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Populism and institutional capture

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ABSTRACT

This paper analyzes the relationship between populism and institutional capture. Populist politicians provide voters with a utility boom followed by a subsequent bust. Non-populists provide a constant level of utility. Once elected, however, politicians of both types are able to seize control of institutions to ensure their re-election. We show that in equilibrium, populist politicians may capture institutions to avoid being voted out of power during the bust: non-populists do not. Voters rationally elect a populist if voters discount the future sufficiently or if it is too costly for the populist to seize control of institutions. Unfortunately, both types of politician may prefer not to strengthen institutions, either to allow their capture or to discourage the election of the populist.

1. Introduction

Populism is widely recognized as a striking political phenomenon of the early 21st century, though it is also difficult to define. The term typically pools together figures as disparate as Chavez, Nestor and Cristina Kirchner, Berlusconi, and Vladimir Putin, as well as movements such as Front National in France or Movimento 5 Stelle in Italy.¹ The exact nature of populism is still contested in the political science literature, but a growing consensus argues it is defined by a set of core features. This consensus is summarized by [Mudde \(2004\)](#) (see also [Mény and Surel \(2002\)](#)), who defines populism as “an ideology that considers society to be ultimately separated into two homogeneous and antagonistic groups, ‘the pure people’ versus ‘the corrupt elite’, and which argues that politics should be an expression of the *volonté générale* (general will) of the people”. While this description relates populism to a political discourse, it is not immediately clear what kind of policies such a government might enact.

In economics, two different approaches have often been adopted to analyze populism. A redistributive approach, such as that used by [Acemoglu et al. \(2013a\)](#) and [Leon \(2014\)](#), focuses on the redistributive policies that accompany some populists, as in left-wing Latin American populist governments. A complementary approach, however, focuses on the dynamic features of populism. For example, [Dornbusch and Edwards \(1991\)](#) look at the economic content of populist proposals, and conclude that populism presents easy solutions to complex problems, which can be welfare-enhancing in the short term but costly in the long run. The authors analyze the cases of Allende in Chile and Garcia in Perú and show that politicians with very different political manifestos end up having similar macroeconomic outcomes: an initial economic boom followed by an eventual bust. This view is shared by [Sachs \(1989\)](#), who calls this type of dynamic “the populist policy cycle”. The dynamic analysis of populism also allows for the inclusion of what is often denoted as right-wing populism.²

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E-mail address: paolo.roberti3@unibo.it (P. Roberti).¹ See, for example, [Johnson \(2012\)](#); [Mudde \(2004\)](#); [Verbeek and Zaslove \(2016\)](#); <http://www.economist.com/node/6802448>² Right-wing populists reject the established socio-cultural and political system, and oppose social integration of marginalized groups, such as migrants ([Wodak, 2013](#)).<http://dx.doi.org/10.1016/j.ejpoleco.2017.06.004>

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In this paper, we focus on the dynamic feature of populism, allowing us to analyze the relationship between populism and institutional capture over time. At first glance, the long-term economic effects of populist policies analyzed by [Dornbusch and Edwards \(1991\)](#) can seem at odds with the persistence in office that populist leaders have enjoyed in recent years, suggesting incumbents may use some kind of advantage to remain in power. The key aim of this paper is to understand if populist politicians have a larger incentive to take actions aimed at remaining in office despite the will of voters, and to study the incentives for voters to elect politicians who may then attempt such a capture.

We adopt one stylized fact about populism: that as in [Dornbusch and Edwards \(1991\)](#), the effect of populism on welfare is positive in the short term, but negative in the long run. As discussed below, a wide literature shows that ruling politicians have at their disposal an array of tools to ensure their re-election. Hence, we define by institutional capture any action that can be performed only by an incumbent politician which increases her re-election probability, despite the will of voters. Incumbent politicians can choose, at a cost, to capture institutions. The cost represents the resilience of institutions to capture.³

We find that, while we might expect both populists and non-populists to have an incentive to capture institutions in order to ensure their re-election, populist politicians are particularly likely to do so. Since the boom-bust dynamic profile of populist policies implies that voters would like to replace the populists when the costs of their policies take effect, a populist has an incentive to seize institutions to avoid losing power. Non-populists, in contrast, do not need to capture institutions because they offer a constant level of utility in each period. In this case, voters face an identical choice in every election. If a non-populist has been elected and is in a position of incumbency, then she knows that voters will choose to re-elect her in the subsequent period, so there is no incentive for institutional capture. Both types will only capture if the cost of capturing institutions is lower than rewards of being in power.

Next, we show that whether populist leaders are elected in equilibrium depends on two fundamental factors: how much voters care about the future as opposed to the present, and how resistant institutions are to capture by the government. The more voters discount the future, the less weight they will place on the long-term consequences of electing a populist, and so the more likely they are to elect one. If voters care sufficiently about the future, however, they will be willing to elect a populist only if they believe they will still be able to elect a non-populist later on, to mitigate the bust. Voters will therefore elect the populist only if institutions are hard to capture, and will then subsequently choose to vote her out of office (since the populist does not capture institutions). If voters place a particularly high value on future returns, voters always prefer to elect a non-populist. Thus, populism is persistent only if voters are impatient and institutions are weak.

Unfortunately, we also find that politicians have little incentive to increase institutional resilience to capture. When facing impatient voters, populist leaders are always elected. The populists would therefore like institutions to be as vulnerable as possible to capture, to reduce the cost of seizing them. If voters are more patient, the non-populist would like institutions to be sufficiently vulnerable that the electorate prefers not to elect the populist at all, until for sufficiently patient voters, the non-populist is always elected and so is indifferent to institutional resilience. Somewhat counterintuitively, only populists ever have an incentive to increase institutional resilience, and then only in order to convince voters with an intermediate level of impatience that they will not be able to seize power and so are worth electing.

To summarize, we show that populists will capture institutions if the resilience of institutions is sufficiently low. When choosing whether to elect a populist, voters thus consider the consequences in terms of institutional capture. Intuitively, we can think of impatient voters focusing on the short-term benefits of electing a populist, and neglecting the long-term costs. Therefore, they are willing to elect a populist independent of whether the populist is able to capture institutions. The populist then weakens the checks and balances of the country, to make it easier for her to stay in power. Patient voters, in contrast, prefer non-populists independent of the resilience of institutions, to avoid the long-term costs of populists.

Thus, only voters with intermediate patience base their choice on the resilience of institutions. If such voters live in countries with established democracies and strong institutions, they anticipate limited consequences to electing a populist, since they believe their institutions will mitigate the potential negative consequences, and so are more willing to elect them. Anticipating this reasoning, non-populists may choose to exaggerate the weakness of their country's institutions or avoid strengthening them once in power in order to increase the cost voters perceive to electing the populist. A populist, in contrast, may prefer to commit to creating an institution such as a constitution or independent court in order to reassure marginal voters that they will not be able to seize control of institutions.

These results on voter behavior can help us analyze populism worldwide. Our model suggests that societies with relatively impatient voters can be expected to experience populism. If in these societies institutions are easy to capture, populism is likely to persist. Research has suggested Latin American countries demonstrate both of these traits, and indeed populism has been a relatively common and persistent feature of Latin American politics.⁴ A notable case is the populist government of Chavez, which showed both the dynamics of boom-bust and institutional capture. In contrast, countries with low or intermediate levels of patience but stronger institutions might also be willing to elect populists but will see them struggle to seize institutions, and so demonstrate less persistence. Italy under Berlusconi might be an example of this second case: several changes that might prolong his stay in power were proposed by his government, but they were frustrated by the checks and balances of Italian institutions. Despite several interludes of less populist governments during the Berlusconi era, however, they largely did not address Berlusconi's ability to influence election results through media control. We look in detail at these two cases, Chavez in Venezuela and Berlusconi in Italy, in [Section 4](#).

³ Checks and balances, the rule of law, media pluralism, freedom of speech, the level of corruption of public officials and other factors may all affect resilience to capture. See, for example, [Acemoglu et al. \(2013b\)](#); [Prat and Stromberg \(2013\)](#) and [Hillman \(2004\)](#).

⁴ [Falk et al. \(2015\)](#) analyze the distribution of patience across countries and show Latin American countries to be on average relatively impatient. Institutional resilience, measured as 'constraints on the executive', has also been suggested to be historically low in these countries, as in [Acemoglu and Robinson \(2001\)](#).

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