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Abstract

I analyze political agency models with potentially two equilibria, one in which elections are effective selection mechanisms and only "good" individuals participate in politics and another one in which elections are not effective and "bad" individuals participate in politics. These equilibria are self-fulfilling prophecies: if citizens expect a low-quality political class, bad individuals will participate and the political class will have low quality. If citizens expect a high-quality political class, only good individuals will have incentives to participate and the political class will be of high quality. The model exhibits only the good equilibrium if the proportion of good individuals in the society is sufficiently high. I analyze the impact of popularity shocks and redistribution on the set of equilibria.

Keywords: Political agency, political selection, multiple equilibria

Resumen

Analizo modelos de agencia política que pueden presentar dos equilibrios, one en que las elecciones son un mecanismo de selección efectivo y solo "buenos" individuos participan en política y otro en que las elecciones no son efectivas y "malos" individuos participan en política. Estos equilibrios son profecías autocumplidas: si los individuos esperan una clase política de baja calidad, los malos individuos participan y la clase política tendrá baja calidad. Si los ciudadanos esperan una clase política de buena calidad, sólo individuos buenos

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tendrán incentivos para participar y la clase política será de buena calidad. El modelo presenta solo el buen equilibrio si la proporción de individuos "buenos" en la sociedad es suficientemente alta. Analizo el impacto de shocks de popularidad y de la redistribución en el conjunto de equilibrios.

Keywords: Agencia política, selección política, equilibrios múltiples

JEL Codes: E690, P160

1 Introduction

In the last decades, Latin American countries have made a transit to democratic institutions. There is of course debate about the quality of these democracies, but elections are being held regularly in most countries of the region nowadays. Nevertheless, the working of these democracies seems to be uneven. In particular, the effectiveness of elections to hold politicians accountable seems to vary greatly within the region. In some very pollarized countries, redistributive struggles dominate the political debate. In those cases, concerns about "civic virtue" of politicians are probably of second order in the minds of citizens when they have to cast their votes. In turn, many citizens seem to think that it is not worth punishing a politician who has been proved dishonest for the alternatives are not better. "They are all the same" is an usual response when one points out that a certain candidate is dishonest.

In this paper, I propose a model that may help to think about these issues formally. In particular, I argue that negative assessments of the quality of politicians may undermine the effectiveness of elections to select politicians creating incentives for dishonest individuals to participate in politics. The model exhibits two equilibria, one in which elections are effective selection mechanisms and only honest individuals participate and another one in which elections are not effective and dishonest individuals participate in the political race. These equilibria are self-fulfilling prophecies: if individuals expect a low-quality political class, dishonest individuals will participate and the political class will have low quality. If individuals expect a high-quality political class, only honest individuals have incentives to participate and the political class will be of high quality. The model exhibits only the good equilibrium if the proportion of honest individuals in the society is high enough.

I use a simple two-period model with an entry stage. At the beginning of the first period citizens decide whether they want to become candidates. Some citizens have the attributes that are needed to perform well in politics; others don't. There is a cost of participating and an expected benefit, which positively

depends on the probability of being reelected. The first-period incumbent is chosen at random from the pool of candidates. During the first period, the incumbent politician reveals his type through his performance (there is no moral hazard and outcomes are perfectly informative of types). At the end of this period citizens vote, having two options: reelect the incumbent or vote for the opposition. Pessimism about the quality of the political class undermines the selection mechanism. Citizens may not vote out an incumbent that issued a bad signal if they think that the probability of picking a dishonest politician from the opposition is high. Anticipating that selection is weak, dishonest citizens have higher incentives to participate in politics when the electorate is pessimistic. Hence pessimism is proved correct.

The model I study in this paper exhibits two equilibria when there is sufficient imperfection in political selection. I study two sources of imperfect selection that may cause multiple equilibria, namely popularity shocks and redistributive conflicts. Shocks to the popularity of the incumbent politician may undermine the effectiveness of elections to select politicians. If the incumbent receives a sufficiently positive popularity shock he will not be voted out even if his performance was bad. Moreover, the fact that this shock may arise increases the incentives of citizens with bad qualities to enter in the political career. I show that even if there is no bias in popularity, in the sense that expected popularity is zero, popularity uncertainty undermines selection.

The range of parameter values for which the two equilibria arise is larger in countries in which there is a stiff redistributive struggle. Bad politicians may not be voted out if they provide large enough transfers to a sufficiently large constituency. Individuals in the favored group trade off bad macro outcomes and transfers. If the institutional environment is sufficiently "cohesive" (cohesive in the sense of Besley and Persson 2011) only the virtuous equilibrium survives.

There is a large literature in politics and political economy that underscores the role of elections to deal with political agency problems (surveys of this literature can be found in Persson and Tabellini, 2000; Besley, 2005a, 2005b). Early models emphasized moral hazard, focusing on the contribution of elections

to discipline politicians (Barro 1973, Ferejohn 1986). Second generation models incorporate adverse selection issues (Coate and Morris 1995; Besley 2005a). In recent models, elections play a role in terms of incentives and selection of politicians.

The decision to participate in politics is crucial to the story that this paper tells. The first formal models that analyze citizens participation in politics are Osborne and Slivinsky (1995) and Besley and Coate (1997). In those early citizen-candidate models citizens have different preferences for policies and the focus is on what policies are ultimately implemented, which depend on policy preferences of citizens who decided to participate in the political race. The focus in the current paper is rather on valence issues, i.e. issues on which citizens do not disagree, like competence and honesty. In this sense, this paper is closer to Caselli and Morelli (2004) and Besley (2004) who model political agency with an entry phase.

Besley (2004) briefly mentions in a footnote the possibility of multiple equilibria in this environment. Caselli and Morelli (2004) analyze multiplicity in detail, emphasizing the role of externalities in social status and financial gains after leaving office. In this paper, I explore multiple equilibria further and argue that low effectiveness of elections in selecting politicians may play a role in multiplicity. Therefore, factors that impact on the effectiveness of elections will also pave the way for multiple equilibria in which citizens pessimism about the quality of the political class may be a self-fulfilling prophecy.

There is also a recent growing empirical literature that shows that elections shape incentives and selection of politicians (Besley, Persson, and Sturm 2010; Besley and Reynal-Querol, 2011; Ferraz and Finan, 2011; Dal Bo and Rossi, 2009, 2011). More indirect evidence on the importance of selection is provided by studies that show that leaders matter (Jones and Olken 2005). Political scientists have also provided some detailed empirical analysis of recruitment and selection in Latin American politics (Siavelis and Morgenstern, 2008). Overall, these empirical contributions seem to confirm that political competition and elections play a significant role in political accountability.

After this introduction, the paper continues as follows. In section 2, I present a model with only popularity shocks. I consider in section 3 a model with redistribution. The paper ends in section 4 with some concluding remarks.

2 A model with popularity shocks

2.1 The environment

There are two periods. At the beginning of the first period, citizens decide whether they want to participate as candidates and "Nature" randomly chooses a candidate citizen for office. There is an initial fixed entry cost c, in which citizens who want to run for office in any of the two periods must incurr. This cost is paid upfront. The expected value of candidates is $R + P\beta R - c$, where R is the rent (it could include monetary as well as ego rents) of holding office, P is de probability of being reelected in period 2, and β is a discount factor. I assume that $R < c < R + \beta R$, so the expected value of becoming a politician is negative if the probability of reelection is zero and positive if it is one.[1]

Afterwards first-period production takes place. Let x be per capita income. It can be high ($\overline{x}$) and low ($\underline{x}$), depending on whether the politician in office is good (G) or bad (B). A good (bad) politician always deliver high (low) income. The proportion of individuals who have the required characteristics to be good politicians is Π in the population and π in the pool of candidates. Π is an exogenous parameter, but π is an endogenous variable that depends on who decide to become politicians.

At the end of the first period, right before elections, "Nature" randomly chooses the value of an incumbent's popularity shock δ and a politician to run as opponent from the pull of citizens who have invested in politics. The cumulative distribution function of the popularity shock is $F(\delta)$.

Citizens vote at the beginning of the second period. They can reelect the incumbent or vote for the opposition candidate. They care about expected second-period income and the popularity shock. They do not observe directly

[1] The key assumption about preferences of candidates for the model is that their utility is increasing in the probability of reelection. The simple form adopted here is just for tractability.

the politicians type, but they do observe first period output and the realization of δ. Let $E[x_2|I]$ and $E[x_2|O]$ be expected second period income if the incumbent and the opposition candidate wins the election, respectively. Afterwards, second-period production takes place.

In this model, candidates are citizens who have decided to run for office so a natural assumption is that they care not only about the rents in office but also about the performance of the country. However, I will assume that ego-rents are comparatively large so I will abstract from this second term when I analyze the decision to participate in politics.

2.2 Solving the model

I look for perfect Bayesian equilibria. In these equilibria voters maximize expected utility conditional on their conjectures about the proportion of good politicians, conjectures are updated using Bayes rule and the decision to participate in politics maximize individuals utility. I solve the model by backward induction.

In the second period, incumbents deliver high (low) output if they are good (bad).

Citizens vote at the beginning of the second period. They reelect the incumbent if:

$$\delta + E[x_2|I] \geq E[x_2|O] \tag{1}$$

At this stage citizens observed first period output and hence inferred whether the first-period incumbent is good or bad.[2] Expected second-period output if the incumbent is reelected is thus equal to first period output: $E[x_2|I] = x_1$. Citizens do not know whether the opposition candidate is of a good or bad type. They conjecture that there is a probability π^e that he is of a good type, so $E[x_2|O] = \pi^e \overline{x} + (1-\pi^e)\underline{x}$.

At the beginning of the first period, citizens become politicians if $R + P\beta R - c > 0$. The ego rents (R), the discount factor (β) and the cost of participating

[2] Notice this reasoning follows Bayes rule in this very simple case in which the probabilities of high output are 1 and 0 for good and bad types, respectively.

in politics (c) are known parameters. The probability of reelection (P) can be deduced from 1 and the distribution of δ:

$$P = 1 - F(\delta^*) \quad ; \quad \delta^* = E[x_2 | O] - E[x_2 | I]$$

It is immediate that the probability of reelection is (i) higher if $x_1 = \overline{x}$ than $x_1 = \underline{x}$; and (ii) is decreasing in π^e. Observation (i) means that good types have higher reelection probabilities than bad types. Observation (ii) means that the probability of reelection is lower the higher is the voters assessment of the political class. I use the following notation to summarize these two observations: $P = P(x_1, \pi^e)$.

The value of becoming a politician is higher for good than bad types due to their higher probability of reelection:

$$V_B = R + P(\underline{x}, \pi^e)\beta R - c < R + P(\overline{x}, \pi^e)\beta R - c = V_G$$

Ruling out the case in which nobody wants to participate in politics, two cases arise: (i) everybody participate if $0 < V_B$; (ii) only good type citizens participate if $V_B \leq 0 < V_G$. In the first case, the quality of the political class is: $\pi = \Pi$. In the second case, the political class is better: $\pi = 1$. Remember that π is the actual and π^e is the expected quality of the political class.

The key condition that separates these two possible outcomes is: $V_B = 0$. Since the probability of reelection is decreasing in π^e, this condition implicitly defines a threshold π^* such that if $\pi^e < \pi^*$ all citizens participate in politics and $\pi = \Pi$. If instead $\pi^e \geq \pi^*$ only good citizens participate in politics and $\pi = 1$.

The threshold is defined as follows:

$$\begin{array}{l} \pi^* = 0 \quad if \quad P(\underline{x}, 0) < \frac{c-R}{\beta R} \\ R + P(\underline{x}, \pi^*)\beta R - c = 0 \quad if \quad P(\underline{x}, 1) \leq \frac{c-R}{\beta R} \leq P(\underline{x}, 0) \\ \pi^* = 1 \quad if \quad \frac{c-R}{\beta R} < P(\underline{x}, 1) \end{array}$$

In figure 1, I represent the mapping from π^e to π. Only on the 45° line conjectures prove correct ($\pi^e = \pi$), so equilibria must lie on that line. If $\pi^* \geq \Pi$, there are two equilibria. If $\pi^e = \Pi$, all citizens participate and $\pi = \Pi$. If $\pi^e = 1$ only good citizens participate and $\pi = 1$. If instead $\pi^* < \Pi$ the low equilibrium does not exist.

2.3 The impact of popularity

The popularity shock is crucial for the existence of two equilibria. Suppose there is no popularity shock. The incumbent politician is reelected iff $E[x_2|I] \geq \pi^e \overline{x} + (1-\pi^e)\underline{x}$. This inequality holds for any π^e if the incumbent is good and does not hold for any $\pi^e > 0$ if the incumbent is bad. Elections are extremely effective to select politicians in this environment. The probability of reelection is zero for a bad politician (unless $\pi^e = 0$) and one for a good politician. Bad citizens do not have enough incentives to participate in politics and good citizens have the highest reward to do it. Therefore, in this environment there is only one equilibrium, the one in which only good citizens participate in politics: $\pi = 1$.

In order to say something more concrete about the impact of the popularity shock, I will assume that δ is uniformly distributed in $\left[E[\delta] - \frac{1}{2\Delta}, E[\delta] + \frac{1}{2\Delta}\right]$. The probability of reelection in this special case is:

$$P = 1 - F(\delta^*) = \begin{cases} 0 & if \quad E[\delta] + \frac{1}{2\Delta} < \delta^* \\ \frac{1}{2} - \Delta(\delta^* - E[\delta]) & if \quad E[\delta] - \frac{1}{2\Delta} < \delta^* < E[\delta] + \frac{1}{2\Delta} \\ 1 & if \quad \delta^* < E[\delta] - \frac{1}{2\Delta} \end{cases}$$

Which can be written more compactly as:

$$P = max\left(0, min\left(1, \frac{1}{2} - \Delta(\delta^* - E[\delta])\right)\right)$$

This implies that:

$$P(\underline{x}, 0) = max\left(0, min\left(1, \frac{1}{2} + \Delta E[\delta]\right)\right)$$

$$P(\underline{x}, 1) = max\left(0, min\left(1, \frac{1}{2} + \Delta(\underline{x} - \overline{x} + E[\delta])\right)\right)$$

and the threshold is:

$$\pi^* = \begin{cases} 0 & if \quad P(\underline{x}, 0) < \frac{c-R}{\beta R} \\ \frac{1}{(\overline{x}-\underline{x})}\left[E[\delta] + \frac{2R+\beta R-2c}{2\Delta\beta R}\right] & if \quad P(\underline{x}, 1) \leq \frac{c-R}{\beta R} \leq P(\underline{x}, 0) \\ 1 & if \quad \frac{c-R}{\beta R} < P(\underline{x}, 1) \end{cases}$$

It is now possible to analyze the impact of the two parameters of the distribution of δ on the set of equilibria. The larger is the expected value of the popularity shock, the larger is π^*. For a sufficiently high $E[\delta]$, $\pi^* \geq \Pi$ and there

are two equilibria. Hence a positive incumbent popularity bias can negatively impact on the quality of the political class.

More uncertainty about popularity is represented by lower Δ. Lower Δ raises π^*, if $c < R + \beta R/2$, and decreases π^* otherwise. Hence, the uncertainty about the popularity shock deteriorates the quality of the political class when entry costs are relatively small and improves the quality of the political class when entry costs are high.

The selection mechanism fails when $\delta > \delta^*(\underline{x}, \pi^*)$, i.e. when the incumbent popularity shock is such that a bad incumbent is re-elected, conditional on expectations π^*. The higher is $E[\delta]$ the higher is the probability that a bad incumbent is reelected. Also the probability of this failure increases (decreases) with the variance of the popularity shock if $E[\delta] < (>)\delta^*$. In turn, $c < (>)R + \beta R/2 \Rightarrow E[\delta] < (>)\delta^*(\underline{x}, \pi^*)$.

2.4 Discussion

If the proportion of bad citizens is sufficiently high, the model exhibits two expectations-driven equilibria. Pessimism may be a self fulfilling prophecy in this case. If citizens expect that the political class is of low quality, they have little incentives to vote out a bad incumbent, who -in their view- will be substituted by another most likely bad politician. Considerations different from quality will thus dominate voting decisions. Knowing this, citizens who do not have the qualities required to be good politicians have high expectations of surviving second period elections so they attach a relatively high value to participating in politics. Therefore, the actual quality of the political class will be low and initial pessimism will prove correct. In the same environment, a good equilibrium would emerge if citizens were more optimistic. Elections would then be more effective at selecting politicians, and bad citizens would not participate in politics.

Multiplicity of equilibria in this model is a coordination failure among bad would-be politicians. Strategic complementarities are necessary (albeit not sufficient) for coordination failures to arise (Cooper and John, 1988). In the present

model, the decision of a bad candidate to enter in politics raises the expected benefit of other bad candidates to do the same, because it undermines selection. The funny thing about this model is that the "good" equilibrium -the high quality one- corresponds to the case in which bad citizens fail to coordinate on participation in political life.

Virtuous societies only exhibit a good quality equilibrium. In this unique equilibrium, the quality of the political class is even better than that of the society at large. The selection mechanism works well and bad citizens self-select out of politics.

As in previous political agency models the proportion of good citizens has a positive impact on welfare. But in this model the effect is reinforced by self-selection. The political class may end up being of higher quality than the society at large.[3]

The model is admitedly simple. Several of the issues that arise in political agency were assumed away. The incorporation of factors that are known to debilitate the selection mechanism are likely to increase the range of parameter values for which multiple equilibria arise. For example, in the current model I have assumed that citizens can directly infere with no errors the incumbent's type after observing first-period output. This may not be the case if both types can produce the same level of output (albeit with different probabilities) or if bad types can take an action that increases output mimicking the good type to increase their chances of being reelected. Also political pollarization and redistribution may undermine the effectiveness of elections to select politicians. All these extensions of the basic model will likely increase the range of multiple equilibria. In the next section I consider one of them, namely pollarization and redistribution.

[3] The proportion of good citizens could be identified with social capital (Besley, 2006). Therefore, higher social capital would have a positive impact on the quality of the political class. Nannicini et. al. (2010) analyze other channels through which social capital may improve political accountability.

3 A model with pollarization and redistribution

3.1 The environment

I assume now that the population is split in two groups and the government redistributes income. Half of the population belongs to group A and the other half to group B. Governments redistribute income in favor of the group the incumbent politician belongs to. Following Besley and Persson (2011) I assume that the incumbent politician is institutionally constrained in redistribution. He can let the opposition group have no less than a proportion $\theta \in [0, 1/2]$ of total income.

As before, at the beginning of the first period citizens decide whether they want to become politicians and "Nature" randomly chooses an individual from the pool of candidates to run the government in the first period.

Production takes place during the period. It can be high and low, depending on whether the politician is good or bad. Individuals with the qualities required to perform well in government represent a proportion Π of the population, the same in the two groups, and a proportion π of the pool of candidates.

At the end of the first period, "Nature" chooses a realization of the random popularity shock δ.

At the beginning of period 2, citizens vote. They can reelect the incumbent or vote for the opposition candidate. If the first-period incumbent belongs to group A, the opposition candidate belongs to group B, and viceversa. Citizens per period utility depends on expected income net of government transfers. A citizen who belongs to the same group as the incumbent has expected utility $2(1-\theta)E[x_2|I]$ if the incumbent is reelected for a second period, and $2\theta E[x_2|O]$ if the opposition wins. A citizen from the other group get $2\theta E[x_2|I]$ and $2(1-\theta)E[x_2|O]$ if the incumbent and the opposition win, respectively. So if institutions are such that $\theta = 1/2$, citizens only care about pre-transfers income level. If $\theta < 1/2$, they will also have to consider which group political candidates belong to.

After the second-period incumbent has been elected, production takes place

and the government redistributes income.

3.2 Solving the model

In the second period, incumbents deliver high (low) output if they are good (bad). The constituency of second period incumbent get $2(1-\theta)x_2$, where $x_2 = \overline{x}$ if the incumbent is good and $x_2 = \underline{x}$ otherwise. Citizens of the opposition group get $2\theta x_2$.

Citizens vote at the beginning of the second period. At this stage citizens observed first period output and hence inferred whether the first-period incumbent is good or bad. They also observe what group he belongs to. The challenger belongs to the opposition party, but citizens do not know whether he is of a good or bad type. They conjecture that there is a probability π^e that he is of a good type.

Citizens belonging to the first-period incumbent group vote for reelection if:

$$\delta \geq \delta^* \quad , \quad \delta^* = 2\theta E[x_2|O] - 2(1-\theta)E[x_2|I] \tag{2}$$

Citizens belonging to the opposition group vote for reelection if:

$$\delta \geq \delta^{**} \quad , \quad \delta^{**} = 2(1-\theta)E[x_2|O] - 2\theta E[x_2|I] \tag{3}$$

$\theta \leq 1/2$ implies that $\delta^* \leq \delta^{**}$. If $\delta^{**} \leq \delta$, there is unanimous vote for the incumbent. If $\delta^* \leq \delta < \delta^{**}$, only citizens in the incumbent's constituency group vote for reelection. If $\delta < \delta^*$, nobody votes for the incumbent. I assume that the incumbent has a small advantage in the sense that in the case of ties, the incumbent is reappointed. Hence, $\delta^* \leq \delta$ is sufficient for reelection.

At the beginning of the first period, citizens enter in politics if $R + P\beta R - c > 0$. At this stage, they still do not know the realization of the popularity shock, but they know the distribution of δ and that the condition for reelection is $\delta^* \leq \delta$. So they can compute the probability of reelection as $P = 1 - F(\delta^*)$.

As before, the probability of reelection is higher if first period output is high than if it is low, and is decreasing in π^e. With redistribution, the probability of reelection is also decreasing in θ, since $\partial\delta^*/\partial\theta > 0$. Other things equal, the

probability of reelection is higher in less "cohesive" societies (lower θ). The probability of reelection can thus be written as: $P = P(x_1, \pi^e, \theta)$.

The value of becoming a politician for bad and good tpes is:

$$V_B = R + P(\underline{x}, \pi^e, \theta)\beta R - c < R + P(\overline{x}, \pi^e, \theta)\beta R - c = V_G$$

If $0 < V_B$, everybody participates in politics and the proportion of the good type is the same in the pool of candidates as in the population at large: $\pi = \Pi$. If $V_B \leq 0 < V_G$, only good type citizens participate: $\pi = 1$. The condition that separates these two outcomes is $V_B = 0$. It implicitly defines a threshold π^* such that all citizens participate as candidates if $\pi^e < \pi^*$ and only good-type citizens participate otherwise. The threshold is defined by:

$$\begin{array}{l} \pi^* = 0 \quad if \quad P(\underline{x}, 0, \theta) < \frac{c-R}{\beta R} \\ R + P(\underline{x}, \pi^*, \theta)\beta R - c = 0 \quad if \quad P(\underline{x}, 1) \leq \frac{c-R}{\beta R} \leq P(\underline{x}, 0) \\ \pi^* = 1 \quad if \quad \frac{c-R}{\beta R} < P(\underline{x}, 1, \theta) \end{array} \tag{4}$$

It is immediate from (4) that the threshold π^* is a non increasing function of θ:

$$\frac{d\pi^*}{d\theta} = -\frac{P_3(\underline{x}, \pi^*, \theta)}{P_2(\underline{x}, \pi^*, \theta)} \leq 0$$

where P_i stands for the derivative of P in its argument i.

This implies that more cohesive societies (larger θ) have a wider range of parameter values for which only the good equilibrium exists, i.e. for which $\pi^* < \Pi$.

3.3 Discussion

The extension of the basic model presented in this section shows that redistribution may undermine the effectiveness of elections to select politicians, creating stronger incentives for bad types to enter the political race and making it more likely that the bad equilibrium exists.

In pollarized societies, redistribution can be a powerful reason to incline voters decisions. Bad type incumbents may survive elections if a sufficiently large constituency vote for them because of redistribution. Confronted with

a bad type incumbent, members of the incumbent constituency tradeoff lower expected income for a larger share in the pie. The less "cohesive" the institutions are, the higher the weight voters put on redistribution and the lower on performance.

As in the basic model, the quality of the political class is high with only good types participating in politics if politicial selection is sufficiently strong. For this to be the case, voters conjectures about the quality of the political class must be above the threshold π^*. Voters have no reason to vote a bad incumbent out if the alternative is another bad politician. Redistribution undermines political selection, reducing π^* and making it more likely that the bad equilibrium exist.

4 Concluding remarks

I study a political agency model that formalizes the hypothesis that citizens pessimism about the quality of the political class may end up being a self-fulfilling prophecy. Pessimistic voters may not vote out an incumbent who performed poorly for they are convinced that the alternative is likely to be as bad as the incumbent. In these conditions, elections work poorly as a selection mechanism and individuals with bad characteristics will have greater incentives to participate in politics. Therefore, pessimism and bad quality may arise as a political equilibrium. There is also another equilibrium in which voters are optimistic and the quality of the political class is high.

I discuss conditions that favor the existence of two equilibria. I specifically analyze the impact of popularity shocks and redistribution. It has been argued in the political agency literature that pollarization, lack of political competition and redistribution undermine political accountability. In this paper I argue that these issues may also cause multiple equilibria, generating the possibility of the pessimism-driven equilibrium descrived above.

There are other issues not analyzed in this paper that undermine selection and may therefore cause multiple equilibria. One obvious issue is that output is subject to stochastic shocks. If a good politician may sometimes produce

low output and a bad politician high output, then it will not be so easy for citizens to infer the incumbent's type from observing first period output. This uncertainty undermines selection and hence is likely to increase the range of multiple equilibria. The model can easily be extended to incorporate this issue.

I have focused exclusively on selection models, leaving aside moral hazard problems. But politicians can usually take actions that modify outcomes. The political agency problem is not just about selection but also about incentives. The literature has extensively analyzed moral hazard in political agency. Besley (2006) and Besley and Smart (2007) analyze the tradeoff between incentives and selection. They argue that when bad politicians mimick good ones to raise their reelection probabilities, the effectiveness of elections to select politicians is reduced. Therefore, my conjecture is that the incorporation of moral hazard in the model I present in this paper would expand the range of multiple equilibria.

I have also put aside checks and balances. Stephenson and Nzelibe (2008) observe that political accountability and checks and balances are the two institutional instruments available to deal with agency problems in politics. They observe that most of the literature focus on each of these institutions separately without paying due care to possible interactions. My paper is no exception.

The model in the current version of the paper has two periods. This assumption makes the model very tracktable, but forces some not very appealing assumptions, like Nature randomly choosing the first-period incumbent or newly-elected second-period incumbents having only one period in office. I plan to extend the model to an infinite horizon on the lines of Besley (2004).

Caselli and Morelli (2004) generate multiple equilibria in a political agency model assuming that the reward to politics is an increasing function of the quality of the political class. This could happen if, for example, politicians care about social prestige or if there are externalities in political activities. The higher the proportion of good politicians the more prestige and/or more productive are political activities, providing incentives for good citizens to participate in politics. In the model in the present paper, their argument could be introduced assuming that the rents from holding office are increasing in the proportion of

good citizens in the political class.

The basic mechanism analyzed in my model is different, though. It rests on the impact of citizens opinions about the political class on the effectiveness of the selection mechanism. If citizens are convinced that politicians "are all corrupt" they may find no reason to vote out a bad incumbent who will be substituted by another bad politician. Elections then fail as a filter against bad politicians, creating incentives for bad citizens to enter the political career. While Caselli and Morelli emphasize the incentives that prestige and efficiency in political life create for good citizens to participate in politics, I analyze the incentives that bad citizens have to participate when political selection fails. I see my argument as mostly complementary of theirs.[4]

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[4] Acemoglu et. al. (2010) mention that "Caselli and Morelli (2004) suggest that voters might be unwilling to replace the corrupt incumbent by a challenger whom they expect to be equally corrupt". This reading of Caselli and Morelli is very close to the argument I push in this paper. However, Caselli and Morelli seem to point otherwise when they argue that "low-quality equilibria may exist even if voters have perfect information on the candidates' types. Voters have no illusion as to the intrinsic qualities of the candidates, but may elect bad candidates because they are "rationed" in high-quality ones."

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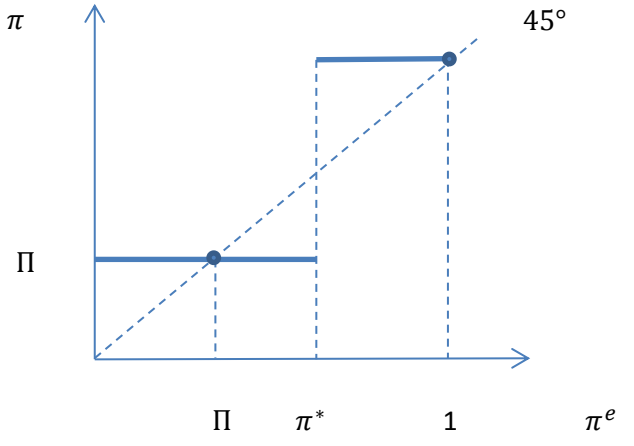
Figure 1: Actual and expected quality of the political class

Case a) Two equilibria if the proportion of qualified citizens is low: $\Pi < \pi^*$



Case b) One equilibrium if the proportion of qualified citizens is high: $\Pi \geq \pi^*$