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Risky Reforms and the Emergence of Populist Candidates

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Abstract

This paper studies how electoral competition can generate candidates who advocate risky, on-average inefficient reforms. I show that such candidates, whom I call *populist*, can arise endogenously in a citizen-candidate model. Voters have reference-dependent preferences and may support such reforms. If all voters have the same reference point, platforms span a single axis: poorer voters support higher taxes and, if sufficiently poor, the risky reform. If the median voter supports it, any two-candidate equilibrium must include a populist. If there is exactly one populist in equilibrium, that candidate cannot propose lower taxes than the non-populist. If reference points are heterogeneous, and low skill pushes voters below their reference point, populist candidates must have sufficiently low skill, which is consistent with the empirical literature.

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1 Introduction

A key challenge to our understanding of politics is the recent rise of “populism”. Among other puzzles, leaders described as populists are often highlighted as economically inefficient (Funke et al. (2023), Bellodi et al. (2024)). There is also a large variance in their performance, as shown in Panunzi et al. (2026). This may be due to specific policies adopted by populists, economically risky and on average inefficient: leaving international organizations, or encouraging trade wars, unconventional economic policies, or climate inaction, all fit this pattern. In this paper, I develop a theory of the emergence of leaders with such policies. It combines a demand side (preferences of voters) and, distinctively, a microfounded supply side (structure of electoral competition which generates the candidates).

My demand-side structure builds on Panunzi et al. (2024). Both their paper and mine use reference-dependent utility: voters have some level of income as reference point, and disappointed voters (whose income is below their reference point) are risk-loving. Therefore, disappointed voters are likely to vote for risky options. Panunzi et al. (2024) have a supply side with two exogenous types of candidates: an intrinsically risky and inefficient *populist* and an intrinsically riskless and efficient *moderate*. In Panunzi et al. (2026), these candidates are allowed to strategically propose any tax rate. Right-wing populism (with a low tax rate) exists in equilibria in which the *populist* appeals both to the rich and to the disappointed.

My contribution is therefore on the supply side, where I tackle the open question of the entry of a populist candidate in that framework. Indeed, electoral competition is not always between those two types, and can shift from the traditional left-right to a mainstream-populist one; the aim of this model is to explain why. Therefore, I introduce a structure of electoral competition with citizen-candidates (Besley and Coate (1997)), in accordance with Dal Bó et al. (2023), who give a “*citizen-candidate interpretation*” to their empirical findings on Swedish politicians. Candidates emerge from the population and can, under certain circumstances, be sincere populists.

In my model of electoral competition, society must decide on a tax rate, and whether to pass a risky and on average inefficient reform, which I call the populist reform.¹ All voters decide simultaneously whether to run at a given cost, in which case they can only defend their preferred platform (which consists of a tax rate and a stance on the risky reform). If they win, they get utility from being in office and implement their platform. Political equilibria are Nash equilibria of this game.

¹One can think of Brexit, whose economic consequences were uncertain but generally expected to be negative, or similar reforms which imply uncertainty. This will remain the definition of populism throughout this paper, focused on the economic aspect and consistent with the evidence cited earlier. Similar results hold if we allow for several well-ordered levels of risk (for example, the status quo, a risky and inefficient soft Brexit, and a riskier and on average more inefficient hard Brexit).

In the baseline model where all voters have the same reference point, I derive properties which must hold in all two-candidate equilibria.² I show how the platforms of voters are determined by their income. Richer voters support a lower level of taxation, but also a lower level of risk. These properties allow me to derive restrictions on the political equilibria of this game. If the median voter is sufficiently disappointed, there has to be a populist candidate in any two-candidate equilibrium. I also derive an impossibility result: given the structure with both a homogeneous reference point and sincere citizen-candidates, there cannot be a right-wing populist against a more left-wing non-populist candidate, which can happen in Panunzi et al. (2026) when candidates are strategic on taxation.

This result motivates the introduction of heterogeneous reference points. Then, the citizen-candidate structure can produce right-wing populist voters and candidates. I develop a specific case to explain why some candidates may be inefficient. In that illustration, each voter's *skill* increases both their satisfaction and their policy-making abilities. Then, disappointed voters have a relatively low skill. They thus face a tradeoff between efficient candidates who do not support the risky reforms they want, and inefficient candidates who do. This conflict is consistent with the empirical findings of Dal Bó et al. (2023) in Swedish politics, where populist candidates are less skilled than their counterparts. An inefficient candidate implementing a populist

²As usual, the existence of such equilibria depends on assumptions on the office benefits and entry costs. The restriction to two candidates is a theoretical parallel to Panunzi et al. (2024) who assume it and an empirical parallel to the US presidential elections or the French run-off elections. I discuss in Appendix properties with other candidate configurations.

platform is a possible outcome of the model, but can be Pareto-dominated by a counterfactual in which a skilled candidate implements the same platform.

2 Baseline model

2.1 The setting

Voters' preferences. The economy consists of a finite odd number N of voters, indexed by j . Individual exogenous pre-tax incomes are $\theta_j \geq 0$, the average income is $\bar{\theta}$, the median income is θ_m with $\theta_m < \bar{\theta}$.³ Exactly as in Panunzi et al. (2024), the utility of consuming c with certainty is

$$U(c) = c + \mu(c - x) \quad (1)$$

with μ a penalty function such that $\mu(\cdot) = 0$ for non-negative values, and for negative feasible values, (i) μ is differentiable at least three times, (ii) $\mu(\cdot) < 0$, (iii) $\mu'(\cdot) > 0$, (iv) $\mu''(\cdot) > 0$, (v) $\mu'''(\cdot) \leq 0$, (vi) At $d = 0$, μ admits left derivatives up to the third order $\mu_-^{(n)}(0)$ with $n \in \{1, 2, 3\}$.

I represent such a utility function in Figure 1. Voters whose consumption is below the reference point are penalized and risk-loving, while the others are risk-neutral. Assumption (v) states that the most disappointed voters are the most risk-loving, while assumption (vi) is a technical assumption needed for the proof of Lemma 2. In this section, every voter has the same consumption level x as reference point.

³Several voters could have the same income with no consequence for the results. One can also have an even number of voters and use the upper-median, but I choose to stay close to Besley and Coate (1997) for simplicity of exposition.

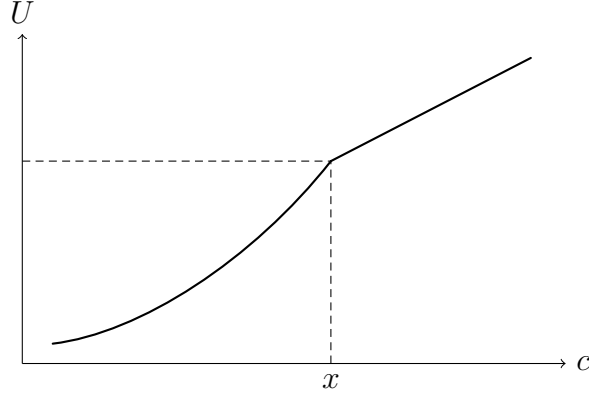


Figure 1: Utility as a function of a deterministic level of consumption.

The actions of voters and the policy space. Voters maximize their utility. Once all candidates are determined, voters vote sincerely⁴ for one of them, at no cost. Before that, all voters decide simultaneously whether to run, at a utility cost $\delta > 0$. They gain utility $b > 0$ from being in office if they win. If they run, they have to defend their preferred platform and if they win, they implement it. Political platforms have two dimensions:

- A linear tax rate $\tau \in [0, 1]$. Income is taxed and tax revenues are redistributed to voters, with distortions. The revenue from taxation at rate τ is $f(\tau) = \tau\bar{\theta} - i(\tau)$, with i strictly increasing and strictly convex. i' is continuous, $i(0) = i'(0) = 0$. The revenue-maximizing rate is $\tau_0 < 1$. In this paper, low-tax (high-tax) proposals are called right-wing

⁴If there are several candidates with the exact same platform, I assume they have the same probability of winning. I also assume that with two candidates, indifferent voters abstain. Sincere voting is not crucial: when voters choose between two candidates, such behaviour is a weakly dominant strategy for voters, and similar results hold with more candidates. The important and distinctive assumption is that candidates are sincere and can only defend their preferred platform.

(left-wing). In the riskless case, consumption (post-tax income) is therefore

$$c_j = (1 - \tau)\theta_j + \tau\bar{\theta} - i(\tau). \quad (2)$$

- A stance on one populist reform (risky and on average inefficient). If undertaken, the reform creates a stochastic aggregate shock, denoted η , $\mathbb{E}[\eta] = 0$, to all incomes in society. The shock has density $h(\eta)$ on the bounded support $\Omega = [\underline{\epsilon}, \bar{\epsilon}]$. The reform also reduces everyone's expected revenue by a quantity $z > 0$. $P(\eta > z) > 0$, in which case the reform makes everyone better off. In the risky case, consumption is

$$c_j = (1 - \tau)\theta_j + \tau\bar{\theta} - i(\tau) - z + \eta. \quad (3)$$

Every voter has to support either this reform or the riskless status quo. One can denote the platform of voter j (τ_j, r_j) in $[0, 1] \times \{0, 1\}$, with r_j equal to 1 if and only if j supports the risky reform. Although this paper uses citizen-candidates, the admissible platforms are similar to those in Panunzi et al. (2026). We will see, however, that the citizen-candidate structure yields different predictions on the platforms present in equilibrium.

Equilibrium concept. I look for pure-strategy Nash equilibria of this game. I focus on equilibria with two candidates. The candidate with the most votes wins; ties are broken at random. In the next subsection, I show that the type (income) of a voter suffices to derive properties of their preferred platform, starting with the preferred tax rate, then the preferred risk. Then, I derive restrictions on political equilibria.

2.2 Results

Here, for pairwise comparisons, let A and B denote two voters; j remains the notation for a generic voter.

Lemma 1. *Every voter j has a unique and well-defined preferred tax rate τ_j^* . This tax rate does not depend on the risk decision, and is weakly decreasing in income. $\theta_A > \theta_B \implies \tau_A^* \leq \tau_B^*$.*

Having characterized tax preferences, I now turn to support for the risky reform. It is useful to define the voter's satisfaction⁵ $\sigma_j(\theta_j, \tau) = (1 - \tau)\theta_j + \tau\bar{\theta} - i(\tau) - x$, under a given tax rate. I refer to negative satisfaction as disappointment. We can also define j 's maximal satisfaction as $\sigma_j^* = \sigma(\theta_j, \tau_j^*)$. Consider a voter whose expected consumption under their best tax rate and the status quo is c (welfare $c + \mu(c - x)$). Their welfare if the risky reform is undertaken is $c - z + \mathbb{E}_\eta[\mu(c - z + \eta - x)]$. Lemma 2 gives the result on risk preferences.

Lemma 2. *The voters whose platform includes the risky reform are those with the most disappointment under their preferred tax rate.*

$$\sigma_A^* > \sigma_B^* \implies (r_A \leq r_B)$$

The properties above do not use the homogeneous reference point assumption. However, this assumption collapses the two dimensions into one in this main result which shows how income shapes platforms.

Theorem 1. *There is only one axis of voter platforms: a richer voter supports both lower taxes and less risk (weakly). Preferences satisfy the single-crossing*

⁵which Panunzi et al. (2024) denote t . I use t for time in the extension, so I change the notation.

property on taxes, holding risk fixed. $\theta_A > \theta_B \implies (\tau_A^* \leq \tau_B^* \text{ and } r_A \leq r_B)$. In addition, if $\tau_A < \tau_B$ and A and B propose the same risk level, $\exists \theta_C$ such that voters prefer the platform of $B \iff$ their income $\leq \theta_C$.

The platforms of voters lie on one single axis (poor: high redistribution and possibly risk, rich: low redistribution and typically no risk). Given the preferences shown above and the usual citizen-candidate logic, we can derive results about political equilibria. This proposition proves the headline result of that section: the citizen-candidate structure can explain the emergence of populist candidates.

Proposition 1. *In any two-candidate equilibrium, if the median voter m supports the populist reform, at least the poorest candidate in the equilibrium does.*

Therefore, the supply of populism follows the same intuition as the demand in this model: when voters are not disappointed, none propose the populist reform and the model reduces to standard citizen-candidate competition over taxation. When a large segment of the electorate is disappointed, the equilibrium can contain one or two populist candidates. In particular, there must be one in every two-candidate equilibrium if the median voter is sufficiently disappointed. In this microfounded model of citizen-candidates, the divergence between a populist (whose platform is risky and inefficient on average because of the support for the populist reform) and a non-populist is possible, which justifies the electoral competition in Panunzi et al. (2026). However, while they show that combining populism and a lower tax rate than the non-populist can be effective, I show that with a homogeneous reference point, no sincere citizen-candidate proposes such a platform.

To derive the comparative statics about the presence of populism, note that, by Lemma 2, there exists a threshold $\bar{d} > 0$ on disappointment such that the median voter includes risk in their platform $\iff$

$$(1 - \tau_m^*)\theta_m + \tau_m^*\bar{\theta} - i(\tau_m^*) < x - \bar{d}. \quad (4)$$

This is true for any voter j , but m is more crucial because a populist median voter implies a populist candidate, by Proposition 1. Analyzing Equation (4) reveals comparative statics about the median voter:

Corollary 1. *The median voter becomes more likely to support the risky reform if*

- (i) *There is a negative individual income shock (holding the income ranking fixed), or an increase in the common reference point*
- (ii) *The tax system becomes more distortive (for example, $i(\tau)$ increases pointwise)*
- (iii) *The average income becomes lower (holding the median income and the ranking fixed)*
- (iv) *The inefficiency cost of a possible risky reform is smaller.*

The first implication is close to the standard result in the populism literature: disappointed voters (for example those hurt by a negative economic shock) are more likely to vote for populists. Panunzi et al. (2024) show it formally in this model, and I show that such a shock can also produce a populist candidate in a citizen-candidate framework. The second implication shows that, in the absence of a feasible redistribution scheme, the only way for poor voters to reach their reference point is to take risky reforms, even when they are inefficient. The third item could appear counter-intuitive. In many countries, populism, especially left-wing, seems linked with high income

inequality. With a homogeneous and exogenous reference point, this is not the case; rich individuals increase the electorate's demand for redistribution but hence reduce disappointment and demand for populism. Of course, this calls that assumption into question. Finally, voters dislike inefficiency *per se* and they are less likely to support a very inefficient reform.

3 Extension: heterogeneous reference points and candidate skill

An equilibrium with a right-wing⁶ populist and a more left-wing non-populist citizen-candidate is incompatible with the baseline model. In this section, I introduce heterogeneous reference points which make this situation possible. Then, tax preferences are determined only by income, whereas risk preferences are determined by maximal satisfaction. There are many ways to specify the model, and no general equilibrium result. Here, I study a simple mechanism which produces a negative selection of populist candidates: the same skill dimension affects both disappointment and policy-making ability. This mechanism could be interpreted as a microfoundation of the inefficiency which is assumed as a property of the risky reform in the baseline model. Specifically, in what follows, I no longer suppose that the risky reform is in itself associated with an inefficiency cost z . I call this specification the *meritocratic* framework, following debates pioneered by Young (1958) and developed by Sandel (2020).

⁶Recall that in this paper, right and left only refer to the income tax level

3.1 The *meritocratic* framework: setting

Most objects are unchanged from Section 2, and I summarize the differences in Table 1 below.

Table 1: Differences between Sections 2 and 3

Dimension	Baseline (Sec. 2)	Extension (Sec. 3)
Timing	Fully static	In period t , expectations are formed; in $t + 1$, shock and vote
Reference point	Homogeneous reference point x	Heterogeneous reference points $x_{j,t+1} = \theta_{j,t}$
Political platforms	Linear tax rate + (possibly) an inefficient risky reform	Linear tax rate + (possibly) a risky reform
Efficiency/skill	The reform is inefficient for exogenous reasons. There is no candidate skill	Candidates have a skill: skill s_j creates a consumption boost αs_j for all voters if j is elected, $\alpha > 0$

Disappointment in this framework. Voter j 's reference point for period $t + 1$ is $x_{j,t+1} = \theta_{j,t}$ (and $U_j(c) = c + \mu(c - x_j)$). Their income is $\theta_{j,t+1} = \theta_{j,t} + s_j$. This can represent the evolution of income of a voter over a given period or, in an intergenerational perspective, living better or worse than one's parents. The skill variable s_j takes positive and negative values in

the population.⁷ As above, there exists a threshold $\bar{d} > 0$ such that voter j supports the risky reform $\iff \sigma_j^* < -\bar{d}$.⁸ Because the political conflict is no longer one-dimensional, a characterization of equilibria would require many assumptions about parameter values and distributions. However, we can still derive properties of voters' preferences, and since candidates are sincere voters, this has implications for any equilibrium.

3.2 The *meritocratic* framework: properties

Proposition 2. *(i) There can be “right-wing populist” and “left-wing mainstream” voters in this framework.*

(ii) All else equal, the choice of risk is weakly decreasing in s .

(iii) The voters with positive skill do not include the risky reform in their platform.

As before, candidates can only defend a sincere platform. In particular, if the equilibrium has a populist candidate, this candidate must be disappointed upon implementing their best tax rate, and is not among the highest-skill voters, who are satisfied by construction. This result provides insight into the inefficiency of populists at the macro level (Funke et al. (2023)) and the observed skill gap between populist and mainstream candidates in Swedish politics (Dal Bó et al. (2023)).

⁷Alternatively, voters could have a given income growth as reference point, which a positive but low skill does not allow to reach.

⁸I assume that risk-neutral voters do not support the risk even in the absence of inefficiency. This is microfounded if the realization of the risk is lower than $-\max_j \sigma_j^*$ with a positive probability, so that everyone can fall below the reference point, or if we introduce an arbitrarily small degree of risk aversion for satisfied voters.

Finally, I show that a “populist equilibrium” can be Pareto-inefficient. Contrast an outcome where a candidate with low skill s_L implements their preferred platform unopposed, and the counterfactual where a candidate with high skill $s_H > s_L$ implements the same populist platform unopposed. For ordinary voters, the only difference between these two situations is a consumption boost $\alpha(s_H - s_L) > 0$.⁹ The populist candidate gets at least $\alpha(s_H - s_L) - b + \delta$ out of the change. The high-skill candidate gets $\alpha(s_H - s_L) + b - \delta$. If $\max\{\delta - b, b - \delta\} < \alpha(s_H - s_L)$, the change is Pareto-improving. If b is very high, the populist leader prefers staying in power. If δ is very high, the skilled citizen cannot be convinced to enter.

Therefore, some political equilibria can be Pareto-inefficient compared to a counterfactual which is prevented by the citizen-candidate structure. This resembles Section V of Besley and Coate (1997) (“If policy-making talent is concentrated among groups with certain policy preferences, then individuals may opt for a less able citizen who better represents their views”). Here, the policy preference common to talented citizens, regardless of their income, is the defense of a riskless status quo, while risky reforms can only be supported by less able candidates. One can see this as a mechanism behind the inefficiency of populist reforms (the term $\alpha(s_H - s_L)$ captures the competence cost of obtaining the populist platform, paralleling the exogenous inefficiency cost z in the baseline model). This conflict is not a pressing issue when citizens are satisfied and risk-neutral. But when many are disappointed, meritocracies may lead to the emergence of inefficient leaders and policies.

⁹which yields an even larger utility gain if they were disappointed, since μ is increasing. I express all changes in terms of consumption and derive sufficient conditions for the counterfactual to be Pareto-improving.

4 Conclusion

This paper studies the emergence of populist candidates, i.e., candidates who propose risky and on average inefficient reforms, in the political arena. The literature, both empirical and theoretical, explains the demand for populism by disappointment or decline. I show that a similar insight applies to the supply side. In a citizen-candidate framework, I first find properties of two-candidate equilibria when all voters have the same reference point. Societies without disappointed voters compete only on taxation, and no voter supports the populist reform; but when the median voter is sufficiently disappointed, the equilibrium must contain at least one populist candidate. This can lead to a lower aggregate income on average, but some voters nevertheless prefer the reform to the status quo. With a homogeneous reference point, the disappointed voters are poorer than the satisfied, so populist candidates can only defend relatively left-wing platforms on redistribution.

In Section 3, I relax this assumption and illustrate how the citizen-candidate structure can yield negatively selected populist candidates. If skill matters for policy-making, and if skilled voters are never disappointed with their situation, populist citizen-candidates must have a sufficiently low skill. This conflict can give rise to a Pareto inefficiency when a low-skill populist candidate wins: a skilled voter implementing the same platform could deliver higher utilities for every voter. But given the citizen-candidate and meritocratic structure, these high-skill citizens are satisfied and cannot credibly commit to the risky reforms that other voters support. This is consistent with empirical evidence that populist politicians have lower measured skills than mainstream politicians.

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A Proofs and Additional Results

Proposed for online publication.

A.1 Proofs

Proof of Lemma 1: Consider the welfare of a voter with an income θ under the risky option:

$$(1 - \tau)\theta + \tau\bar{\theta} - i(\tau) - z + \int_{\underline{\epsilon}}^{\bar{\epsilon}} \mu((1 - \tau)\theta + \tau\bar{\theta} - i(\tau) - z + \eta - x)h(\eta) d\eta$$

The first-order condition with respect to τ is

$$0 = -\theta + \bar{\theta} - i'(\tau) + \int_{\underline{\epsilon}}^{\bar{\epsilon}} (-\theta + \bar{\theta} - i'(\tau))\mu'((1 - \tau)\theta + \tau\bar{\theta} - i(\tau) - z + \eta - x)h(\eta) d\eta \quad (5)$$

The only interior solution is given by $-\theta + \bar{\theta} - i'(\tau) = 0$.¹⁰ In the riskless case, utility is $(1 - \tau)\theta + \tau\bar{\theta} - i(\tau) + \mu((1 - \tau)\theta + \tau\bar{\theta} - i(\tau) - x)$, which yields the same condition. We can rewrite $i'(\tau) = \bar{\theta} - \theta$, which has at most one solution because of the strict convexity of i . When θ is high, $i'(\tau)$ is low, and τ is low. There is no interior solution if $\theta > \bar{\theta}$. These voters have a preferred tax rate of 0 (as usual in such models).

Proof of Lemma 2:¹¹ At a satisfaction level σ , the welfare gain of taking the risk compared to the status quo is:

$$\Delta(\sigma) = -z + \mathbb{E}_{\eta}[\mu(\sigma - z + \eta) - \mu(\sigma)] \quad (6)$$

¹⁰If it is not 0, we can divide and get $-1 = \mathbb{E}_{\eta}[\mu'((1 - \tau)\theta + \tau\bar{\theta} - i(\tau) - z + \eta - x)]$, which is impossible since $\mu'(\cdot) \geq 0$.

¹¹This is Lemma 1 in Panunzi et al. (2024). Some notations are different and I change the sign of Δ but the argument is unchanged.

μ is non-positive. For $\sigma > 0$, $\mu(\sigma) = 0$ so $\Delta(\sigma) < 0$. All satisfied agents (strictly) prefer the status quo over the inefficient risk. If we always have $\sigma - z + \eta \leq 0$,

$$\Delta'(\sigma) = \mathbb{E}_\eta[\mu'(\sigma - z + \eta)] - \mu'(\sigma) \quad (7)$$

and $\mathbb{E}_\eta[\mu'(\sigma - z + \eta)] \leq \mu'(\sigma - z) < \mu'(\sigma)$ (the first inequality is Jensen because $\mu'''(\cdot) \leq 0$ in that region, the second inequality comes from $\mu''(\sigma) > 0$). Therefore $\Delta'(\sigma) < 0$.

If $\sigma - z + \bar{\epsilon} > 0$, we need another argument using the technical assumption on $\mu'_-(0)$.

$$\Delta'(\sigma) = -\mu'(\sigma) + \int_{\underline{\epsilon}}^{z-\sigma} \mu'(\sigma - z + \eta) h(\eta) d\eta \leq -\mu'(\sigma) + \int_{\underline{\epsilon}}^{z-\sigma} \mu'(\sigma - z + \eta) h(\eta) d\eta + \int_{z-\sigma}^{\bar{\epsilon}} \mu'_-(0) h(\eta) d\eta \quad (8)$$

Also, if we consider a continuous and convex extension of μ such that μ' remains concave (for example the linear extension), $\mu'_-(0) \leq \mu'(\sigma - z + \eta)$ for $\eta \in (z - \sigma, \bar{\epsilon})$ so we can write

$$\Delta'(\sigma) \leq -\mu'(\sigma) + \int_{\underline{\epsilon}}^{\bar{\epsilon}} \mu'(\sigma - z + \eta) h(\eta) d\eta \leq 0 \quad (9)$$

again, using Jensen and the previous arguments. There is a single cutoff of disappointment such that less disappointed voters choose not to take the risk and more disappointed voters do (the cutoff may lie outside the support of satisfaction, in which case no voter supports the reform). What matters for the preferred platforms is whether under their best tax rate, voters are more disappointed than this cutoff. If a voter is exactly indifferent, I assume they propose the status quo.

Proof of Theorem 1: All voters are ordered by their pre-tax income. From Lemma 1, poorer voters support more taxes regardless of the risk decision. $\theta_A > \theta_B \implies \tau_A^* \leq \tau_B^*$. By the envelope theorem, $\frac{d\sigma^*}{d\theta} = 1 - \tau^*(\theta) > 0$.

In this environment, $\sigma_A^* > \sigma_B^*$. By Lemma 2, if A proposes the risky reform, so does B. So a rich voter cannot propose more risk (in a discrete sense) than a poor voter in their preferred platform, and optimal platforms follow a single axis, as pre-tax incomes do.

Holding the risk decision fixed: In terms of consumption,¹² the difference between voting for A and voting for B is $-(\tau_A - \tau_B)(\theta - \bar{\theta}) - (i(\tau_A) - i(\tau_B))$, whose derivative with respect to θ is constant (so the difference in consumption is increasing if, as above, $\tau_A < \tau_B$ - voters prefer A more intensely if they are richer). Plus, utility is increasing in consumption. So, holding the risk decision fixed, preferences satisfy the usual single-crossing property.

Proof of Proposition 1: I introduce the notation $v_{j_1 j_2}$, utility of voter j_1 if j_2 is elected. j' denotes a voter with the same platform as j .

First, in a two-candidate equilibrium, no candidate loses for sure (such a candidate would recover the candidacy cost by withdrawing unilaterally, which contradicts Nash equilibrium).

I prove the result by contradiction. Assume m is populist and the two candidates are not: they propose lower taxes than m would (by Theorem 1). If they propose distinct tax rates, the one that m prefers is preferred by the majority of the population (Theorem 1) and wins for sure. So they must have the exact same platform - I denote the candidates j and j' .

Now, I show that m would win upon entry. The majority of the population prefers τ_m to τ_j . At their own tax rates, they support risk over the status quo. At m 's tax rate, they would be more disappointed and also support the risk, by Lemma 2. So, to them, *the platform of m* is better than *the platform of*

¹²comparing pointwise the consumption under the same shock realization if both candidates are risky

m without risk which is better than the platform of j or j' . m would win for sure by entering.

Finally, I show that m 's non-entry yields a contradiction. Note that $v_{mm} = b + v_{mm'} - \delta$. m 's non-entry requires $b + v_{mm'} - \delta \leq v_{mj}$, and v_{mj} is lower than $v_{mm'}$. So m 's non-entry implies $b \leq \delta$. j staying in the race instead of withdrawing for j' requires $\frac{1}{2}b + v_{jj'} - \delta \geq v_{jj'}$, so $\frac{1}{2}b \geq \delta$. This concludes.

Proof of Corollary 1: It is cleaner to define $\bar{\zeta} = -\bar{d}$. The threshold verifies $F(\bar{\zeta}, z) = -z + \mathbb{E}_\eta[\mu(\bar{\zeta} - z + \eta)] - \mu(\bar{\zeta}) = 0$. The first three implications follow from Equation (4) and the envelope theorem. By the implicit function theorem, we can write

$$\frac{d\bar{\zeta}}{dz} = \frac{-F_z(\bar{\zeta}, z)}{F_\zeta(\bar{\zeta}, z)} = \frac{1 - \frac{d}{dz}\mathbb{E}_\eta[\mu(\bar{\zeta} - z + \eta)]}{\frac{d}{d\bar{\zeta}}\mathbb{E}_\eta[\mu(\bar{\zeta} - z + \eta)] - \mu'(\bar{\zeta})} \quad (10)$$

Leibniz' rule gives

$$\frac{d\bar{\zeta}}{dz} = \frac{1 + \mathbb{E}_\eta[\mu'(\bar{\zeta} - z + \eta)]}{\mathbb{E}_\eta[\mu'(\bar{\zeta} - z + \eta)] - \mu'(\bar{\zeta})} < 0 \quad (11)$$

where the fact that the denominator is negative is given by Lemma 2. When the inefficiency cost of the populist reform z is higher, the satisfaction cutoff $\bar{\zeta}$ which separates populist and non-populist voters is lower. With a homogeneous reference point this means that voters have to be poorer to support the reform.

Proof of Proposition 2:

(i) Consider a voter j with $s_j < -\bar{d}$ and $\theta_{j,t+1} > \bar{\theta}_{t+1}$. The latter implies that j supports no taxation, so their satisfaction upon implementing the best tax rate is $\sigma_j^* < -\bar{d}$, which implies support for the risky reform. Conversely,

consider a voter j' with $\theta_{j',t+1} < \bar{\theta}_{t+1}$ and skill $s_{j'} > 0$. This voter supports a positive tax rate (cf proof of Lemma 1) and does not take the risky reform. j' is poorer than j and supports a higher tax rate, but is less populist (does not support the reform while j does).

(ii) Satisfaction under the best tax rate is given by

$$\sigma_j^* = (1 - \tau^*(\theta_{j,t+1}))\theta_{j,t+1} + \tau^*(\theta_{j,t+1})\bar{\theta}_{t+1} - i(\tau^*(\theta_{j,t+1})) + \alpha s_j - x_{j,t+1}.$$

By the envelope theorem,

$$\frac{d\sigma_j^*}{ds_j} = (1 - \tau_j^*) + \frac{\tau_j^*}{N} + \alpha = 1 + \alpha - \left(1 - \frac{1}{N}\right) \tau_j^* > 0.$$

So all other things being equal, a lower-skill voter is more likely to support the risky reform.

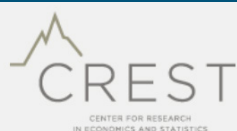
(iii) Direct proof: voters with positive skill are satisfied (for example at $\tau = 0$, even more under their best tax rate, and even more after creating a positive consumption boost), therefore do not include risk in their preferred platform.

A.2 Equilibria with more or fewer than two candidates

In Section 2, I restrict to the study of two-candidate equilibria. Among other reasons, it allows me to derive results which are robust to the behaviour of voters (sincere or strategic) and to the voting system. However, I discuss here the robustness of the results without this restriction. First, note that all propositions about the preferred platforms of voters do not depend on this assumption, including the impossibility of “right-wing populist vs left-wing mainstream” with a homogeneous reference point.

The complete characterization of equilibria, including the number of candidates present, typically depends on assumptions related to b and δ .

I can nevertheless discuss how the number of candidates influences the results without specifying those. Zero-candidate equilibria are not realistic, and one can prevent them by assigning the default outcome a payoff $-\infty$ to all voters. If there is an equilibrium with more than two candidates, and the median voter is a populist, one of them will be populist (by the same argument as in Proposition 1: the median voter would win the majority of the population, and with uniform b and δ , regardless of spoiler strategies, we obtain a contradiction). In the baseline model, the only citizen-candidate equilibria with a populist median voter and no populist candidate contain only one candidate, richer than the median. The difference between this candidate and the median voter has to be such that the median voter does not want to run, even though they would be elected upon entry.



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