The influence of populism on mainstream party policy

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Abstract

This thesis uses a political accountability model to study the influence of populism on mainstream party policy. Politicians have an incentive to select a popular policy instead of the optimal policy, when voters are uninformed. This incentive increases when the challenger is a populist instead of a mainstream politician. Populist challengers do on the other hand have a disciplining effect on non-congruent (biased) incumbents. Less talented politicians are less likely to be informed, when the costs of getting information depend on the quality of the politician. An uninformed congruent incumbent will select the popular policy. A populist challenger increases the group of uninformed politicians and therefore reduces the quality of policy. Pandering to the electorate decreases when voters become informed.

1. Introduction

A populist party claims to represent the will of the people (Mudde, 2004). Acting according to the will of the people seems to be very democratic. However, the general will does not exist in reality and voters are often ill-informed. In representative democracies decisions are therefore made by professional politicians. They are supposed to be better informed and more competent to make complicated decisions. Most politicians want to build a legacy, so they have an incentive to act in the best interest of society. Politicians are however also office motivated. They have an incentive to pander to the public opinion when the value of office is high (Maskin and Tirole, 2004). It is not always bad to follow the popular opinion, but it becomes a problem when the popular policy is not optimal for society. There might for example be an easy short-term solution that is preferred by the ill-informed electorate, whereas the more complicated policy is better in the long-term.

One of the characteristics of populists is that they try to please the electorate. In this paper I suppose that a populist is only office motivated. A populist therefore chooses an easy popular solution that makes it more likely to get elected. The popularity of populist parties is growing in western democracies. It is clear that populists can influence policy when they win elections, but do they also have indirect influence? Does an incumbent behave differently when his challenger is a populist instead of another mainstream politician? These questions will be studied in this thesis using a two period political agency model. In each period a decision has to be made between two policies. Voters have to decide whether they reelect the incumbent or elect a challenger, who can either be a populist or a mainstream challenger, after they have observed the first period policy choice. One of the policies is more popular, but this policy is not necessarily optimal for society. However, selecting the optimal policy in the first period increases the chance of reelection. The main hypothesis is that competition with a populist instead of another mainstream party increases pandering.

The intuition behind this hypothesis is that the incumbent is afraid to lose the election from his populist challenger when he does not pick the popular policy. A populist politician always makes the popular decision. The chance of getting reelected therefore reduces when the incumbent chooses a different policy. A mainstream challenger might however also pick the less

popular policy, which decreases the incentive to pander for the incumbent. Moreover, an incumbent who has strong policy preferences might be more concerned by the possibility that a populist, instead of another mainstream challenger, can take over office.

The basic model assumes that voters are uninformed, whereas politicians have full information about the optimal policy for society. The main result is that a populist challenger indeed increases pandering when voters are uninformed. There is however also a disciplining effect on non-congruent incumbents. A non-congruent politician, who is biased to the less popular policy, is more likely to select the popular policy when the challenger is a populist. This is beneficial for society when the popular policy is also optimal. I furthermore examine what happens when it is costly for politicians to get informed and when voters get information before the election. The results show that less talented politicians are less likely to be informed and therefore more likely to pander when the costs of information depend on the talent of the politician. The number of politicians who do not want to pay for information increases when the challenger is a populist. Pandering reduces when voters become informed.

The rest of this thesis is structured as follows. Section 2 contains a discussion of the related literature. A description of the model follows in section 3. The basic case of the model, in which the electorate does not get any information about the optimal policy before the election, is analyzed in section 4.1. First I compare the strategies of the incumbent against the different types of challengers when the popular policy is optimal. This will be followed by the incumbent's strategies when the less popular decision is optimal. The voter welfare, corresponding to the scenarios in section 4.1, is calculated in section 4.2.

Section 5 contains two extensions that relax some assumptions of the basic model. Section 5.1 relaxes the assumption that politicians are fully informed. I assume in this section that a politician needs to exert effort to get informed. This effort comes with a personal cost, of which the amount depends on the quality of the politician. Section 5.2 analyses what happens when the probability that voters get informed is positive. Section 6 contains a discussion of the results and assumptions of the model. The discussion is followed by a conclusion in the last section.

2. Related literature

This paper contributes on the political agency models of Maskin and Tirole (2004), Besley (2006, chapter 3) and Fox (2007). Elections are used in these models to hold the politicians accountable for their decisions. Maskin and Tirole look at the pros and cons of accountability by comparing accountable politicians with non-accountable judges and direct democracy. They conclude that accountability allows people to screen politicians, but it also gives the politicians incentives to pander to public opinion. I build forward on this pandering problem by introducing a populist challenger, to see whether this increases pandering. Fox (2007) also studies accountability and pandering. From this model I borrow the idea that an incumbent can be congruent or biased to a certain policy. Fox focuses however on transparency and demonstrates that pandering can increase when voters are better informed.

Other related models that have studied pandering are Binswanger and Prüfer (2012) and Morelli and Van Weelden (2013). These models however only study how the behavior of different types of incumbents is influenced by voters in different situations. They do not study the influence of challengers on the incumbent's behavior. Canes-Wrone, Herron and Shotts (2001) and Lockwood (2017) do include the quality of the challengers. They show that incumbents are more likely to select the policy that is optimal for society, but not necessarily the most popular, when the quality of the pool of opponent politicians is low. Instead of the quality of the challenger I introduce two types of challengers, a populist and a mainstream type.

The influence of populism on policymaking is analyzed before by Acemoglu, Egorov and Sonin (2013). They focus however on left-wing populism in Latin American politics. They conclude that honest politicians in these countries have an incentive to choose left-wing populist policies to show the median voter that they are not corrupted by the rich lobby. This only holds for countries with weak democratic institution in Latin-America. Populism is however also rising in western democracies and this populism is often on the right side of the political spectrum. I will therefore use a broader definition of populism, which can either be right-wing or left-wing. A model of populism that is more comparable with this thesis is the model of Frisell (2009). He models politicians' incentives to conform to popular opinion in combination with self-fulfilling voter expectations. This paper concludes that an incumbent is less likely to pander when voters expect

him to select high-quality policies and more likely to pander when the voters expect conformist behavior. In Frisell's paper, unlike in this thesis, the state of the world is unknown by both the voters and the politicians, they only have private signals. Frisell also assumes that the challenger's appeal is known to voters but not to the incumbent and he does not look at the effect of different types of challengers.

3. The model

The model builds on the models of Maskin and Tirole (2004), Besley (2006) and Fox (2007). As in these models there are two periods (t=1,2) and in both periods the incumbent has to make a decision between two policies (A, B). A is an easy short-term policy and B is more complicated for politicians to implement. The optimal decision for society depends on the state of the world. I assume that the state of the world is the same in both periods. A new feature of this model is that the mainstream incumbent competes with either a populist challenger or a mainstream challenger. The voters observe the decision of the incumbent in the first period and decide whether they reelect the incumbent or elect the challenger.

3.1 Voters

All voters have the same preference ranking. They all prefer the same policy given the state of the world. Their utility will be G in each period when the optimal policy is selected and zero otherwise. However, they do not know the state of the world, so they do not know which policy is optimal. They do know that A is the optimal policy with probability p (>1/2). A is therefore the popular policy. Before the start of the second period, the electorate learns with probability q whether or not the first-period action was the optimal one. In the baseline case I assume that the electorate does not get any information before the election (q=0), but I will also examine what happens when q > 0 in section 5.2.

3.2 Politicians

The politicians of the mainstream parties (incumbent and challenger) can either be congruent or non-congruent. A congruent politician prefers the policy that is optimal for society and a non-congruent politician is biased to policy B (as in Fox, 2007). Politicians can be biased

because of their ideology or because they are corrupt and captured by interest groups in favor of policy B. A politician is congruent with probability π and non-congruent with probability $1 - \pi$. The official obtains utility G from selecting his preferred policy and utility R from being in office. R is a combination of wages from holding office and ego rents. The first period R is ignored in the rest of this thesis, because it is already achieved and does not influence any decision. In period two the politician always chooses his preferred option, so payoff in period two (if reelected) will be G + R. A populist politician only cares about the value of office and will therefore always choose A, because A is popular and simple. The period two payoff is discounted with discount factor β.

3.3 Timing:

1. Nature determines the state of the world for both periods.
2. The incumbent picks his first period policy.
3. Voters observe the first period policy.
4. Nature determines whether the voters observe the state of the world (not in basic model).
5. Voters either reelect the incumbent or elect the challenger.
6. Winner of the election picks his second period policy.

4. Results

4.1 Uninformed voters

In this basic case I assume that voters do not get any information about the optimal policy before the election (q=0). Voters only know that the probability that A is optimal is bigger than the probability that B is optimal. They will only reelect the incumbent when he selects policy A.

The optimal strategy for congruent and non-congruent politicians in all possible situations has to be determined. The strategy of the incumbents depends on the type of the challenger and the state of the world. The best strategy in a given situation depends on the value of office (R) and the utility a politician gets from selecting his preferred action (G). To be able to compare the results I assume that R and β are constant and the same for all politicians, but G differs across politicians. Some politicians care very much about the policy that is implemented and some are purely office motivated (G=0). G is uniformly distributed on $[0,\gamma]$. When, for example, B is optimal,

this policy will only be picked in the first period by incumbents with a value of G above the threshold G*. Politicians who care less about the consequences of policy (i.e. more office motivated) will pander to the electorate.

A. Policy A is optimal

A congruent politician will choose policy A in both periods when policy A is optimal. A congruent incumbent will therefore stay in office and gets the maximal payoff in both periods, regardless of the type of the challenger. This is however different for a non-congruent incumbent. A non-congruent incumbent prefers policy B and will always pick this policy in the second period.

What should the non-congruent incumbent decide in the first period when the challenger is a populist? His payoff from selecting policy B will be G in the first period and zero in the second period. The payoff for policy A will be $\beta\,(G + R)$. A non-congruent incumbent selects the optimal policy for society (A) in this situation if and only if:

$$\beta\,(G + R) > G$$
$$G < \frac{\beta R}{1 - \beta}$$

What should the non-congruent incumbent decide in the first period when the challenger is mainstream? It now depends on the type of this challenger what he will do in the second period. A congruent challenger will pick policy A and a non-congruent challenger policy B. The non-congruent incumbent still gets a payoff of G in the second period when he loses the election from a non-congruent challenger. The challenger is non-congruent with probability $1 - \pi$. The expected payoff when the non-congruent incumbent picks B in the first period therefore becomes $G + (1 - \pi)\beta G$. A non-congruent incumbent will select A in this case if and only if:

$$\beta\,(G + R) > G + (1 - \pi)\beta G$$
$$\beta R > G - \pi\beta G$$
$$G < \frac{\beta R}{1 - \pi\beta}$$

The probability that a non-congruent challenger picks policy A in the first period increases with R and β. Only the non-congruent incumbents who do not care very much about the policy

(i.e. very much office motivated), will select policy A in the first period. This group is bigger when the challenger is a populist. A populist therefore has a disciplining effect on the non-congruent incumbent. This makes it however also more likely that a non-congruent incumbent will be reelected.

B. Policy B is optimal

Consider the case where the optimal decision for society is B. Both the congruent and non-congruent incumbents prefer policy B, so they will behave the same. The popular decision is A, so a populist will always choose A. The incumbent prefers policy B, so in period two he will always choose policy B. The mainstream challenger will also always implement policy B in the second period.

Which decision should the incumbent make in the first period when competing with a populist challenger? If the incumbent selects policy B his payoff will be G in the first period, but he does not get reelected. The populist will pick policy A in the second period, so the incumbent's second period payoff will be zero. The payoff in the first period will be lower when the incumbent selects policy A, but he will get reelected and gets R + G in the second period. He will therefore select the optimal policy (B) in the first period if and only if:

$$G > \beta (G + R)$$

$$G > \frac{\beta R}{1 - \beta}$$

$$G^* = \frac{\beta R}{1 - \beta}$$

Which decision should the incumbent make in the first period when he is competing with a mainstream challenger? The mainstream challenger also wants to implement policy B in the second period. The incumbent therefore also receives a payoff of G in the second period when he loses the election. The payoff when he picks B in the first period is G + βG and the payoff when he selects A is again β(G + R). He will therefore select the optimal policy (B) in the first period if and only if:

$$G + \beta G > \beta (G + R)$$

$$G > \beta R$$

$$G^* = \beta R$$

The threshold G* for which a congruent politician will pick policy B in the first period is higher when the challenger is a populist than when he is competing with a mainstream challenger, because: $\frac{\beta R}{1-\beta} > \beta R$[1]. Competition with a populist makes it less likely that the incumbent picks policy B in the first period and therefore increases pandering in this situation. The number of incumbents that will select the populist option increases with R and β, so both a higher value of office and a higher discount factor make pandering more likely.

4.2 Voter welfare

The pervious section shows the behavior of the politicians, but what does this mean for the voters? Voters also get a positive payoff G when the optimal policy is chosen, otherwise their payoff is zero. In this section the voter welfare will be calculated in all the above scenarios. The calculation of the voter welfare makes it possible to say something about the optimal situation for voters

A. Policy A is optimal

First I will consider the voter welfare when policy A is optimal. A congruent politician will always select policy A in this situation. The probability that a non-congruent politician selects policy A is denoted by λ, the index of discipline (Besley, 2006). The value of λ differs in this model with the type of the challenger. The index of discipline will be denoted by λ^p when the challenger is a populist and λ^m when there is a mainstream challenger. What will be the voter welfare when policy A is optimal and the challenger is a populist?

The incumbent is congruent with probability π and non-congruent with probability $1 - \pi$. A congruent incumbent selects policy A for sure and a non-congruent incumbent only selects policy A with probability λ^p. The period 1 voter welfare is therefore:

$$V_1^p(\lambda^p) = (\pi + (1 - \pi)\lambda^p)G$$

The optimal policy will be selected in period 2 if a congruent incumbent gets reelected or a populist challenger gets elected. A congruent incumbent select policy A in the first period and

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[1] $0 < \beta < 1$

will therefore always be reelected. The populist only gets elected when a non-congruent incumbent selects policy B in period 1. Period 2 voter welfare is therefore:

$$V_2^p(\lambda^p) = (\pi + (1 - \pi)(1 - \lambda^p))G$$

We have seen in section 4.1.A that the non-congruent incumbent will do what voters want if $G < \frac{\beta R}{1-\beta}$. This can be used in combination with the fact that G is uniformly distributed on [0,γ] to calculate the value of λ^p:

$$\lambda^p = pr\left(G < \frac{\beta R}{1-\beta}\right)$$

$$\lambda^p = \frac{\frac{\beta R}{1-\beta}}{\gamma}$$

$$\lambda^p = \frac{\beta R}{(1-\beta)\gamma}$$

Voter welfare in period 1 and 2 is as follows when the opponent is a mainstream challenger:

$$V_1^m(\lambda^m) = (\pi + (1 - \pi)\lambda^m)G$$
$$V_2^m(\lambda^m) = \pi(1 + (1 - \pi)(1 - \lambda^m))G$$

The index of discipline for a non-congruent incumbent who is facing a mainstream challenger is:

$$\lambda^m = pr\left(G < \frac{\beta R}{1-\pi\beta}\right)$$

$$\lambda^m = \frac{\frac{\beta R}{1-\pi\beta}}{\gamma}$$

$$\lambda^m = \frac{\beta R}{(1-\pi\beta)\gamma}$$

The first period voter welfare increases in both situations with π and λ. They only differ in the value of λ. The situation with the highest λ gives the most voter welfare. Both π and β are smaller than 1, so:

$$\lambda^p = \frac{\beta R}{(1-\beta)\gamma} > \frac{\beta R}{(1-\pi\beta)\gamma} = \lambda^m$$

The period 1 voter welfare is bigger with a populist challenger.

There is a bit more difference in the voter welfare for period 2. Substituting λ^p and λ^m in the period 2 voter welfare functions gives:

$$V_2^p = \left(\pi + (1-\pi)(1 - \frac{\beta R}{(1-\beta)\gamma})\right) G$$

$$V_2^m = \left(\pi + \pi(1-\pi)(1 - \frac{\beta R}{(1-\pi\beta)\gamma})\right) G$$

V2 $(\lambda^p) \geq V_2(\lambda^m)$ if and only if:

$$1 - \frac{\beta R}{(1-\beta)\gamma} \geq 1 - \pi\frac{\beta R}{(1-\pi\beta)\gamma}$$

$$\frac{\pi}{(1-\pi\beta)} \geq \frac{1}{(1-\beta)}$$

$$\pi \geq 1$$

Voter welfare in period 2 is always smaller (or equal) with a populist challenger, because π is by definition smaller or equal to 1. A populist challenger gives higher voter welfare in the first period, because non-congruent incumbents are more likely to select the optimal policy. This at the same time means that more non-congruent incumbent will be reelected, which reduces second period voter welfare. It depends on the discount factor and the value of π, whether a populist or mainstream challenger is better for the overall voter welfare. The difference decreases when π increases. The type of the challenger does not matter when all incumbents are congruent.

B. Policy B is optimal

A congruent and non-congruent incumbent behave the same when policy B is optimal. The probability that the incumbent selects policy B is the same for both types, so λ is in this case the probability that an incumbent selects policy B. The probability that an incumbent will pander is here equal to $1 - \lambda$. There are again two different values of λ depending on the challenger:

$$\lambda^p = pr\left(G > \frac{\beta R}{1-\beta}\right) \qquad\qquad \lambda^m = pr(G > \beta R)$$

$$\lambda^p = 1 - \frac{\beta R}{(1-\beta)\gamma} \qquad\qquad \lambda^m = 1 - \frac{\beta R}{\gamma}$$

It is clear that $\lambda^m > \lambda^p$, since $0 < \beta < 1$. This means that an incumbent who is facing a mainstream challenger is more likely to choose the optimal policy and a populist challenger makes pandering more likely. What does this mean for the voter welfare?

The voter welfare when the challenger is a populist is:

$$V_1^p(\lambda^p) = \lambda^p G$$

$$V_2^p(\lambda^p) = (1 - \lambda^p)G$$

And with a mainstream challenger voter welfare is:

$$V_1^m(\lambda^m) = \lambda^m G$$

$$V_2^m(\lambda^m) = G$$

The voter welfare is higher with a mainstream challenger both in the first and second period, because $\lambda^m > \lambda^p$ and $(1 - \lambda^p) < 1$.

C. Overall voter welfare

It depends on the state of the world which type of challenger is optimal for society. A populist challenger is better for the voter welfare in the first period when policy A is optimal and a mainstream challenger is better for the second period when policy A is optimal and when policy B is optimal. The type of the challenger does only influence the behavior of non-congruent incumbent when policy A is optimal, whereas it influences all the incumbents when policy B is optimal.

Policy A is optimal with probability p and B is optimal with probability 1-p, so total voter welfare with a populist challenger is:

$$V_1^p = \left[p \left(\pi + (1 - \pi) \frac{\beta R}{(1-\beta)\gamma} \right) + (1 - p) \left(1 - \frac{\beta R}{(1-\beta)\gamma} \right) \right] G$$

$$V_2^p = \left[p \left(\pi + (1 - \pi) \left(1 - \frac{\beta R}{(1-\beta)\gamma} \right) \right) + (1 - p) \left(\frac{\beta R}{(1-\beta)\gamma} \right) \right] G$$

Total voter welfare with a mainstream challenger is:

$$V_1^m = \left[p \left(\pi + (1 - \pi) \frac{\beta R}{(1-\pi\beta)\gamma} \right) + (1 - p) \left(1 - \frac{\beta R}{\gamma} \right) \right] G$$

$$V_2^m = \left[p \left(\pi + \pi(1 - \pi) \left(1 - \frac{\beta R}{(1-\pi\beta)\gamma} \right) \right) + (1 - p) \right] G$$

The voter welfare for different values of π and p is calculated in table 1, to see how the total expected voter welfare varies with changes in π and p. Table 1 gives the voter welfare for low (π=0) and high (π=1) values of π and for low (p=0.5), middle (p=0.75) and high (p=1) values of p. The maximum voter welfare in one period is G and voter welfare can never be lower than 0.

Table 1 Total expected voter welfare

	P=0.5	P=0.75	P=1
π=1	$V_1^p = \left[1 - \dfrac{\beta R}{2(1-\beta)\gamma}\right]G$ $V_2^p = \left[\dfrac{1}{2} + \dfrac{\beta R}{2(1-\beta)\gamma}\right]G$ $V_1^m = \left[1 - \dfrac{\beta R}{2\gamma}\right]G$ $V_2^m = G$	$V_1^p = \left[1 - \dfrac{\beta R}{4(1-\beta)\gamma}\right]G$ $V_2^p = \left[\dfrac{3}{4} + \dfrac{\beta R}{4(1-\beta)\gamma}\right]G$ $V_1^m = \left[1 - \dfrac{\beta R}{4\gamma}\right]G$ $V_2^m = G$	$V_1^p = G$ $V_2^p = G$ $V_1^m = G$ $V_2^m = G$
π=0	$V_1^p = \dfrac{1}{2}G$ $V_2^p = \dfrac{1}{2}G$ $V_1^m = \dfrac{1}{2}G$ $V_2^m = \dfrac{1}{2}G$	$V_1^p = \left[\dfrac{1}{4} + \dfrac{\beta R}{2(1-\beta)\gamma}\right]G$ $V_2^p = \left[\dfrac{3}{4} - \dfrac{\beta R}{2(1-\beta)\gamma}\right]G$ $V_1^m = \left[\dfrac{1}{4} + \dfrac{\beta R}{2\gamma}\right]G$ $V_2^m = \dfrac{1}{4}G$	$V_1^p = \dfrac{\beta R}{(1-\beta)\gamma}G$ $V_2^p = \left[1 - \dfrac{\beta R}{(1-\beta)\gamma}\right]G$ $V_1^m = \dfrac{\beta R}{\gamma}G$ $V_2^m = 0$

Table 1 shows that this maximum voter welfare will always be achieved when all mainstream politicians are congruent (π=1) and A is always the optimal policy (p=1) regardless of the challenger. Voter welfare reduces when p declines except in the second period with a mainstream challenger. This decline in voter welfare is bigger when the challenger is a populist. The voter welfare with a mainstream challenger is higher or equal to the voter welfare with a populist challenger when all mainstream politicians are congruent (π = 1). It is therefore better to have a mainstream challenger in this situation.

Voter welfare declines for all values of p and both types of challengers when there are only non-congruent mainstream politicians (π = 0).[2] It is better to have congruent politicians instead of non-congruent politicians. The voter welfare is 0.5G in each period for both types when

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[2] $V_t \le G$, so $\dfrac{\beta R}{\gamma}G < \dfrac{\beta R}{(1-\beta)\gamma}G \le G$ → and $\dfrac{\beta R}{\gamma} < \dfrac{\beta R}{(1-\beta)\gamma} \le 1$, $\dfrac{\beta R}{2\gamma} < \dfrac{\beta R}{2(1-\beta)\gamma} \le 0.5$ and $\dfrac{\beta R}{4\gamma} < \dfrac{\beta R}{4(1-\beta)\gamma} \le 0.25$

π = 0 and p = 0.5. It depends on the type, the period and the discount factor, whether the voter welfare decreases or increases, but with a populist challenger it is always higher or equal to the voter welfare with a mainstream challenger, when all mainstream politicians are non-congruent (π = 0). It is therefore better to have a populist challenger in this situation.

The overall conclusion based on voter welfare is that it is better to have a mainstream challenger when there are a lot of congruent politicians and a populist challenger can be good for society when there is a bad pool of politician (a lot of non-congruent politicians).

5. Extensions

5.1 Costly information

So far I assumed that all politicians are fully informed about the consequences of policies. In reality politicians are often also uncertain about the state of the world. In this section I assume that a politician needs to exert some effort to get informed. Getting informed is therefore costly. A politician will be as uninformed as the electorate unless he incurs the cost c to get informed. This is a personal cost that varies between politicians. The costs are lower for more competent politicians, because it is easier for them to learn the consequences of the policies. I assume that all politicians are informed in the second period, because they learn from the first period results. Non-congruent politicians are not interested in the information, because their preferences do not depend on the state of the world. How does the cost of information influence the decisions of congruent incumbents?

When a congruent incumbent is not informed he will always select policy A, because the probability p that A is optimal is bigger than ½. The incumbent will then get reelected for sure and his expected payoff is equal to:

$$pG + \beta(G + R)$$

A congruent incumbent, who is competing with a populist, has the following expected payoff when he gathers information and follows this information:

$$p\big(G + \beta(G + R)\big) + (1 - p)G - c$$

A congruent incumbent with a populist challenger will therefore get informed as long as:

$$p\big(G + \beta(G + R)\big) + (1 - p)G - c > pG + \beta(G + R)$$

$$p\beta(G + R) + (1 - p)G - c > \beta(G + R)$$

$$c < (1 - p)\,(G - \beta G - \beta R)$$

The payoff of a congruent incumbent who gathers information when the challenger is mainstream is:

$$p\big(G + \beta(G + R)\big) + (1 - p)(G + \beta G) - c$$

In this situation the congruent incumbent will exert effort to get information if:

$$p\big(G + \beta(G + R)\big) + (1 - p)(G + \beta G) - c > pG + \beta(G + R)$$

$$p\beta R + (1 - p)(G) - c > \beta R$$

$$c < (1 - p)(G - \beta R)$$

The maximum cost a congruent incumbent is willing to pay for information increases in both situations with G and decreases with β, R and p. Politicians who care more about the policy than staying in office are willing to pay more for information. The willingness to pay decreases for all politicians when the probability that A is optimal increases or when the discount factor increases. These last two reasons make pandering more beneficial. The maximum cost a congruent incumbent is willing to pay is (1-p)βG lower when the challenger is a populist instead of a mainstream politician. The cost of information decrease with the quality of the politician, so pandering is more likely with low quality politicians. A populist challenger increases pandering and increases the number of politicians that are not willing to pay for information. A populist challenger therefore reduces the quality of policy.

5.2 Informed voters

The previous sections assume uninformed voters. In reality there are a lot of sources of information, such as media and academic experts, that might be able to inform the voters about the consequences of policies. This section examines the influence of informed voters. I assume

that there is a positive probability (q > 1) that the electorate gets informed about the optimal policy before the election.

A. Strategy of the voters

There is still a probability of 1 – q that the electorate does not get informed about the state of the world before the election. Uninformed voters only reelect an incumbent who picks policy A in the first period (section 4.1). The strategy changes however when they get informed. First suppose that A is optimal. Voters know that a congruent incumbent will never select policy B in this case. An incumbent who picks policy B in the first period must therefore be non-congruent and will never get reelected. The type of the incumbent is still unknown however when the incumbent has chosen policy A. A non-congruent politician might also choose policy A in the first period, because he wants to get reelected. The consequences of reelecting the incumbent are therefore still unknown by the voters. A populist challenger will always choose policy A, so the populist challenger will be elected for sure when policy A is revealed to be optimal. The incumbent will always lose the election against a populist challenger if voters are informed and policy A is optimal.

The incumbent will get reelect however when the challenger is mainstream and the period one policy choice was A. Voters only know about the mainstream challenger that he is congruent with probability π and non-congruent with probability 1-π. They have a bit more information about the incumbent. A congruent incumbent will always choose policy A in period one and a non-congruent incumbent might choose policy A or policy B depending on the value of office and the value he attributes to selecting his preferred policy. The fact that some non-congruent politicians select policy B reduces the probability that the incumbent is non-congruent when policy A is selected. The probability that the incumbent is congruent is therefore bigger than π. The incumbent, who selects policy A, is more likely to be congruent than the mainstream challenger and therefore voters will reelect the incumbent.

What is the optimal strategy when the voters find out that policy B is optimal? The populist will never implement policy B, because he chooses the easier policy. It is therefore not beneficial to elect the populist when B is optimal. Informed voters will always reelect the incumbent when policy B is optimal. The voters are indifferent between the incumbent and a mainstream

challenger, because all mainstream politicians will always pick policy B in period two if B is optimal. I assume that they will reelect the incumbent when they are indifferent, because of the incumbent advantage. The incumbent will always get reelected if voters are informed and policy B is optimal, regardless of the policy choice and type of the challenger.

B. Strategy of the incumbent

The optimal strategy of an incumbent has to be determined in four situations. His strategy depends on the type of the challenger and the state of the world. All four situations will be discussed below.

B.1 Populist challenger and policy A

First suppose that A is the optimal policy and the challenger is a populist. A congruent politician has no incentive to pick policy B, so he will always choose policy A. The rest of this section therefore considers the strategy of a non-congruent incumbent. The voters get informed before the election with probability q. Informed voters will never reelect the incumbent in this situation. With probability $1 - q$ the voters do not get informed. Uninformed voters will behave the same as in section 4.1.A. The non-congruent politician will not get reelected when he selects policy B. B is however his preferred policy, so it will give him a payoff of G. When he picks policy A, he will get reelected with probability $(1 - q)$. The non-congruent incumbent will therefore select policy A in the first period if and only if:

$$(1 - q)\,\beta\,(G + R) > G$$
$$G < \frac{(1-q)\beta R}{1 - (1-q)\beta}$$

The probability that a non-congruent chooses policy A in the first period is:

$$\lambda^p = pr\left(G < \frac{(1 - q)\beta R}{1 - (1 - q)\beta}\right)$$
$$\lambda^p = \frac{(1-q)\beta R}{(1-(1-q)\beta)\gamma}$$

An increase in q decreases the probability that a non-congruent incumbent selects policy A in the first period. Voter welfare is in this situation is equal to:

$$V_1^p(\lambda^p) = (\pi + (1 - \pi)\lambda^p)G$$

$$V_1^p(\lambda^p) = \left[q + (1-q)\big((\pi + (1-\pi)(1-\lambda^p))\big)\right]G$$

The first period voter welfare decreases with q. This is caused by a decrease in the index of discipline. Non-congruent incumbents are less likely to select the optimal policy in the first period. The second period voter welfare increases with q. This is because it also becomes less likely that the non-congruent incumbent gets reelected. It depends on the discount factor whether the first or the second effect is stronger.

B.2 Mainstream challenger and policy A

Now suppose that A is still optimal, but the incumbent is facing a mainstream challenger. Congruent politicians will still behave the same, they will always pick policy A when this is the optimal policy. The difference is however that the incumbent will always get reelected when he chooses policy A, also when the voters are informed. This gives an extra incentive to the non-congruent incumbent to pick policy A in the first period. On the other hand, there is also a probability of $1 - \pi$ that the challenger is also non-congruent. A non-congruent challenger will also select policy B in the second period, so this makes it less likely that the non-congruent incumbent picks policy A. The non-congruent incumbent will pick policy A in the first period if and only if:

$$\beta\,(G + R)\ > G + (1 - \pi)\beta G$$

$$\beta R\ > G - \pi\beta G$$

$$G < \frac{\beta R}{1 - \pi\beta}$$

This is exactly the same when q = 0 as in section 4.1.A. Informing the voters has no influence on the incumbent's strategy and on the strategy of the voters. It therefore also has no influence on the voter welfare.

B.3 Populist challenger and policy B

The congruent and non-congruent incumbent have the same preferences when B is the optimal policy. They therefore have the same strategy and I will refer to them as the incumbent in the following two sections. I start with the strategy against a populist challenger. Uninformed voters will only reelect the incumbent when he has implemented policy A in the first period.

Informed voters will always reelect the incumbent, because they know that the incumbent will always pick the optimal policy in the second period. Selecting policy B instead of A will increase the incumbent's payoff with G in the first period, but there is a probability of $1 - q$ that he does not get reelected. The incumbent selects policy B in the first period if and only if:

$$G + q \beta (G + R) > \beta (G + R)$$
$$G > \beta (G + R)(1 - q)$$
$$G > \frac{\beta R(1 - q)}{1 - \beta(1 - q)}$$

The probability that an incumbent selects policy B is in this situation equal to:

$$\lambda^p = pr\left(G > \frac{\beta R(1 - q)}{1 - \beta(1 - q)}\right)$$
$$\lambda^p = 1 - \frac{\beta R(1-q)}{(1-\beta(1-q))\gamma}$$

This probability with uninformed voters (q = 0) was $\lambda^p = 1 - \frac{\beta R}{(1-\beta)\gamma}$. An increase in q increases the probability that the incumbent selects the optimal policy. This means that incumbents are less likely to pander to the electorate when the probability of informed voters increases. The voter welfare is in this situation:

$$V_1^p(\lambda^p) = \lambda^p G$$
$$V_2^p(\lambda^p) = [q + (1 - q)(1 - \lambda^p)]G$$

The voter welfare in both period increases with q, so information improves the welfare of the voters.

B.4 Mainstream challenger and policy B

The last situation is where policy B is optimal and the challenger is from a mainstream party. The incumbent knows that this challenger also wants to implement policy B in the second period. The incumbent therefore still gets a payoff of G in the second period when he loses the election. Uninformed voters will only reelect the incumbent when he picks policy A and informed voters will always reelect the incumbent. The expected payoff when the incumbent selects B in the first period is therefore G + $\beta(qR + G)$ and the payoff when he selects A is again: $\beta (G + R)$. He will therefore select the optimal policy (B) in the first period if and only if:

$$G + \beta(qR + G) > \beta(G + R)$$
$$G + \beta qR > \beta R$$
$$G > \beta R(1 - q)$$

$$\lambda^m = pr(G > \beta R(1 - q))$$
$$\lambda^m = 1 - \frac{\beta R(1 - q)}{\gamma}$$

An increase in q also increases the probability that the incumbent selects the optimal policy in this situation. The voter welfare is here:

$$V_1^m(\lambda^m) = \lambda^m G$$
$$V_2^m(\lambda^m) = G$$

Period one voter welfare increases with λ^m and therefore it increases with q. Informed voters is always better for society when policy B is optimal, regardless of the type of the challenger, because it reduces the incentive to pander.

6. Discussion

Populists do often claim to protect the electorate against the corrupt elite (Mudde, 2004). The results above show that a populist challenger might indeed be beneficial for voters when there are a lot of non-congruent politicians. This suggests that a populist is better for society when the political system is already very corrupt. The populist however reduces voter welfare when there are more congruent politicians.

The model follows a first-past-the-post system. There are only two politicians competing for one spot. Empirical literature shows however that populist parties have more chances in electoral systems with more parties and proportional representation (Jackman and Volpert, 1996; Golder, 2003; Norris, 2005). It would be interesting to examine the influence of populist parties in a proportional system with several parties, but that is beyond the scope of this thesis. I expect however that a similar effect will be found in such a model. My model might be considered to be competition of two parties on a part of the electorate. A center-right party for example competes

with a right-wing populist to get the voters on the right-side of the political spectrum or a center-left party competes with a left-wing populist. Both center parties might move in the direction of the populist to get a bigger share of the electorate on their side.

My model also does not specify how the challenger is selected. A possible extension is to include the selection process in the model, for example, through primaries. The challenger than first has to win the primary to be able to compete with the incumbent. It might be interesting to see the influence of a selection process on the chances and strategies of different types of challengers.

One of the assumptions in this thesis is that the state of the world is the same in both two periods. In most of the related literature the state of the world is independently drawn at the beginning of each period and can therefore differ between the periods. It might be more realistic to assume that the state of the world can change from the first to the second period, but there is also a correlation between the state of the world in two consecutive time periods. I think that it depends on the time between the two decisions. The state of the world has probably not changed that much when the timespan is short. This model is about pandering, which probably plays a bigger role by policy decisions in the last months before the elections. Moreover, the model is about the influence of challengers on the choices of the incumbent. It is more clear what the challenger will do in the next period when the state of the world in the next period is known. This makes it easier to examine the influence of challengers on the incumbent. For this reasons I think that the assumption is suitable for this model. It is nevertheless an interesting extension for future research to run this model with the assumption of independently drawn states of the world.

Another important assumption of the model is that voters have homogenous preferences. This might be true for some non-partisan issues, but there are also a lot of partisan issues on which voters disagree. Besley (2006, chapter 3) extends his model by introducing polarization. This polarization creates noise, because decisions of voters are not only influenced by policy choices but also by ideological preferences. Populists are often on the extreme sides of the political spectrum, so introducing polarization in my model might change the influence of populists and could therefore be a very relevant extension.

The model can also be extended with more terms in future research. There are only two terms in this model. All politicians can choose their preferred policy in the second period, because there are no elections anymore. This changes when they can get reelected for a third or fourth term. It will be interesting to study the influence of more terms on the behavior of politicians. Besides the number of terms, it is also possible to increase the number of decisions that have to be made.

Another possibility for future research is to look at the role of the media. The availability of information plays an important role in the model. One of the sources of information for voters is the media. Increasing the role of the media can simple mean that more voters get informed (q becomes bigger) about the optimal policy, but it is also possible that voters get information about the type of the politicians. When media are very much controlled by the state this might increase the changes of the incumbent. When media are very sensational they might give bigger attention to the populistic ideas, which increases the changes of the populist challenger. The role of social media is also interesting here. Social media give voters much more possibilities to inform themselves and also give politicians the probability to reach and influence voters in more ways.

7. Conclusion

This thesis studied the influence of a populist challenger on the decisions of mainstream incumbents. Uninformed voters give politicians an incentive to select the popular policy, even when the politicians know that this policy is not optimal for society. This pandering effect increases when the challenger is a populist instead of a mainstream politician. A populist therefore has a negative influence on the voter welfare when the less popular and more complicated policy is optimal for society. Populist challengers do on the other hand have a disciplining effect on non-congruent incumbents. These incumbents are biased to the less popular policy. A populist challenger gives them an incentive to select the popular policy in the first period, which increases voter welfare if the popular policy is the optimal policy. It is better for society to have a mainstream challenger when most politicians are congruent, because a populist increases pandering, and a populist challenger can be beneficial when most politicians are non-congruent, because of the disciplining effect.

A populist challenger also has a negative influence on congruent incumbents when it is costly to get informed. Less talented incumbents are less likely to get informed, because it costs more effort for them. A populist challenger increases the group of politicians that does not want to take this effort. A populist challenger therefore increases pandering and reduces the quality of policy.

A possible solution for this increase in pandering is to give voters more information. An increase in the probability that the state of the world is revealed to the voters reduces the incentive of incumbents to pander. This always increases the voter welfare when policy B is optimal. The information has no influence when policy A is optimal with a mainstream challenger and the effect is ambiguous when policy A is optimal with a populist challenger.

For future research I suggest to develop a similar model for a proportional system with multiple parties. It is also interesting to extend the model with more terms, more policy options, media influence or ideological differences. Moreover, future studies could search for empirical evidence for my results.

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