) writes *'what passes for reasoning in politics is more often rationalization, motivated by efforts to reason to emotionally satisfying conclusions.'* (p. xi). Is rationalization of emotional beliefs compatible with expressive voting? How is this different to rationally irrational voting? An expressive voter might say that policy X is best (although Y is in fact best), but in reality they really *know* Y is best but their insignificance in democratic participation does not force them to be confronted with any consequence from denying the truth. In contrast, a rationally irrational voter actually does believe X is best as they have successfully avoided processing information that would lead them to understand the truth that Y is a superior policy, even if this is a truth they would subsequently attempt to rationalize away.

To formalise this we assume that all voters have a level of emotional, expressive attachment r maximised at P^S which is distributed across all voters on $[0, R]$. Those with $r > 0$ at P^S experience an expressive attachment to P^S and those with $r = 0$ do not. As P moves from P^S those with an expressive attachment experience an expressive loss, whereas those with no expressive attachment do not. For the attached voters $r'(P) < 0$ and for the unattached voters $r'(P) = 0$. Since r is decreasing in P for the attached voters it's value may at some point turn negative over the range $[P^S, P^*]$. This will be especially so for voters with $r''(P) > 0$. These voters could be viewed as zealots, holding a very strong attachment to P^S such that any deviation from it causes them a relatively large reduction in expressive value. Only well-informed voters may experience internal tension with movements away from P^S.

Rationally irrational voters experience no tension between their expressive and instrumental preferences as they believe P^S is also best policy. We formalise their voting strategy as follows. We assume that rationally irrational voters have in their mind a benchmark for ideal policy which is some combination of expressive concerns $r(P)$ and welfare concerns $j(W)$. They believe that this is optimised at

$r(P^S) + j(W^S)$. If an alternative policy is implemented (without explanation) they will believe this to be inferior as shown by

$$r(P^S) + j(W^S) > r(P \neq P^S) + j(W \neq W^S) \tag{1}$$

We assume that $r(P)$ is invariant to education, but $j(W)$ would be revised in the light of new information.

Timing - Nature determines the type of politician who then picks their preferred action. The incumbent is either re-elected or if the challenger wins nature determines the type of second period leader. The incumbent has the option to choose as part of policy a campaign of costly public education. We assume that voters observe the action but the revelation of the payoff is delayed until after the next election. The second period incumbent chooses their preferred action and at the end of the second period the game ends.

Equilibrium – In period 2 the politicians do not face re-election so the good politician will choose P^* which generates voter welfare W^*. The populist simply wants to be popular with a majority of the voters and will select P^S. The dilemma facing the good politician is which policy should be selected in period 1. They will be tempted to choose the populist position P^S in order to be re-elected although this means sacrificing welfare W^* for W^S. Alternatively, they could choose P^* and optimise first period voter welfare, but thus accept defeat in the election and hope that the challenger who defeated them is a good politician. A key idea here is that any policy other than P^S will be defeated.

Given that we have well-informed voters ω and rationally irrational voters $1-\omega$, it does not follow automatically that P^S is a guaranteed election winning policy. We now need to demonstrate the conditions for this to be the case. Note that $1-\omega$ of the voters are rationally irrational and believe P^S to be best policy. If presented with a policy of P^S they will vote for the incumbent. Clearly if $1-\omega > 1/2$ then populist policy is guaranteed to win. We do not wish to limit the paper to this case, so we need to analyse the case where $1-\omega < 1/2$ and $\omega - 1/2$ votes will need to be won from the set ω of well-informed voters to ensure that P^S has majority support and that any other policy would fail to obtain majority support.

There are three scenarios that need to be considered. The first two stem from a common knowledge amongst well-informed voters that the good politician would separate from the populist and implement a different 1st period policy to P^S. We will demonstrate the conditions required for this to be the optimal action for the good politician later. In this scenario, two cases arise

1) the incumbent is a populist and P^S wins the election.
2) the incumbent is good and $P \neq P^S$ loses the election.

The third case is where it is common knowledge among well-informed voters that a good politician would pool with a populist and choose P^S. Again, the conditions required for this to be the optimal action for the good politician will be discussed later.

3) the incumbent could be good or populist and P^S wins the election.

We now discuss each of the three scenarios in turn

1: Populist Incumbent and P^S wins the election

The populist implementing P^S wins the $1-\omega$ votes of the rationally irrational. In order to secure a majority they need to win a proportion $\dfrac{\omega-1/2}{\omega}$ of the votes of the well-informed. A well-informed voter i has to weigh up the payoff of voting for the populist incumbent given by

$$r^i\left(P^S\right) + h\left(W^S\right) \tag{2}$$

versus voting for the challenger where the payoff is given by

$$h\left(\pi W^* + (1-\pi)W^S\right) \tag{3}$$

Pay-off (2) tells us that for those voters that experience $r > 0$ there is a positive expressive attachment to the populist policy, but that must be weighed against the potential for deciding the outcome of the election with probability h and incurring the instrumental payoff of W^S. Payoff (3) tells us that there is no expressive attachment to a challenger who has not implemented policy, but the instrumental payoff is greater than W^S as with positive probability the challenger may turn out to be a good politician. In the standard political agency analysis where there is no expressive voting and voting is assumed to be decisive, the challenger would win all the votes of the well-informed voters. The assumption that there is no expressive voting seems reasonable when voters are assumed decisive. In this case we could justifiably argue that emotional attachment to policies that are in the past are of trivial significance

compared to the material interests of voters in the future and thus it makes sense to ignore the former. The problem, as should be clear by now, is that voting is only going to be decisive with a probability of h and this greatly reduces the importance of future instrumental welfare for well-informed voters when making their voting decision. The role of the expressive component in voting increases as h approaches 0.

A well-informed voter i will vote for the populist incumbent rather than the challenger if

$$r^i\left(P^S\right) > h\pi\left(W^* - W^S\right) \tag{4}$$

If $\dfrac{\omega - 1/2}{\omega}$ of the well-informed voters satisfy (4) then populism implemented by a known populist wins. Clearly this case is more easily satisfied the closer ω is to $1/2$, the closer h is to 0 and that there is a sufficient number of well-informed voters with a sufficiently strong expressive attachment to produce the necessary majority for populist policy.

2: Good Incumbent and $P \neq P^S$ loses the election

In this case the $1 - \omega$ votes of the rationally irrational have been lost due to selecting $P \neq P^S$. In order to win the election the good politician will need to attract at least $\dfrac{1/2}{\omega}$ of the well-informed votes. A well-informed voter i has to weigh up the payoff of voting for the good incumbent given by

$$r^i\left(P \neq P^S\right) + h\left(W^*\right) \tag{5}$$

versus voting for the challenger where the payoff is given by (3). For the challenger to win this election and thus lead to the electoral defeat of any deviation from P^S, then the following must be true for at least $1 - \dfrac{1/2}{\omega}$ of the well-informed group of voters

$$h\left(1 - \pi\right)\left(W^S - W^*\right) > r\left(P \neq P^S\right) \tag{6}$$

These voters must experience sufficiently large expressive losses from any deviation from P^S such that the selection of any policy other than P^S will result in the loss of the election. Clearly this is more likely to hold the closer ω is to ½, the closer h is to 0 and the greater the number of well-informed voters that are zealots so that they experience falls in expressive benefits so sharp that it becomes negative with any small deviation from P^S.

3: Both Populist and Good Politicians choose P^S and win

The final case is where it is common knowledge among the well-informed voters that the good politician will pool with the populist and choose P^S. In this case, on observing P^S the payoff to voting for the incumbent is $r(P^S)$. There is no instrumental difference in voting for the incumbent or the challenger as nothing is learnt regarding the true identity of the incumbent when the good politician takes this policy action. In this case, all rational irrational voters will vote for the incumbent and if we assume that well-informed voters who are indifferent because they have $r(P^S) = 0$ either vote for the incumbent or abstain then implementing P^S will win the election.[10]

The dominant strategy for the populist is to select P^S in both periods. We will focus for the remainder of this section on the choices facing an incumbent good politician. The good politician will maximise voter welfare W^* in period 2. In period 1 they face three possible options. First, they can implement a populist policy and be re-elected. Alternatively, they can implement good policy and lose the election. Finally, they can take an incremental approach and implement a policy better than the populist one but where the superiority of changes from populist policy have to be explained to the section of the electorate that is not well-informed, namely the $1 - \omega$ that are rationally irrational. Due to information costs policy may not reach the welfare maximising level and is labelled P^I generating voter welfare W^I.

Information costs are depicted as the sum of two components. The first component $I(P)$ is the cost involved in explaining why changes in policy towards P^* are for the benefit of rationally irrational voters. We assume that $I'(P) > 0$ and $I''(P) > 0$. This reflects the idea that it becomes increasingly costly to educate individuals to see that a policy is bad the closer that policy is to the optimum.

$I(P)$ is the cost of constructing the message, the second component is the cost of spreading the message to secure majority support. We assume that a government information campaign is less costly the less citizens are required to receive the message. Ideally the government would like to target the message so that it is only

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[10] To state that P^S is *the* populist policy requires the three conditions above to hold. If there were another winning policy that the good politician could implement when separating from the populist which is closer to P^* then this would clearly dominate winning the election by choosing to pool with the populist. This also allows us to state that when the good politician separates and thus knows that this will result in electoral failure their best strategy is to implement policy P^*.

received by those who are not already well-informed. The problem is that the government may be unable to identify the well-informed group so some of their message will be wasted as it is received by well-informed voters. This increases the number of citizens that will need to be contacted. Once expressive concerns are included in the analysis, the cost of spreading the message further increases. As we have seen for movements from P^S some well-informed voters will vote for the challenger because they have experienced an expressive loss that outweighs the instrumental benefit of voting for the good incumbent. Given that these voters will vote for the challenger the number of citizens that need to be contacted further increases. Finally, as rationally irrational voters are contacted and are convinced that $P \neq P^S$ is superior to P^S, they will also discover whether they experience an expressive loss from being pulled away from P^S. For some the expressive loss will be sufficiently large that they will vote for the challenger. This, in turn, increases the number of citizens required to receive the message and create a majority.

We can formalise the preceding discussion by labelling the cost of spreading the message d such that

$$d = \left(\frac{1/2 - (1 - \lambda(P))\omega}{(1 - \omega)(1 - \varphi(P))} \right) t \qquad (7)$$

Clearly the smaller is ω the greater the number of uninformed voters that will need to be persuaded regarding improvement in policy. The term $\lambda(P)$ captures the well-informed voters with strong enough expressive preferences that they would instead vote for the challenger as policy deviates from P^S as in (6). Likewise, $\varphi(P)$ captures rationally irrational voters with strong enough expressive attachment that they would vote for the challenger despite accepting the fact that $W(P \neq P^S) > W(P^S)$. For this to be the case, it must be that $r(P^S) - r(P \neq P^S) > h(W(P \neq P^S) - W(P^S))$. The term t is a general term that captures modes of information provision such as media outlets, the education system and also importantly willingness to listen to the message.

The cost function is therefore $C = c(I(P), d(\omega, P, t))$ and the good politician will invest in information until $\frac{\partial W}{\partial P} = \frac{\partial c}{\partial I}\frac{\partial I}{\partial P} + \frac{\partial c}{\partial d}\frac{\partial d}{\partial P}$. The good politician will have

no incentive to invest in information if $\frac{\partial W}{\partial P^S} < \frac{\partial c}{\partial I}\frac{\partial I}{\partial P^S} + \frac{\partial c}{\partial d}\frac{\partial d}{\partial P^S}$. Investment in information will not be worthwhile if the marginal benefit is less than the marginal cost at P^S. This may happen if P^S is close to P^* which reduces the marginal benefit and increases education costs $I'(P)$. This condition could also be driven by low ω, relatively high values of $\lambda'(P)$ and $\varphi'(P)$ and a high level of t. Each (or a combination) of these factors may cause the cost of information provision to be prohibitive.[11]

The incentive to choose populism or information over good policies is driven by the existence of higher payoffs in period 2 to compensate for losses in period 1. To choose a populist policy in preference to a good one it must be that

$$E + W^S + \beta(E + W^*) > E + W^* + \beta(\pi W^* + (1-\pi)W^S)$$

this reduces to

$$\beta E > (W^* - W^S)(1 - \beta + \beta\pi) \qquad (8)$$

Therefore, if the future is relatively important, that there is a low probability of being replaced by a good politician and that the gap between good and populist social welfare is not too large then populism will be the preferred strategy. Significantly, if we were also to assume that good politicians have no interest in ego rents then they would produce good policy.

However, the good politician may be able to do better than simply choosing the populist policy. Through provision of information they may be able to move to higher levels of voter welfare until marginal benefit equals the marginal cost of information at P^I. An informational strategy is preferred to a populist strategy if

$$E + W^I - C(I) + \beta(E + W^*) > E + W^S + \beta(E + W^*)$$

this reduces to

$$W^I - W^S > C(I) \qquad (9)$$

Welfare

Proposition 1 *Populism selected in period 1 by both types of political actor is unambiguously inferior from an ex ante welfare perspective. The welfare implication of an informational strategy is ex ante ambiguous.*

Here we compare the welfare effect of good politicians choosing a good policy versus choosing a populist strategy in period 1

$$\pi W^* + (1-\pi)W^S + \beta\left(\pi^2 W^* + \pi(1-\pi)W^S + (1-\pi)W^S\right) > W^S + \beta\left(\pi W^* + (1-\pi)W^S\right)$$

which yields

$$W^* > W^S \tag{10}$$

The improvement in selection of politicians in period 2 is insufficient to compensate for the distorted discipline shown in period 1.

Now we compare the welfare effect of good politicians choosing to invest in information provision. This will only be done where the improvement in voter welfare outweighs the cost of persuading the public $W^I - W^S - C(I) > 0$. Welfare from choosing good policy will be higher if

$$\pi W^* + (1-\pi)W^S + \beta\left(\frac{\pi^2 W^* + \pi(1-\pi)W^S}{+(1-\pi)W^S}\right) > \pi W^I + (1-\pi)W^S + \beta\left(\frac{\pi W^*}{+(1-\pi)W^S}\right)$$

which yields

$$\pi\left(W^* - W^I\right) > \beta\pi\left(W^* - W^S\right)(1-\pi) \tag{11}$$

Now the welfare effect is ambiguous. If information costs are very low then W^I will be close to W^* in which case welfare is improved through information provision. In this case, the improved selection effect in period 2 does compensate for the distorted discipline in period 1.

Proposition 2 *A necessary condition for populism to be implemented in period 1 is that (8) holds. This implies that either the future is relatively important and/or P^S is close to P^* and/or ego rents are relatively high and/or π is relatively low. Populism will be preferred to an informational strategy if $W^I - W^S < C(I)$. This implies that either P^S is relatively close to P^* and/or $C(I)$ is relatively high.*

Many issues are raised here. A first point that might be made is that populism as the pooling strategy in period 1 may not be a major cause for concern. This is the case where P^S is relatively close to P^*. Much more worrying is where P^* and P^S are far apart and populism is still the strategy selected by a good politician. This can be driven by large ego rents, a lack of good politicians and costly information provision driven by a dearth of well-informed voters, the existence of a large number of strongly expressive voters and weak media outlets. Finally, even when an information strategy is pursued it will be the case that welfare would have been higher under a good policy if $W^* - W^I$ is large. We might also comment on how the sources of inefficiency may differ in terms of the emotional attachment they generate. For example, we may expect the myopia associated with supporting large budget deficits to be more amenable to the provision of information than policies such as protectionism or overinvestment in defence as these latter policies are often inextricably linked to nationalist sentiment. The latter set of policies would more likely generate high levels of $\lambda(P)$ and $\varphi(P)$. This does not mean that bad macroeconomic policy is necessarily easier to solve than protectionism. The cost of information provision depends also upon ω and t.

3.   Including 'Bad' Politicians

In this section we will relax the assumption that $\kappa = 0$ and allow for the possibility that bad politicians exist. As with good politicians, bad politicians need to weigh up the benefit to them of extracting rents in period 1 versus providing vote-winning policy in period 1 and delaying the extraction of rents until period 2. They will choose to extract rents today and accept electoral defeat at the end of period 1 if

$$T > \beta(E + T) \tag{12}$$

otherwise they would prefer to provide election winning policy in the period 1 and extract rents in period 2. We consider each in turn.

3.1   The bad politician prefers to extract rents in period 1 and lose the election

That (12) holds is assumed to be well known by well-informed voters. We now expand the expressive component of the well-informed voter's utility function to incorporate the morality (or otherwise) of the incumbent politician. We do this by

expanding $r(P)$ to include a further term m such that $m = \{B, NB\}$ where B stands for bad and NB stands for not bad. For a given P, $r(P, NB)$ is obviously greater than $r(P, B)$. Where well-informed voters cannot distinguish the type of incumbent we assume that the expressive payoff remains as it was in section 2. Including morality as an expressive benefit brings the analysis of expressive behaviour in this paper to be much more in line with the approach taken by Brennan and Hamlin (1999). To simplify matters we set the welfare associated with a bad incumbent who prefers to extract rents at 0. With this we can see that the trade-off in scenario 1 in section 2 is now more easily fulfilled. Equations (2), (3) and (4) are re-written as follows

$$r^i\left(P^S, NB\right) + h\left(W^S\right) \tag{13}$$

$$h\left(\pi^b W^* + \left(1 - \pi^b - \kappa\right) W^S\right) \tag{14}$$

$$r^i\left(P^S, NB\right) > h\left(\pi^b\left(W^* - W^S\right) - \kappa W^S\right) \tag{15}$$

where we adjust π to become π^b to signify that bad politicians are now included such that $\pi \geq \pi^b$. So where a populist incumbent would win when the good politician separated from them when there were no bad politicians, the populist would certainly win when rent-extracting bad politicians are included in the analysis. Clearly scenario 3 in section 2 where populists and good politicians pool is also more easily fulfilled, since the expressive value of the incumbent increases and there is now a κ probability that the challenger is bad. In this case, unanimous support is guaranteed.

We now focus on whether scenario 2 in section 2 can be overturned. Given the potential existence of bad politicians is it possible for a good politician to implement P^* in period 1 and win the election. First note that the $1 - \omega$ rationally irrational voters will vote for the challenger as the good policy fails to meet their benchmark as in (1).[12] So to win the election implementing good policy, the good politician will need to win $\dfrac{1/2}{\omega}$ of the informed voters. The payoff to voting for the incumbent is given by

$$r^i\left(P^*, NB\right) + h\left(W^*\right) \tag{16}$$

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[12] We thus assume that the rationally irrational voters are unaware that provision of populist and good policy also entails a signal of moral integrity, as this would require them to be well enough informed to understand that a bad politician would extract rents in period 1.

and the payoff to voting for the challenger is given by (14). Although (16) is reduced in value compared to (5) because P^* is even further from P^S, the effect of NB is to increase the value of (16) compared to (5). It is ambiguous as to whether (16) is greater in value than (5). It is unambiguous that (14) is lower in value than (3) because $\pi^b \leq \pi$ and $\kappa > 0$. The sign in (6) will be reversed if

$$r\left(P^*, NB\right) > h\left(\left(1-\pi^b\right)\left(W^S - W^*\right) - \kappa W^S\right) \tag{17}$$

for at least $\dfrac{1/2}{\omega}$ of the informed voters. This is more likely the smaller is π^b, the larger is κ and significantly the higher is the expressive value of the incumbent demonstrating moral integrity.

The satisfaction of (17) may paradoxically imply higher voter welfare than when there were no bad politicians as analysed in section 2. Assume that the good politician would pursue an informational strategy to win the election when there are no bad politicians, but now they can pursue a good policy and win the election when there are bad politicians. Voter welfare will now equal

$$\pi^b W^* + \left(1-\pi^b - \kappa\right)W^S + \beta\left(\begin{array}{c} \pi^b W^* + \left(1-\pi^b - \kappa\right)W^S \\ +\kappa\pi^b W^* + \kappa\left(1-\pi^b - \kappa\right)W^S \end{array}\right) \tag{18}$$

and voter welfare will now be *ex ante* higher if

$$\pi^b W^* + \left(1-\pi^b - \kappa\right)W^S + \beta\left(\begin{array}{c} \pi^b W^* + \left(1-\pi^b - \kappa\right)W^S \\ +\kappa\pi^b W^* + \kappa\left(1-\pi^b - \kappa\right)W^S \end{array}\right) > \pi W^I + \left(1-\pi\right)W^S + \beta\left(\begin{array}{c} \pi W^* \\ +\left(1-\pi\right)W^S \end{array}\right)$$

which reduces to

$$\left(W^* - W^S\right)\left(\pi^b\left(1+\beta\left(1+\kappa\right)\right) - \beta\pi\right) > \pi\left(W^I - W^S\right) + \kappa W^S\left(1+\beta\kappa\right) \tag{19}$$

(19) is more likely to hold the larger π^b, the greater is $\left(W^* - W^S\right)$ and the closer W^I is to W^S.[13] This creates a variation on the debate as to whether there might actually be some benefit arising from the existence of corruption, such as the familiar contention that 'a little bit of corruption grease the wheels' (see Aidt (2003) for a discussion). In this paper, 'a little bit of *potential* corruption *may improve voter welfare*.' Well-informed voters who are not expressively drawn to P^* are, however, expressively drawn to the moral integrity of the good incumbent. In addition, they know that voting

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[13] Note that if the good politician had selected populism in a world without bad politicians than the right hand side of (19) would be lower in value as $\pi\left(W^I - W^S\right)$ would be removed.

for the challenger brings a $h\kappa$ risk of bad policy in period 2 so there is greater instrumental benefit in voting for a good incumbent. This potentially frees the good incumbent from having to implement policies other than the optimal one to be re-elected and by implementing good policy can appeal directly to the well-informed voters both expressively and instrumentally.[14] We gather the results of this section in the following proposition

Proposition 3 *In a world with κ bad politicians where (12) holds such that*

$T > \dfrac{\beta E}{1-\beta}$, *a good incumbent who would otherwise lose an election pursuing good*

policy in a world with no bad politicians because (6) holds, would now win the election if (17) holds. Welfare will be higher in a world with bad politicians in comparison with one without bad politicians if (19) holds.

3.2 The bad politician prefers to win the election and extract rents in period 2

In the following it is assumed that (6), (15) and (17) hold and that the sign in (12) is now reversed. First, we demonstrate that there cannot be a pooling equilibrium with all three types choosing P^S. Given the assumption that (17) holds then we know that it is the case that the good politician can win the election by deviating and choosing P^* which is obviously preferable to winning the election by choosing P^S. We can also demonstrate that there is no pooling equilibrium where all three types choose P^*. In this case the payoff for voting for the incumbent would be

$$r^i\left(P^*\right)+h\left(\pi^b W^* +\left(1-\pi^b -\kappa\right)W^S\right) \qquad (20)$$

and (14) for the challenger, where it is noted that the moral expressive value in voting for the incumbent is absent because a bad politician would pool with the other two types. The challenger will win if

$$0 > r\left(P^*\right) \qquad (21)$$

We know that (21) holds because (6) is assumed to hold.

So a pooling equilibrium for all three types is not possible given the conditions previously derived in the model. Is an equilibrium possible where the populist and bad

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politicians pool on P^S and the good politician chooses P^*? The payoffs to voting for the incumbent (which could be populist or bad) is

$$r^i\left(P^S\right) + h\left(W^S\left(\frac{1-\pi^b-\kappa}{1-\pi^b}\right)\right) \tag{22}$$

and the payoff to voting for the challenger is (14). For P^S to be an election winning strategy for the pooling populist and bad types, the following must hold for $\dfrac{\omega-1/2}{\omega}$ of the well-informed voters

$$r^i\left(P^S\right) > h\pi^b\left(W^* - W^S\left(\frac{1-\pi^b-\kappa}{1-\pi^b}\right)\right) \tag{23}$$

although $\pi^b \leq \pi$, (23) is potentially more restrictive than (4) because of the presence of κ on the right-hand side of (23), so while it is consistent with the model for the bad and populist politicians to pool and the good politician to separate we will also consider the case where (23) fails to hold for at least $\dfrac{\omega-1/2}{\omega}$ of the well-informed voters.

   If (23) does not hold, it immediately follows that an equilibrium where the bad politician does not pool with the populist and chooses P^S cannot exist because $h\left(W^S\left(\dfrac{1-\pi^b-\kappa}{1-\pi^b}\right)\right)$ would be deducted from (22). So bad politicians will want to pool. Could they pool with a good politician and win? The payoff in this case for voting for the incumbent would be

$$r\left(P^*\right) + h\left(\frac{\pi^b W^*}{\pi^b+\kappa}\right) \tag{24}$$

and as usual for the challenger the payoff would be (14). The challenger would win if

$$r\left(P^*\right) < h\left(1-\pi^b-\kappa\right)\left(W^S - \frac{\pi^b W^*}{\pi^b+\kappa}\right) \tag{25}$$

Given that (6) tells us that there are at least $1-\dfrac{1/2}{\omega}$ of well-informed voters with negative expressive utility for any deviation from P^S and that the deviation from P^S in (25) is larger than in (6) then (25) holds automatically.

So given (17), (21) and (25) holding and (23) not holding a pure strategy Nash equilibrium will not exist. In section 3, however, we have up to this point ignored the potential role of information provision. Potentially there could be an equilibrium whereby the good and populist politicians signal their integrity by providing information up to a level at which the bad politician would not be willing. For this to be the case the following conditions are required for the good, populist and bad politicians

$$E + W^I - C(I) + \beta\left(E + W^*\right) > E + W^* + \beta\left(\pi^b W^* + \left(1 - \pi^b - \kappa\right)W^S\right) \qquad (26)$$

$$E - C(I) + \beta E > E \qquad (27)$$

$$E - C(I) + \beta(T + E) \le T + E \qquad (28)$$

and simplifying

$$\beta E - C(I) > W^* - W^I - \beta\left(1 - \pi^b\right)\left(W^* - W^S\right) - \kappa W^S \qquad (29)$$

$$\beta E - C(I) > 0 \qquad (30)$$

$$\beta E - C(I) \le T\left(1 - \beta\right) \qquad (31)$$

So an equilibrium could exist with the good and populist politicians providing at least $\beta E - T\left(1 - \beta\right)$ of information in period 1, providing welfare $W^I \le W^*$ and winning the election. The bad politician extracts rents in period 1 and loses the election. What are the implications of information provision in this case? Earlier when it was assumed that there were no bad politicians, the motivation to provide information only existed for good politicians as a way to improve policy in period 1 and where it was clear that such a strategy would win the election. Now the motivation is rather different. The good and bad politicians may find that this is the only way they can distinguish themselves from bad politicians and thus guarantee election victory. So in addition to improving policy in period 1 (not a motivation for the populist) there is now the motivation to prove integrity (a motivation for both politicians). At the risk of stretching this result too far, this might also offer a partial explanation for the existence of 'overactive' government where information provision and reform are in constant abundance. Apart from a negative interpretation that such action is purely for self-advertising or a positive interpretation that it is done to improve government policy, this section provides a further positive reason that voters may interpret such

behaviour as, at least, providing evidence that the incumbent is not bad if they are willing to make such efforts to engage with voters.

We can sum up the two equilibria identified in this subsection in the following proposition

Proposition 4: *Suppose (12) fails to hold so that* $\dfrac{\beta E}{1-\beta} \geq T$. *A partially separating equilibrium exists where the bad and populist incumbents choose* P^S *and the good incumbent chooses* P^* *if (23) holds. If (23) fails to hold, a partially separating equilibrium may exist where the good and populist politicians provide information C(I) and policy P(I) so that* $\dfrac{\beta E}{1-\beta} > T \geq \dfrac{\beta E - C(I)}{1-\beta}$ *and the bad incumbent chooses to extract rents.*

Welfare in the two equilibria identified in Proposition 4 are as follows

$$\pi^b W^* + \left(1-\pi^b\right)W^S + \beta\left(\pi^b W^* + \left(1-\pi^b-\kappa\right)W^S\right) \tag{32}$$

$$\left(1-\kappa\right)W^I + \beta\left(\pi^b W^* + \left(1-\pi^b-\kappa\right)W^I + \kappa\pi^b W^* + k\left(1-\pi^b-k\right)W^S\right) \tag{33}$$

Simple inspection of (18), (32) and (33) tell us that there is no straightforward welfare ranking of equilibria in a world with bad politicians. It thus follows that the conclusion at the end of section 3.1 still holds in a world where bad politicians would ideally wish to delay rent extraction. A little bit of potential corruption may improve voter welfare.

3.3. Fiscal Restraints and Term Limits

The results of sections 3.1 and 3.2 may feed into the debate regarding the appropriate level of fiscal restraints that should be placed upon government. If we allow *T* to be endogenised, it could be set at a high level so that (12) holds and bad politicians would prefer to extract rents in period 1. Alternatively, *T* could be set low so that (12) fails to hold and bad politicians would prefer to delay rent extraction until period 2. [15]

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[15] Note that in any discussion regarding altering the level of tax we obviously cannot assume the same levels of welfare as before the change. Reducing tax reduces public spending but that must be set against the welfare generated by higher private spending. If policy had been set optimally a reduction in tax would reduce welfare, but if policy had been populist reducing tax may well increase welfare and welfare would certainly increase compared to a policy of rent extraction by a bad politician. Given that these forces are offsetting we simplify matters by setting this issue to the side in the brief discussion of

The classic discussion of fiscal restraints is presented in Brennan and Buchanan (1980). They argue that because elections are a highly imperfect disciplining device, fiscal restraints may be required to bind the hands of Leviathan. Besley and Smart (2007) use a political agency model, which includes both bad and good politicians, to explore this issue and find that the effect of fiscal restraints is ambiguous. It depends upon the proportion of bad politicians. They find that lowering tax increases the incentive of bad politicians to pool, which improves discipline and is thus a good idea when the proportion of bad politicians is high. This is in line with the public choice approach of Brennan and Buchanan where fiscal restraints are recommended in a world where there are only bad politicians. On the other hand, increasing tax would more likely lead to a separating equilibrium and this is good for welfare when the selection effect dominates such that the proportion of bad politicians is low.

By comparing (18) with (32) and (33) we can ask similar questions. If (32) and (33) are greater than (18) the recommendation is to set T at a lower level so that (12) does not hold. Welfare in (32) will be higher than in (18) if the improved welfare in period 1 compensates for reduced welfare in period 2 and this is more likely the higher the value of κ. However, higher values of κ are also more likely to lead to (23) not holding and this may give rise to the second type of equilibrium generating welfare (33). Welfare in (33) will be higher than in (18) if high levels of welfare can be achieved through information provision. The more striking result, however, is that it may be better for voter welfare to allow the possibility of high rent extraction by bad politicians because when κ is low (18) may be greater than (32) or when κ is relatively large the level of W^I generated in equilibrium may not be much higher than W^S and substantially less than W^*.

Note that, in this analysis, whether to recommend hard or soft fiscal restraints would not only be linked to whether the proportion of bad politicians is high or low. It could be that κ is relatively large but because information provision is unlikely to be successful it may be better to set soft fiscal restraints which by causing bad politicians to extract rent in period 1 allows good politicians to implement optimal policy and be re-elected.

Finally the results of sections 2 and 3 provide potentially very different verdicts on term limits. In section 2, one period is preferable to two periods. To see this note that

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fiscal restraints in this paper. A more in depth analysis of fiscal restraints and voter welfare in a model of heterogeneous political agents would require much closer attention to this issue.

the *ex ante* social payoff from such a rule would be $\pi W^* + (1-\pi)W^S + \beta(\pi W^* + (1-\pi)W^S)$. This is greater than the payoffs from either the good or informational polices in section 2. Once bad politicians are introduced then the optimal term limit may be longer than one period as (18) and (32) are unambiguously greater than $\pi^b W^* + (1-\pi^b - \kappa)W^S + \beta(\pi^b W^* + (1-\pi^b - \kappa)W^S)$.[16]

4. Concluding Comments

In a two period political agency model with good, populist and bad politicians, and rationally irrational and expressive voters we first identified political equilibria in a setting with no bad politicians. We found that populism may exist as a political equilibrium despite it being unambiguously inferior for welfare compared to a strategy where the good politician implements optimal policy but is not re-elected. On the other hand we found that a strategy of information provision may improve welfare compared to the 1st period pursuit of best policy. We introduced bad politicians into the analysis, considering both where they would prefer to extract rents in period 1 and where they would ideally prefer to delay rent extraction until period 2. A key finding in the paper is that under both scenarios welfare may be higher than when there are no bad politicians such that a little bit of potential corruption could improve welfare. Finally, we used the results of the model to consider the debate as to whether fiscal restraints should be soft or hard. Here we confirmed previous findings that a high proportion of bad politicians would suggest the superiority of hard restraints, but, in contrast we also found that soft restraints may be preferable even when there are a high proportion of bad politicians. This could happen when information provision is unlikely to lead to significantly higher levels of welfare.

There are issues raised in this paper that future work might address. First, as discussed in footnote 15 a more detailed discussion of altering tax revenues would require a more precise analysis of welfare given that reduced/increased tax and public spending implies increased/reduced private spending. The issue of term limits was only briefly addressed and would merit closer attention. Term limits and fiscal restraints are issues in institutional design. Further issues in institutional design that the paper has not addressed are whether the scope of democracy should be reduced so

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[16] The issue of the optimal term limit is analyzed in Smart and Sturm (2006).

that more decisions are made by independent committees of experts and whether voting should be compulsory (or at least more vigorously encouraged) or optional. If non-voting is positively correlated with being uninformed committees would seem more necessary the higher the turnout and likewise a potential advantage of low turnouts is that the quality of voting may be higher thus reducing the need to delegate policy to expert committees. At least three objections may be levelled at the idea that either committees or small turnouts are preferable to large-scale turnout in elections with wide scope for determining policy. First, the familiar concern regarding the accountability of the expert committees would arise. Second, if it is the case that democratic participation increases knowledge (even to a small extent) of the economic and political issues that are to be determined by the election then there may be a cost to civil society in reducing the scope for which issues would be decided by the election and instead transferred to a committee. Third, the paper has considered only efficiency issues. If it is also the case that there is a positive correlation between non-voting and socioeconomic background then there are distributional implications involved in non-voting. It could be argued that we should encourage large turnouts because failure to vote by certain groups may lead to welfare losses for disadvantaged groups which may not be compensated for by the higher quality of voting on efficiency issues.

Clearly, a richer depiction of the behaviour of voters exists here than in previous political agency models. This set-up allows a focus on populism as driven by uninformed bias (which could potentially be altered with information provision) and informed bias with hard expressive preferences. This means that populism in this paper is very different (and we would argue more true to its nature) than the depiction of populism in the existing political agency papers. This analysis also echoes the point made by Caplan (2007) that a neglected but fairly obvious argument for the existence of political inefficiency exists. Explanations usually focus on the strategic interaction of special interest politics and in ways that can become complicated because voters are assumed to be fully informed and instrumentally rational. Once, we drop this assumption, a simple explanation for the existence of inefficiency is that voters might choose inefficient policies because they are emotionally drawn towards them and emotional appeals can dominate in electoral settings for the rational reason that the likelihood of being decisive in determining the outcome of most elections is very small.

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