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A Model of Strategic Populists

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Abstract[*]

The existence of populist regimes led by outsiders is not new in history. In this paper a simple framework is presented that shows how and why a populist outsider can be elected to office, and under what conditions he is more likely to be elected. The results show that countries with a higher income and wealth concentration are more likely to elect populist outsiders than countries where income and wealth are more equally distributed. It is also shown that elections with a runoff are less likely to bring these populist outsiders into office.

JEL classifications: D72, D31
Keywords: Outsiders, Populism, Campaign contributions, Inequality

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1. Introduction

There is a long history of populist governments in Latin America and elsewhere in the world. A few recent examples of so called populist governments include the following countries and periods: Peru 1985-1990, Ecuador 2000-2001 and 2006-present, Venezuela 1999-present, Argentina 2003-present, Italy 2000-2006, and Thailand 2001-2006, among others. These governments share amongst other things the fact that they came to power through the democratic system in fair elections. However many of them have to leave office before the end of their constitutional term, since usually by the end of the term(s) the situation in the country is worse off than when it began (Dornbusch and Edwards, 1989).

Another common feature in many circumstances, especially in recent Latin America, is that the elected government is not only considered populist but is also led by an outsider candidate. An outsider is defined as a candidate who is not part of the traditional party system in the country. Recent examples of outsiders in Latin America would be Alberto Fujimori and Ollanta Humala in Peru, Lucío Gutiérrez and Alvaro Correa in Ecuador, Hugo Chávez in Venezuela and Fernando Lugo in Paraguay. The governments of Lula da Silva in Brazil, Morales in Bolivia and Vásquez in Uruguay are harder to classify as purely outsiders, since in each of these cases the party or parties that support these candidates have long been part of the political establishment, even though they might have had very little power. Moreover, in each of the former examples, the coalitions were built around the candidate himself, while in the latter it seems that the coalitions were built up prior to choosing a candidate.

Populists and outsiders are also more likely to arise where democracy is weak or is perceived not to work well. Democracy in Latin America is perceived overall as weak, with high levels of corruption, little or no accountability, and unequal distribution of rights (Tedesco, 2004; Taylor, 2004). There is also evidence that politics in Latin America are driven by *Client-ship* relations. In this sense there are groups (special interest, *elites* or others) that are organized to obtain favors in exchange for their political support. These kinds of relations have been observed both in democratic and non-democratic regimes (Taylor, 2004).

Populist governments or movements are far from exclusive to Latin America. Both Mussolini and Hitler were considered populists in their time, as was Huey Long in the United States at about the same time. Moreover, during the 1960s and 1970s left-wing populist movements were quite powerful throughout Europe. Current populist movements in Europe,

however, more nearly approximate a right-wing agenda. A few recent examples would include Silvio Berlusconi in Italy, Jean-Marie Le Pen's National Front in France, the late Pim Fortuyn in the Netherlands and the Austrian Freedom Party (Mudde, 2004).

The rise of outsiders also occurs in the developed world, where outsiders have been elected and more recently have affected the outcomes of elections. Recent cases in the United States that are worth mentioning are independent candidates Ross Perot and Ralph Nader in the 1992 and 2000 presidential elections, respectively (Abramson et al., 1995). Le Pen in France also might have affected the outcome of the 2002 presidential election.

It is not so easy to explain why populists and outsiders are elected once we assume voters are rational. In order to get voters to elect these candidates, even knowing the risk implied by their election, voters must have some sort of preference for these candidates. I will propose that outsiders are elected or brought into the system due to a failure by the insiders (i.e., the traditional parties) to deliver welfare improvements. This may be explained by insiders being captured by the elites or certain special interest groups. Moreover, this failure enables the outsider to rise and, since he does not face credibility issues (at least not from being in power previously), he can make more promises (that he may not be able to fulfill) than the traditional parties can.

In this paper I explore the following questions. Why are populist outsider candidates elected, over and over again, even when their governments are less than successful? How and why do outsiders become part of the political game? How can they exist in equilibrium? In order to assess these questions I build a simple three-candidate model in which two traditional candidates and one outsider compete for office. Traditional candidates use campaign contributions from biased elites to get votes from uninformed voters, while the outsider will only use his own resources (charisma in this model). Traditional candidates will therefore tend to locate towards one end of the political spectrum, allowing outsiders to emerge from the opposite extreme. A charismatic outsider will therefore optimally locate at one extreme and in equilibrium—if he has enough charisma—will win the election. I finally show how inequality and electoral institutions may increase or decrease the outsider's odds of winning.

The rest of the paper is organized as follows. In Section 2 I will review the literature on populism and propose a working definition of populism. Section 3 presents a model of political

competition between insider parties and a populist outsider. Section 4 presents the main results of the model. Section 5 presents some extensions of the basic model, and Section 6 concludes.

2. What Is Populism?

Perhaps one of the hardest tasks in political science and economics is to find a good definition of populism. Populism is often confused for demagogy. Mudde (2004) distinguishes two dominant interpretations of the term populism. The first refers to an "…emotional and simplistic discourse, that is directed at the 'gut feelings' of the people." The second interpretation refers to opportunistic politicians/policies that aim to please the people/voters rapidly.

In a way this definition could include a politician only concerned with short-run political advantage (e.g., lowering taxes just before elections). However both these definitions are far from comprehensive and they do not capture the full sense of what is typically known as a populist government/movement. Therefore Mudde (2004) defines populism "…as an ideology that considers society to be… separated into two homogeneous and antagonistic groups, 'the pure people' versus 'the corrupt elite'…" This definition is consistent with definitions that call populism as the expression of the "general will" of the people (in a way such as the tyranny of the majority) in contrast with the idea of democracy as a bargaining process (Crick, 2005).

The term "populism" originates from the Populist Party in the United States, circa 1880-1906 (Szasz, 1982). This movement grew originally as a response to economic hardship during the period of 1886-1897 in the agricultural states of the southern and western United States. The movement was at first composed of small farmers on the north-south axis that goes from eastern Montana and the western Dakotas to New Mexico and Texas.

The party gained momentum given the feeling of disconnection between rural farmers and political parties in Washington. This attracted new voters and hence the party ran on issues that ranged from prohibition of alcohol and direct election of senators to women's suffrage and the supervision of large corporations. Populists had two common denominators: i) they wanted to "restore the power to the people" and ii) they were driven by demands for social change derived mainly from the economic depression of 1893-1897 (Szasz, 1982).[1]

[1] Another national-level case of populism in the United States is Huey Long, the Governor and Senator from Louisiana who would have run for president in 1936 but was killed before he had the chance to do so. His main political agenda was the restitution of a nation of equals, and he proposed, for example, a guaranteed universal

In the political science literature populism has usually been used to describe the regimes that governed Latin America in the middle of the twentieth century. Conniff (1982, 1999) describes the Latin American version of populism as a grand coalition of workers and industrial bourgeois led by a charismatic leader. The populist runs under a platform of reform, usually running against the local elites that own the land, with promises of either: i) new jobs and higher wages via industrialization of the country; or ii) political reform and political access to disenfranchised groups (e.g., free and fair elections, granting women the right to vote, universal suffrage, etc). This model fits well prior to the 1960's, describing rulers such as Yrigoyen and Perón in Argentina, Alessandri, Ibáñez and the Popular Front in Chile, Lázaro Cárdenas in Mexico, Vargas and Goulart in Brazil and, although never elected, Haya de la Torre in Peru.[2]

It is worth noting that another common denominator was that these coalitions were an alternative response towards the threat of socialism (or more precisely communism) in many countries. The main goal of the movement was to transition towards a modern society in which landlord elites would eventually give up power (to the industrial bourgeois) while the urban industrial workers would have better paid jobs, higher incomes and consequently a better life. It is important to state that inequality played a more fundamental role than poverty in setting the conditions that allowed the coalition to be built, since the main goal was to redistribute power and/or income. Dornbusch and Edwards (1989) and Sachs (1989) also stress that poverty and income inequality played a significant role in the run-up to elections in which populists came in power.

Dornbusch and Edwards (1989, 1991a) henceforth D&E, describe economic populism (or more precisely macroeconomic populism) as a government that prioritizes income redistribution policies over efficiency and growth policies.[3] However in their own description of the "populist" governments in Chile under Allende and Peru under García, they explain that these governments were elected in part to respond to dissatisfaction with growth performance, high levels of poverty, and unequal distribution of income. They also recognize that the "economic teams" that took office in these governments wanted to achieve growth with

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minimum income and 100 percent taxes on all income over US$1 million and all inheritances over US$5 million (Szasz, 1982).

[2] The list of potential populists is very large indeed; they include candidates from most Latin American countries including Argentina, Brazil, Chile, Ecuador, Mexico, Panama and Venezuela.

[3] Stokes (1999, 2001), uses basically the same distinction, but she refers to security-oriented policies versus efficiency-oriented ones.

redistribution. According to D&E the main reason that the populist program failed was "bad economics," since policymakers did not recognize that their program was unfeasible. The issue is that their assumptions about idle capacity, decreasing long-run costs and inflation were wrong.

Rioja and Glomm (2003), Dal Bó and Dal Bó (2004), Mejía and Posada (2007) and Campante and Ferreira (2007) have all used a similar concept of populism. In all of these papers the main goal of populists is more redistribution towards a certain group (usually the poor), and/or no concern for budget deficits.

It is interesting to note that, even if D&E are right about the failed nature of the economic programs of both governments, when the government was campaigning for office it actually believed that the program was achievable. It might be the case that the party running for office had "bad" economists, but they cannot be simply portrayed as mere opportunists; they really thought that they could achieve both high growth and a more equal society. In this sense it might be the case that they were naïve, or more precisely, that their policies may have had a chance to succeed but did not.[4]

Kaufman and Stallings (1991) describe populism as economic policies designed to achieve both political and economic goals. According to their definition these governments rely on price controls and income redistribution, and run fiscal deficits to achieve their goals. For Chile they identify two periods: Ibáñez 52-58 and Allende 70-73. However, Drake (1991) argues that Allende does not fit the pattern in the sense that his policies went much further, to encompass not only income redistribution, but also redistribution of property and more generally wealth. Drake (1991) argues that even though the programs of socialists and populists overlapped in many cases, in the case of Allende it was the former that predominated rather than the latter.

Another important feature of populism is charisma (Conniff, 1982 and 1999). Within the political science framework we could call this "quality of the politician." Not all populists are elected (most notoriously Haya de la Torre in Peru), and many elected ones have ended their government prematurely, usually in some sort of political crisis. But one common denominator

[4] An interesting comparison that comes to mind is that of export-led growth (ELG) versus industrialization by substitution of imports (ISI) policies since the 1960s. When looking at the data we observe that countries that undertook ISI policies grew faster than countries that undertook ELG during the 1960s and 1970s, while the opposite has been the case since the 1980s (Carbaugh, 2005). Consequently, in the late 1970s ELG policies might not have appeared to be the first choice.

was that most if not all populists were able to bring the masses towards them and lead them to the polls.

In the more recent literature Weyland (1999, 2002) describes what he defines as *neopopulism*, which is a combination of neoliberal policies and a populist or charismatic leader. The main exponents of this strand were Fernando Collor de Melo in Brazil, Carlos Menem in Argentina, Alberto Fujimori in Peru and Carlos Pérez in Venezuela. All of these have in common that they ran as populists and later enacted neoliberal reforms.[5] It is worth noting, though, that Collor de Melo ran on a neoliberal platform while the rest actually ran closer to a left-wing platform and once elected enacted neoliberal reforms. According to the liberal populism literature (Roberts, 1995), this was possible given that social institutions were weak and allowed for a clientelistic approach by the charismatic leader, and this would be "populism." Choi (2005) explores a similar argument for the recently overthrown government in Thailand and concludes that the populist government in Thailand has its origins in inequality rather than an institutional issue.

This economic version of populism can also be defined as ex-post populism, since it basically tries to explain the effects of the policies put in place after the populist has come to power. On the other side, the political science perspective has in a sense tried to understand ex-ante populism, concerning how populists get elected. This paper will attempt to explicitly model ex-ante populism in an economic framework, and also to some extent, given the definition of populism (in terms of political strategy) I use, bring together both concepts in one framework.[6]
All of the above said, it is time to present my own definition of a populist. I will define a populist as a politician possessing the following four characteristics:

1. As a politician he/she behaves opportunistically, motivated by being in power, but uses elections to achieve his goals.
2. He targets certain groups to rally around him.
3. He promises redistribution (of income, wealth or power) to the groups in the coalition.

[5] According to Stokes (1999, 2002) these are actually policy switchers. At least in the case of Menem, according to Stokes, they only ran a left-wing platform to be able to win, but they always had planned to undertake neoliberal reforms. This would in turn be a case of opportunistic politicians that "lies" in order to get elected. There is a narrow line between this and a demagogue.
[6] I thank Daniel Mejía for this distinction.

4. He is a charismatic leader, and he uses his charisma to get votes.

Out of the four characteristics, the latter is the one that makes a populist really different from a traditional politician. The idea is that populists use their charisma to attract voters, instead of using other formal political mechanisms. That is, he will not care about appealing to special interest groups that may contribute money to his campaign, since he would not use it.[7]

3. The Model

This model has two types of voters. First there is a fraction (1-α) of *impressionable* voters modeled in the spirit of Baron (1994), as a continuum of voters of mass 1-α that are distributed uniformly in preferences for policy platforms τ, along the [0,1] interval. For tractability I assume that a platform is one-dimensional. These voters receive (dis)utility from three things: policies implemented by the winning candidate, quality or appeal of the candidate and the cost of going to the polls. Voters thus have the following utility function if they decide to vote:[8] $U^i(vote) = \underset{k}{Max}\left(\frac{F(\theta^k + M(\tau^k))}{(\tau^i - \tau^k)^2}\right) - c^i$, where c^i is the cost of voting for voter *i*, which for now I assume constant and equal to c [9]; τ^i and τ^k are the most preferred platform for voter *i* and the announced platform by candidate *k*, respectively; $F(\cdot)$ is an increasing and concave function; M are the campaign contributions received by *k* that will depend on the announced platform τ^k; and θ^k is a random variable representing the charm, charisma or appeal of the candidate. F represents

[7] Berdugo (2006) uses a similar characteristic in a signal-extraction model where charisma and quality of the politician are correlated but not individually observable and shows that charisma may increase the capacity of politician to get elected and commit to certain platforms. Kartik and McAfee (2007) use "character" instead of charisma, where character is desired by voters, and show that non-character candidates choose policies such that the probability of being elected is at least as big as a candidate with character.

[8] The particular form of the utility function is used to obtain close formed solutions. In particular, all that is required from the utility function for the results to prevail is that it is increasing in charisma and money and decreasing in cost of voting and distance to the implemented platform. This generates that the voting outcome of impressionable voters in terms of the share of votes is a closed interval in the [0,1] line. An alternative specification that would not alter the main results would be to assume the following utility function:

$$U^i(vote) = \underset{k}{Max}\left(\frac{1}{(\tau^i - \tau^k)^2} - c\left(\frac{1}{F(\theta^k + M(\tau^k))}\right)\right),$$

where money now affects the cost of voting (with c now the cost function of voting) and not the platforms themselves.

[9] The cost of voting may include registering to vote, work days lost and/or other costs. Therefore it may vary across individuals or groups. In particular it could account for disenfranchised groups (e.g., poor voters, racial minorities, etc.).

a mapping from charm or advertising into perceived quality. I assume that quality in itself is not observable, but charisma and money expenditures are; and charisma and money are positively correlated with quality of the candidate.[10] If the voter does not vote his utility is $U^i(no\ vote)=0$. An important assumption in this model is that not all voters vote. The preferences presented here are similar to those proposed by Schachar and Nalebuff (1999) in the sense that candidates can use money to influence voter turnout. They are also standard in the public choice literature where voters derive utility from winning.

Candidates need either charm or money (or both) to get voters to vote. Charisma is exogenous, while money depends on campaign contributions by *non-impressionable* voters, which in the rest of the paper will be named contributors.[11] I assume that there is a fraction α of these voters that contribute funds to the campaign of either candidate, depending on the proposed platform and their preferences. All contributor voters contribute a fixed amount of money *M* to one candidate. This assumption is used to avoid the collective action problem that arises from marginal contributions. This result could arise endogenously assuming a group utility rule such as the one presented by Coate and Conlin (2004), in which all members of each coalition contribute the same amount.

Contributors' policy preferences are also distributed uniformly in a subset of the continuum [0,1], particularly in the interval $[\tau^c-\beta, \tau^c+\beta]$, where τ^c is the most preferred platform of the median contributor.

Assumption 1: $\tau^c > ½$. This means the median contributor will be always located to the right of the median voter.

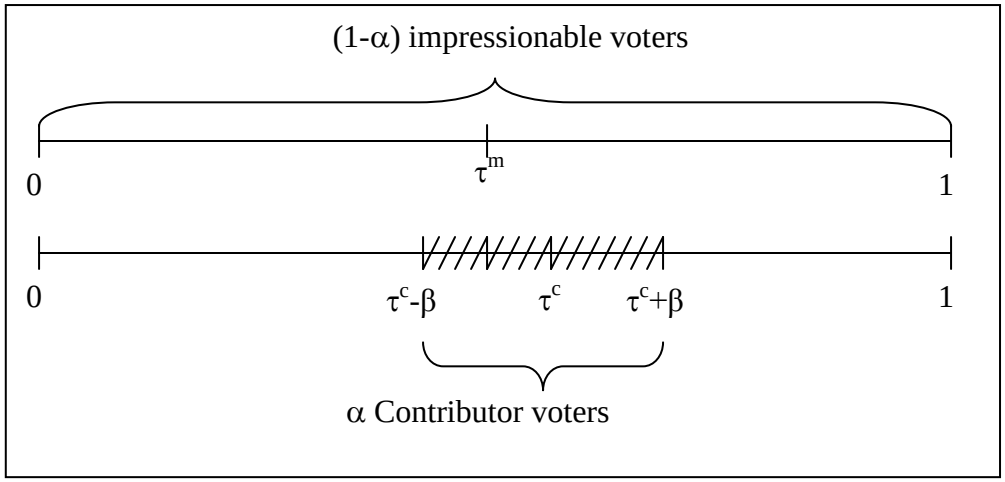
This assumption will induce the outsider later on to choose a platform on the left side of the political map, since as we will see traditional parties need to choose a platform closer to the median contributor, which as just mentioned is right-of-center.[12] Figure 1 summarizes the distribution of preferences by voters.

[10] In this context I am also including candidates with high charisma/charm and significant expenditure. Higher charm would attract voters to the polls, and campaign expenditures are assumed to better convey the message. That is, candidates with low expenditure cannot convey their positions as clearly as candidates with higher expenditures. We are modeling campaign expenditures as informative about the quality of a candidate in the spirit of Coate (2004) and Prat (2002).

[11] We could also think of these as special interest groups (SIGs) in the spirit of Grossman and Helpman (1994).

[12] All results are maintained if I assume that the contributors are skewed to the left of the median voter. The only difference will be that the outsider would choose the "other" extreme to propose his platform.

Figure 1. Voters' Characteristics



Contributors participate in two stages. In the first stage they decide to contribute *M* to the party that proposes a platform closest to their own. In the second stage they vote for whoever they contributed. Contributor *j* thus decides to contribute M_j according to the following rule:

$$M_j(R,L)=\begin{Bmatrix}(M,0) & if & \left|\tau^j-\tau^R\right|<\left|\tau^j-\tau^L\right| \\ (0,M) & if & \left|\tau^j-\tau^R\right|>\left|\tau^j-\tau^L\right| \\ (\frac{M}{2},\frac{M}{2}) & if & \left|\tau^j-\tau^R\right|=\left|\tau^j-\tau^L\right|\end{Bmatrix}$$

In the second stage, contributors now vote in the same way as they contributed and all of them vote. Under these assumptions, party *R* will obtain contributions in the amount of $M^R=\frac{\alpha M}{2\beta}\int_{\frac{\tau^R+\tau^L}{2}}^{\tau^C+\beta}d\tau=\frac{\alpha M}{2\beta}\left[\tau^C+\beta-\frac{\tau^R+\tau^L}{2}\right]$ and party *L* will obtain $M^L=\alpha M-M^R$, if this is an interior solution. Otherwise we may obtain $M^L=\alpha M$ and $M^R=0$, or $M^L=0$ and $M^R=\alpha M$.

Candidates/Parties

There are two parties *R,L* that only care about being in power. Each party draws a candidate with a given amount of charisma θ^R or θ^L simultaneously and independently. Charisma is private information for each party. Parties then announce a platform τ (henceforth τ^R or τ^L) on which they run. There is a third *outsider* candidate drawn by nature, endowed with charm θ^{OUT}. θ^k is drawn in each case from a distribution with CDF $\Omega(\theta^k)$, $\theta^k\in[0,\infty),\forall k$. As mentioned earlier,

given that $\tau^c > \tau^m$, this will induce the outsider to choose a platform to the left of *R* and *L*, thus generating a left-wing outsider. The case for a right-wing outsider will be analogous, but with the roles of party R and L reversed, and it requires assuming $\tau^c < \tau^m$.

Assumption 2 (no crossing over): I assume that the following condition is always true: $\tau^R \geq \tau^L$. In other words, party *R* always chooses a platform equal to or to the right of party *L*, and vice versa.

This assumption is used to rule out left-wing platforms by right-wing parties and is useful to simplify the analysis. We can have convergence but no crossing over.

The parties' problem is therefore to choose their platform τ^k to maximize their probability of being elected, which can be defined for *L* as:

$$\Pr(L \text{ is elected}) = prob(V(L) > V(OUT)) \wedge prob(V(L) > V(R))$$

where *V(k)* is the fraction of votes that candidate *k* receives. This is the sum of votes by impressionable V^I and non impressionable voters V^C. From impressionable voters, *k* receives:

$$V^I(k) = \int_{\underline{\tau}}^{\bar{\tau}} dG(\tau) = G(\bar{\tau}) - G(\underline{\tau})$$

where $\underline{\tau}$ and $\bar{\tau}$ represent voters that are indifferent between two candidates or between voting or not, or a corner voter (0 or 1), and G() is the CDF of the *impressionable* voters.[13] Non-impressionable voters vote according to their contributions and therefore split between *R* and *L* in the same fractions as they split contributions. Thus, $V^C(R) = \frac{1}{2\beta}\left[\tau^C + \beta - \frac{\tau^R + \tau^L}{2}\right]$, and $V^C(L) = 1 - V^C(R)$.[14] Finally, total votes for candidate *k* are given by:

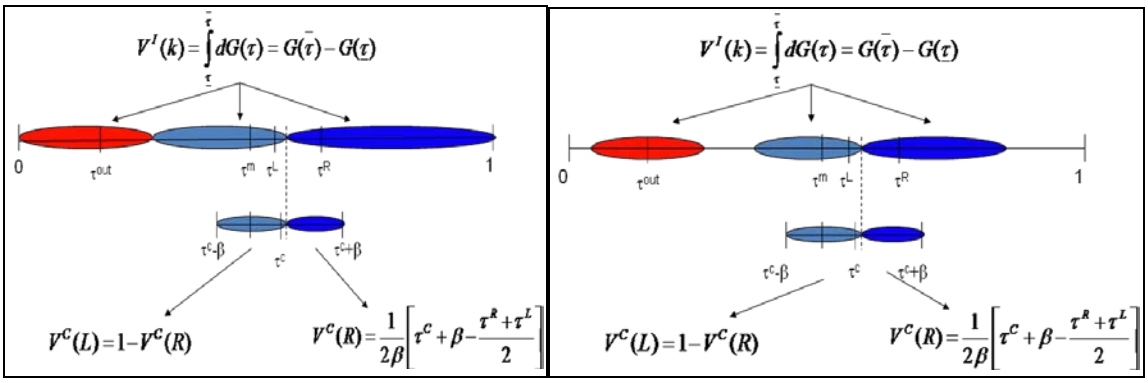
$$V(k) = \alpha V^C(k) + (1-\alpha)V^I(k).$$

Figure 2 presents two examples of the votes received by each candidate for a given platform choice for each of them. The left panel shows the case in which everyone votes, while the right panel shows a case in which some voters abstain. Votes for the outsider, *L* and *R* are given by the red, light and dark blue intervals respectively. The top [0,1] line represents the impressionable voters, while the $[\tau^c-\beta, \tau^c+\beta]$ interval represents contributors.

[13] I have defined a more general case for the distribution but I will still assume a uniform distribution.
[14] This is the result of the interior solution. For corner solutions *$V^C(R)=0$ or 1*, and consequently *$V^C(L)=1$ or 0*, respectively.

Figure 2. Examples of Voting Outcomes

(a)No abstention *(b) With abstention*



Timing

The timing of events is as follows:

1. Charisma for each party candidate is drawn by nature.
2. Parties announce their platforms (τ^R and τ^L) to maximize their votes given their beliefs about the charisma of each candidate.
3. Contributor voters contribute to either party candidate, knowing only τ^R and τ^L.
4. An outsider is drawn by nature with θ^{OUT}, and chooses his platform τ^{OUT} without observing contributions for other candidates in order to maximize his votes.
5. Elections are held, voters vote and the candidate or party with the most votes wins and takes office.

Definition 1: A political equilibrium in this model consists of a pair of strategies $(\tau^R(\theta^R), \tau^L(\theta^L))$ such that each party maximizes its expected votes considering the expected θ^{OUT} and the other party's platform. The concept of equilibrium is Perfect Bayesian Equilibrium (PBE).

We can easily observe that the platform choice of each party will depend on the charisma of the candidate. The more charisma the candidate has, the less money he will need to "buy

votes." The result arises from the fact that charisma and money are perfect substitutes in attracting votes. For candidate *R*, his share of votes is determined by the following expression:[15]

$$\textbf{(1)} \qquad V(R) = \frac{\alpha}{2\beta}\left[\tau^C + \beta - \frac{\tau^R + \tau^L}{2}\right] + (1-\alpha)\left[\left(\frac{F(R)}{c}\right)^{1/2} + \frac{\left(F(R)/F(L)\right)^{1/2}}{1+\left(F(R)/F(L)\right)^{1/2}}(\tau^R - \tau^L)\right]$$

Candidate *R* will thus choose τ^R so as to maximize the expected value of the RHS of (1). Note that (1) does not depend on the platform of the outsider. As observed in Figure 2a, the outsider in this model only fights over votes with Candidate *L*, as we have assumed the outsider locating to the left of *L*. Thus *R* only has to fight over votes with *L* not the outsider. For simplicity, we analyze first the optimal behavior of *R* and after that the optimal behavior of *L*, which as will be seen is only a minor extension of *R*.

From Assumption 1 we know that *R* always set its platform equal to *L* or to the right of *L*. Given τ^L choosing to the right of τ^L has two effects. First *R* obtains fewer resources since it is straightforward to note that $\frac{\partial M(R)}{\partial \tau^R} = \frac{-\alpha M}{4\beta} < 0$. Moreover candidate *R* will also lose non-impressionable voters since $\frac{\partial V^N(R)}{\partial \tau^R} = \frac{-\alpha}{4\beta} < 0$. However, candidate *R* will gain votes from his right side by moving away from the *L* platform. Depending on the level of resources (charisma plus money) *R* will retain a smaller or larger share of the votes "to his left" assuming *L*'s platform is fixed.[16] The net effect will depend on the amount of charisma θ^R, and other parameters. In particular we have:

$$\textbf{(2)} \quad \frac{\partial V(R)}{\partial \tau^R} = \frac{-\alpha}{4\beta} + (1-\alpha)\left\{\frac{-\alpha M}{8\beta}\frac{F'(R)}{c}\left(\frac{F(R)}{c}\right)^{-1/2} - \frac{\alpha M}{8\beta}\frac{F'(R)}{(F(L)F(R))^{1/2}}\left(\tau^R - \tau^L\right) + \frac{\left(\frac{F(R)}{F(L)}\right)^{1/2}}{1+\left(\frac{F(R)}{F(L)}\right)^{1/2}}\right\}$$

[15] I am assuming that party *R* does not reach further than voter with $\tau^i = 1$. If he does, then he would try to move as far to the left as possible, in order to increase his votes on that side, of course up to τ^C.

[16] In fact votes that lie between τ^L and τ^R will be allocated to each candidate depending on their overall resources.

The first term corresponds to the non-impressionable voters that R loses. The first term in brackets corresponds to the impressionable voters *R* loses due to lower money. The other two terms in bracket correspond to the impressionable voters *R* wins/loses when she separates from *L*, leaving a gap between them. From the above expression and taking as given α, β, c, M, θ^L, τ^L, we can find $\tilde{\theta}$ such that $\forall \theta^R > \tilde{\theta}$, $\tau^R(\theta^R)$ will be increasing in θ^R. This will be valid over some range of platforms, depending on the precise shape of *F*, and it requires Assumption 2. By the same token, $\forall \theta^R \leq \tilde{\theta}$, $\tau^R(\theta^R) = \tau^C$ [17,18].

Assumption 3: I will assume that if $\tau^R = \tau^L = \tau$, then candidate *L* will get the non-contributor votes from the left of τ, and *R* will get the votes to the right.[19]

Assumption 3 is only needed to ensure the next result and the one just mentioned, but it is not needed for the rest of the paper.

Proposition 1 (charisma leads to extremism): The more charisma a party candidate has, the more he or she will move to the extreme. This is, more charismatic leaders in both parties will choose platforms farther to the left or right of the median contributor.

Proof: Using Assumption 3, from (2) we know that $\frac{\partial V(\tau^R)}{\partial \tau^R} > 0$ only if the third term in brackets is large enough to cancel the other terms in the expression, which are all negative. This will only occur if $\theta^R > \tilde{\theta}$. Therefore $\forall \theta^R > \tilde{\theta}$, we have that *R* will choose a platform to the right of τ^C.

Similarly, we will find the symmetric result for *L*, though the threshold $\tilde{\theta}$ will not be exactly the same.

Corollary 1: Candidates with no charisma converge to τ^C. If party candidates do not have charisma (or cannot use it), then they will converge to the platform of τ^C.

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[17] In fact, the optimal strategy would be $\tau^R(\theta^R) = \tau^L$, but this could violate Assumption 1 since it could be the case that in expectation party *R* chooses a value to the left of τ^C, and later party *L* choosse τ^C.

[18] In fact it may be possible that at some level of $\theta^R = \bar{\theta}$ voter "1" is indifferent between voting for *R* or not voting, therefore $\forall \theta^R > \bar{\theta}$ we have that the optimal strategy will be to move back to the center.

[19] This assumption enables both candidates to choose the median contributor. Otherwise if both converge, by the fact that they are exactly the same to all non-contributor voters, this would mean that all of them would vote for whoever has the highest charisma, while the other candidate would only receive contributor votes.

Proof: This is a direct consequence of Proposition 1.

Let us now consider party *L*. The most interesting case is when there is a voter indifferent between *L* and the Outsider, i.e., a case where *L* and the Outsider are fighting for votes like in Figure 2a. If this set were the empty set, then the analysis is exactly the same as for *R*, but in the other direction and the share of votes for *L* would look like Figure 2b. Otherwise candidate *L* obtains the following share of votes:

$$\textbf{(3)} \qquad V(L)=\frac{\alpha}{2\beta}\left[\frac{\tau^R+\tau^L}{2}+\beta-\tau^C\right]+(1-\alpha)\left[\frac{\tau^L+\tau^R\left(\frac{F(L)}{F(R)}\right)^{1/2}}{1+\left(\frac{F(L)}{F(R)}\right)^{1/2}}-\frac{\tau^L+\tau^{OUT}\left(\frac{F(L)}{F(O)}\right)^{1/2}}{1+\left(\frac{F(L)}{F(O)}\right)^{1/2}}\right]$$

Expression (3) is similar to (1). However the second term in (3), which accounts for the impressionable vote share of *L*, reflects the fact that *L* will face competition on both margins and thus is *ceteris paribus* smaller than the similar term in (1).

Following the same analyses done for Party *R*, I can now look at the effect of *L* choosing a platform to the left of or equal to τ^R. Therefore I calculate the following derivative:

$$\frac{\partial V(L)}{\partial \tau^L}=\frac{\alpha}{4\beta}++(1-\alpha)\left\{\frac{1+\left(\tau^R-\tau^L\right)\left(\frac{\alpha M}{8\beta}\frac{F'(L)}{(F(L)F(R))^{1/2}}\right)+\left(\frac{F(L)}{F(R)}\right)^{-1/2}}{\left(1+\left(\frac{F(L)}{F(R)}\right)^{1/2}\right)^2}-\frac{1+\left(\tau^{OUT}-\tau^L\right)\frac{\alpha M}{8\beta}\frac{F'(L)}{(F(L)F(O))^{1/2}}+\left(\frac{F(L)}{F(O)}\right)^{-1/2}}{\left(1+\left(\frac{F(L)}{F(O)}\right)^{1/2}\right)^2}\right\}$$

With some algebra we can also find a $\overline{\theta}$ such that $\forall\theta^L>\overline{\theta}$, $\tau^L(\theta^L)$ will be decreasing in θ^L. This will be valid over some range of platforms and depending on the precise shape of *F*. By the same token, $\forall\theta^L\le\overline{\theta}$, $\tau^L(\theta^L)=\tau^C$. Note, however, that the exact effect of moving the platform will not only depend on the value of *L*'s own θ^L, but also on the value of θ^{OUT}. The higher θ^{OUT} is, the lower the benefits from moving to the left for *L*.

Given these results we can now solve for the platform choice of the Outsider. In the next proposition I will find the optimal strategy of the outsider, given his information set. By construction I have assumed that outsiders do not have access to contributors. Therefore their

optimal strategy will be to get as many impressionable voters as possible. The share of votes for the (left-wing) outsider is given by the following expression:

(4) $$V(OUT) = (1-\alpha)\left\{\min\left(\tau^{OUT} + \frac{F(\theta^{OUT})}{c}, \tau^{e}\right) - \max\left(\tau^{OUT} - \frac{F(\theta^{OUT})}{c}, 0\right)\right\}$$

The term minimized in the brackets represents the share of votes to the right of the outsider, which consists of all of the votes he can capture by his charisma in that direction minus the ones captured by the left-wing candidate. If the left-wing candidate does not compete directly for votes with the Outsider then his share of vote is given by the first term in the minimizing expression; otherwise it is given by τ^{e}. The term maximized in brackets subtracts any votes that the outsider may not get on her left, i.e., alienated voters with preferences close to τ=0. If everyone on the left votes for the outsider, then the second term is zero. Finally τ^{e} satisfies the following condition: $\frac{\tau^{e} - \tau^{OUT}}{\tau^{L} - \tau^{e}} = \left(\frac{F(O)}{F(L)}\right)^{1/2}$. Therefore $\tau^{e} = \frac{\tau^{OUT} + \left(\frac{F(O)}{F(L)}\right)^{1/2}\tau^{L}}{1 + \left(\frac{F(O)}{(F(L)}\right)^{1/2}}$, and the objective function of the outsider is to maximize his (expected) votes (expected RHS of 4), given his own charisma and given the platforms chosen by *R* and *L*. This leads us to Proposition 2.

Proposition 2: The optimal strategy for the Outsider is to set a platform τ^{OUT} such that corner voter 0 is just indifferent between voting and not. Let this platform be τ*. This platform is the best response given the strategies set by the insider candidates.

Proof: I can show that choosing τ^{*} will yield the highest possible share of votes for the outsider given the strategies of the other candidates. Assume the outsider chooses a platform slightly to the right of τ*, say τ**= τ*+ε. The indifferent voter on the left side is given by the following condition: $\tau^{i} = \tau^{**} - \left(\frac{F(\theta^{OUT})}{c}\right)^{1/2} = \tau^{*} + \varepsilon - \left(\frac{F(\theta^{OUT})}{c}\right)^{1/2}$, but the indifferent voter under τ* is zero, so we know that $0 = \tau^{*} - \left(\frac{F(\theta^{OUT})}{c}\right)^{1/2}$, therefore $\tau^{i} = \varepsilon > 0$. By moving to the right of τ*, the outsider loses a fraction $\varepsilon>0$ of voters.

On the right side the indifferent voter now is given by the following condition: $\tau^j = \min(\tau^* + \varepsilon - \left(\frac{F(\theta^{OUT})}{c}\right)^{1/2}, \tau^e)$, where τ^e represents the indifferent voter between the Outsider and the candidate from party *L*. If the two candidates do not intersect voters then the Outsider candidate gains the same fraction of votes on the right as the ones he lost on the left. Conversely, if they do intersect, then the outsider will lose a fraction of votes to the *L* candidate.

Finally if the outsider chooses a platform slightly to the left of τ^*, such as $\tau^{***} = \tau^* - \varepsilon$, then his voting share will be reduced, since the indifferent left-side voter will be less than zero (that is $\tau^i = \varepsilon < 0$). On the right side, he may gain a fraction of voters if his voters were previously intersecting with candidate *L*'s voters, but he would earn fewer votes than the ones he lost on the bottom. If τ^e was not active, then he would only lose votes.

Therefore choosing τ^* is the best response and, given the strategies by insiders, dominates all other possible choices.

This strategy will imply that in general $\tau^* < \tau^m$. The outsider will choose a platform to the left of the median voter.

Corollary 2: ***Centrist populists*****.** Although most populist will choose extreme platforms, we show that the more charisma a populist has, the more he can move towards the center.

Proof: Just by observing the fact that $\tau^* = \left(\frac{F(\theta^{OUT})}{c}\right)^{1/2}$, we can calculate $\frac{\partial \tau^*}{\partial \theta^{OUT}} = \frac{1}{2}\left(\frac{c}{F(\theta^{OUT})}\right)^{1/2} \frac{F'(O)}{c} > 0$. Therefore more charisma will mean the populist can build a bigger coalition, and this will be done by a choosing a more centrist platform, while still getting votes from the far left.

4. Results and Analysis

The simple framework described above yields some interesting predictions concerning the results of elections. In particular, the composition of the electorate will matter in determining who wins the election.

Proposition 3: An increase in the fraction (α) of contributor voters reduces the probability of election of an outsider in two different ways:

a) Higher α strictly reduces the share of impressionable voters.
b) Higher α increases contributions for party candidates.

Proof: For the first part, a higher α strictly reduces the pool of potential voters for the Outsider, as can be seen directly from (4). For the second part of the proof, using the expression for τ^e we have $\frac{\partial \tau^e}{\partial \alpha} = \frac{\frac{\partial K}{\partial \alpha}(\tau^L - \tau^{OUT})}{(1+K)^2}$, where $K=\left(\frac{F(O)}{F(L)}\right)^{1/2}$, and so the sign of $\frac{\partial \tau^e}{\partial \alpha}$ will be the same as the sign of $\frac{\partial K}{\partial \alpha}$, where:

(5) $$\frac{\partial K}{\partial \alpha} = \frac{-M}{4\beta}\left(\frac{F(O)}{(F(L)}\right)^{1/2}\frac{F'(L)}{F(L)}\left\{\frac{\tau^R + \tau^L}{2} - (\tau^C - \beta)\right\}.$$

which is negative as long as the halfway point between R and L is a contributor, since $F(\cdot)$ is an increasing function. The reason for this is that an increase in the share of contributors α reduces the share of votes the outsider receives if there are initially voters that are indifferent between the Outsider and L. In such case an increase in α causes these previously indifferent voters to favor L due to the higher contributions received by L.

Corollary 3: A country with higher concentration of wealth is more likely to elect outsiders than a country with more equal distribution of wealth.

Proof: This follows directly from Proposition 3 if we assume that a lower α implies that wealth is more concentrated.

This result arises from the fact that a higher concentration reduces total contributions, and therefore the share of votes by insiders. An alternative would be to keep (αM) constant and then allow α to change but keeping total contributions constant. In this case there is still a reduction in the probability of electing an outsider with higher α.[20] However, the effect now comes only from

[20] Yet another possible assumption is that contributors give a fixed "share" of their income. If we keep the average income constant Y, then an increase in α must decrease the relative income of the rich in order to maintain the

the first effect, the fact that a higher α implies that there are fewer "impressionable" voters that the outsider can lure, therefore reducing his/her "base" and consequently his/her share of votes as well. Another interesting corollary is that if we assume that economic crises can shift people from one group to another, say by reducing α, then the model would predict that an outsider's chance to get elected increases during a crisis.

The model predictions are explained basically by the following issues. First, consider the constraints faced by both insiders and the Outsider. Insiders are constrained in their platform choices, since they need to obtain contributions to finance their campaign. In this context both parties fall in a trap, where even if they wanted to move further towards the median voter, they would lose contributions and hence they would not be able to get out their message. The problem is that insiders must care more about contributions than about citizens' preferences, and this arises from the fact that without money it is harder to run a campaign, unless the insider has a very high level of charisma.

On the other hand, the Outsider is constrained by his endowment (of charisma, charm, etc.). He is free to choose any given platform but cannot control his endowment or raise campaign contributions. He/she chooses the platform that yields him the highest possible share of impressionable votes, but this is not always enough to get elected.

Now consider a variation in the game presented above in which there is an additional stage in the model, just before elections, where traditional parties in fear of losing to the outsider agree to share government in some way.[21] In this scenario the results depend on certain assumptions we make on what can each party do. I assume that once a candidate chooses his platform, he cannot deviate from this commitment. This assumes the candidates care about credibility. In this sense, it can be argued that a candidate would be accused of "flip-flopping," losing his credibility and consequently potential voters if he changes his platform. I also assume that voters vote sincerely in this part of the game.[22, 23]

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average income. Let $M=\gamma y_r$ where γ is the share of income devoted to contributions and $y_r>1$ is the income of the rich, and assume $y_p=1$ is the income of the poor. Then $Y= \alpha y_r+(1- \alpha)$ and $M=\gamma[Y-(1- \alpha)]/\alpha$. Now $\alpha M=\gamma[Y+\alpha-1]$, and $\frac{\partial(\alpha M)}{\partial \alpha} = \gamma >0$. Thus a rise in α, maintaining average income constant, this just increasing inequality, still increases total contributions, and therefore reduces the chances of re-election of the Outsider.

[21] In order for this to occur at least one of the parties must perceive a very large disutility from electing the Outsider.

[22] This is only necessary for the corollary not for the proposition.

[23] We can think of this as assuming there is a runoff between the outsider and one of the other two parties.

Thus the game changes in the following way. After the Outsider is selected, the party candidate with the lowest charisma drops out and the other party candidate retains his/her previous platform, which will be denoted by *P*; and I will assume that the money spent on the other candidate is passed on to the other candidate.[24] That is: $\tau^P = \tau^R$ if $\theta^R > \theta^L$ and $\tau^P = \tau^L$ otherwise and $M^P = M^R + M^L$. Under these conditions we can posit the next result.

Proposition 4: If one traditional party candidate drops out of the election, the probability of electing an outsider is reduced.

Proof: The proof is done in two parts. I first show that *P* will have higher votes than either party candidate before. Then I show that the share of votes to the outsider will not increase enough to increase the probability of election.

From the share of votes each party receives, the traditional party *P* will now get the votes from both sides, such that his/her expected share of votes V^P will be: $V^P = \alpha + (1-\alpha)\left\{\min(\tau^P + \left(\frac{F(P)}{c}\right)^{1/2}, 1) - \max(\tau^P - \left(\frac{F(P)}{c}\right)^{1/2}, \tau^e)\right\}$, which is greater than the share of votes *R* and *L* initially had, since now candidate P has all contributor voters plus votes form the other party candidate.[25] The exact share of votes from the other party candidate depends on the specific choice of platform and specific charisma, but it is always larger than the previous case.

If the outsider faces the candidate from the *L* party, then he/she will obtain at most the same share of votes, or if the additional money buys enough votes for *P*, then the outsider may even see his/her vote share reduced. To see this recall from (4) that $V(OUT) = (1-\alpha)\left\{\min\left(\tau^{OUT} + \frac{F(\theta^{OUT})}{c}, \tau^e\right) - \max\left(\tau^{OUT} - \frac{F(\theta^{OUT})}{c}, 0\right)\right\}$. Now an increase in money for *L* will only affect this expression through a change in τ^e. Given

[24] Recall that parties wish to maximize votes, and combining the money from both candidates implies that the higher charisma candidate in general attract more votes.

[25] Note that $F(P) = F(\theta^P + M^P)$, where M^P may include donations from both *R* and *L* or alternatively only the donations that *R* or *L* had before the other candidate dropped out, and $\theta^P = \max(\theta^R, \theta^L)$.

$\tau^e = \frac{\tau^{OUT} + \delta^{OL}\tau^L}{1+\delta^{OL}}$, where $\delta^{OL} = \left(\frac{F(O)}{F(L)}\right)^{1/2}$, an increase in money for *L* reduces the term τ^e, since $\frac{\partial \tau^e}{\partial M^L} = \left(\frac{\tau^L - \tau^{OUT}}{\left(1+\delta^{OL}\right)^2}\right)\frac{\partial \delta^{OL}}{\partial M^L} < 0$. This is true since $\frac{\partial \delta^{OL}}{\partial M^L} < 0$ and $\tau^L > \tau^{OUT}$.

If, on the other hand the outsider faces the candidate from the *R* party, then he/she could theoretically increase the share of votes, since τ^R is further away from τ^{OUT} compared to τ^L. However, any increase in the vote share for the outsider would be marginal as it can only go from V(OUT)= τ^e to V(OUT)=$\left(\tau^{OUT} + \frac{F(\theta^{OUT})}{c}\right)$ if *R* cannot reach any voter *L* reached before. This increase in voting will smaller than the increase in voting for *R*, since *R*'s vote share increases to capture votes on both sides of his/her platform. If there is no indifferent voter between the outsider and candidate *R*, then in fact *R* has doubled his/her votes. Otherwise, the increase will be less than double, but significantly larger than the increase for the outsider. Thus the probability of electing the outsider is reduced.

Corollary 4: A country with a runoff election has a lower probability of choosing an outsider than a country with a "first past the post" election rule.

Proof: This follows directly from Proposition 4 if we assume that a runoff is equivalent to having a candidate drop out of the election, with the additional requirement of sincere voting in the first round.

Finally I consider the impact of the bias in preferences of the median contributor compared to the median voter. I summarize this result in the following proposition:

Proposition 5 (Elite vs. "the people"): If the preferences of the median contributor are further away from the median voter, then the Outsider's odds of winning increases.

Proof: The proof follows from the expressions for the share of votes that each candidate obtains. In particular if both party candidates converge to the median contributor, but this contributor is more skewed to the right, then if the Outsider has a high draw of charisma, he has more space towards the middle before he has to compete for votes against *L*, increasing the odds of winning.

This last proposition to some extent may reflects in part the feeling in Latin America that outsiders have a better chance when traditional parties are not delivering what is expected from them. In effect if traditional parties become more biased, then the populist-outsider is indeed in a better position to win the election. If in addition we conjecture that charisma also measures some desired quality and furthermore conjecture that corruption by politicians may diminish charisma for *both* parties, then the outsider have an even better chance of winning the election.[26]

5. Comparing Populism in Europe and Latin America[27]

One interesting feature of modern populism is that most populist movements in Europe have a "right-wing" platform while most populist movements in Latin America appear to be running on a "left-wing" platform. Mudde (2004), Adams (2003) and Taggart (2004) document the following "right-wing" populist movements in Europe during the last 15 years: Le Pen's National Front in France; Fortuyn's in The Netherlands; the FPO in Austria; Berlusconi's *Forza Italia* in Italy; and other small parties in Switzerland, Norway, Denmark and Germany.

Although these parties or movements are not the same, they all follow certain patterns, such as the appeal to "the people," the nationalistic themes (in this case mostly as euro-skeptics) and general distaste for "the elites." Moreover their appeal is mostly seen as right-wing at least regarding their stand on immigration and integration with the rest of Europe. European populists typically argue that existing redistribution benefits (illegal) immigrants and government bureaucrats (which may be considered the elite) at the expense of the average "national citizen," and they propose a reversal of such redistribution.

In contrast when looking at the Latin American version of populism in Argentina, Bolivia, Ecuador, Peru and Venezuela we observe a different version of populism, more in the spirit of Dornbusch and Edwards (1989), directed at re-nationalizing privatized public enterprises, agrarian reform and generally a taste for extreme left-wing policies of redistribution. Their desired redistribution therefore goes from the wealthy land-owner elites or foreign corporations towards "the poor" which coincides with "the people" in their case.

[26] There is at least anecdotal evidence that corruption may have an overall negative effect on democracy itself, since voters may attach beliefs of corruption to *all* parties, and not only to the one(s) in power.
[27] I thank Filipe Campante for suggesting looking at this issue.

The framework proposed in this paper can explain the emergence of both types of populism. In fact, if we conjecture that the elites are actually located "left-of-center" in Europe while "right-of-center" in Latin America, then the conundrum is resolved, since the model predicts populism arising from the opposite side. The main issue is to understand and explain *why* the elites would be located in different places. I have proposed above that the elites perhaps are not the same in both cases. In Europe populism represents a backlash against immigration and government bureaucrats, since the former have access to the welfare state and therefore increase the tax bill, while the latter would increase the tax bill directly as well. This proceeds from the fact that taxes are already very high in Europe and significant redistribution already occurs. In Latin America, on the other hand, populism is typically directed against the "traditional parties," which have ties to the economic elite and thus obtain favors for them.[28] In this case government bureaucrats are seen as part of the same economic elite, and given the high levels of poverty and inequality prevailing in the region, it is no surprise that populism looks for more redistribution of wealth via nationalization of firms or expropriation of land.

6. Extensions

This section contains a few extensions of the basic model and future ideas for changes or additions to the model that could help to explain other populist phenomena.

6.1 Populist Parties or Populist Strategies

First consider the following variant in which there is only one traditional party running for the election. Moreover, I will assume that the other "traditional" party decides to run a "populist" strategy, such that we will now have parties *T* (for traditional) and *P* (for populist).[29] In this context the optimal strategy for party *T* will always be to choose the platform preferred by the median contributor, since this will maximize her number of votes. Moreover, party *P* will always choose a platform such that voter 0 is indifferent just as the Outsider would.

In this two-party system the odds of winning the election depend on the draws of charisma, but also on the institutional conditions. For example, changes in the shares of contributors or total contributions will affect the number of votes. A higher share of contributors

[28] The exception is that in Argentina the populist movement has always been against the land-owner elite.
[29] The idea is that party *P* chooses not to accept contributions and thus is "freed" from the elite to choose any platform they want.

increases the share of votes of *T*, while more skewed contributors increase votes for *P*. If contributions are reduced, for example due to economic crises, then party *P* has a higher probability of winning.

6.2 Campaign Finance Reform

Another extension deals with either capping contributions, or public funding of elections. Either institution will cause a reduction in the probability of electing an outsider. However the consequences of any particular reform are not straightforward, and will depend on the assumptions we build into the model. For example, if we decide to cap contributions this would have the following effects. Parties would be able to "buy" fewer votes using their money, but their optimal level of charisma above which they choose to depart from the center will be decreased. In effect, from equation (2) we can observe that a lower level of maximum *M* will affect the optimal level of charisma for moving away from the median voter. In this context, with campaign contribution caps, parties will converge to the median contributor less frequently than under no contribution caps.

The other possibility is for publicly financing campaigns. Under this model, if we assume that all parties get a minimum amount of money from public financing, then this would generate the following results. Traditional parties would not change their behavior other than increasing the threshold level of charisma for moving away from the median contributor. The argument is the same line of reasoning as in the previous case, but now party candidates in a sense start with a higher level of the initial charisma-money endowment.

The more interesting case combines both features: campaign limits with public funding. In this scenario, both candidates may diverge from the median contributor since their optimal strategy can now be to cater to contributors just enough to obtain the maximum permitted. They will still choose their platform such that it will be most preferred platform of *some* contributor, but not the *median* contributor. The argument for candidate *R* is as follows. She chooses a platform such that she gets exactly the contributions needed to reach the cap. If she moves from there to the left, then she loses some money and therefore voters. If otherwise she moves to the right, she does not get more money since she cannot receive any more, and thus loses voters given that *L* will have a platform closer to hers. Therefore her optimal strategy is to choose a platform just sufficient to reach her cap.

6.3 Endogenous Contributions

One limiting feature of the model presented here is that contribution levels are exogenously identical for all contributors. An interesting extension is therefore to allow the level of contributions to be varying and endogenous. This requires certain changes in the model. We now have to model contributors in a more sophisticated way, and this will bring some problems. The first issue that arises is the free rider problem. Given that I have assumed a continuum of contributors, if I allow them to choose a level of contributions, they will always choose zero, since the "individual effect" of choosing zero does not affect total contributions. To overcome this issue we need therefore to make some additional assumptions. I assume that each contributor will contribute a given amount depending on the distance from the platform proposed by the candidates. Therefore his contributions will be given by the following expression: $M^i = \max(\overline{M} - \varpi(\tau^k - \tau^i)^2, 0)$. So he will contribute up to $\overline{M}$ to the candidate that is closest to him, and the amount contributed will be reduced if the candidate chooses a platform away from his most preferred one.[30] Depending on the parameters we can obtain different total profiles and optimality conditions for the parties. If ϖ is very high, then there will be contributors that will not give money, since the distance effect will dominate. Otherwise if ϖ is low, it may be that all contributors give some money, but the ones closest to the candidates give the most.

The optimal behavior of parties will also depend on these parameters. A low ϖ will generate a profile of contributions closer to the case of a fixed amount, while higher values may shift optimal platform choice away from the median contributor. An interesting case, for example, is if we assume that the median contributor and median voter coincide, and that contributors and voters are equally distributed. In this context if there is no outsider, the optimal strategy for both candidates will be to choose a platform such that the extreme voter on their side just votes for them.[31] In this case more charisma will play the same role as for the populist, meaning it will drive them to the center, while less charismatic candidates will move to the extreme.

[30] This profile of contributions can also be obtained by assuming that contributors belong to a group (of similar preferences), and they all follow the optimal rule, otherwise if they deviate they get socially punished with a big enough cost that it would make it too costly to deviate. This kind of behavior is similar to the one modeled by Coate (2005).

[31] The argument is the same as for the outsiders, choice. Moving towards the center will give them neither more money nor consequently more votes.

6.4 The Middle Class

Given that the Dornbusch and Edwards (1991) definition of populism relies on redistribution, we can infer that higher levels of poverty or more income inequality may lead towards populism. I have shown in a very simplistic form the role of inequality, and given that I only model two groups of people this is also a proxy for poverty. This simplification, although useful for capturing some features, is perhaps very naïve. To overcome this we might want to model other voters explicitly. One alternative is modeling the middle class. Elsewhere [Miller, 2010] I add a group of voters that is neither impressionable nor contributors, and similarly distributed in the [0,1] line such that we can enrich the analysis from the income distribution perspective.

7. Concluding Remarks

The history of populist and outsider governments in the world is probably far from over. In fact in recent years we have seen an increasing number of populist-outsiders who have come into power. This paper presents a simple theory that attempts to explain why populists are successful in running for office.

The paper presents a model of political competition in which two parties and an outsider run for office. The main results of the model show under what circumstances an outsider is more likely to succeed. I have shown in a simple framework how income distribution and electoral institutions and preferences can play a role in facilitating or not the election of populist candidates. The implications of the model are yet to be tested empirically.

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