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Democracy, Credibility and Clientelism

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Abstract

We demonstrate that sharply different policy choices across democracies can be explained as a consequence of differences in the ability of political competitors to make credible pre-electoral commitments to voters. Politicians can overcome their credibility deficit in two ways. First, they can build reputations. This requires that they fulfill preconditions that in practice are costly: informing voters of their promises; tracking those promises; ensuring that voters turn out on election day. Alternatively, they can rely on intermediaries – patrons – who are already able to make credible commitments to their clients. Endogenizing credibility in this way, we find that targeted transfers and corruption are higher and public good provision lower than in democracies in which political competitors can make credible pre-electoral promises. We also argue that in the absence of political credibility, political reliance on patrons enhances welfare in the short-run, in contrast to the traditional view that clientelism in politics is a source of significant policy distortion. However, in the long run reliance on patrons may undermine the emergence of credible political parties. The model helps to explain several puzzles. For example, public investment and corruption are higher in young democracies than old; and democratizing reforms succeeded remarkably in Victorian England, in contrast to the more difficult experiences of many democratizing countries, such as the Dominican Republic.

The 1990s saw a dramatic increase in the number of countries selecting their leaders through competitive elections, from 60 countries in 1989 to 100 by 2000. The phenomenon swept through poorer countries, as well: among countries with less than the median country's per capita income, 15 percent elected their governments in 1989 and 42 percent in 2000.[1] The spread of democracy has heightened the importance of a fundamental question: why do some democracies perform better than others? Performance differences are certainly significant. For example, in 1995, 40 percent of the countries that had competitive elections scored no better on a common measure of corruption than 50 percent of the countries that did *not* have competitive elections. The literature suggests many possible explanations for such variation, including differences in the extent to which voters are informed about the actions of elected leaders; in voter preferences, including their ideological leanings; and in the specific electoral and political institutions that dictate how elected leaders attain office and how they make decisions once in office. This paper turns to a new and unexamined dimension along which democracies seem systematically to differ: the ability of political competitors to make credible pre-electoral promises to voters.

Existing models of electoral competition assume either that electoral promises are never credible to any voters or are always credible to all voters. The argument here allows non-credible politicians to expend resources to build their credibility. They can do so by directly organizing groups of voters or by appealing to individuals - patrons - who themselves can make credible promises to groups of voters, their clients. Under these conditions, non-credible politicians have incentives to pursue policies that are regularly observed in democracies with problematic records: high levels of rent-seeking, significant transfers to targeted groups of voters, and modest public good provision. This particular and widely-observed combination of policy outcomes is not predicted by models that assume either full or non-credibility.

Policy outcomes in poor-performing democracies are often identified with the influence of clientelism and, specifically, of patrons. The analysis here suggests that the influence of patrons is a symptom of the absence of credibility. Given that politicians are not credible, patron influence on policy outcomes is mixed rather than unambiguously negative. Politician reliance on patrons actually improves outcomes relative to the situation in which politicians can do

[1] Calculated from the number of countries with the maximum value of two variables, the Legislative and Executive Indices of Electoral Competitiveness, from the *Database of Political Institutions* (Beck, et al., 2001).

nothing to make themselves credible. Compared to the case in which political competitors have no access to patrons, but can increase credibility by directly organizing voters, the presence of patrons reduces public good provision and has ambiguous effects on rent-seeking.

Reliance on patrons can also be an obstacle to political development. Our argument therefore provides an explanation of why some democracies quickly succeed while others exhibit stagnation in both their political and economic development. The former are endowed with political competitors with well-known policy stances who are immediately able to make credible promises when elections are introduced. Political competitors in the latter countries must develop credibility over time. However, to the extent they rely on patrons, the speed with which they increase their own credibility through the direct organization of voters can slow. In countries in which individuals derive significant social and economic benefits from their association with patrons, politicians may have little incentive ever to build up credible political organizations of their own. The policy distortions associated with low levels of credibility therefore persist for longer periods.

The paper concludes by demonstrating how the model of "partial credibility" and clientelism developed here can explain a diverse set of puzzles in economic and political development. Two of these are related to democratic development and policy choice in young and mature democracies. For some countries, such as Great Britain, the expansion of the franchise ushered in a period of significant policy reform and greater attention to public good provision; in others, such as the Dominican Republic, this did not occur. The argument below traces this strikingly different evolution to the presence or absence of credible political competitors on the eve of democratization. Similarly, the likelihood that in younger democracies political competitors have less ability to rely on policy reputations and greater incentive to rely on patrons explains why younger democracies systematically undertake greater public investment as a fraction of GDP and exhibit higher levels of corruption than do countries with a longer democratic tradition.

1 Why do democracies spend differently? Explanations in the literature

The analysis in this paper, though concerned with the general theme of why some democracies perform persistently better than others, focuses specifically on government spending choices: under what conditions do governments under-provide public goods benefiting all citizens in favor of goods and services exclusively benefiting more targeted groups of citizens or rent-seeking that benefits political decision makers themselves? A large literature addresses this question, focusing generally on information asymmetry and political and electoral institutions.

With respect to information, Besley and Burgess (2003) and Strömberg (2004) demonstrate that targeted public spending flows to more informed individuals (those with greater exposure to newspapers or radio). The effects of information on the tradeoff politicians make between broad public and more narrowly targeted goods are not yet well-understood. However, Mani and Mukand (2002) demonstrate that if elections are intended to enable voters to select the most competent candidates, then resource allocation will be biased towards those public goods that allow voters to better assess politician ability – those for which outcomes are less subject to noisy, exogenous and unobservable forces.

A large literature examines institutional sources of spending distortions. Persson and Tabellini (2000) summarize and significantly extend the literature looking at the effects of political and electoral institutions on precisely the choices governments make among public and private goods, and rent-seeking. They demonstrate that the effects of electoral institutions on political incentives depend on whether politicians can make credible pre-electoral promises to voters. If politicians are entirely unable to make credible promises, rent-seeking is less under proportional representation systems than under plurality voting; the reverse is true if political competitors can make credible pre-electoral commitments to voters. More importantly for the analysis here, they conclude that when politicians are not credible, targeted transfers are lower (zero, actually) and public good spending can be higher than when they are credible.[2]

[2] For example, if $H(g)$ is the concave function describing the utility that voters derive from public good spending g, and there are N groups of voters, then under plurality voting with non-credible politicians, public good spending is defined by the condition $H_g(g) = 4/N < 1$ for $N > 4$ (Persson and Tabellini, p. 238). If, however, promises are credible, and there are at least five groups of voters, two with median voters biased towards one party, two biased

These results are at variance with the behavior of many democracies, particularly young or poor democracies, where the credibility of the promises of political competitors can be reasonably doubted. In these countries, one frequently observes instead anxiety among politicians about their ability to provide patronage and other types of targeted good provision to voters and little concern about public good provision, yielding both a low quality and low quantity of public goods. In the analysis here, non-credible politicians have the option of spending resources to make themselves credible, yielding outcomes that coincide more closely with these observations.

Medina and Stokes (2002), Estévez, Magaloní and Díaz-Cayeros (2004), Robinson and Verdier (2002), and Wantchekon (2003) all examine targeted spending in the context of clientelism. These studies differ from the analysis here in their analysis of the origins of clientelism. Here, clientelism emerges as a consequence of political efforts to build credibility. In Medina and Stokes (2002), on the other hand, pre-electoral promises are credible and clientelism instead emerges when an incumbent-patron exercises monopoly control over assets or economic opportunities valued by voters. Wantchekon (2003) argues, in contrast, that variations in the credibility of clientelist versus public policy promises can explain results from field experiments in Benin that demonstrate variation in the electoral utility of clientelist appeals across voters. The analysis below offers a framework for interpreting these experimental results.

Credibility issues are also at the heart of clientelism in Robinson and Verdier (2002) and Robinson and Torvik (2002). They assume no pre-electoral promises are credible and analyze the effects of political competition on taxes, certain types of private goods, public goods, and rents, as here. In contrast to the argument here, however, credibility is exogenous: politicians can only influence the credibility of their appeals through policy choice, and then only when they have an exogenously determined relationship with one group of voters that their competitor does not – either a known affinity for one group of voters (their welfare enters into the incumbent's utility) or the ability to observe the productivity of one group of voters should they be hired into the public sector.

For example, in Robinson and Verdier (2002), incumbents and challengers cannot credibly commit to different tax and public investment policies. However, the incumbent, but not the challenger, can observe the productivity of

towards the other and a swing group with an unbiased median voter, political competitors focus all their efforts on the swing group; public good spending is then given by $H_g(g) = 1$, implying less public good spending than in the non-credible case (p. 214).

one group of voters. As long as the incumbent can earn sufficient rents from hiring workers and expanding public employment, he has no incentive to rescind labor contracts in the second and final period of the model. He can therefore make credible offers to this group of voters that cannot be matched by the challenger, providing him with a potential electoral advantage. These employment contracts come at the expense of growth-promoting public goods.[3]

By not assuming special connections between political competitors and particular groups of voters, we can explore three phenomena more fully. The first is the intermediary role of patrons between political competitors and voters. The analysis below asks how this role might influence policy outcomes. Second, credible political parties develop in some countries and not in others. By giving political competitors the option to invest in credibility, we can begin to consider the conditions under which credible political parties can ever emerge. Third, clientelist outcomes emerge even in societies in which there are no obvious differences between political competitors in their affinity for or their ability to observe the performance of particular groups of voters. The analysis here directly addresses how this outcome might emerge.

Bueno de Mesquita, et al. (2003) argue that the choices that politicians make are driven by their efforts to build a winning coalition out of the "selectorate", the set of people who can influence the choice of leaders. Depending on the characteristics of the selectorate, policies that promote political survival in some contexts undermine political tenure in others. The analysis here can be seen as describing in detail how the need to make credible promises shapes the selectorate.

Finally, in the US context, clientelism is often synonymous with machine politics, in which parties redistribute to their ideological supporters. Dixit and Londregan (1996) argue that machine politics emerge when groups have ideological affinities and parties are better able to make transfers to their own affinity group than to the other party's or to ideologically neutral voters. They assume that political promises to these voters are credible and abstract from public goods and rents. The discussion in this paper is complementary, following Dixit and Londregan in arguing that the organization of voters is costly, and in

[3]Glaeser and Shleifer (2002) argue similarly that some voters might derive utility from re-electing an incumbent who shares some ethnic or other identification with them. Unlike the Robinson, et al. analyses, however, the incumbent's credibility does not drive inefficiency. Instead, incumbents use redistribution away from non-privileged voters to drive them out of the political jurisdiction and reduce opposition. The utility that privileged voters get from the fact that "one of their own" is in office leads them to tolerate such policies even when they reduce their own incomes.

the assumption that groups of voters can be distinguished by the extent of their ideological dispersion around an ideologically unbiased median group member.

2 The credibility of pre-electoral political promises and clientelism

Two observations lie at the core of the analysis here. First, laying the groundwork for credible agreement is costly. Resources are needed, for example, to ensure that voters have the information that allows them to observe the fulfillment of political promises; to monitor voter demands and preferences; and to track electoral behavior. Second, politicians frequently rely on intermediaries – or patrons – who can promise the votes of clients in return for policy concessions. A wealth of case studies in the literature make clear that patrons and clients are linked by their ability to make credible agreements with each other regarding the exchange of personal favors and gifts.

2.1 Direct reputation-building

It is well-known that repeated interaction, sufficiently low discount rates and observable actions can allow for credible commitments between politicians inside a legislature, or between buyers and sellers in economic markets. However, credibility also requires numerous preconditions that are usually taken as given, but may in fact not be in place unless participants have made costly investments. These serve, first, to communicate promises. Voters who do not hear a promise or who do not realize that the promise is directed at them will not respond to it. To make sure that promises are heard, candidates advertise and sponsor rallies. These investments also ensure, second, that voters and politicians can monitor the fulfillment of political promises. The ability of voters to know whether politicians have complied with their promises is often disrupted by the unobservability of political decisions and exogenous shocks. Again, political competitors can mitigate these difficulties by expending resources to inform voters about their actions.[4]

Many political promises are made to groups of voters. In this case, political

[4] The analysis below does not consider the strategic manipulation of information. To the extent that information provision is a key cost of building credibility, the analysis below assumes that the information is verifiable at zero cost to voters, removing incentives to inform strategically.

competitors need to spend resources to ameliorate collective action problems, a third precondition for credible agreement. Whether the group receives the benefit or not depends very little on the voting behavior of any single member of that group. If politicians subsidize the individual costs of voting, they mitigate this problem. Voter registration drives or voter transportation on election day have precisely this effect.

Fourth, political competitors must convince voters to whom they make targeted promises that the politicians have a system for tracking the promisees and the fulfillment of promises. This is costly, requiring an administrative apparatus separate from the state bureaucracy. Politicians will also want to be sure that individual voters who receive the promises vote; for that, politicians again try to provide transportation to the polls or undertake house-to-house canvassing on election day. In a similar context, Wantchekon (2003) argues that pre-electoral transfers can be seen as a way to establish the credibility of political promises. This specific form of laying the groundwork for credible agreement is not analyzed in the model below, but provides a more general sense of the costliness of credibility.

Efforts of political competitors to build credibility directly with voters are, in the analysis below, assumed to apply both to public and private goods. To the extent that they emphasize private goods or targeted transfers, the necessary investments in credibility begin to look like party machines, which provide an organizational structure that allows politicians to make promises to specific citizens, to track citizen voting behavior, and to demonstrate to citizens that politicians have fulfilled promises. In all cases, though, we expect that the costs of setting the preconditions for credible relations with voters should rise with the fraction of the electorate that politicians seek to reach.

2.2 Reliance on patrons

Rather than establish a direct relationship with voters, however, politicians can also exploit patron-client relations. This requires that patrons and clients, on the one hand, and political competitors and patrons on the other, can make credible agreements with each other. An ample literature suggests that both conditions are frequently met. In particular, it is evident from many case studies that repeated, non-simultaneous exchange is at the core of patron-client relationships, suggesting that patrons and clients have solved the credibility problem. From his research on Southeast Asia, Scott (1972, 92) characterizes patron-client relationships as ones "in which an individual of higher socioeconomic status (patron) uses his own influence and resources to provide protection or benefits, or both, for a person of lower status (client) who, for his part, reciprocates by offering general support and assistance, including personal services, to the patron." Bista (1991, p. 90), describes the operation of clientelism in Nepal (where it is called chakari) emphasizing as well the non-simultaneous exchange of favors over time:

> "Typically, chakari is performed in the morning and at the house of the person whose favours are being cultivated, when there is some assurance of actually seeing him. Some chakariwal go into the house and remain therefore several hours, mostly in the courtyard, do their greetings and then leave. ... [O]ther forms of chakari include offering gifts, either material gifts or gifts in services and favours. For the important, there will be a number of chakariwal in attendance everyday. ... The gift donor in chakari has certain rights. There is an obligation on the part of the recipient to respond to the chakariwal when the chakariwal so determines. It is possible at that point to hedge the obligation but this is difficult and must be done with an explanation (example 'I can't offer you this job because of other pressing concerns but I can offer you something else either now or in the future.') Ultimately, there has to be a balance in exchange relations." (p. 91-2).

Lemarchand (1972, p. 72) writes that among the many African countries he surveys, "Inherent in each [clientelistic pattern] is a relationship of reciprocity between an individual (or group of individuals) whose influence stems from his ability to provide services, goods or values that are so desired by others as to induce them to reciprocate these gratifications in the form of alternative services, goods and values." Powell (1970, p. 412) observes similar patterns in southern Italy. "[T]he formation and maintenance of the [patron-client] relationship depends on reciprocity in the exchange of goods and services. ... [T]he development and maintenance of a patron-client relationship rests heavily on face-to-face contact between the two parties ..." In an Italian community in central Italy, low status persons could begin to establish such a bond by presenting a gift, making a request, or putting oneself at the disposal of the potential patron, to run errands, etc. (Powell, p. 413). Current favors in exchange for future consideration are here, as elsewhere, at the center of a developing patron-client relationship.

Political competitors can often make credible agreements with patrons more cheaply than they can make agreements directly with voters. Scott cites the work of Nash on the 1960 elections in Burma: "When a local patron was approached to join U Nu's faction of the AFPFL on the promise of later patronage, he was able to get thirty-nine others – his relatives and those who owed him money or for whom he had done favors, i.e., his clients – to join as well." (Scott 1972, 110). The patron's incentive to agree to this arrangement was driven not only by the potentially high rents – Scott (1972, p. 110) reports that parties often had to give a local patron significant authority over local administrative and development decisions in exchange for vote delivery – but the confidence that these rent promises were credible.

The arrangements documented by Scott in Burma are one possible way for political competitors to get around the problem that their promises are not credible to voters. Another is for them to choose candidates who are credible to smaller constituencies. Anirudh Krishna (2002) has found that these personalized relationships are the key characteristic sought after in legislative candidates in India:

> "Babulal Bor, a [new leader] of Kundai village, Udaipur district, recalled as follows: 'I have been working for the villagers for about 10 years now. It is hard work. People come in the middle of the night, and I cannot refuse. I take them to the hospital on my motorcycle. I am available to them night and day. I have no time for my family. ... But it has become my life now. If a day goes by when no one comes to my door, I cannot sit peacefully. ... I will never be rich ... but someday I might be MLA [Member of the State Legislative Assembly]. I came close to getting a ticket [party nomination] the last time [elections were held]."

The analysis below assumes that patron-client relationships are forged independently of political considerations. Krishna's story of Babulal Bor supports this assumption, making clear that the payoffs to the "patron" of making transfers to clients had more to do with social standing in his village than with the desire to hold office. Looking at Colombian politics, Archer (1990) quotes one politician who viewed his role prior to entering politics as one of "a man of respect" (*un hombre de respeto*). His many and repeated exchanges with his peasant "clients" were valuable first and foremost because of the added prestige they gave him in the community. In other contexts, the traditional payoff to patrons of having large numbers of clients has been physical protection. In exchange for their services as foot soldiers in defense of the patron, clients could count on the patron for various kinds of support. Antlöv (1994) notes the importance of this for political organization in Java, noting that in parts of Java where the Islamic Darul Islam rebels were active, from 1949-1962, "[w]hole populations were mobilized to protect the village from the rebels" and that these mobilizations formed the basis of clientelist relations (p. 76).[5] Once again, the patron-client relationship was formed independently of the dynamics of political competition.

A key conclusion of the analysis below is that the need to build credibility drives political competition towards the provision of private goods. The qualitative evidence supports this prediction and ties it to credibility. Scott (1972) quotes Wurfel, for example, as pointing out that "The Filipino politician ... does favors individually rather than collectively because he wishes to create a personal obligation of clientship" (p. 109). The importance of transfers to individuals is key to Pakistani politicians as well. Wilder (1999) quotes former members of the Pakistani National Assembly from the state of Punjab as saying "People now think that the job of an MNA and MPA is to fix their gutters, get their children enrolled in school, arrange for job transfers. ... [These tasks] consume your whole day ..." (p. 196); "Look, we get elected because we are *ba asr log* [effective people] in our area. People vote for me because they perceive me as someone who can help them. ... Sombody's son is a matric fail and I get him a job as a teacher or a government servant. ... If somebody's son is first class, he's not coming to me to get him a job. If somebody has merit they very rarely come to me. ... But it's the real wrongdoers who come to me" (p. 204).

Observers of African politics note a similar dynamic. Lewis (1998, p. 144) writes, "Independent African regimes have typically relied upon patrimonial forms of state consolidation and governance", where patrimonialism is understood as the personalized exchange of resources for support. His analysis echoes

[5] These intangible rewards are related to the assumptions about voter and candidate preferences in Glaeser and Shleifer (2002) or Robinson and Torvik (2002), where candidates and voters belong to particular groups and are assumed to derive utility from increasing each other's welfare. Most of the case study literature on clientelism emphasizes the pragmatic nature of the relationship rather than the emotional. Without detracting from the importance of preference effects on clientelism, this analysis highlights the importance for clientelism of reciprocity and reputation.

that of Jackson and Rosberg (1982). Archer (1990) also notes that his political informant entered politics precisely because it allowed him to address the increasingly complex problems confronted by his "clients."

One might argue in addition that politicians in clientelist countries are, despite the interesting social dynamics documented by observers, little different from legislators in all countries who are consumed by "casework", "homestyle" or "pork". Mayhew (1974) and Cain, Ferejohn and Fiorina (1987) argue that difficulties in claiming credit for broad public policy innovations that benefit their constituents lead American legislators to devote significant resources to personalized constituency service and local infrastructure (pork barrel) projects. The point here is simply that the degree of concern for "casework" is much higher in clientelist countries. In non-clientelist countries, national candidates and national parties are able to make credible promises regarding public good provision or national economic and social policies. If they focus only on pork, they hurt their competitive position regarding these broader policy issues. Purely clientelist politicians do not confront this tradeoff since they can make no promises regarding broad public good provision.

The contrast in the ways in which legislators from non-clientelist and clientelist countries spend their time provides some indication of the relatively reduced emphasis on constituency service in non-clientelist countries. Members of the United States Congress have been found to spend on average fewer than six hours per week directly and personally intervening on behalf of constituents in order to obtain favors for them or help them solve bureaucratic difficulties (Johannes, 1983). This is in sharp contrast to Pakistani legislators, who also competed in majoritarian electoral systems but who devoted almost all of their time to the direct satisfaction of individual constituent interests. It could be argued that US congressmen have large staffs to take care of these problems. However, in a clientelist state, using staff to deal with constituent issues creates ambiguities about the reciprocal obligations of the client to the patron and is an invitation to create a political competitor, since the person doing the favor gets disproportionate credit.

3 Political competition in the absence of credibility

To see the effects of credibility on policy, two versions of a political game are developed here. In the first, political competitors have no access to patrons and can only make credible promises to those voters whom they spend resources to "organize", shorthand for the resources they spend to communicate promises to these voters, to track promises and their fullfillment, to monitor their voting behavior, etc. In the second game, competitors can also appeal to patrons for support. Political competition is over two periods, assuming that promises are credible once the up-front costs of setting the preconditions for political competition are made. We demonstrate in the appendix that the policy outcomes that emerge from this two-period game can be supported by subgame perfect equilibria of an infinitely repeated game in which credibility is not assumed.

Let society be composed of a continuum of groups of measure N, each of size one and with each citizen in every group having equal income normalized to unity. We index each group by the variable $m \in [0, N]$. There are two parties, A and B. Voters in each group have an ideological bias σ_i^m, positive values of which indicate a bias in favor of party B and negative values a bias in favor of party A, distributed according to a uniform distribution over the interval $\left[-\frac{1}{2\phi(m)}, \frac{1}{2\phi(m)}\right]$. The median voter in each group is assumed to be unbiased.[6] Without loss of generality, groups are ordered such that the density of the ideological distribution of groups $\phi(m)$ is a non-increasing continuous function of the group index m (e.g., $\phi(1) \geq \phi(2)$).

Preferences over government policy for every member of group m are defined by the quasi-linear utility function $W_i^m = 1 - \tau + I[f(m)] + H(g)$, where τ is the tax rate, $f(m)$ is the per capita transfer made by the government to every member of group m, I is the utility of those transfers, and public good provision is given by g with utility $H(g)$ to all members of all groups. $H(g)$ is assumed non-decreasing, concave and differentiable. $I[f(m)]$ is assumed to have the same properties because, even if transfers f consist entirely of cash, there are likely to be deadweight losses associated with the transfers. Moreover, if f takes the form of in-kind benefits for which utility might be expected to diminish (food

[6] The model retains its symmetry and all results even if we allow the median ideological bias of the groups to deviate from zero, as long as the average bias across all groups is zero. That is, if a group's bias is given by $\overline{\sigma}(m)$, the results of the analysis remain the same as long as $\int_{m=0}^{N} \overline{\sigma}(m) \phi(m) \, dm = 0$.

handouts, for example). Therefore, it is assumed that $I' \leq 1$, and $I' = 1$ if and only if $f = 0$: an additional unit of transfers can never be more highly valued than one (an additional dollar of transfers can never be worth more than one dollar to voters).Finally, governments attempt to extract rents, r. The notation and assumptions are similar to Persson and Tabellini (2000, Chapter 8), with three exceptions: $I'[f(m)] \leq 1$, N is continuous, and every group's ideological distribution is unbiased and is characterized by a non-increasing continuous function of the group index m.[7]

3.1 Costless credibility

Three benchmarks are useful to assess the impact of variations in credibility on government policy. The first is the optimal policy, assuming that social welfare is utilitarian. To find this, maximize $\int_{m=0}^{N} \{(1-\tau) + I[f(m)] + H(g)\} \, dm$ with respect to the policy instruments τ, $f(m)$, g, and r, subject to the budget constraint $N\tau = \int_{m=0}^{N} f(m) \, dm + g + r$. It follows immediately that rents are zero. In addition, as long as $I'[f(m)] < 1$ then $f(m) = 0$ for all m (transfers offer less utility than the taxes needed to finance them), public good provision is given by $H'(g) = \frac{1}{N}$, the Samuelsonian condition for public good provision, and, from the budget constraint and the fact that rents and transfers are zero, $\tau = \frac{g}{N}$.

The second benchmark assumes that politicians are non-credible and voters can coordinate on an ex post voting rule with which to judge incumbent performance, as in Ferejohn (1986) and developed by Persson and Tabellini (2000, Chapter 9). In this case, inter-voter competition drives transfers down to zero and, because incumbents need only attract the support of just over half the electorate to win, they set public good spending at a lower rate, to $H'(g) = \frac{2}{N}$, set the tax rate to unity (taxes equal income), and set rents equal to $r = N\tau - g$.

The third benchmark is the policy outcome when both political parties can make credible commitments to voters. Two assumptions are standard when analyzing credible political competitors. First, political parties seek to maximize rents $R + \gamma r$, where R is the non-pecuniary rents from holding office, r is the pecuniary rents, and $\gamma \leq 1$ is the rate at which politicians can convert rents into transfers to themselves (the rate would drop below one as, for example, the fees to set up offshore bank accounts rise). Second, although both parties know the

[7] Recall from the previous footnote, however, that the results we derive below are robust to relaxing the assumption of unbiasedness.

ideological distribution of the electorate, they are uncertain about the location of this distribution ahead of any given election: just before elections, and after parties announce their (credible) platforms, an ideological shock occurs. Assume that the ideological shock is distributed uniformly over $\left[-\frac{1}{2\psi}, \frac{1}{2\psi}\right]$. The game, then, is as follows: parties announce their policy commitments regarding rents, public goods, transfers and taxes; an ideological shock δ occurs; elections take place; and the winning party implements its announced platform.

Voter i in group m prefers party A if A's promises $\mathbf{q}_A = (\tau_A, g_A, f_A(m), r)$ offer her greater welfare than B's promises, taking into account voter ideology: $W^m(\mathbf{q}_A) = 1 - \tau_A + I[f_A(m)] + H(g_A) > W^m(\mathbf{q}_B) + \sigma_i^m + \delta$. Party A's vote share following the ideological shock, denoted by π_A, is the fraction of voters for whom A's platform provides greater welfare than B's platform, net of the ideological bias of the voters.

$$\pi_A(\mathbf{q}_A, \mathbf{q}_B) = \frac{1}{N}\int_{m=0}^{N}\left[\sigma^m - \left(-\frac{1}{2\phi(m)}\right)\right]\phi(m)\,dm$$
$$= \frac{1}{2} + \frac{1}{N}\int_{m=0}^{N}\phi(m)\left[W^m(\mathbf{q}_A) - W^m(\mathbf{q}_B) - \delta\right]dm$$

where σ^m is the ideological bias of the swing voter in group m, given the platforms of the two parties and the ideological shock, or
$\sigma^m = W^m(\mathbf{q}_A) - W^m(\mathbf{q}_B) - \delta$. That is, party A's vote share is the fraction of voters between σ^m and the lower end of the ideological distribution, $-\frac{1}{2\phi(m)}$ (the group of voters most favorable to A). Using the distribution of the ideological shock, the probability that the vote share will exceed one-half and that A will win is then given by:

$$\frac{1}{2} + \frac{\psi}{\int_{m=0}^{N}\phi(m)\,dm}\int_{m=0}^{N}\phi(m)\left[W^m(\mathbf{q}_A) - W^m(\mathbf{q}_B)\right]dm$$

Party A chooses its policy promises maximizing its expected rents,

$$
\begin{aligned}
& \max_{\tau, f(m), g, r} (R + \gamma r) \left[\frac{1}{2} + \frac{\psi}{\int_{m=0}^{N} \phi(m)\, dm} \times \right. \qquad (1) \\
& \left. \int_{m=0}^{N} \phi(m) \left[1 - \tau + I\left[f(m) \right] + H(g) - W^m(\mathbf{q}_B) \right] dm \right] \\
& s.t. \quad N\tau = \int_{m=0}^{N} f(m)\, dm + g + r.
\end{aligned}
$$

>From the first order conditions for this problem, assuming interior solutions, and recognizing that the problems of the two parties are entirely symmetrical, the following policy outcomes emerge:

$$
\begin{aligned}
& H'(g) = \frac{1}{N} \qquad (2) \\
& I'\left[f(m) \right] = \frac{1}{N\phi(m)} \int_{m=0}^{N} \phi(m)\, dm \text{ for } f(m) > 0 \\
& \tau = \frac{\int_{m=0}^{N} f(m)\, dm + g + r}{N} \\
& r = \frac{N}{2\psi} - \frac{R}{\gamma}
\end{aligned}
$$

Public good provision is the same as in the socially optimal benchmark, but rents, transfers and taxes are all potentially higher.

Specifically, the first order conditions for transfers and the tax rate tell us that there are positive transfers to all groups for which

$$
\phi(m) > \frac{1}{N} \int_{m=0}^{N} \phi(m)\, dm. \qquad (3)
$$

The right hand side of equation (3) is the average ideological dispersion in the society. This condition states that transfers go only to those groups with below average ideological dispersion. That is, the higher is m, recalling that ideological density $\phi(m)$ is decreasing in m, the less likely are transfers to group m.

Moreover, from (2), transfers are falling in m: if $\phi(m) > \phi(m')$, then $f(m) > f(m')$. This conclusion is intuitive and familiar from similar models in the literature (e.g., Persson and Tabellini 2000, Chapter 8). Transfers to groups of voters are more valuable to the extent that they move the median further a larger fraction of voters in a group above σ^m, the ideological position of group m's swing voter. The greater the bunching of voters around σ^m, the larger is the fraction of voters whose allegiances can be shifted from party B to party A by a given transfer.

Rent-seeking also increases with N, the number of voting groups to which politicians appeal (the size of the electorate), equivalent in the current context to the size of the population. This is clear from the last equation in (2), demonstrating that rents increase when electoral uncertainty increases (ψ declines), but that this effect is magnified by the number of groups N. Ideological shocks affect all citizens equally, regardless of the number of groups (size of the electorate). Public good spending, however, has an increasing electoral payoff the larger is N, as the equilibrium condition $H'(g) = \frac{1}{N}$ indicates. The increasing effectiveness of public good spending for larger populations gives political competitors greater scope for retaining rents while at the same time using policy to offset the effects of political shocks.

3.2 Costly credibility

What happens, however, if politicians can only make credible promises to those voters whom they have previously expended resources to organize? Assume that politicians expend resources to organize and make credible promises to a fraction n of all voters and that the costs of organization are given by $C(n)$, $C'(n) > 0$ and $C''(n) > 0$. Diminishing returns to voter organization are supported by the literature reviewed earlier. Political parties devote enormous resources to voter-by-voter mobilization strategies, precisely where diminishing returns to organizational expenditures are most likely. In addition to setting its policy platform, each party must also optimally set the voters to whom it seeks to make promises. The maximization problem of party A therefore changes to

$$\max_{n,\tau,f(m),g,r} (R+\gamma r)\left[\frac{1}{2}+\frac{\psi}{\int_{m=0}^{N}\phi(m)\,dm}\times \right. \tag{4}$$
$$\left.\int_{m=0}^{n}\phi(m)\left[1-\tau+I\left[f(m)\right]+H(g)-W^m(\mathbf{q}_B)\right]dm\right]$$
$$s.t. \quad N\tau=\int_{m=0}^{N} f(m)\,dm+g+C(n)+r.$$

The maximization problem (4) assumes that if politicians organize any groups of voters, they first organize those groups for which m is lowest. This follows from equation (3) of the earlier model of costless credibility, that politicians prefer to target groups that have the highest density of ideologically uncommitted voters.

The tradeoff between targeted spending and public good spending is given by equating the two respective first order conditions,

$$\mathrm{I}'\left[f\left(m\right)\right]\phi\left(m\right)=H'\left(g\right)\int_{m=0}^{n}\phi\left(m\right)dm.$$

However, for an interior solution, public good spending must also meet the condition given by the equation of the first order conditions for public good spending and taxes, $H'(g)=\frac{1}{N}$, the same as in the full-credibility case. That is, for an interior solution, n is large enough such that the payoffs to targeted transfers never exceed $\frac{1}{N}$.

All other policy outcomes do change, however. Rents are greater, larger transfers go to those groups that receive transfers, and total transfers are (probably) larger. Denote the solutions from the full credibility case with the subscript 1 and those from the case where politicians must organize voters with subscript 2. To see that $r_2>r_1$, note that the first order condition from case 2 on τ is

$$\frac{\psi}{\int_{m=0}^{N}\phi\left(m\right)dm}\left[\left(-1\right)\int_{m=0}^{n}\phi\left(m\right)dm\right]\left(R+\gamma r\right)+\lambda N=0$$

and that the first order condition on rents (in equilibrium, when each of the parties has a fifty percent chance of winning) is $\frac{1}{2}\gamma-\lambda=0$. Substituting, we get from (5) that rents are higher when credibility is costly.

$$r_2=\frac{N}{2\psi\frac{\int_{m=0}^{n}\phi(m)dm}{\int_{m=0}^{N}\phi(m)dm}}-\frac{R}{\gamma}>r_1=\frac{N}{2\psi}-\frac{R}{\gamma}. \tag{5}$$

The conclusion that $f_2\left(m\right)>f_1\left(m\right)$ – those groups that receive transfers receive larger transfers when credibility is costly – follows from (5) and the first order condition for transfers, $f(m)$. The first order condition is the same in problems 1 and 2:

$$\frac{\psi}{\int_{m=0}^{N}\phi\left(m\right)dm}\left\{I'\left[f\left(m\right)\right]\phi\left(m\right)\right\}\left(R+\gamma r\right)-\lambda=0.$$

Since $r_2 > r_1$ it must also be true that $f_2(m) > f_1(m)$.

Whether total transfers are also higher depends on the fraction of groups that receive transfers in the two problems. If more groups receive transfers in the second problem, then total transfers are unambiguously greater when credibility is costly. If fewer groups receive transfers, it is possible that total transfers are greater when credibility is costly, but not certain. To identify the number of groups that receive transfers, let m_1 solve

$$\phi(m) = \frac{1}{N} \int_{m=0}^{N} \phi(m)\, dm.$$

This means that m_1 is the last group that receives transfers in problem 1 (costless credibility). Correspondingly, let m_2 be the last group to receive transfers when credibility is costly, problem 2, solving

$$\phi(m) = \frac{1}{N} \int_{m=0}^{n_2} \phi(m)\, dm$$

Groups $[0, m_1)$ all receive positive transfers in problem 1. However, groups $[0, m_2)$ receive positive transfers in problem 2 only if they are all organized – only if $m_2 \leq n_2$. Otherwise $[0, n_2]$ receive positive transfers (unorganized voters never receive transfers). Because $N > n_2$, and because $\phi(m)$ is falling in m, it must be the case that $m_2 > m_1$. Therefore, if $n_2 \geq m_1$, aggregate transfers are unambiguously higher in problem 2: per-capita (and per-group) transfers are higher in problem 2, and more groups receive these transfers. If, however, $n_2 < m_1$, the comparison is ambiguous. Still, because transfers per group are higher in problem 2, it must also be the case that even for some range of values of $n_2 < m_1$, total transfers are greater when credibility is costly.

It is well-known that when politicians have incentives to focus on only a segment of the electorate, transfers are likely to rise relative to public good spending: the smaller the set of target voters, the less electorally valuable are public goods relative to transfers. In some analyses (e.g., Lizzeri and Persico 2001), this focus is driven by electoral rules. Here, politicians themselves determine which and how many voters will be the focus of attention, their efforts driven not by electoral rules but by their incentive to expand the fraction of voters who believe their pre-electoral promises.

In sum, when politicians are non-credible but able to invest resources to improve their credibility, significant deviations emerge compared to the benchmark cases. Relative to the case of costless, full credibility, public spending is the same, but rents are higher and transfers are likely higher. Compared to the benchmark case of non-credibility with ex post voting rules, public good spending is higher, transfers are large, and rent-seeking is more restrained. These are the outcomes we most closely associate with those democracies in which political competitors appear to be least credible.

3.3 Costly credibility with patrons

In many situations, politicians do not have to organize voters directly; they can rely on intermediaries – on patrons – to organize voters for them. The literature reviewed earlier points to three key characteristics of patrons. First, they can make credible agreements with politicians, even when clients cannot. Second, they are able to make, at no cost, credible commitments to some groups of voters because of their long-time personal interaction with those voters. Third, patrons can extract a fraction of the transfers that flow from the state to their clients but they can extract none of the public goods. This is an important assumption and emerges directly from the literature on patron-client relationships. On the one hand, patron relationships with clients are based on personalized exchanges, so patrons find it difficult to take credit for public good provision that benefits all voters and not just their clients. On the other, patrons find it difficult to control client access to public goods. Patrons can intermediate with government officials when clients are looking for a patronage position in government, but clearly cannot influence the benefits that clients extract from a strong national defense.

Let π be the fraction of groups controlled by patrons and let ρ be the fraction of each group of voters whose patrons make a deal with political competitors, $0 \leq \rho \leq \pi \leq 1$. Direct transfers from politicians to voters in group m are, as before, given by $f(m)$. Politicians can also make transfers $k(m)$ through patrons to clients in group m. Patrons extract compensation, a tax θ, from transfers $k(m)$, so clients receive utility $I[(1-\theta)k(m)]$ from indirect transfers routed through patrons. The tax θ captures in reduced form the relationship between patrons and clients. For clients trapped in a feudal relationship with their patron, θ is large; where patrons compete vigorously for clients, it is small.

Party A goes through the same decision making process as before, this time also optimally choosing how many voters it will organize through patrons and what transfers will be made to clients of those patrons. That is:

$$
\max_{n,\rho,\tau,f(m),k(m),g,r} (R+\gamma r)\left[\frac{1}{2}+\frac{\psi}{\int_{m=0}^{N}\phi(m)\,dm}\times\right. \tag{6}
$$

$$
\left\{(1-\rho)\int_{m=0}^{n}\phi(m)\left[1-\tau+I\left[f(m)\right]+H(g)-W^{m}(\mathbf{q}_B)\right]dm+\right.
$$

$$
\left.\left.\rho\int_{m=0}^{N}\phi(m)\left[1-\tau+I\left[(1-\theta)\,k(m)\right]-W^{m}(\mathbf{q}_B)\right]dm\right\}\right]
$$

$$
s.t. \quad N\tau=\int_{m=0}^{N}\left[(1-\rho)\,f(m)+\rho k(m)\right]dm+g+C\left[(1-\rho)\,n\right]+r
$$

$$
0\leq\rho\leq\pi
$$

As the budget constraint in (6) makes clear, to the extent that political competitors choose to use patrons to organize voters, raising ρ, they can expend fewer resources organizing voters directly. They are not necessarily a boon for politicians, however. Patrons impose a potentially high tax on their clients that reduces the usefulness of political promises. Moreover, they are not receptive to political promises of public goods that benefit a large number of voters, client and non-client, at potentially lower cost than transfers.

The availability of patrons unambiguously reduces public good provision relative to the case where patrons are not an option. Where subscripts denote the solution from problem 3 (costly credibility with patrons), the first order condition for g in problem 3 is

$$
(R+\gamma r_3)\frac{\psi}{\int_{m=0}^{N}\phi(m)\,dm}(1-\rho)\,H'(g_3)\int_{m=0}^{n_3}\phi(m)\,dm-\lambda=0
$$

and for τ is

$$
\begin{aligned}
&(R+\gamma r_3)\frac{\psi}{\int_{m=0}^{N}\phi(m)\,dm}\times\\
&(-1)\left[(1-\rho)\int_{m=0}^{n_3}\phi(m)\,dm+\rho\int_{m=0}^{N}\phi(m)\,dm\right]+\lambda N=0.
\end{aligned}
$$

Combining these two equations, the condition for equilibrium public goods provision in problem 3, costly credibility with patrons, is lower and given by

$$
\begin{aligned}
H'(g_3) &= \frac{1}{N}\frac{(1-\rho)\int_{m=0}^{n_3}\phi(m)\,dm+\rho\int_{m=0}^{N}\phi(m)\,dm}{\int_{m=0}^{n_3}\phi(m)\,dm} \\
&\geq \frac{1}{N}=H'(g_2)=H'(g_1)\,.
\end{aligned} \tag{7}
$$

To the extent that politicians take advantage of patron services, therefore, (7) indicates that public good provision is lower than if they had no recourse to politicians and had to organize voters themselves. This is not surprising: because of their single-minded focus on transfers rather than public goods, reliance on patrons should drive down public good provision. At the same time, reliance on patrons may yield a higher level of public goods than in the no-credibility case with an *ex post* voting rule, where public good provision is given by $H'(g)=\frac{2}{N}$.

The presence of patrons yields unambiguously higher rents than in the full-credibility case, problem 1, and potentially lower rents than in the non-credible case with *ex post* voting rules. However, in relation to problem 2, costly credibility with no recourse to patrons, the effects of patrons on rents, the fraction of voters that politicians directly organize, and on total transfers is ambiguous. This is not surprising. On the one hand, competition for the support of patrons may lead politicians to appeal to voters whom they otherwise might have ignored; such appeals might increase both the electoral penalty associated with high rents and the electoral benefits associated with transfers. On the other hand, appeals to patrons might simply displace direct appeals to voters and reduce total transfers.

One can still deduce unambiguous associations among these policy outcomes, however. First, if we observe higher rents in the presence of patrons, then we should also observe lower levels of direct organization of voters by politicians: the need to appeal to a smaller fraction of voters directly increases the ability of politicians to extract rents. This can be seen by noting that the first order conditions for taxes from problems 2 and 3 must be equal

$$
\begin{aligned}
&\frac{\psi}{\int_{m=0}^{N}\phi(m)\,dm}\left[(-1)\int_{m=0}^{n_2}\phi(m)\,dm\right](R+\gamma r_2)+\lambda N=(R+\gamma r_2)\times \\
&\frac{\psi}{\int_{m=0}^{N}\phi(m)\,dm}(-1)\left[(1-\rho)\int_{m=0}^{n_3}\phi(m)\,dm+\rho\int_{m=0}^{N}\phi(m)\,dm\right]+\lambda N
\end{aligned}
$$

and that this implies that

$$
\begin{aligned}
&(R+\gamma r_2)\int_{m=0}^{n_2}\phi(m)\,dm = \\
&(R+\gamma r_3)\left[(1-\rho)\int_{m=0}^{n_3}\phi(m)\,dm+\rho\int_{m=0}^{N}\phi(m)\,dm\right].
\end{aligned}
\tag{8}
$$

From equation (8) it follows immediately that if rents are higher in the presence of patrons, n_3 must be lower than n_2. This is a sufficient condition for $n_3 < n_2$; it is clear that even when rents are lower in the presence of patrons, it may still be the case that $n_3 < n_2$.

If we observe higher rents in the presence of patrons, we should also observe higher per-group transfers. To see this, equate the first order conditions for $f(m)$ from problems 2 and 3, yielding

$$
\begin{aligned}
&\{I'[f_2(m)]\phi(m)\}(R+\gamma r_2)-\lambda = \\
&\{(1-\rho)I'[f_3(m)]\phi(m)\}(R+\gamma r_3)-\lambda(1-\rho).
\end{aligned}
\tag{9}
$$

If $r_3 > r_2$, (9) makes clear that $I'[f_2(m)] > I'[f_3(m)]$, so that $f_3(m) > f_2(m)$. The logic here is straightforward: because politicians organize only a fraction of any group, using patrons to appeal to the remaining voters, the effect of transfers directly by politicians has a smaller impact on the electoral behavior of the whole group. To compensate for this, politicians make larger transfers to those groups. Total transfers are *likely* to be larger under patronage, since in addition to transfers f, politicians make indirect transfers k through patrons. It is not possible to assert this unambiguously, however.

Several notable conclusions emerge from the discussion of patrons and costly credibility. First, when non-credible politicians can build their credibility, even if this is costly or if they must rely on patrons, voter welfare can be higher than where non-credible politicians are constrained only by *ex post* voting rules. Second, the most notable development pathologies typically associated with clientelism – high rents and excessive emphasis on benefits for narrow groups of voters – emerge even in the absence of patrons, as a consequence of politician efforts to build credibility. The prevalence of patron-client relationships in a society does not seem to cause the policy ills often associated with clientelism. Instead, the absence of political credibility pushes these relationships into the political arena while at the same time distorting policy outcomes. Third, though, although it is possible that patrons are the most socially beneficial tool for addressing problems of political credibility, this is likely not the case. Reliance on patrons clearly suppresses public good provision. In addition, reliance on patrons *can* and likely does lead to higher rents, higher transfers, and fewer voters organized directly by politicians.

The absence of voter organization is especially important because it suggests the possibility of a political development trap. Politicians have no incentive to appeal to voters directly, voters therefore never believe politicians, patrons are entrenched as influence brokers, and public policy remains focused on transfers rather than public goods. This outcome is consistent with the view of clientelism that emerges in the literature and characterizes many accounts of "failed states". Such an outcome offers clear suggestions that reliance on patrons can place a brake on both economic and political development. To the extent that patrons discourage public policy oriented towards public good provision and low rents/low taxes, economic development is obstructed. To the extent that patrons lead political competitors to ignore the direct organization of voters, the institutionalization of democratic competition is hindered. Some of these implications are examined below.

4 Credibility, clientelism and some development puzzles

If the foregoing analysis is correct, we would expect democracies in which political parties have not been able to consolidate policy reputations with voters, such as young democracies, to adopt quite distinct public policies, exhibiting lower public good provision, greater emphasis on providing benefits to targeted groups of voters, and significant rent-seeking. This contrasts with predictions in the literature (e.g., Persson and Tabellini 2000, chapters 8, 9), that non-credible political competition should yield lower public good provision, *no* transfers, and high rent-seeking. By the same token, the analysis also provides an explanation for why some countries that have newly introduced competitive elections or have dramatically increased the fraction of citizens with voting rights perform better than others. In some, political competitors have pre-existing policy reputations on which voters can rely; in others (most), they do not. Each of these implications is examined below.

Extensions of the analytical framework developed here are also likely to offer explanations for two additional phenomena. The first is the development of secure property rights. The analysis here focuses on budget decisions of governments rather than decisions regarding the enforcement of property rights. However, to the extent that property rights are a public good, the incentives that low-credibility political actors have to emphasize targeted benefits provide a potentially new rationale for the uneven development of property rights security among democracies. Second, a significant phenomenon in many countries is that successor governments abandon the half-completed infrastructure projects of their predecessors. Robinson and Torvik (2002) show that this can occur when the projects are value-subtracting. The analysis here suggests an explanation for the abandonment of infrastructure projects that are value-adding.

4.1 Clientelism and the poor policy performance of young democracies

It is difficult to measure the credibility of political competitors. It is likely, though, that the absence of credibility should be most pronounced among young democracies, where politicians and voters have had limited opportunity to build up reputations. Young democracies are increasingly prevalent: in 1985 there were approximately 25 countries that had held competitive elections for fewer than 20 years. By 2000, the number had jumped to more than 50. If young democracies are in fact less credible then they should exhibit lower public good provision (particularly if patrons are active); greater rent-seeking or corruption; and more attention to targeted transfers benefiting only segments of the population. There is considerable evidence in support the last two predictions, on rent-seeking and targeted transfers.

It is certainly not the case that political competitors in older democracies are always more credible in their broad policy promises than their counterparts in younger democracies. Nevertheless, cross-country comparisons of democracies reveal that those fewer than sixteen years old in 1997 (the median age of democracies in 1997, defined by the length of time that they had had both competitive legislative and executive elections) were significantly more corrupt than older democracies and exhibited almost the same level of corruption as non-democracies of all ages (Keefer 2004). With respect to targeted transfers, Keefer (2004) finds that young democracies directed their fiscal policies more resolutely towards public investment. Despite its label, public investment is a type of public spending that both casual and systematic analysis has identified with rent-seeking and the satisfaction of narrow interests (e.g., Ferejohn 1974, Davoodi and Tanzi 1997, and Keefer and Knack 2002). Of the 49 democracies for which information is available on both regime age and public investment spending, younger democracies spent 1.2 percentage points of national income on public investment more than older democracies – nearly one standard deviation more.

Qualitative or country studies support the notion that younger democracies focus on targeted benefits. Studies of countries experiencing the transition from authoritarian to democratic government repeatedly note the reliance of new political competitors on clientelist impulses. The democratic regime that succeeded the authoritarian government of Getulio Vargas in post-World War II Brazil was itself replaced in 1964 by the military. One of the military's purported aims was to create the conditions for the introduction of a "clean democracy," one in which the citizenry were free of clientelist ties to political bosses and where rural voters were not controlled by country bosses (Duncan Baretta and Markoff, 1987, p. 53). Conaghan (1987) characterizes the parties of the young Ecuadoran democracy as fundamentally clientelist (p. 157), and Rosenberg describes political decision making in young Central American democracies as personalized and based on vertical patronage networks (p. 197). Former President of Perú, Alberto Fujimori – a man who entered office a virtual unknown and without the assistance of an established political party – assiduously cultivated voters who had scant knowledge of him by personally inaugurating small public works projects in their villages, through the Foncodes project, but did little to introduce systemwide improvements in the education system. Wantchekon (2003), in his study of another young democracy, Benin, documents the overwhelming appeal of clientelist political promises.

Sayari (in Gellner and Waterbury, 1977) writes that in the early years of Turkish democracy in the 1940s, "party strategies for peasant mobilization were based largely on the recruitment of notables into party ranks who were then entrusted with the task of providing 'ready vote banks.'....This strategy met a favourable response from the notables since assuming the leadership post of a party's local unit meant that a notable could (a) gain additional status and prestige vis-à-vis rival notables, (b) secure new sources of outside support for members of his faction, and (c) maintain and improve his economic standing through party ties." (Gellner and Waterbury, 1977, p. 107). These notables were at the heads of extended clientelist networks. Such networks can develop into party machines: Sayari observes that "... as case studies on local-level politics show, the political influence of the notables at present depends more on their roles as party functionaries than on their control of traditional patronage resources ... [which] are likely to become politically relevant only when supplemented with additional resources that have to do with party patronage ..." (Gellner and Waterbury, p. 108). However, he notes the importance to parties of providing individualized assistance: first, in navigating the bureaucracy (which are "relayed to local party leaders or deputies") and, second, in the provision of public investment for rural development projects (Gellner and Waterbury, 108).

Credibility is not the only dimension along which young democracies differ from older democracies, but it is likely to be the difference that best explains why young democracies exhibit higher rents, more targeted spending and fewer public goods. For example, voters are likely to be less well-informed and politicians are likely to be less practiced or "competent", both of which are additional sources of policy distortion. However, in the face of uninformed voters, the literature has shown that politicians seem to reduce targeted transfers rather than increase them. Similarly, we would expect incompetent politicians to be more inefficient in turning tax revenues into public and targeted goods, providing less of both for any level of tax receipts, unlike the pattern we observe when contrasting younger and older democracies.

4.2 Initial conditions and democratic development: Victorian England and the Dominican Republic

The evolution of democracies is far from smooth and predictable. The analysis here suggests that the effect of enfranchisement or democratization on the incentives of political leaders should depend on the credibility and ideological attraction of political competitors; the extent to which voters have patrons; and the efficiency with which public good spending can be translated into increased welfare. One particular prediction is examined in this section. In new democracies or in countries where voting rights are dramatically expanded from a low level, we should observe persistent political preferences for targeted transfers and against public goods where politicians must rely more on clientelist promises and less on issue-based reputations they might have developed in the period prior to reform. A qualitative comparison of democratic reforms in Victorian England to those of the Dominican Republic following the Trujillo dictatorship supports this prediction.

In the early 19th century, corruption, influence peddling, and patronage permeated electoral competition in England. This was due to the tiny size of the electorate, which made vote-buying a cost-effective electoral strategy. Beginning in 1832, reforms began that would dramatically expand the franchise in England. By the 1870s and 1880s, and following expansion of the franchise, civil service reforms had curtailed government employment as a source of patronage; partisan rather than candidate-specific considerations dominated voter decision making; and most parliamentary seats were contested. After a roughly similar time period following the assassination of the dictator Rafael Trujillo in 1961 and the introduction of competitive elections and full enfranchisement, the Dominican Republic has yet to see similar changes.

The first Reform Act of 1832 increased the electorate from around 440,000 to around 660,000 (O'Gorman 2001, p. 67), around five percent of the population. Just as importantly, it eliminated the 86 smallest boroughs (constituencies) and created new, more urban constituencies. Larger cities such as Manchester, previously unrepresented, were allocated seats. Small boroughs, with a tiny number of voters, were far more vulnerable to vote-buying. The Reform Act of 1867 later doubled the size of the electorate. Substantial evidence indicates that broad policy appeals, as opposed to clientelist promises to voters, were increasingly important to political competition during this period.

First, in the decades following the reforms, candidates increasingly referred to their party affiliations when campaigning (Cox, 1987, p. 130). In addition, the tendency of voters to cast split votes for candidates from different parties also declined markedly over the period, consistent with the contention that partisan more than clientelist promises were the currency of political competition (Cox, p. 103). Consistent with this, voting inside Parliament also demonstrated increasing cohesion, increasing significantly from the 1850s to 1871 (Cox, Chapter 3). Because local candidates no longer had to assemble clientelist blocs as a condition of winning parliamentary elections, the increasing focus on partisan rather than individual appeals reduced the costs of contesting elections for individual candidates and lowered barriers to entry. As a consequence, though nearly half of the parliamentary seats from 1832 to 1865 were uncontested, from 1865 to 1885, this dropped to one quarter (Cox p. 69).

Finally, as policy increasingly drove electoral outcomes, significant barriers to patronage were imposed and efforts to limit clientelist appeals (and, therefore, to strengthen partisan appeals) were undertaken. These included the Ballot Act in 1872, introducing the secret ballot; the Corrupt and Illegal Practices Act of

1883 that imposed electoral spending limits and curbed vote buying; and the third Reform Act of 1885, which increased the electorate by three-quarters, to nearly four million.

Cox (1987) argues that the succesful evolution of English democracy emerged in part due to a struggle between the Cabinet and the Parliament and in part because of the simple fact that vote buying is more expensive when electorates are large than when they are small. He notes that, beginning early in the century and accelerating in the 1830s, the Cabinet proposed and Parliament approved successive procedural changes that reduced the ability of MPs to propose legislation on their own initiative (private legislation) and expanded the time spent in Parliament on addressing Cabinet proposals. These changes raised the costs to MPs of fulfilling clientelist promises to key constituents. However, many young democracies, under similar conditions, have failed to make the transition away from clientelist politics or have made the transition more slowly. One way to highlight the puzzle is to note that the procedural changes pushed through the English Parliament could as easily have led to a further shift in control of patronage to the Cabinet, as in contemporary Bangladesh or Pakistan, two young (or occasional) democracies with Westminster political systems. Instead, the English Cabinet showed a marked preference for policy-based legislation.

The analysis here provides one way to explain the British success. On the eve of electoral reform, parties and party leaders in England were already more credible with respect to policy promises than the leaders of parties in many new democracies, and the payoffs to clientelism were already lower. Indeed, this explains why, even before the expansion of the franchise, the Cabinet was eager to increase parliamentary attention to broad policy issues and away from private legislation. Already in 1835, the year of the first election following the Reform Act of 1832, not only was legislative attention focused on the reform of municipal corporations and the English and Irish established churches, but these issues sharply divided Liberals and Conservatives. In the 1840s, debate over the Corn Laws (free trade) had a similar divisive effect (Cox 124).

Policy loomed sufficiently large in political calculations that the Conservative Party actually split over the repeal of the Corn Laws (Cox, Chapter 3); there would be less reason for parties to split over policy differences if these were electorally irrelevant. As early as the eighteenth century, the "Foxite" Whigs broke off to form the Society of Friends of the People and in 1797 introduced an electoral reform proposal in the Parliament (Ellis 1979, D-1262-64). One of the leaders of this group, Charles Grey, would be the same Prime Minister who pushed through the Reform Act of 1832. Even the issue of expanding the franchise itself divided political competitors in well-known ways.

Electoral behavior offers additional, quantitative evidence that party labels provided credible evidence to voters of issue stances even prior to the first Reform Act. Cox (1987) points to the decline in the split voting rate following the expansion of the franchise, from 20 percent to three percent, as strong evidence of growing partisan-based voting by the electorate (p. 103). Another conclusion that one can draw, however, is that since the split rate was only 20 percent prior to the first reform act, most voters even before reform did not generally cast split votes. Moreover, the split rate fell slowly in the early years following reform, when consistent policy differences among parties were already in evidence. If parties had not been credible vehicles for the communication of policy differences, this early pattern would not have been in evidence.

Finally, even before electoral reform government policies were in place to limit clientelism. MPs could expect to influence only personal legislation (e.g., resolving the estate issues of local nobles) and government employment of favored individuals. Pork barrel politics – targeted infrastructure – was relatively unknown, for example, compared to the US in the nineteenth century (Cox, 1987, p. 133) or to most developing country democracies today. There were also efforts to restrain patronage prior to reform. O'Gorman (2001) notes that reforms of the civil service were already begun under William Pitt in the late 18th century, well before the first Reform Act, and continued under Lord Liverpool's government in the early nineteenth century (O'Gorman, p. 59 – 62). Efforts were made to conduct poor relief on a more technocratic basis than is common in young democracies. In the 1830s, "[T]he followers of Jeremy Bentham persuaded the Poor Law Commissioners to appoint only on merit and after interview. Even more spectacular, under the influence of James and John Stuart Mill, the India Office was comprehensively reformed on utilitarian lines" (O'Gorman, p. 63-4). Such policies would not have been reasonable if political competitors could not make credible policy commitments to voters. This meant that politicians could rely on promises of public good spending or other broad policy promises to have a sufficiently large effect on welfare to focus their campaigns on them ($H'(g)$ was large).

Taken together, the conditions on the eve of electoral reform in Great Britain permitted political competitors to make credible policy promises to the growing electorate. Of course, with a small electorate vote-buying was still an attractive option even for credible parties. However, as the franchise expanded, party leaders found it increasingly advantageous to emphasize issue-based legislation and to combat the influence of party members in Parliament whose appeal to constituents was more individual or clientelist.

The Dominican Republic, a more recent island democracy, stands in sharp contrast. Democracy emerged after decades of rule by Rafael Trujillo, one of the more ruthless dictators of the twentieth century. His regime had two characteristics that are relevant for this discussion and that distinguish it from the pre-reform political environment in England: individuals or political organizations outside the regime could not develop a reputation for policy stances independent of those of the regime; and Trujillo pervasively and systematically used targeted and personalized transfers to maintain support.

Following the assassination of Trujillo in 1961, elections took place in 1962 with two principal parties, one closely allied with the economic elite that benefited from the Trujillo regime, and the other the leader of the Partido Revolucionario Dominicano, formed in exile in opposition to the regime. The latter, Juan Bosch, won the elections, only to be expelled seven months later in a military coup. The Bosch victory is not particularly surprising: following such a regime, voters have little faith that the clientelist arrangements of the dictatorship will be preserved, vested as they were in the personality of Trujillo, so the only basis for pre-electoral politics was the candidate stance on the dictatorship – pure ideology, in other words, in a situation where the ideological bias was significantly towards one of the competitors. Elections took place again in 1966. Bosch competed in this election but lost to Joaquin Balaguer, a long-time associate of Trujillo.

Balaguer's election in 1966 almost surely had little to do with the analysis in this paper and more to do with the foreign policy of the United States. However, his subsequent conduct in office and the strategies adopted by the PRD presidents who eventually succeeded him, are entirely consistent with the analysis here. Balaguer won three successive elections, in 1966, 1970 and 1974. Neither he nor his political competitors had established reputations inside the Dominican Republic with respect to policies other than participation in or opposition to the dictatorship. For decades under Trujillo, social and economic exchanges were structured only to maximize the personal influence of the dictator.

There is substantial evidence that Balaguer responded to these initial conditions by building up his clientelist base. Observers point to his continuous attention to every detail of budget implementation, consistent with an effort to retain and build personally loyal networks of clients (Ceara, 1996, 41). One legislator said, perhaps exaggerating but nevertheless making the point, that Balaguer did not talk to his finance minister implying that any effort to delegate budget implementation risked either the misallocation of expenditures to purposes or voters other than his preferred targets, or the misallocation of credit away from him (author interview). When he died in July 2002 at the age of 95, The Economist magazine noted these salient features of his approach to government: in 1989, he personally controlled more than half of the government budget, siphoning off 95 percent of it in some years to a half dozen friends; like Trujillo, on weekends he traveled to villages to hand out bicycles and to monitor the state of public works.

PRD candidates finally won the elections of 1978 and 1982. Their behavior, however, mirrored that of Balaguer. PRD presidents focused intensely on targeted spending and the construction of a clientelist base. Presidents Gúzman and Blanco raised public sector employment by 50 percent and 40 percent, respectively and did little to establish a reputation for policy or broad public good provision (Kryzanek and Wiarda 1988, 106). Economic conditions deteriorated, jeopardizing their ability to sustain clientelist relationships. Since party platforms differed little and personal clienteles were key to political competition, intra-party competition was fierce and party disintegration provided an opening for Balaguer to return to office in 1986 and 1990. Even then, as a man in his 80s and blind, he resumed his energetic and personalistic approach to maintaining support.

There are two further indications that the legacy of ruthless dictatorship slows subsequent democratic development by raising the returns to clientelism and suppressing the development of policy reputations. First, as late as 1996, 35 years after the death of Trujillo, party identities and reputations were sufficiently ill-defined that Balaguer's endorsement was sufficient to tip the presidential election in favor of Leonel Fernández, a political newcomer who had worked for a significant period of time outside of the Dominican Republic and who headed a small party. Second, the teachers' union – a partisan actor in nearly all mature democracies – refuses to endorse any party in the Dominican Republic. It has a board of directors with members from both major parties and finds favor with neither (author interviews). This is consistent with a country in which issue-based political competition is less important. Not surprisingly, the ratio of education spending to public investment is lower in the Dominican Republic than in nearly all other Latin American countries.

4.3 Extending the analysis: property rights, abandoned infrastructure, and party machines

Potential extensions of the analysis may explain other notable development phenomena. One relates to the security of property rights. Clague, et al. (1996) show that younger democracies provide less secure property rights and grow more slowly than older democracies, and than autocracies with long-tenured leaders. The analysis in this paper suggests how one might explain this. Political competitors are less able to make credible promises in young democracies, rely disproportionately on private transfers to secure electoral support, and see less electoral benefit from broadly beneficial, growth-maximizing policies, such as refraining from expropriation. Similarly, patrons, who may actually be the guarantors of property rights security for their clients, have little to gain and may lose from asking their clients to support candidates who promise to usurp their role and strengthen property rights. Generally, to the extent that it is difficult to exclude citizens from an umbrella of secure property rights – and, almost by definition, secure property rights become insecure to the extent that all citizens are not under the umbrella – parties seeking to build credibility voter by voter have less incentive to resist expropriation.

Such an explanation would be complementary to other analyses that emphasize the importance of formal institutions in protecting property rights. For example, North and Weingast (1989), Acemoglu, Johnson and Robinson (2001) and Clague, et al. (1996) justifiably emphasize the importance of political checks and balances as constraints on attempts by politicians to renege on their promises. However, nearly all young democracies exhibit similar institutional checks and balances as older democracies; what may differ are the incentives of the veto players to engage in expropriation in the first place.

A second widespread phenomenon, analyzed by Robinson and Torvik (2002) and others, is that of abandoned white elephants: useless infrastructure that stands half-completed. The phenomenon of abandoned infrastructure is, indeed, common. For example, one high official in the ruling government of President Hipolito Mejía of the Dominican Republic claimed that hundreds of projects that were begun by the government of Joaquin Balaguer, two governments before, were then paralyzed under the Leonel Fernández government. Other observers noted that incomplete projects from the Fernández government were similarly halted under Mejía (author interviews). However, although some of the paralyzed projects appear to have been of the value-subtracting type analyzed by Robinson and Torvik, most were not. They were instead classroom buildings on crowded university campuses, public housing, and roads that were no less efficient than projects started and finished by the prior government during its term in office.

Robinson and Torvik (2002) argue that abandoned projects are to be expected in countries where politicians cannot make credible promises and have an affinity for some voting groups over others. Under these circumstances, the incumbent may have an incentive to start, but not finish, a value-subtracting project benefiting a favored group. This allows him to attract the votes of this group because his opponent, unlike the incumbent, lacks an affinity for the group and has no incentive to finish value-subtracting projects. The discussion in this paper provides a basis for an explanation of why projects with positive economic value are abandoned by new governments where there does not seem to be an affinity between beneficiary groups and the political party. Politicians build infrastructure in response to promises to voters they organize; if different politicians organize different voters, they have incentives to build and complete infrastructure projects benefiting "their" voters and to leave incompleted those infrastructure projects begun and not finished by predecessors.[8]

The Dominican Republic illustrates this line of analysis. If political party A disappears, replaced by another with no particular advantage in organizing the groups that A could organize at low cost, we would expect both parties to begin to organize A's voters and for incompleted infrastructure benefiting A's voters to be completed. In fact, the government of Hipolito Mejía of the Dominican Republic, which took office in 2000, proudly re-started many of the projects begun under the presidency of Joaquin Balaguer, who died at the age of 95 in mid-2002. With his death imminent, Balaguer's promises to clients were not credible and it was politically worthwhile for the Mejía government

[8] The model in this paper predicts that competitors attempt to organize the *same* voters. Two additional assumptions would give them incentives to organize different voters. First, parties confront asymmetric costs across groups of voters in laying the preconditions for credible commitment. Party A confronts lower costs with some groups than party B, party B lower costs with other groups, and for still other groups the parties have the same costs. Second, all voters incur costs of voting, along the lines of Robinson and Torvik's assumption that offers of public sector employment are only attractive to clients whose private sector reservation wage is sufficiently low. With these modifications, the following conclusions are possible: first, parties make larger promises to those voters for whom they both compete; smaller promises to those for whom they do not compete, but at least sufficient to offset the costs of voting. The second group of voters, for example, could receive the promise that infrastructure projects will be the last to be started, and therefore not necessarily finished. Those projects are eventually finished only if the party that organizes these voters at low cost remains in power; if the other party then takes power, it has no incentive to finish them.

to attempt to capture Balaguer's clients by finishing projects begun under his government but halted by all successor governments. The Mejía government did not, however, make any effort to finish the incomplete projects begun by its immediate predecessor, the government of President Fernández, who was very much alive and active.

Finally, the analysis here may offer a potential alternative explanation to that of Dixit and Londregan (1996) for the party machines that emerged in American cities in the 19th century. Machine politics focused in large measure on the organization of newly arrived immigrants to US cities. These new arrivals were unlikely to regard political promises by any party as credible, though this is assumed in the Dixit and Londregan (1996) analysis. The explanation suggested by the analysis here for the organization of these immigrants is consistent with the Dixit and Londregan story but is valid in an environment in which political parties are not credible. First, new arrivals were more ideologically neutral, especially new arrivals to cities. On the one hand, new immigrants were most likely to have been indifferent to the ideological distinctions between the parties. On the other hand, the ideological debates that distinguished US parties at the national level had little salience in many cities. The model above predicts that politicians will make the strongest efforts to organize, via party machines, precisely these types of voters, when their promises are generally not credible.

5 Conclusion

Since the 1970s, scholars of politics and social relationships in developing countries have emphasized patron-client forms of organization. Many have drawn the conclusion that some societies are more vulnerable to domination by clientelist patterns of interaction, leading inevitably to government failure to provide for the broader public good. However, the efforts of these scholars have demonstrated as well the importance to clientelism of face-to-face, repeated exchanges between individuals. The analysis in this paper takes a step back and shows how reliance on face-to-face, repeated exchanges can emerge in politics when political parties are unable to make credible promises to voters.

The consequences of such reliance vary, depending on whether politicians develop personal reputations with voters directly or rely on patrons – intermediaries who can forge credible relations with both voters and politicians. Reliance on patrons reduces public good provision, but has an ambiguous effect on rents and transfers. Reliance on patrons also suppresses incentives to develop credible political organizations, stunting democratic development. Whether patrons are present or not, however, the requirement that politicians expend resources to build credibility leads to increased reliance on targeted transfers and greater rent-seeking. The analysis provides an explanation for several disparate, important phenomena: the greater corruption and public investment in young democracies relative to older democracies; successful democratization in England compared to the less successful democratization of a more typical developing democracy, the Dominican Republic; and potentially the insecurity of property rights in young democracies, the emergence of machine politics and the abandonment of worthwhile infrastrucure projects.

More broadly, the effects of credibility on political competition, and particularly the effects of clientelism on policy outcomes, should cut across political institutions. The reliance by voters on promises by individuals with whom they have a personal relationship should be an important driver of political competition independent of whether electoral systems are majoritarian or proportional and whether political regimes are presidential or parliamentary, and regardless of whether there are political checks and balances. A fruitful line of future research would be to ask how the pursuit of credibility by politicians affects the relationship between institutions and policy outcomes such as spending and the security of property rights.

Appendix: Endogenous credibility using "never believe again" punishments

The main argument here is that politicians need to spend resources in order to make credible agreements with voters. Those resources, in the main models, are assumed sufficient to actually buy credibility. However, the policy outcomes in the costly credibility cases can be supported in an infinitely repeated game in which credibility is not assumed. Consider the infinite repetition of the following stage game:

1) Candidates simultaneously make electoral promises $(\mathbf{p}_A, \mathbf{p}_B)$.

2) An ideological shock occurs δ, distributed uniformly over $\left[-\frac{1}{2\psi}, \frac{1}{2\psi}\right]$.

3) Voters cast votes for their preferred candidates.

4) The elected candidate implements policy $\mathbf{x}$.

Let $\mathbf{q} = (\tau, g, f(m), n, r)$.

$\mathbf{q}^0$ = policy of pure rent-seeking (i.e. $\mathbf{q}^0 = (1, 0, 0, 0, N)$), where the tax rate is 100 percent and rents are equal to N, the total income of the society;

$\mathbf{q}^1$ = policy of the committed candidate in a static game in which only one candidate can commit to his electoral promises;

$\mathbf{q}^2$ = common (Nash equilibrium) policy of a static game in which both candidates can commit to their electoral promises;

$P(\mathbf{q}_A, \mathbf{q}_B)$ = probability that A wins the elections when voters expect that policies $\mathbf{q}_A$ and $\mathbf{q}_B$ will be implemented by candidates A and B respectively

β = common discount factor, $0 < \beta < 1$.

As in Aragones and Postlewaite (2000), candidates will be said to have a "bad" reputation in a given electoral period if they reneged on their electoral promises at least once in the past. Candidates have a "good" reputation if they have always kept their promises in the past. We claim that strategies that support the policy outcome of the static game with commitment, $\mathbf{q}^2$ are the following. In every period in which both candidates have a good reputation, they promise $\mathbf{p} = \mathbf{q}^2$ and implement $\mathbf{x} = \mathbf{q}^2$ if elected. In an electoral period in which one has a good reputation and the opponent a bad reputation, the candidate with a good reputation promises $\mathbf{p} = \mathbf{q}^1$ and implements $\mathbf{x} = \mathbf{q}^1$ if elected, whereas the candidate with a bad reputation makes a random promise and implements pure rent seeking if elected. In periods when both candidates have a bad reputation, they make a random promise and implement $\mathbf{x} = \mathbf{q}^0$. Citizens vote based on a candidate's promise if the candidate has never reneged on promises in the past – if the candidate has a good reputation. Otherwise, they vote based on the candidate's ideal policy $\mathbf{q}^0$.

We show below that the voter punishment strategy can be effective in deterring reneging if both candidates have good reputations (for example, in the first period of this game), or if one candidate has a good reputation and one has a bad reputation (off the equilibrium path of this game), as long as the electoral advantage gained by complying with promises is sufficient to offset the lower rents that accrue from the strategy of pure rent-seeking. This is the case, as usual, as long as candidates place a sufficiently high value on future rents.

Claim 1 *The strategies above constitute a subgame perfect equilibrium of the infinitely repeated game if and only if:*

$$\beta \geq \max\left\{\frac{N-r_1}{(N-r_1)+(R+\gamma r_1)P(\mathbf{q}^1,\mathbf{q}^0)-(R+\gamma N)\frac{1}{2}}, \frac{N-r_2}{(N-r_2)+(R+\gamma r_2)\frac{1}{2}-(R+\gamma N)P(\mathbf{q}^0,\mathbf{q}^1)}\right\}$$

and

$$(R+\gamma r_1)P(\mathbf{q}^1,\mathbf{q}^0) \geq (R+\gamma N)\frac{1}{2}$$

and

$$(R+\gamma r_2)\frac{1}{2} \geq (R+\gamma N)P(\mathbf{q}^0,\mathbf{q}^1).$$

Proof. We need to verify that for each player his strategy is optimal given the strategies of the other players and following any history of play. It is immediate that voters' strategies are optimal since they prescribe voting behavior based on the correct beliefs about the policy to be implemented by the winning candidate. We need to know, therefore, the conditions under which complying with promises and refraining from pure rent-seeking is the optimal response of candidates to voter strategies, depending on whether candidates both have good reputations (along the equilibrium path) or whether only one has a good reputation (off the equilibrium path). To see that the candidates' strategies are subgame perfect, let:

v_{bb} = a candidate's expected utility in the next electoral period if he has a bad reputation given that his opponent has a bad reputation.

$$\begin{aligned} v_{bb} &= (R+\gamma N)P(\mathbf{q}^0,\mathbf{q}^0) \\ &= (R+\gamma N)\frac{1}{2} \end{aligned}$$

Both candidates promise, and the winner implements, a policy of pure rent-seeking; candidates have a 50 percent probability of winning.

v_{gb} = a candidate's expected utility in the next electoral period if he has a good reputation given that his opponent has a bad reputation.

$$v_{gb} = (R + \gamma r_1) P(\mathbf{q}^1, \mathbf{q}^0)$$

The candidate with the good reputation promises $\mathbf{q}^1$, the candidate with a bad reputation promises $\mathbf{q}^0$, the good reputation candidate wins with probability $P(\mathbf{q}^0, \mathbf{q}^1)$, earning the corresponding pecuniary and non-pecuniary rents.

v_{bg} = a candidate's expected utility in the next electoral period if he has a bad reputation given that his opponent has a good reputation.

$$v_{bg} = (R + \gamma N) P(\mathbf{q}^0, \mathbf{q}^1)$$

The candidate with the bad reputation promises $\mathbf{q}^0$, the candidate with a bad reputation promises $\mathbf{q}^1$, the good reputation candidate wins with probability $P(\mathbf{q}^0, \mathbf{q}^1)$, taking all the income in society as rents if he is elected.

v_{gg} = a candidate's expected utility in the next electoral period if he has a good reputation given that his opponent has a good reputation.

$$\begin{aligned} v_{gg} &= (R + \gamma r_2) P(\mathbf{q}^2, \mathbf{q}^2) \\ &= (R + \gamma r_2) \frac{1}{2}. \end{aligned}$$

Each candidate has a good reputation, promises $\mathbf{q}^2$, win with 50 percent probability, and, if elected, earns rents r_2. The fact that these expected values are common to both candidates follows immediately from the symmetry of the game; also notice that

$$P(\mathbf{q}_A, \mathbf{q}_B) = 1 - P(\mathbf{q}_B, \mathbf{q}_A).$$

Consider now a winning candidate's decision in the office (implementation) stage. Suppose that he has a bad reputation while his defeated opponent has a bad reputation as well. Given voters' equilibrium strategies – to base their voting decision entirely on the candidates' preferred outcomes (pure rent-seeking) rather than on their promises when the candidates have a bad reputation – it is optimal for the incumbent to pursue pure rent-seeking. Now consider an electoral period in which the incumbent has a good reputation while his opponent has a bad reputation. The incumbent will find it optimal to keep his reputation (i.e., implement the promised policy $\mathbf{q}^1$) if and only if

$$r_1 + \frac{\beta}{1-\beta} v_{gb} \geq N + \frac{\beta}{1-\beta} v_{bb}. \tag{10}$$

That is, the incumbent implements his promised policy only if the rents from doing so, including the present value of the flow of rents from being the only candidate with a good reputation, are greater than rents from reneging, taking all income in the form of rents in the current period and enjoying rents in the future that accrue to both candidates when both have bad reputations. By the same logic, if in a given electoral period both candidates have a good reputation then the one who is elected will preserve his reputation if and only if:

$$r_2 + \frac{\beta}{1-\beta} v_{gg} \geq N + \frac{\beta}{1-\beta} v_{bg}. \tag{11}$$

Substituting for expected values v we find that equations (10) and (11) become:

$$\beta \geq \frac{N - r_1}{(N - r_1) + (R + \gamma r_1) P(\mathbf{q}^1, \mathbf{q}^0) - (R + \gamma N)\frac{1}{2}}$$

and

$$\beta \geq \frac{N - r_2}{(N - r_2) + (R + \gamma r_2)\frac{1}{2} - (R + \gamma N) P(\mathbf{q}^0, \mathbf{q}^1)}.$$

Because the discount factor satisfies $0 < \beta < 1$, these two conditions can only be fulfilled if the denominator in each equation meets the final two conditions in the claim above. For example, equation (11) holds if and only if $(R + \gamma r_2)\frac{1}{2} \geq (R + \gamma N) P(\mathbf{q}^0, \mathbf{q}^1)$. This is the conclusion foreshadowed earlier: incumbents with good reputations fulfill promises where the probability of winning future elections is sufficiently low for the incumbent who reneges and takes the rents that accrue from pure rent-seeking. ■

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