A Theory of Self-Fulfilling Political Expectations

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July 2008

Abstract

In their pursuit of being re-elected, politicians might not choose high-quality policies but just conform to popular wisdom. The larger are office spoils, and the more precise is an incumbent's knowledge of voter opinion, the more likely that she will resort to such populism. My main result is that the public's trust or distrust in politicians' behavior may be self-fulfilling. When voters assess the quality of an incumbent politician, they will compare her policy choices with their own prior opinion. If voters think that the incumbent was just trying to conform, a failure to do so will be even more damaging for the incumbent's election chances. However, this only increases the incumbent's incentives to conform, which indeed confirms voters' skepticism. Loosely put, a skeptic voter attitude tends to generate conformist politicians, while a trusting attitude tends to generate confident ones.

Keywords: Populism, pandering, political trust, electoral competition, candidate motivation

JEL Classification: D72, D82

Populism *A political strategy based on a calculated appeal to the interests or prejudices of ordinary people.*

– The Collins English Dictionary (2000)

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1 Introduction

Originally denoting members of The People's Party – an agrarian movement formed in the US in 1890 – the term populist now broadly refers to any politician or political party that, regardless of ideological bias, conforms to popular opinion in order to gain political advantage. By definition, populist policies appear favorable for significant factions of the electorate ("ordinary people"), but are inferior if politicians ignored information not available to the public.[1]

Political candidates are naturally drawn towards public opinion for, whether a candidate agrees with it or not, it is the yardstick by which her chances to win office – and thus the opportunity to shape policy at all – are determined. Although populist tendencies may be a necessary ingredient in representative democracies, in certain environments a political climate seems to form where the majority of politicians resort to demagoguery, and suppress their concerns about long-term sustainability.[2] One of the most long-lived instances of deficient political cultures is the "classic" (left-wing) populist doctrine, which prevailed in Latin America from the Great Depression until well in the 1990s. In country after country, protectionism, reckless deficit spending and macroeconomic expansion led to hyperinflation and economic crisis. Dornbush and Edwards (1991, p. 12) laconically conclude that "although the final outcome of these experiments was not always the total collapse and destruction of the economy (as in Chile, Peru, and Nicaragua, for example), in all cases there were disastrous effects for those groups who were supposed to be the beneficiaries of the policies."

The question is how to explain these and other self-destructive policy experiments in a world where voters are bestowed with rational expectations. And, in particular, why is it that some countries are plagued by poor political leadership again and again, while others are spared? While Dornbush and Edwards (1991, p. 8) assert that they have "no doubt...[ ]...about the sincerity of the policymakers who embarked on these [populist]

[1] An alternative term is "opportunism", but this usually refers to (inefficient) policy decisions taken *after* the election, and hence have not been approved of by the electorate. A more recent term is "pandering" (see, e.g., Canes-Wrone et al. 2003). For a synthesis of the various connotations of populism, see Canovan (1981).

[2] See Hillman and Swank (2000) for a discussion of the significance of political cultures.

programs", Alberto Alesina expresses a different view (ibid, p. 42): "Why is it that certain countries keep repeating the same 'mistakes' and never learn? In fact, once the political and institutional incentives and constraints are taken into account, policies that appear to be mistakes are perfectly rational responses to distorted or imperfect political incentives." In this paper I show that politicians' behaviour, and ultimately the efficiency of representative democracy, may depend crucially on voters' expectations. Once a reputation for populist behavior (a populist "culture") has been established, politicians and voters may be stuck in this equilibrium.

I model an incumbent politician who is about to choose a policy. The efficiency of a given policy depends on the state of nature, which is unknown, but both incumbent and voters have some private information on what the best policy is. In addition, the incumbent has (imperfect) information on what voters think, for example through opinion polls. There are two types of incumbents: the "normal" type, whose choice of policy is motivated by policy concerns and re-election concerns (in known proportions), and the "corrupt" type who is paid by special interests to implement a certain policy. Upon observing the incumbent's policy choice, voters use their own information to assess the likelihood that the incumbent is corrupt. If this probability is too high, the incumbent is replaced in the coming election.

To focus on informational aspects I assume that voters have common interests and can be represented by a single voter. This does not necessarily mean that distributional conflict is absent, but that (perceived) policy quality is pivotal for the electoral outcome.

My main result is that the public's trust or distrust in politicians' behavior may be self-fulfilling. When voters assess the quality of incumbents, they compare the incumbent's policy choice with their own prior opinion. The higher is the posterior probabililty that the incumbent is corrupt, the lower are her chances of re-election. Now, if voters expect (normal) incumbents to be populists, a failure to conform to voter opinion will increase the posterior probability that the incumbent is corrupt, as compared to when voters expect candid behavior. However, this only increases the incumbent's incentives to conform, which indeed confirms voters' skepticism.

Several papers have studied politicians' incentive to conform to popular opinion (Harrington 1993, Canes-Wrone et al. 2001, Chiu 2002, Heidhues and Lagerlöf 2003, Maskin and Tirole 2004). However, none of these have addressed the question of self-fulfilling voter expectations.[3] In Harrington (1993) an incumbent chooses between two policies whose economic effects will affect his election chances. The incumbent has private information on which policy is the more efficient one, which may or may not coincide with the (median) voter's prior belief. Harrington shows that the stronger is the voter's prior, and the more office-concerned is the incumbent, the more likely it is that the incumbent chooses policy according to the voter's prior – despite this being the less efficient policy. Maskin and Tirole (2004) show that when politicians' office-holding motives are strong relative to their policy concerns, representative democracy is inferior to other forms of government – precisely because of politicians' pandering to popular opinion.

Closely related is also a series of papers that shows that imperfect knowledge of an agent's preferences may lead her to distort her messages in order to signal a certain bias – or lack thereof. (See, e.g., Bernheim 1994 and Morris 2001). Morris demonstrates the phenomenon coined "political correctness". He shows that if an opinion is associated with an unattractive preference or characteristic, people will shy of expressing that opinion - even if it corresponds to their true belief. The current model builds on this mechanism: the presence of corrupt politicians creates an incentive for normal incumbents to conform to popular opinion. The contribution of the paper is to show how this incentive depends on voter expectations.

The paper is inspired by Prendergast (1993). Prendergast shows that if superiors use subjective performance evaluation to reward workers, workers will tend to conform to their superiors' opinion. This effect may in fact be so detrimental that superiors should refrain from inducing effort. In an electoral setting, "performance evaluation" is necessarily subjective since, arguably, constituents can hardly commit to vote for a

[3] A related strand of the literature has demonstrated that officials' opportunistic behavior (such as taking bribes or seeking rents) may be strategic complements, which, although for a different reason, also gives rise to multiple equilibria. Aidt (2003) surveys this literature.

candidate irrespective of how they perceive his competence and character.

The remainder of the paper is organized as follows. Section 2 introduces the model. Section 3 characterizes the set of perfect Bayesian equilibria (PBE) in pure strategies. Section 4 performs some comparative statics, and section 5 concludes and discusses potential extensions. All proofs are in the Appendix.

2 The Model

There are two periods, $t = 1, 2$. In the first period an incumbent politician i chooses between two policies, "reform" and "status quo", $p \in \{r, s\}$. After observing the policy choice, the (representative) voter v decides whether to re-elect the incumbent for a second term or to replace her with a challenger, c. The consequences of the first-period policy does not materialize until after the election. In the second period, the elected politician anew chooses between r and s, and the game ends. The efficiency of the policy in period t depends on an unknown state $\omega_t \in \{r, s\}$. The two states have equal probability in each period.

There are two types of incumbents, the "corrupt" type and the "normal" type, and the voter does not know which is the case. The corrupt type is paid by special interests – whose identity is unknown to voters – and implements their preferred policy.[4] For simplicity I assume that a corrupt type is equally likely to be paid by r- and s-lobbyists.[5] The prior probability that the incumbent is corrupt is $\epsilon \in (0, 1)$.

Utility Normal incumbents both care about policy quality and office spoils. Specifically, their von Neumann-Morgenstern utility function reads

$$\mathrm{U}_i = \begin{cases} \mathrm{q}_1 + \mathrm{q}_2 + \lambda & \text{if the incumbent is re-elected,} \\ \mathrm{q}_1 + \mathrm{q}_2 & \text{if the challenger is elected,} \end{cases}$$

where $\lambda \geq 0$ and $\mathrm{q}_t = \Pr(p_t = \omega_t)$ is the policy's "quality". For simplicity there is no discounting. The higher is λ, the more important is office possession to the incumbent

[4] As long as the period-1 decision is at least as important as the period-2 decision (i.e., no "negative" discounting), the lobby group will always prefer to have their preferred decision implemented in period 1 rather than to "invest" in the incumbent's election chances.

[5] Otherwise, normal incumbents may be *ex ante* inclined to choose a certain policy to avoid being perceived as corrupt. See Morris (2001).

relative to policy quality. The parameter λ is common knowledge.[6]

Voter utility depends on policy quality and the politician's personal characteristics. The voter's second-period utility is (since first-period utility is sunk at the time of the election we may ignore it)

$$\mathrm{U}_v = \begin{cases} 1 & \text{if the incumbent is elected and } p_2 = \omega, \\ \alpha & \text{if the challenger is elected and } p_2 = \omega, \\ 0 & \text{otherwise.} \end{cases}$$

The challenger's "appeal", α, is known to voters but unknown to politicians. From the incumbent's viewpoint, this makes the election outcome probabilistic, even though the voter's decision is deterministic.[7] It is assumed that α is drawn from a known prior distribution $\mathrm{F}(\cdot)$, which has positive density $\mathrm{f}(\alpha) > 0 \ \forall \ \alpha \in [0.5, 1]$.

Information For simplicity, assume that the period 2 state will be known with certainty by all politicians. This means that, for challengers and normal incumbents, $\mathrm{q}_2 = 1$. In other words, the only case in which the incorrect policy may be chosen in period 2 is thus when a corrupt incumbent has been re-elected.[8] Intuitively, the risk of re-electing an corrupt incumbent will make voters tie their election decision to the (assessed) quality of the first-period policy, and this in turn creates an incentive for (normal) incumbents to conform to popular opinion. The state in period 1 is unknown, but the incumbent and the voter have some private information on the state. Specifically, the incumbent gets a signal $\sigma_i \in \{r, s\}$, which is correct with probability $\beta_i \in (0.5, 1)$, and the voter gets a signal $\sigma_v \in \{r, s\}$, which is correct with probability $\beta_v \in (0.5, 1)$. The signals σ_i and σ_v are independent conditional on the state. In addition the incumbent gets a private signal on the voter's signal, for example through an opinion poll, $\sigma_z \in \{r, s\}$, which is correct – i.e., it truly reflects the voter's opinion – with probability

[6] I do not study potential selection effects in this paper. However, note that in a "citizen-candidate world" where politicians' motives differ and are unobservable, those citizens that choose to run for office may by definition be susceptible of having a lot to gain from winning it (i.e., to have a high λ). Caselli and Morelli (2004) demonstrates a selection effect of this flavour.

[7] This modelling technique is standard in probabilistic voting models. For an overview of this literature see, e.g., Coughlin (1992).

[8] The assumption that only incumbents and not challengers may be corrupt is made for simplicity and is unimportant for the qualitative results. All that is required for the main result is that the probability of re-election is strictly decreasing in the posterior that the incumbent is corrupt.

$\beta_z \in (0.5, 1)$.[9]

Strategies and equilibria A pure strategy for the incumbent is a mapping s_i: $\{r, s\}^2 \longrightarrow \{r, s\}$. That is, for each pair of signals (the incumbent's own signal and the opinion poll) a strategy assigns a policy choice. A pure strategy for the voter is a mapping $s_v : \{r, s\}^2 \longrightarrow \{re\text{-}elect, replace\}$. For each voter signal and first-period policy, a strategy assigns an election decision. Let μ denote the posterior probability over the incumbent's type, as assessed by the voter. A strategy profile $s = \{s_i, s_v\}$ and a belief μ constitute a perfect Bayesian equilibrium (PBE) if U_i and U_v are maximized given μ and the other player's strategy, and μ is consistent with s in terms of Bayesian updating. Intuitively, the normal incumbent only faces an interesting decision problem when her own information contradicts the opinion poll. (Otherwise she should choose the policy that accords with the two signals, which will maximize both the policy's quality as well as the probability of matching the voter's signal.)[10] Ignoring knife-edge cases, when $\sigma_i \neq \sigma_z$ the normal incumbent will either strictly prefer candor (propose $p_i = \sigma_i$) or strictly prefer populism (propose $p_i = \sigma_z$). In the next section I characterize the set of PBE of this game in pure strategies. Figure 1 recaps the timing of the game.

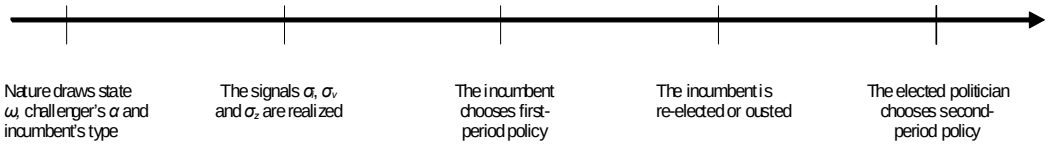

Figure 1. Timeline

[9] The results of the paper would be identical with a public poll – under the appropriate out-of-equilibrium beliefs. Specifically, to get a PBE with a public poll, in the out-of-equilibrium event that a supposed populist did not propose according to the opinion poll, the voter has to attach sufficient probability to the incumbent's signal coinciding with the poll.

[10] Note that since the poll is private information to the incumbent, and all signal combinations are possible, there are no out-of-equilibrium policy choices.

The voter's decision rule The voter has two pieces of information to form μ, his own signal and the first-period policy, and he will use Bayes' rule to update the prior ϵ (if possible). Specifically, let $\mu = \Pr(corrupt \mid p_1, \sigma_v)$ denote the posterior probability that the incumbent is corrupt. A corrupt politican will choose the correct policy in period 2 with probability 0.5. Since there are no corrupt challengers, a challenger will pick the correct policy in period 2 with certainty. This means that the incumbent is re-elected if and only if $(1-\mu) + \mu 0.5 \geq \alpha$, or

$$\alpha \leq 1 - 0.5\mu.$$

For ease of exposition I will henceforth use the shorthand F_μ to denote the re-election probability $\mathrm{F}(1-0.5\mu)$ for any posterior μ. Since, by assumption, $\mathrm{f}(\alpha) > 0$ for $\alpha \in [0.5, 1]$, the probability of re-election is strictly decreasing in μ. In turn, since both the incumbent's and voter's signal are informative, μ will be strictly lower if the incumbent's first-period policy matches voter opinion than if it does not. (This is formally shown in the Appendix.)

Let w $(1-w)$ denote the ex ante probability that the incumbent's signal and the voter's signal coincide (differ), where

$$w = \beta_i \beta_v + (1-\beta_i)(1-\beta_v).$$

Assumption1. Politicians are relatively well-informed, $\beta_i > \beta_v$.

Assumption 2. The opinion poll is *influential*, i.e., $\beta_z > w$.

Assumption 1 implies that incumbents are better informed than voters. If this was not the case then populist behavior could actually improve policy quality. Assumption 2 implies that when the opinion poll and the candidate's own information differ, the opinion poll is the better indicator of the voter's signal. This will imply that, everything else equal, populist behavior increases election chances. If this was not the case, populism would of course never occur.

Let

$$d = \beta_i\beta_v(1-\beta_z) + \beta_i(1-\beta_v)\beta_z + (1-\beta_i)\beta_v\beta_z + (1-\beta_i)(1-\beta_v)(1-\beta_z).$$

denote the probability that the poll and the incumbent's signal differ. Further, let m $(1-m)$ denote the probability that a candid (populist) first-period policy matches the voter's opinion, given that $\sigma_i \neq \sigma_z$, where

$$m = \frac{w(1-\beta_z)}{d}.$$

Finally, let n denote the probability that the first-period policy matches voter opinion, given that $\sigma_i = \sigma_z$ and the incumbent chooses policy according to the signals, where

$$n = \frac{w\beta_z}{1-d}.$$

Intuitively, since both the poll and the incumbent's signal are informative it is more likely than not that they match, so $d < 0.5$; by Assumption 2 the poll is the stronger indicator of the voter's signal so $m < 0.5$; when the poll and the incumbent's signal agree it is probable that this policy matches voter opinion so $n > 0.5$.

3 Equilibria

Policy-concerned politicians

If (normal) incumbents are predominately policy-concerned, i.e., if λ is sufficiently close to zero, candor is a dominant strategy. Candid behavior maximizes the quality of the first-period policy, and the quality of the second-period policy is independent of the election outcome. Recall that a corrupt politician picks either policy with equal probability. It follows that, in a candid equilibrium, the posterior over the incumbent's type is either

$$\mu_1 = \frac{0.5\epsilon}{0.5\epsilon + w(1-\epsilon)}$$

if $p_1 = \sigma_v$, or

$$\mu_2 = \frac{0.5\epsilon}{0.5\epsilon + (1-w)(1-\epsilon)}$$

if $p_1 \neq \sigma_v$, where $\mu_1 < \mu_2$. Since the utility of electing the challenger is α, the incumbent is elected with conditional probability F_{μ_1} and F_{μ_2}, respectively. The ex ante expected utiltity of the (normal) incumbent in the candid equilibrium is

$$\beta_i + 1 + \lambda(\big((1-d)n + dm)\mathrm{F}_{\mu_1} + ((1-d)(1-n) + d(1-m))\,\mathrm{F}_{\mu_2}\big)\,.$$

The first two terms represent the expected utility from policy, and the large bracket is the ex ante probability of re-election.

Office-motivated politicians

When λ is sufficiently large the incumbent gets insensitive as to which first-period policy is implemented, as long as she gets elected. In this case populism is a dominant strategy, i.e., the incumbent maximizes the policy's *perceived* quality by conforming to the poll whenever $\sigma_i \neq \sigma_z$. This increases the probability that the policy matches voter opinion from m to $1-m$. However, a rational voter realizes that the incumbent will bias her policy in this manner, and adjusts his beliefs accordingly. Since a populist incumbent matches voter opinion with probabilty β_z, the posterior over the incumbent's type in a populist equilibrium is either

$$\mu_3 = \frac{0.5\epsilon}{0.5\epsilon + \beta_z(1-\epsilon)}$$

if $p_1 = \sigma_v$, or

$$\mu_4 = \frac{0.5\epsilon}{0.5\epsilon + (1-\beta_z)(1-\epsilon)}$$

if $p_i \neq \sigma_v$, where $\mu_3 < \mu_4$. The ex ante expected utiltity of the (normal) incumbent in

the populist equilibrium is

$$\beta_z\beta_v+(1-\beta_z)(1-\beta_v)+1+\lambda\left(((1-d)n+d(1-m))\,\mathrm{F}_{\mu_3}+((1-d)(1-n)+dm)\,\mathrm{F}_{\mu_4}\right).$$

The general case

Intuitively, the larger (smaller) is λ the larger is the parameter space that supports populism (candor) as an equilibrium outcome. But, importantly, the two equilibria also coexist for an intermediate parameter range. The reason is that voters' expectations reinforce the incumbent's incentives.

Proposition 1. The difference in posteriors over the incumbent's type, between the case when first-period policy matches voter opinion and when it does not, is larger under populism than under candor. That is, $\mu_4-\mu_3>\mu_2-\mu_1$.

Proposition 1 is the fundamental result of the paper. Naturally, failing to conform to public opinion always hurts the incumbent's election chances. But under populist expectations a mismatch is more harmful because opinion polls are relatively informative of public opinion. That is, if (normal) incumbents are expected to behave as populists yet fail to conform to voter opinion, the probability that they are corrupt will be even higher than it would under candid expectations. The interesting implication of this is that if voters expect populist (candid) behavior, the incumbent's incentive to conform to public opinion only increases (decreases) – which indeed fulfills voter beliefs. Loosely put, a skeptic voter attitude tends to generate conformist politicians, while a trusting attitude tends to generate confident ones. These findings are summarized in Proposition 2 and illustrated in Figure 2.

Definition 1.

$$\lambda_1=\frac{\beta_i-(2\beta_v\beta_z-\beta_z-\beta_v+1)}{d(1-2m)(\mathrm{F}(\mu_3)-\mathrm{F}(\mu_4))}$$

$$\lambda_2 = \frac{\beta_i - (2\beta_v\beta_z - \beta_z - \beta_v + 1)}{d(1-2m)(\mathrm{F}(\mu_1) - \mathrm{F}(\mu_2))}$$

Proposition 2. $\lambda_2 > \lambda_1 > 0$. *For* $\lambda < \lambda_1$, *candor is the unique equilibrium, for* $\lambda > \lambda_2$, *populism is the unique equilibrium, and for* $\lambda_1 \leq \lambda \leq \lambda_2$, *both equilibria are possible.*

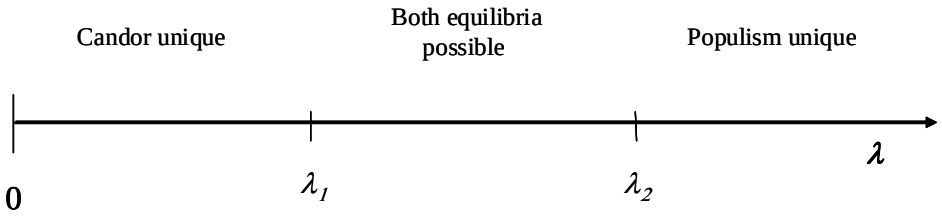

Figure 2. The equilibrium set as a function of λ.

Comparative statics

Populist behavior means that the incumbent chooses policy not based on her beliefs about the state of nature, but on her perception of the voter's beliefs about the state. Depending on parameters, this may lead to a sizeable deterioration of policy quality. However, even if politicians are assumed at least as informed as voters, this is actually does not guarantee that the candid equilibrium is preferred by the voter. The reason is that, since the poll reflects voter opinion with relatively high precision, the opinion poll constitutes an efficient signalling mechanism. As a result, the populist equilibrium better separates normal from corrupt incumbents, and therefor results in higher policy quality in the second period. Depending on parameters – and in particular the challenger function F() – a more efficient sorting may be worth the cost in terms of a worse first-period policy – for both incumbent and voter.[11] This makes general comparative statics difficult, although it seems that fairly non-standard distributions F() will be required to

[11] The assumption that politicians are perfectly informed about the state in the second period also works in favor of the sorting effect.

make populism preferred.[12] Figure 3 below shows the voter's utility in the two equilibria as a function of poll efficiency in a case with uniform challenger distribution.

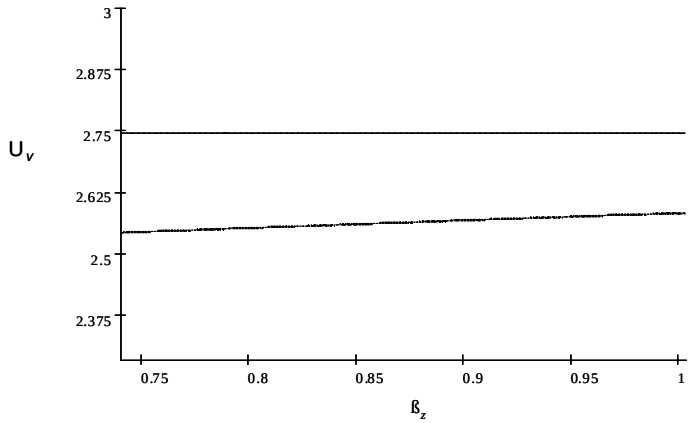

Figure 3. Voter utility in the candid (solid line) and populist (dashed line) equilibrium as a function of β_z ($F(\alpha) = \frac{\alpha}{4}, \alpha \in [0,4], \beta_i = 0.8, \beta_v = 0.6, \epsilon = 0.2$.)

Intuitively, a higher β_z should increase the utility of the populist equilibrium since it both increases the quality of the first-period policy – conformism becomes more efficient – and it also improves the poll's function as a sorting mechanism, while it has no effect on the candid equilibrium. An increase in β_i has the analogous effect on the candid equilibrium. Importantly however, although the (hypothetical) loss from populism decreases with β_z, the equilibrium set itself may change with the efficiency of the poll. Intuitively, when politicians are better informed about voter opinion, the temptation to conform to it increases, which may shift the equilibrium from candor to populism.

Proposition 3. λ_1 and λ_2 are strictly decreasing in β_z.

[12] I have not found any case with F() unimodular where populism is preferred by the voter.

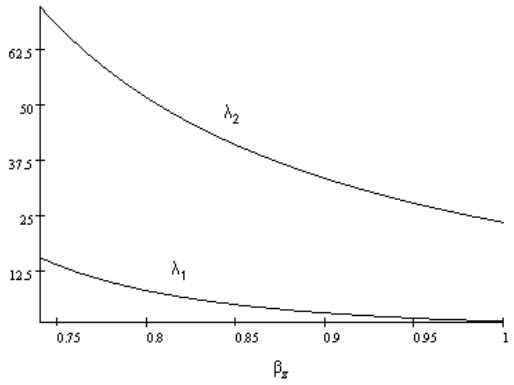

Figure 4. λ_1 and λ_2 as functions of β_z ($F(\alpha) = \frac{\alpha}{4}, \alpha \in [0,4], \beta_i = 0.8, \beta_v = 0.6$, $\epsilon = 0.2$.)

5 Concluding Remarks

Though difficult to measure, the welfare costs associated with politicians' conforming to popular opinion are probably significant. Due to electoral pressure, incumbents may abstain from implementing policies that seem controversial but likely are in the voters' best interest. In the current paper such populism improves the incumbent's election chances because it signals that she is responsive to voter interests — she does not serve a special interest.

My main result is that populist (or candid) behavior may be a self-fulfilling prophecy. The reason is that voter expectations and politicians' incentives are mutually reinforcing. If voters expect incumbents to choose high-quality policies, then any evidence pointing against a chosen policy will bear relatively lightly in the voters' assessment of the incumbent. This gives the politician more "leeway" in choosing informed policies, and attenuates her incentive to mimic voter opinion. On the other hand, if voters expect conformist behavior, politicians will be keen not to deviate from voter opinion since this would strongly indicate that the incumbent serves someone else's interests. This result may help explaining the existence of diverse political cultures, and begs the intriguing question if the virtually world-wide decline in political trust since the 1950s (see, e.g., Norris 1999) may in part be a self-fulfilling prophecy.

The fundamental mechanism at work, that is, the self-fulfillment of evaluators' ex-

pectations, should apply to numerous contexts. The crucial feature is that the "sender", at least on the margin, is willing to compromise the quality of her message in order to attain approval. Empirical studies of "populist cultures" – for example in politics, business, and academia – may be a fruitful area for future research.

Appendix

Proof of Proposition 1.

By assumption 2, $\beta_z > w$. It follows that $\mu_4 > \mu_2 > \mu_1 > \mu_3$ and the proposition follows.

Proof of Proposition 2.

In a candid equilibrium the incumbent's re-election probability is

$$\left((1-d)n + dm)\mathrm{F}_{\mu_1} + ((1-d)(1-n) + d(1-m))\,\mathrm{F}_{\mu_2}\right).$$

If the incumbent deviates from the candid equilibrium by conforming to the opinion poll whenever $\beta_i \neq \beta_v$, she increase her election chances to

$$\left((1-d)n + d(1-m))\mathrm{F}_{\mu_1} + ((1-d)(1-n) + dm)\,\mathrm{F}_{\mu_2}\right),$$

which implies a net increase of $d(1-2m)\left(\mathrm{F}_{\mu_1} - \mathrm{F}_{\mu_2}\right)$. At the same time, the probability that the first-period policy matches the state is reduced from β_i to $\beta_z\beta_v + (1-\beta_z)(1-\beta_v)$. It follows that candor is sustainable so long as $\lambda \leq \lambda_2$.

Analogously, in a populist equilibrium the incumbent's re-election probability is

$$\left(((1-d)n + dm)\,\mathrm{F}_{\mu_3} + ((1-d)(1-n) + d(1-m))\,\mathrm{F}_{\mu_4}\right).$$

If the deviates to candor she decreases her election chances to

$$\left(((1-d)n + d(1-m))\,\mathrm{F}_{\mu_3} + ((1-d)(1-n) + dm)\,\mathrm{F}_{\mu_4}\right).$$

It follows that populism is sustainable so long as $\lambda \geq \lambda_1$.

The nominator of λ_1 and λ_2 is minimized when $\beta_z = 1$. The nominator then equals $\beta_i - \beta_v$, which is strictly positive by Assumption 1. Since $m < 0.5$, $\mu_2 > \mu_1$, $\mu_4 > \mu_3$, and $f(\alpha) > 0 \ \forall \ \alpha \in [0.5, 1]$, the denominators of λ_1 and λ_2 are positive, and by Proposition 1 the denominator of λ_2 is strictly smaller.

Proof of Proposition 3.

We have

$$\frac{d}{d\beta_z}(2\beta_i - 2\left(2\beta_v\beta_z - \beta_z - \beta_v + 1\right)) = -2\left(2\beta_v - 1\right) < 0,$$

and

$$\frac{d}{d\beta_z}d(1-2m) = 1.$$

Also, μ_1 and μ_2 are unaffected by changes in β_z, while μ_3 is decreasing and μ_4 is increasing in β_z. Hence, the nominator of λ_1 and λ_2 is decreasing in β_z while the denominators are increasing.

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