

Why Do Voters Dismantle Checks and Balances?

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Voters often dismantle constitutional checks and balances on the executive. If such checks and balances limit presidential abuses of power and rents, why do voters support their removal? We argue that by reducing politician rents, checks and balances also make it cheaper to bribe or influence politicians through non-electoral means. In weakly institutionalized polities where such non-electoral influences, particularly by the better organized elite, are a major concern, voters may prefer a political system without checks and balances as a way of insulating politicians from these influences. When they do so, they are effectively accepting a certain amount of politician (presidential) rents in return for redistribution. We show that checks and balances are less likely to emerge when the elite is better organized and is more likely to be able to influence or bribe politicians, and when inequality and potential taxes are high (which makes redistribution more valuable to the majority). We also provide case study evidence from Bolivia, Ecuador, and Venezuela consistent with the model.

Key words: Corruption, Checks and balances, Political economy, Redistribution, Separation of powers, Taxes.

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1. INTRODUCTION

A central paradigm in political economy, introduced in Barro's and Ferejohn's seminal work, emphasizes the role of elections and constitutional checks in controlling elected politicians. According to this paradigm, politicians are the agents of citizens (voters) to whom various policy decisions have been delegated, and elections are used to ensure that politicians carry out the citizens' wishes, minimize their rents, and limit the policies that they pursue for their own self-interest or ideological agendas. It is also well recognized that elections by themselves may be insufficient to ensure effective control of politicians and citizens may wish to rely on other political institutions, such as various forms of checks and balances and separation of powers that further constrain the behaviour of politicians and are complementary to elections. This view of politics and the role of constitutional checks was clearly articulated by James Madison in the Federalist Papers, where he wrote:

In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next

place oblige it to control itself. A dependence on the people is, no doubt, the primary control on the government; but experience has taught mankind the necessity of auxiliary precautions. (Federalist Papers, # 51, 1788).

Madison's "auxiliary precautions" include the separation of powers between the executive and a bicameral legislature, indirect election of senators, and an electoral college for determining the president. A version of these ideas has been formalized by Persson *et al.* (1997, 2000) who show how a set of political institutions that separates decision-making power over spending and taxation reduces the amount of rents that politicians can extract.

According to Madison and the formal literature building on his insights, voters should be in favour of such checks and balances. Yet, in several cases in Latin America, voters have willingly, sometimes enthusiastically, removed checks and balances designed to limit the ability of politicians (in particular presidents) to pursue their own policy agendas or capture rents.¹ For example, after his first election in 1998, President Hugo Chávez organized a constitutional assembly that re-wrote the constitution moving to a unicameral legislature, reallocating legislative powers to the president particularly in the economic and financial spheres. The new constitution was ratified by 72% of the people who voted in a plebiscite in December 1999. In 2000, President Chávez obtained the right to rule by decree for a year without having to get the approval of the legislature. In 2007 this power was renewed and extended to 18 months. It was renewed again in December 2010 for another 18 months. Most of these constitutions and decrees have been approved in referenda, in many cases with large majorities. Corrales and Penfold (2010, pp. 1–2) characterize the situation as one where "freedom exists and the opposition is allowed to compete in elections, but the system of checks and balances becomes inoperative", and this outcome has "occurred in the context of significant electoral support. Venezuela under Chávez has conducted plenty of elections...and *chavista* forces have prevailed in all but one".

On 28 September, 2008, 64% of Ecuadorian voters enacted a new constitution also with unicameral legislature and increased the powers for president Rafael Correa, who took control of monetary policy back from the central bank and gained the power to suspend the legislature. He was also allowed to run for two more consecutive terms. On 25 January, 2009, 61% of Bolivian voters approved a similar new constitution significantly increasing Evo Morales's powers. Like Chávez and Correa before him, Morales also managed to remove the one-term limit on his presidency, which is commonly interpreted as a significant strengthening of presidential powers (see Carey, 2003).²

These recent constitutional changes strengthening presidential power followed on the coattails of similar changes throughout Latin America. The 1979 Constitutions of Ecuador and Peru, the 1988 Constitution of Brazil and the 1992 Constitution of Paraguay all gave presidents the ability to invoke urgency bills that must be voted on within a time limit, significantly increasing their legislative powers. A growing number of constitutions, including the 1988 Constitution of Brazil, the 1993 Constitution of Peru and the 1994 amendment to the Constitution of Argentina, all strengthened the powers of the executive to legislate by enacting decrees.

These salient events highlight two important points. Firstly, the extent of checks and balances in democratic political systems should be thought of as an equilibrium outcome rather than as a historically or exogenously given, immutable institutional characteristic. Secondly and more

1. See Carey *et al.* (1997) for an overview of different presidential powers in Latin America, and Carey and Shugart (1998) for a comparative perspective on presidential decree power.

2. But unlike Chávez and Correa, Morales did not have sufficient power in the constitutional assembly to get everything that he wanted. His party, Movement Towards Socialism, did not have the 2/3 majority required to unilaterally determine constitutional provisions. He was thus unable to get many of the clauses he wanted, such as a unicameral legislature and perpetual presidential re-election.

importantly, the most widely used paradigm for understanding checks and balances is, by itself, insufficient for thinking about why the majority of voters may wish to remove such checks, since it would suggest that the majority of the citizens should support maximal checks on presidents.

In this article, we provide a simple theory of equilibrium checks and balances, highlighting why, under certain circumstances, voters may prefer less rather than more checks and balances. At the center of our theory is the following observation: in weakly institutionalized polities, checks, and balances, by reducing politician rents, make them “cheaper to buy” or easier to influence by an organized rich elite through bribing, lobbying, or other non-electoral means.³ This makes checks and balances a double-edged sword: what makes them valuable to voters—limiting politician rents—also makes them potentially dangerous to the majority.

We consider a society consisting of rich and poor individuals. The poor form the majority and will be able to elect the president, and will also be decisive in a referendum on checks and balances. Politicians are self-interested, but also put some weight on the utility of citizens from their own group, so presidents from the poor group (or more generally from parties representing the poor) will not only use their power to capture rents, but will also redistribute income to the poor. In weakly institutionalized polities, the rich elite, because it is better organized, wealthier or better connected, often has a greater role in politics than its sheer number would suggest. We model these general non-electoral influences by assuming that, with some probability, the elite is able to bribe or lobby politicians in order to induce policies that it prefers, and in particular, to reduce the extent of redistribution. A president not subject to checks and balances can obtain his “political bliss point” by both redistributing to the poor and also capturing rents for himself. This implies that the rich elite is relatively powerless against such a president. In contrast, under checks and balances, the president receives few rents, and the rich elite can more easily capture politics by lobbying or bribing the president. Consequently, when the likelihood that the rich elite will be able to bribe the politician is low, the majority of the voters prefer checks and balances as suggested by Madison and several previous political-economic analyses. In contrast, when the likelihood that the rich elite will be able to bribe the politician is high, poor voters are happy to put up with the rents that the politician will capture (or certain idiosyncratic policies that they wish to adopt, for example, as in the case of Hugo Chávez) in return for the guarantee that the politician will not be bought by the rich elite.

There are several natural comparative statics that result from this framework. Equilibrium checks and balances are more likely to emerge when the likelihood that the rich elite will be able to organize, solve their collective action problem and bribe politicians is low, and when the potential for taxation of incomes is limited (because when the potential for taxation is high, the extent of redistribution will be high unless the president is bribed). Using a simple extension of the model, we also show that equilibrium checks and balances are more likely to emerge when income inequality is low (because in this case the value of redistributive taxation to the poor majority is more limited).

To communicate the main ideas of the article in the clearest possible fashion, we adopt a simple model of checks and balances as separation of powers whereby the president chooses the level of taxes and transfers, while the legislature can affect the allocation of rents (for example, between projects that the president or the legislature prefers). This modelling approach ensures that when there are checks and balances, the equilibrium level of rents is zero. Though extreme, this approach sharply captures the main impact of checks and balances—to reduce politician rents. We show in the Supplementary Appendix that the main insights do not depend on this modelling approach by demonstrating that the same results hold under different assumptions on the form of

3. Alternative explanations for this pattern could be developed along the lines of the model in Aghion *et al.* (2004), which we discuss in detail later in the text and explain why we prefer our explanation.

separation of powers. In particular, we derive similar results using a model in which the extent of checks and balances is captured with the presence (and number) of veto players along the lines of Diermeier and Myerson (1999) and Tsebelis (2002). We also show that identical results apply when separation of powers is modelled as the separation of taxation and spending decisions (between the president and legislature, respectively) as in Persson *et al.* (1997, 2000).⁴ We also show that our general results are robust to different forms of utility functions for politicians and study the role of legislative institutions that give greater voice to “political minorities” (*e.g.* including representatives of minority groups, here the elite, in the legislature).

We also present case study evidence supporting the ideas we propose. In particular, we discuss the reasoning articulated by the protagonists and the interpretation of experts in the dismantling of legislative checks on presidential power in Bolivia, Ecuador, and Venezuela. In each case, there is a fair bit of evidence that these reforms were motivated as a way of breaking the excessive control that the “oligarchy” exercised, particularly because of separation of powers or because of their control of the legislature (though, perhaps not surprisingly, the idea that checks and balances make presidents “cheaper to buy” does not explicitly appear in these presidents’ speeches).

Our article is related to several literatures. First, it is closely related to the literature on the separation of powers. In addition to Persson *et al.* (1997, 2000), which we have already discussed, a large political science literature studies the implications of different democratic political institutions on policies and politicians rents (*e.g.* Lijphart, 1992; Shugart and Carey, 1992; Huber, 1996; Baron, 1998; Diermeier and Myerson, 1999; Tsebelis, 2002). Second, our article is also related to other studies emphasizing the potential failure of electoral and institutional controls on politicians (*e.g.* La Ferrara and Bates, 2001; Bueno de Mesquita *et al.*, 2003; Acemoglu *et al.*, 2004; Lizzeri and Persico, 2004; Padro-i-Miquel, 2007; Robinson and Verdier, 2013) and to models of elite capture of democratic politics, for example, Grossman and Helpman (2001), Acemoglu and Robinson (2008) and Acemoglu *et al.* (2011).

Finally, a number of authors develop different but complementary ideas to our article. Aghion and Bolton (2003) and Aghion *et al.* (2004) develop normative approaches with the implication that *ex post* citizens may wish to delegate different amounts of powers to a politician depending on how aligned their interests are. There is no redistributive conflict or the possibility that a rich elite may bribe politicians away from the wishes of the majority. Thus the results and the underlying economic mechanism are very different, and we find the mechanism we propose both richer from a theoretical point of view, and more importantly also more relevant for understanding Latin American politics where powerful leaders have recently played an important role. Acemoglu *et al.* (2013) develop a model of populism based on the idea that in weakly institutionalized democracies, politicians may choose platforms to the left of the median voter as a way of signalling that they are not (secretly) to the right of the median or that they are not secretly corrupted by the elite. None of these papers develops a model of equilibrium checks and balances or notes the main intuition of our article, that checks and balances make politicians cheaper to bribe or influence through non-electoral means.

The rest of the article is organized as follows. In Section 2, we set up a simple model of checks and balances to present our main argument as transparently as possible. We also extend this simple model to allow for an independent judiciary. Section 3 provides case study evidence emphasizing,

4. In practice, the interactions between the president and the legislature are more complex than these models allow. Even under the most extreme separation of powers, the president can obtain some policy concessions and rents, and he or she is far from powerless in influencing how tax revenues are spent, for example, by using the presidential veto power. Equally, the legislature is, more often than not, involved in tax decisions as much as in spending. We do not wish to argue that any of these models is the “right” approach to the separation of powers. Instead, our purpose is to show that our main results hold under different models of separation of powers.

consistent with our model, the importance of concerns about elite control of politics in the arguments for increasing presidential powers against other branches of government in Bolivia, Ecuador, and Venezuela. In the Supplementary Appendix we discuss a number of extensions, in particular modelling checks and balances with veto players, considering an alternative modelling of the separation of powers, allowing minority groups in the legislature who have disproportionate power, and alternative utility functions for the politicians. Although these extensions and changes introduce new and interesting effects, the basic intuition from the simple model in Section 2 still remains valid. Section 4 concludes.

2. BASIC MODEL

In this section, we use a simple formalization of the workings of politics under “checks and balances” (or separation of powers) to communicate the basic ideas in our article. We assume that the president is able to implement his favourite policies without checks and balances, while with checks and balances, some elements of his policy agenda can be modified by the legislature.

2.1. *Demographics and preferences*

We consider a static economy populated by a continuum of agents, with measure normalized to 1. A proportion $1 - \delta > 1/2$ of the population are “poor” with pre-tax income $y^p > 0$, while the remaining δ are “rich” and have pre-tax income $y^r > y^p$. Throughout we use superscript $i \in \{p, r\}$ to denote whether an individual is from the poor or the rich income group. The utility of individual j is given by

$$U^j = c^j, \tag{1}$$

where $c^j \geq 0$ denotes her consumption. With a slight abuse of notation, we use U^j to denote the utility of individual j and U^i , for $i \in \{p, r\}$, to represent the utility of a typical poor or rich agent (in equilibrium agents within an income group will all have the same utility).

For future reference, we define average income in the society as

$$\bar{y} \equiv (1 - \delta)y^p + \delta y^r,$$

and we also define $\theta \in (0, 1)$ as the share of total income accruing to rich agents, *i.e.*

$$y^r \equiv \frac{\theta}{\delta} \bar{y},$$

and naturally $y^p \equiv (1 - \theta)\bar{y}/(1 - \delta)$. This formulation implies that θ is a measure of inequality in the society: greater θ corresponds to greater inequality.

2.2. *Policies, politicians, and the constitution*

The government, consisting of the president and the legislature, will determine taxes and transfers. We assume that the only tax instrument is a proportional tax rate denoted by $\tau \in [0, 1]$, and tax revenues can be redistributed to the poor as a lumpsum transfer denoted by $T^p \geq 0$, and to the rich using the lumpsum transfer $T^r \geq 0$.⁵ In addition, tax revenues also finance rents for politicians. We assume that there is a maximum tax rate $\bar{\tau} < 1$, so that $\tau \in [0, \bar{\tau}]$. This may result from the ability

5. T^p and T^r can alternatively be interpreted as group-specific public goods.

of each individual to hide their incomes if taxes are too high.⁶ Thus there is a political conflict between the rich and the poor on how much income redistribution there should be, although the interpretation of our mechanisms may also include political conflicts other than those based on differences in income.

We denote the president by P . We also simplify the analysis by assuming that the legislature consists of a single agent, and we denote the legislator by L .⁷ With this notation, we denote the rents captured by the president by $R^P \geq 0$, and the rents captured by the legislator by $R^L \geq 0$. The government budget constraint then requires total spending, on transfers and the rents to politicians, to be less than total tax revenues, given by $\tau \bar{y}$, *i.e.*

$$(1 - \delta)T^p + \delta T^r + R^L + R^P \leq \tau \bar{y}. \quad (2)$$

Given this specification, policy can be represented by a vector $\{\tau, T^p, T^r, R^L, R^P\}$ (such that (2) holds and all elements of this vector are non-negative, which is presumed throughout the rest of the analysis without stating this explicitly).

The exact policy-making procedure depends on the constitution, which takes one of two forms:

1. The constitution may specify *checks and balances*, denoted by $\gamma = 1$, in which case the president and the legislator will jointly set policies. In particular, in this section we assume that the president announces a policy vector with tax rate, transfers, and rents, $\{\tau, T^p, T^r, R^L, R^P\}$ and the legislator can only change the allocation of rents $\{R^L, R^P\}$ (*i.e.* he is unable to change τ, T^p , and T^r).⁸
2. The constitution may specify *no checks and balances*, $\gamma = 0$, in which case all decision-making power is vested in the president. The president then determines the entire policy vector $\{\tau, T^p, T^r, R^L, R^P\}$.

Observe that under both types of constitutions, policies are decided by politicians. This implies, in particular, that there is no commitment to policies at the time of elections or any time before implementation of the policies. We assume that citizens in this society first vote in a referendum over the formal constitution, in particular on whether it should include checks and balances, and then vote in the election of the president and the legislator. We describe the timing of events in greater detail later.

Politicians belong to one of the two income groups, and they care about the utility of their income group and about their own rents and bribes. We view the feature that politicians care about their social group's income as both a realistic assumption (in particular, given that politicians from a specific social group will often have their and their families' economic fortunes tied to the rest of the group) and also a reduced-form way of capturing the impact of the party of the politician, his ideology or his concern about his longer-term political career on his behaviour. More specifically, a politician j from income group $i \in \{p, r\}$ has utility given by

$$V^{j,i} = \alpha v(R^j + b^j) + (1 - \alpha) U^i, \quad (3)$$

where $\alpha \in (0, 1)$, $b^j \geq 0$ denotes the bribes for politician j , and v is a strictly increasing, strictly concave and continuously differentiable function describing the utility for politicians from rents and

6. For example, we could suppose that each individual could hide their entire income in the informal sector and receive $(1 - \bar{\tau})y^i$. This specification implies that taxes greater than $\bar{\tau}$ would never be set.

7. The case of multi-member legislature is discussed in the Supplementary Appendix.

8. In the Supplementary Appendix, we extend the model by following Persson *et al.* (2000), in assuming that under checks and balances the president decides the tax rate while the legislature decides the spending vector.

bribes. We also assume that this function satisfies the *Inada-type conditions*: $\lim_{R+b \rightarrow 0} v'(R+b) = \infty$ and $\lim_{R+b \rightarrow \bar{y}} v'(R+b) = 0$, and we normalize $v(0) = 0$. The convenient feature implied by (3) is that because the utility function of the politicians is quasi-linear in U^i , the amount of rents a politician will choose is independent of the level of utility of his group.⁹ In what follows, we use $V^{L,i}$ to denote the utility of a politician of income group $i \in \{p, r\}$ holding office $l \in \{L, P\}$.

We also assume that for both the office of the presidency and the legislature, there are two candidates, each randomly elected from one of the income groups. Thus there will be one rich and one poor candidate for presidency, and one rich and one poor candidate for the legislature. This assumption simply ensures that voting is over two candidates. None of our results are affected if there are more than two candidates and voting takes place with transferable votes. Moreover, we assume that the quality of politicians is exogenous.¹⁰

Since $1 - \delta > 1/2$, the poor form the majority and have an electoral advantage. To counteract this, we assume that the rich are better organized and are sometimes able to exert additional influence by bribing (or lobbying) politicians. This is possible when the rich are able to solve their collective action problem and can organize to bribe politicians. How this collective action problem is solved is not essential for our analysis, and we assume that they are able to do so with probability $q \in [0, 1]$. When the rich are able to solve their collective action problem, we denote this by $\kappa = 1$, with $\kappa = 0$ denoting the converse.

When the rich are able to do so, they can pay a bribe $b^P \geq 0$ to the president and/or $b^L \geq 0$ to the legislature. We follow the lobbying literature, for example, Grossman and Helpman (1994), by assuming that bribes are paid conditional on the delivery of a certain policy. Thus a bribe offer to politician j is a vector $\{\hat{b}^j, \hat{\tau}, \hat{T}^p, \hat{T}^r, \hat{R}^L, \hat{R}^P\}$ such that if the politician implements $\{\hat{\tau}, \hat{T}^p, \hat{T}^r, \hat{R}^L, \hat{R}^P\}$, he receives \hat{b}^j , and zero otherwise. In fact, in what follows we can, without loss of any generality, restrict the bribe offers to depend only on the policy components that the politician in question directly controls, and thus under no checks and balances, we simply focus on $\{\hat{b}^P, \hat{\tau}, \hat{T}^p, \hat{T}^r, \hat{R}^L, \hat{R}^P\}$ as the bribe offer for the president, and under checks and balances, we can focus on $\{\hat{b}^P, \hat{\tau}, \hat{T}^p, \hat{T}^r\}$ for the president and $\{\hat{b}^L, \hat{R}^L, \hat{R}^P\}$ for the legislator.

If the rich pay a total bribe of $B = b^L + b^P$, each rich agent contributes equally, *i.e.* an amount B/δ . Consequently, given a policy vector $\{\tau, T^p, T^r, R^L, R^P\}$, the utilities of poor and rich agents can be written as

$$U^p = (1 - \tau)y^p + T^p, \tag{4}$$

and

$$U^r = (1 - \tau)y^r + T^r - \frac{b^L + b^P}{\delta}. \tag{5}$$

9. The important feature for our results is that the politician should choose an intermediate level of rents for himself and that when they are lower, he should be more willing to sacrifice the utility of his constituency for increasing these rents. Quasi-linear preferences yield this feature in a simple way. Later in the text and also in the Supplementary Appendix, we show that the same results can be obtained without quasi-linearity. Note also that if the politicians only cared about rents (*i.e.* $\alpha = 1$), then, as will be clear below, the poor would never want to remove checks and balances. If politicians did not care about rents (*i.e.* $\alpha = 0$), then the equilibrium would be the same with or without checks and balances. Finally, if utility were linear in its arguments, then either a politician would use all revenues as transfers or use all revenues as rents; in either case there would not be a tradeoff in the model.

10. As pointed out by Caselli and Morelli (2004), allowing politicians higher utility may result in a higher quality of agents selected into politics. Such selection effects would provide another reason for the voters to prefer the removal of checks and balances, this time to increase the utility of the president and improve the quality of politicians.

2.3. *Timing of events and equilibrium concept*

To summarize, the timing of events is as follows.

1. There is a referendum on whether the constitution should include checks and balances, *i.e.* there is a vote between $\gamma = 0$ and $\gamma = 1$. Whichever constitution receives an absolute majority is implemented.
2. Elections are held simultaneously for the office of the president and for the legislature. Whichever candidate receives an absolute majority in each post is elected.
3. All uncertainty is revealed. In particular, it becomes common knowledge whether the rich will be able to solve their collective action problem.
4. If the rich are able to solve their collective action problem, then they make bribe offers to the president and the legislator.
5. If the constitution does not include checks and balances, then the president decides the entire policy vector $\{\tau, T^p, T^r, R^L, R^P\}$.
If the constitution includes checks and balances, then the president proposes a policy vector $\{\tau, T^p, T^r, R^L, R^P\}$. After observing this policy vector, the legislator decides whether to change the allocation of rents $\{R^L, R^P\}$.
6. Policies are implemented, bribes are paid, and all payoffs are realized.

A strategy for poor agents simply determines their votes in the referendum and in the election for the presidency and the legislature. A strategy for rich agents determines their votes in the referendum and for the presidency and the legislature, and given the realization of uncertainty about the collective action problem, it also determines their bribe offers. A strategy for a politician determines policies as a function of the bribe offer of the rich lobby. A subgame perfect equilibrium (SPE) is defined, as usual, as a strategy profile in which all actions are best responses to other strategies in all histories. Since individuals take part in (multiple rounds of) voting, the set of SPE includes unreasonable equilibria in which all individuals use weakly dominated strategies (voting in favour of politicians that give them strictly lower utility because everybody else is doing so). We therefore focus on SPE in undominated strategies, and we refer to these simply as *equilibrium* throughout.¹¹

We next characterize the equilibria of the economy described so far by backward induction. We start with a given constitution, a given election outcome, and given types of politicians. We then characterize policy choices for different bribe offers (if any) from the rich lobby. After this characterization, we go to the earlier stages of the game, where we determine voting over politicians and voting in the referendum between constitutions with and without checks and balances. A full characterization of equilibrium would specify policies for any combination of politicians (rich president versus poor legislator, etc.). However, we show below that even taking into account the possibility of bribes, the poor always prefer to elect presidents and legislators from their own group. For this reason, we limit attention (without loss of any generality) to situations in which all politicians are from the poor income group.¹²

11. A further technical detail is that because voting is dynamic (first in the referendum and then for politicians), a slightly stronger notion than elimination of weakly dominated strategies is necessary. Acemoglu *et al.* (2009) propose sequentially eliminating weakly dominated strategies or the slightly stronger concept of Markov Trembling Hand Perfect Equilibrium for this class of games and show that either equilibrium notion eliminates all “unreasonable equilibria” and exists in finite games with agenda-setting structure. All of the equilibria studied here are Markov Trembling Hand Perfect. In fact, here, it is simply sufficient to eliminate equilibria where individuals vote for constitutions/politicians that give them (strictly) lower utility.

12. We relax this assumption when we study multi-member legislatures in the Supplementary Appendix.

2.4. *Equilibrium without checks and balances*

Suppose that the referendum has led to a constitution *without checks and balances*, i.e. $\gamma = 0$. In this case, all policies are decided by the president, and we can ignore the legislator.

Consider first the case in which $\kappa = 0$ so that the rich are not able to solve their collective action problem and will not make a bribe offer. Then, in the policy-making subgame, the president will solve the program

$$V^{P,P}[\gamma = 0, \kappa = 0] \equiv \max_{\{\tau, T^P, T^r, R^L, R^P\}} \alpha v(R^P) + (1 - \alpha)((1 - \tau)y^P + T^P),$$

subject to the government budget constraint (2) (where, as usual, all of the elements of the vector $\{\tau, T^P, T^r, R^L, R^P\}$ are implicitly taken to be nonnegative) and the constraint that $\tau \leq \bar{\tau}$. This expression also defines $V^{P,P}[\gamma = 0, \kappa = 0]$ as the value of the maximized program, i.e. the value of the president under no checks and balances and when the rich are not able to solve the collective action problem to bribe him. In view of the strict concavity of v , this problem has a unique solution. Moreover, the solution will involve all incomes being taxed at the maximum rate, $\bar{\tau}$, with all the proceeds spent on rents to the president and transfers to the poor (so that government budget constraint (2) holds as equality). The rents to the president are given by R^* such that

$$\alpha v'(R^*) = \frac{1 - \alpha}{1 - \delta}. \tag{6}$$

The Inada-type conditions we imposed on v ensure that R^* is feasible given the government budget constraint, i.e. $R^* < \bar{\tau}\bar{y}$. Then the transfer is given by $T^P = (\bar{\tau}\bar{y} - R^*)/(1 - \delta)$. Note for future reference that in this case the utility of poor agents is given by

$$U^P[\gamma = 0, \kappa = 0] = \frac{(1 - \theta + \bar{\tau}\theta)\bar{y} - R^*}{1 - \delta}. \tag{7}$$

Next, suppose that $\kappa = 1$. In this case, the rich lobby can make a bribe offer, $\{\hat{b}^P, \hat{\tau}, \hat{T}^P, \hat{T}^r, \hat{R}^P\}$ to the president. Let the utility that the president derives from accepting this offer and implementing the specified policy vector be $V^{P,P}(\hat{b}^P, \hat{\tau}, \hat{T}^P, \hat{T}^r, \hat{R}^P)$. By turning down this offer, the president can always obtain $V^{P,P}[\gamma = 0, \kappa = 0]$. Therefore, the bribe offer by the rich lobby must satisfy the president's participation constraint

$$\begin{aligned} V^{P,P}(\hat{b}^P, \hat{\tau}, \hat{T}^P, \hat{T}^r, \hat{R}^P) &\geq V^{P,P}[\gamma = 0, \kappa = 0] \\ &\equiv \alpha v(R^*) + (1 - \alpha) \frac{(1 - \theta + \bar{\tau}\theta)\bar{y} - R^*}{1 - \delta}, \end{aligned} \tag{8}$$

where the second relation uses (7). Imposing that there will be no bribes for the legislature in this case, the problem of the rich lobby can be written as

$$U^r(\hat{b}^P, \hat{\tau}, \hat{T}^P, \hat{T}^r, \hat{R}^P) \equiv \max_{\{\hat{b}^P, \hat{T}^P, \hat{T}^r, \hat{R}^P, \hat{\tau}\}} (1 - \hat{\tau})y^r + \hat{T}^r - \frac{\hat{b}^P}{\delta},$$

subject to (2), (8) and $\hat{\tau} \leq \bar{\tau}$. If the solution to this program gives the rich a utility level no greater than $U^r[\gamma = 0, \kappa = 0]$, then they prefer not to offer bribes (which is equivalent to making an offer identical to what the president would have chosen by himself together with $\hat{b}^P = 0$).

We show in Appendix A that the rich lobby can never get strictly higher utility by offering a bribe to the president. The president decides all policy variables. Consequently, no offer from the rich lobby that increases their own utility is acceptable to the politician (because the politician is already at his bliss point and does not wish to reduce the income of himself or the poor). Formally, we show that all offers $\{\hat{b}^P, \hat{\tau}, \hat{T}^p, \hat{T}^r, \hat{R}^P\}$ the rich lobby can make that would be accepted by the president would have to give at least as much income to the poor and rents (plus bribes) to the president, and thus cannot make the rich better off. Given this, without loss of any generality, in what follows we suppose that there is no bribery, *i.e.* $\hat{b}^P = 0$. In fact, this result also implies that with a small cost of bribery (which is plausible), the unique solution to the rich lobby's maximization problem would be zero bribes. Finally, it also follows that the utility of the poor is the same regardless of whether the rich lobby being organized or not, *i.e.* $U^p[\gamma = 0, \kappa = 0] = U^p[\gamma = 0, \kappa = 1] = U^p[\gamma = 0]$.

The intuition for this result, though simple, is worth emphasizing. Because the president is politically powerful under a constitution that does not feature checks and balances, he obtains a high level of utility; in fact, here the president is able to obtain his *political bliss point*. Importantly, this makes him *expensive* to bribe and thus unprofitable for the rich lobby to influence policy.

The following proposition summarizes the results discussed in this subsection (proof in the text).

Proposition 1. *Suppose the constitution involves no checks and balances (i.e. $\gamma = 0$). Then, regardless of whether $\kappa = 0$ or $\kappa = 1$, the equilibrium policy involves $\tau = \bar{\tau}$, $R^P = R^*$ (as given by (6)), $R^L = 0$, $b^P = 0$, $b^L = 0$, $T^r = 0$, and $T^p = (\bar{\tau}\bar{y} - R^*) / (1 - \delta)$. The utility of poor agents in this case is given by (7).*

2.5. Equilibrium under checks and balances

Suppose now that the referendum has led to a constitution $\gamma = 1$ with checks and balances. In this case the president proposes the policy vector $\{\tau, T^p, T^r, R^L, R^P\}$. Given this policy vector, the legislator can decide to change the allocation of rents, *i.e.* he effectively decides $\{R^L, R^P\}$ given $\{\tau, T^p, T^r\}$.

When $\kappa = 0$ the rich are not able to solve their collective action problem and will not make a bribe offer. In the policy-making subgame, the legislator will take $\{\tau, T^p, T^r\}$ as given and solve the program

$$V^{L,p}[\tau, T^p, T^r, \gamma = 1, \kappa = 0] \equiv \max_{\{R^L, R^P\}} \alpha v(R^L) + (1 - \alpha)((1 - \tau)y^p + T^p),$$

subject to the government budget constraint (2) and the policy vector $\{\tau, T^p, T^r\}$ decided by the president. The solution to this problem involves $R^P = 0$ and

$$R^L = \tau\bar{y} - (1 - \delta)T^p - \delta T^r. \quad (9)$$

Given this, in the prior subgame the president sets the tax rate and transfers so as to maximize

$$V^{P,p}[\gamma = 1, \kappa = 0] \equiv \max_{\{\tau, T^p, T^r\}} \alpha v(R^P) + (1 - \alpha)((1 - \tau)y^p + T^p),$$

subject to the government budget constraint (2), the constraint that $\tau \leq \bar{\tau}$, and the best response of the legislator, *i.e.* $R^P = 0$ and R^L given by (9). Substituting for R^P , this implies that $\{\tau, T^p, T^r\}$

will be chosen to maximize

$$\alpha v(0) + (1 - \alpha) \left((1 - \tau) y^p + T^p \right) = (1 - \alpha) U^p,$$

i.e. to maximize the utility of poor citizens. Intuitively, with checks and balances, the legislator will not allow the president to obtain any rents (instead grabbing all the rents himself). This then induces the president to set zero rents for all politicians, which maximizes the utility of the poor (recall that, so far, there is no bribing from the rich lobby). Consequently, in this case, the utility of poor agents is maximized and is equal to

$$U^p[\gamma = 1, \kappa = 0] = \frac{(1 - \theta + \bar{\tau}\theta)\bar{y}}{1 - \delta} > U^p[\gamma = 0, \kappa = \cdot]. \quad (10)$$

But the utility of the president is now lower than in the case without checks and balances, *i.e.*

$$V^{P,P}[\gamma = 1, \kappa = 0] = (1 - \alpha) \frac{(1 - \theta + \bar{\tau}\theta)\bar{y}}{1 - \delta} < V^{P,P}[\gamma = 0, \kappa = \cdot],$$

which implies that the president is strictly worse off because of the presence of checks and balances in the constitution.

Crucially, this advantage of checks and balances in terms of controlling the president is a double-edged sword, because it also makes the president *cheaper to buy*, as we will now see by considering the case in which the rich lobby is organized. In particular, suppose now that $\kappa = 1$ (as well as $\gamma = 1$). Then the rich lobby will make bribe offers $\{\hat{b}^L, \hat{R}^L, \hat{R}^P\}$ and $\{\hat{b}^P, \hat{\tau}, \hat{T}^p, \hat{T}^r\}$ to the legislator and the president, respectively. For the politicians to accept these bribe offers, they must satisfy the participation constraints

$$V^{L,P}(\hat{b}^L, \hat{\tau}, \hat{T}^p, \hat{T}^r, \hat{R}^L, \hat{R}^P) \geq V^{L,P}[\gamma = 1, \kappa = 0],$$

and

$$V^{P,P}(\hat{b}^P, \hat{\tau}, \hat{T}^p, \hat{T}^r, \hat{R}^L, \hat{R}^P) \geq V^{P,P}[\gamma = 1, \kappa = 0].$$

Consider first the bribing of the legislator. Since none of the politicians get rents, the rich have nothing to gain by bribing the legislator to change the allocation of rents. Thus $\hat{b}^L = 0$.

Consider next bribes from the rich lobby to the president. As noted above, under checks and balances, the president does not receive any rents and is thus relatively cheap to bribe. In particular, the rich lobby can offer bribes to the president in exchange for less income redistribution to the poor. Since when $R^P = 0$ the marginal utility of rents (and thus of bribes) is greater than the president's marginal utility of transfers to the poor, it is beneficial for the rich lobby to pay a positive bribe to the president in return for less redistribution to the poor. As in the case without checks and balances, without loss of any generality, let us focus on offers that have the minimal bribes from the rich lobby, which means that (among equivalent ones) we are focusing on those solutions with $\hat{T}^r = 0$. Taking this and the fact that $R^P = 0$ into account, the problem of the rich lobby can be written as

$$\max_{\{\hat{b}^P, \hat{T}^p, \hat{\tau}\}} (1 - \hat{\tau}) y^r - \frac{\hat{b}^P}{\delta} + \frac{\hat{\tau} \bar{y} - (1 - \delta) \hat{T}^p}{\delta} \text{ subject to} \quad (11)$$

$$\alpha v(\hat{b}^P) + (1 - \alpha) \left((1 - \hat{\tau}) y^p + \hat{T}^p \right) \geq (1 - \alpha) \left((1 - \bar{\tau}) y^p + \frac{\bar{\tau} \bar{y}}{1 - \delta} \right)$$

$$\hat{T}^p \geq 0$$

$$\bar{\tau} \geq \hat{\tau}.$$

Analysing the solution to this maximization problem enables us to establish the next proposition, which characterizes equilibrium bribes, policies, and utility levels under checks and balances.

Proposition 2. *Suppose that the constitution involves checks and balances (i.e. $\gamma = 1$). Then:*

1. *When $\kappa = 0$ so that the rich lobby is not organized and there is no bribing, the equilibrium involves $\tau = \bar{\tau}$, $R^P = 0$, $R^L = 0$, $T^r = 0$, and $T^P = \bar{\tau}\bar{y}/(1-\delta)$, and the utility of poor agents is given by (10).*
2. *When $\kappa = 1$ so that the rich lobby is organized and there is bribing, then there exists $\alpha^* \in (0, 1)$ such that:*

- (a) *If $\alpha > \alpha^*$, then $\tau = \bar{\tau}$, $R^P = 0$, $R^L = 0$, $b^P > 0$, $b^L = 0$, $T^P = 0$, $T^r > 0$, and the utility of poor agents is given by (20).*
- (b) *If $\alpha < \alpha^*$, then $\tau < \bar{\tau}$, $R^P = 0$, $R^L = 0$, $b^P > 0$, $b^L = 0$, $T^P > 0$, $T^r \geq 0$, and the utility of poor agents is given by (23).*

Taking into account that the probability the rich can solve their collective action problem and bribe politicians is q , we have that:

If $\alpha > \alpha^$, then the expected utility of the poor is given by*

$$U^P[\gamma = 1] = \frac{(1-\theta + \bar{\tau}\theta)\bar{y} - q\bar{\tau}\bar{y}}{1-\delta}. \quad (12)$$

If $\alpha < \alpha^$, then the expected utility of the poor is given by*

$$U^P[\gamma = 1] = \frac{(1-\theta + \bar{\tau}\theta)\bar{y} - q\frac{v(R^*)}{v'(R^*)}}{1-\delta}. \quad (13)$$

Proof Substituting for $y^p \equiv (1-\theta)\bar{y}/(1-\delta)$ and $y^r \equiv \theta\bar{y}/\delta$, (11) can be rewritten as

$$\max_{\{\hat{b}^P, \hat{T}^P, \hat{\tau}\}} \frac{(1-\hat{\tau})\theta\bar{y}}{\delta} - \frac{\hat{b}^P}{\delta} + \frac{\hat{\tau}\bar{y} - (1-\delta)\hat{T}^P}{\delta}$$

subject to

$$\alpha v(\hat{b}^P) + (1-\alpha) \left(\frac{(1-\hat{\tau})(1-\theta)\bar{y}}{1-\delta} + \hat{T}^P \right) \geq (1-\alpha) \left(\frac{(1-\theta + \bar{\tau}\theta)\bar{y}}{1-\delta} \right), \quad (14)$$

$\hat{T}^P \geq 0$, and $\bar{\tau} \geq \hat{\tau}$, where (14) is the participation constraint of the president, ensuring that he receives greater utility with bribery than he would do without. Denoting the multiplier on (14) by λ_1 , on the constraint that $\hat{T}^P \geq 0$ by λ_2 , and on the constraint that $\bar{\tau} \geq \hat{\tau}$ by λ_3 , the first-order conditions are that the derivatives of the maximization problem with respect to \hat{b}^P , \hat{T}^P and $\hat{\tau}$ must satisfy:

$$-\frac{1}{\delta} + \lambda_1 \alpha v'(\hat{b}^P) = 0, \quad (15)$$

$$-\frac{1-\delta}{\delta} + \lambda_1(1-\alpha) + \lambda_2 = 0, \quad (16)$$

and

$$-\frac{\theta\bar{y}}{\delta} + \frac{\bar{y}}{\delta} - \lambda_1(1-\alpha)\frac{(1-\theta)\bar{y}}{1-\delta} - \lambda_3 = 0. \tag{17}$$

From (15) it follows that $\lambda_1 > 0$, implying that the participation constraint of the president, (14), binds. From (17), and then (16), we get

$$\lambda_3 = \frac{(1-\theta)\bar{y}}{1-\delta} \left(\frac{1-\delta}{\delta} - \lambda_1(1-\alpha) \right) = \frac{(1-\theta)\bar{y}}{1-\delta} \lambda_2.$$

Thus we have two cases to consider. Either $\lambda_2, \lambda_3 > 0$ or $\lambda_2 = \lambda_3 = 0$. Now using (15) to eliminate λ_1 from (16), we find that if

$$\frac{\alpha}{1-\alpha} v'(\hat{b}^P) > \frac{1}{1-\delta}, \tag{18}$$

then $\lambda_2, \lambda_3 > 0$, which also implies $\hat{T}^P = 0$ and $\hat{\tau} = \bar{\tau}$. Conversely, if (18) does not hold, then $\lambda_2 = \lambda_3 = 0$ and $\hat{T}^P > 0$, $\hat{\tau} < \bar{\tau}$.

Next, if $\hat{T}^P = 0$ and $\hat{\tau} = \bar{\tau}$, then from constraint (14) holding as equality, the equilibrium bribe from the rich lobby, \hat{b}^P , is decreasing in α , *i.e.* $\hat{b}^P = \hat{b}^P(\alpha)$ with $\hat{b}^{P'}(\alpha) < 0$. This implies that the left-hand side of (18) is increasing in α while the right-hand side does not depend on α . So a unique value of α , $\alpha^* \in (0, 1)$, is (implicitly) defined such that

$$\frac{\alpha^*}{1-\alpha^*} v'(\hat{b}^P(\alpha^*)) = \frac{1}{1-\delta}. \tag{19}$$

If $\alpha > \alpha^*$ so that politicians care sufficiently about rents and not much about the utility of the poor, then we have $\hat{T}^P = 0$ and $\hat{\tau} = \bar{\tau}$. The utility of poor agents in this case is given by

$$U^P[\gamma = 1, \kappa = 1] = \frac{(1-\theta)(1-\bar{\tau})\bar{y}}{1-\delta}. \tag{20}$$

If, in contrast, $\alpha < \alpha^*$ so that politicians care more about the utility of their group, then $\hat{T}^P > 0$ and $\hat{\tau} < \bar{\tau}$. In this case, the equilibrium bribe is $\hat{b}^P = b^*$ such that

$$v'(b^*) = \frac{1-\alpha}{\alpha(1-\delta)}, \tag{21}$$

which in turn implies from (6) that $b^* = R^*$. From the participation constraint of the president, (14), we obtain the equilibrium transfer to the poor as

$$\hat{T}^P = \frac{\bar{y}}{1-\delta} (\hat{\tau}(1-\theta) + \bar{\tau}\theta) - \frac{\alpha}{(1-\alpha)} v(R^*) = \frac{\bar{y}}{1-\delta} (\hat{\tau}(1-\theta) + \bar{\tau}\theta) - \frac{v(R^*)}{v'(R^*)(1-\delta)}, \tag{22}$$

where the last equality follows from (6). Inserting for the transfers in the expression for the income of the poor, the utility of poor agents in this case is given by

$$U^P[\gamma = 1, \kappa = 1] = \frac{(1-\theta + \bar{\tau}\theta)\bar{y} - \frac{v(R^*)}{v'(R^*)}}{1-\delta}. \tag{23}$$

It is also straightforward to verify that in both regimes, the rich are strictly better off when paying bribes (which intuitively follows from the fact that the president is as well off and the poor

are worse off). Formally: when $\alpha > \alpha^*$, the rich lobby is strictly better off if $\bar{\tau}\bar{y} > \hat{b}^P$, which is satisfied with (strict inequality) as $\hat{b}^P < R^* < \bar{\tau}\bar{y}$. Next consider the case where $\alpha < \alpha^*$. In this case the net increase in the income of the rich relative to the case without bribing is $-\hat{b}^P + (\hat{\tau}(1-\theta) + \bar{\tau}\theta)\bar{y} - (1-\delta)\hat{T}^P > 0$. Using (22) this reduces to $v(R^*) - v'(R^*)\hat{b}^P > 0$, and since $\hat{b}^P = R^*$ and v is strictly concave, this is always satisfied, completing the proof. \parallel

The economic content of this proposition is simple. Checks and balances limit the possibility that politicians divert public resources for personal rents. All else equal, this increases the utility of poor voters. In particular, if the rich lobby is not organized and cannot bribe the president, then the utility of poor agents is given by (10), which is the highest feasible utility that they can obtain given the policy instruments. However, checks and balances also make the president relatively “cheap to bribe”. Thus when the rich lobby is organized, it can effectively bribe the president to limit redistribution to the poor, reducing the utility of poor voters (both (20) and (23) are necessarily less than (10)).

2.6. Elections

With no checks and balances in the constitution, a president from the poor will always set the tax rate at the maximum, offering redistribution to the poor. Given the politician utility function in (3), a president from the rich group would set the same tax rate as a president from the poor, but would not redistribute to the poor. Therefore, the poor strictly prefer to vote for the poor candidate. In this case, as the legislature has no political power, the utility of the poor is independent of the income group from which the legislator originates. Thus without checks and balances, voting for a poor politician in the presidential election is a weakly dominant strategy for poor citizens.

With checks and balances and no bribing, a president from the poor will set policy so as to maximize the utility of the poor. If, on the other hand, there are bribes from the rich lobby, it can be easily verified that a president from the rich group will again offer no redistribution to the poor, whereas the president from the poor group, as we have seen in Proposition 2, sometimes does. Moreover, the legislator will prevent the president from getting rents regardless of which income group the legislator originates from. Thus with checks and balances as well, voting for a poor politician in the presidential election is a weakly dominant strategy for poor citizens. In the rest of this section, we also adopt the convention that they vote for poor candidates in the legislative elections, though this has no bearing on the results.

2.7. Referendum and equilibrium checks and balances

The more interesting voting stage in our model is the referendum on whether the constitution should include checks and balances. This will depend on whether the expected utility of a poor agent (before knowing whether the rich lobby is organized) is greater without checks and balances as in Proposition 1 or with checks and balances as in Proposition 2. The next proposition answers this question:

Proposition 3. *1. Suppose that $\alpha > \alpha^*$. Then the constitution will involve no checks and balances, i.e. $\gamma = 0$, if*

$$q > \frac{R^*}{\bar{\tau}\bar{y}}, \quad (24)$$

and it will involve checks and balances if the converse inequality holds.

2. Suppose that $\alpha < \alpha^*$. Then the constitution will involve no checks and balances, i.e. $\gamma = 1$, if

$$q > \frac{v'(R^*)R^*}{v(R^*)}, \tag{25}$$

and it will involve checks and balances if the converse inequality holds.

In both cases, a greater q (a greater likelihood of the rich lobby being organized) makes a constitution without checks and balances more likely (in the sense that the set of parameters for which the constitution does not involve checks and balances is larger).

Proof An individual from the poor income group (strictly) prefers a constitution without checks and balances when $U^P[\gamma = 0] > U^P[\gamma = 1]$, and given our focus on voting using weakly undominated strategies, the referendum will lead to the outcome preferred by the poor majority. Using (7) and (12), we then obtain part 1. Using (7) and (13), we obtain part 2. The last part of the proposition directly follows from parts 1 and 2. \parallel

This proposition is the main result of the article. First, it shows that voters may rationally choose no checks and balances. They realize that checks and balances imply lower politician rents (in fact, in our simple model, it implies no rents). However, they also understand that this makes politicians “cheaper to buy” for the rich lobby. Thus when they expect it to be likely that the rich lobby can bribe the president, they may prefer a constitution without checks and balances as a way of making the president too expensive for the rich lobby to buy. We believe that this result, in a stylized way, captures the main reason why, in many weakly institutionalized polities (where the rich lobby can successfully bribe politicians or influence policies using non-electoral means), voters are willing to put up with strong leaders pursuing their own agendas, provided that they are also expected to adopt redistributive policies. In fact, in many such cases they are even willing to remove several constitutional checks on such politicians.

Second, for the same intuitive reasons, the proposition also shows that when the probability q that the rich lobby will be organized to bribe and influence politicians is greater, a constitution without checks and balances is more likely to be preferred by the poor majority. In fact, a first corollary to Proposition 3 is that:

Corollary 1. *When $q=1$, so that the rich are always able to bribe politicians, then the constitution will never include checks and balances.*

Proof This follows by noting that both (24) and (25) hold when $q = 1$ (since $R^* < \bar{e}\bar{y}$ because of the Inada conditions we imposed, and $v'(R^*)R^* < v(R^*)$ due to the strict concavity of v). \parallel

The next corollary to Proposition 3 emphasizes that the only reason why poor voters may support a constitution without checks and balances is political corruption.

Corollary 2. *If $q=0$, so that the rich are never able to bribe politicians, then the constitution will always include checks and balances.*

Proof This immediately follows by noting that neither (24) nor (25) will hold when $q=0$. \parallel

The reasoning of Proposition 3 highlights that voters are willing to put up with politician rents (resulting from the lack of checks and balances) in return for redistribution. The next corollary formalizes this notion by showing that (when $\alpha > \alpha^*$) a constitution without checks and balances is more likely when potential taxes are higher.

Corollary 3. *Suppose $q \in (0, 1)$. When $\alpha > \alpha^*$, a constitution without checks and balances is more likely when $\bar{\tau}$ is higher (when potential taxes are higher). (When $\alpha < \alpha^*$, $\bar{\tau}$ has no effect on the choice of checks and balances in the constitution).*

Proof This result directly follows by noting when $\alpha > \alpha^*$ the right-hand side of (24) is decreasing in $\bar{\tau}$ (and when $\alpha < \alpha^*$ (25) does not contain $\bar{\tau}$). \parallel

One application of this corollary is to natural resource abundant weakly institutionalized countries. Natural resource abundance makes it easier to impose higher taxes (or nationalize production). In consequence, it may be voters in resource-abundant countries, such as many Latin American ones, that find it particularly attractive to remove checks and balances from the constitution.

When $\alpha < \alpha^*$ (which implies that politicians put sufficiently large weight on the utility of the poor), the comparison of constitutions with and without checks and balances is independent of potential taxes. This is because of the quasilinear utility function in (3), which implies that the equilibrium level of bribes is independent of the level of potential taxes when $\alpha < \alpha^*$.

Proposition 3 also shows that when $\alpha > \alpha^*$ a constitution without checks and balances is more likely when (equilibrium) politician rents given by R^* are low. Even though R^* is an endogenous object in this economy, it is simply determined by the v function and α (as shown by Equation (6)).¹³ (When $\alpha < \alpha^*$, lower rents R^* have an ambiguous effect on the choice of constitution, the reason being that lower rents increase the utility of the poor both in the case where the constitution contains checks and balances and in the case where it does not.)

It is also useful to note that the value of q that is relevant both for Proposition 3 and these corollaries is the probability of the rich lobby being organized when there are checks and balances, since the lobby is ineffective without checks and balances. This also means that all of our results apply without any modification if the probability of the lobby being organized was greater, say $\hat{q} > q$, without checks and balances, and thus the assumption that the same probability applies in both regimes is simply adopted to reduce notation.

The political power of the rich lobby rests on its ability to overcome the collective action problem of its members so as to be able to influence policy through non-electoral means. The next corollary shows, perhaps somewhat paradoxically, that a better ability to overcome the collective action problem may in fact reduce the political power and utility of the rich. To see this, define q^* as the value of q that solves (24) with equality when $\alpha > \alpha^*$ and as the q that solves (25) with equality when $\alpha < \alpha^*$.

Corollary 4. *The expected utility of the rich as a function of q is increasing in q for $q \in [0, q^*]$; jumps down in q at $q = q^*$; and is constant in q for $q \in [q^*, 1]$.*

Proof For $q < q^*$, it follows from (24) and (25) that the constitution will always involve checks and balances. The expected utility of the rich when the constitution includes checks and balances is given by

$$\begin{aligned} U^r[\gamma = 1] &= (1-q) \frac{(1-\bar{\tau})\theta\bar{y}}{\delta} + q \left(\frac{(1-\hat{\tau})\theta\bar{y}}{\delta} - \frac{\hat{b}^P}{\delta} + \frac{\hat{\tau}\bar{y} - (1-\delta)\hat{T}^P}{\delta} \right) \\ &= \frac{(1-\bar{\tau})\theta\bar{y}}{\delta} + \frac{q\hat{b}^P}{\delta} \left(\frac{(1-\delta)\alpha v(\hat{b}^P)}{(1-\alpha)\hat{b}^P} - 1 \right), \end{aligned}$$

13. Another interesting implication of this kind of reasoning is that voters may find it in their own interest to elect wealthy individuals as politicians, as these may be more difficult to influence by bribing.

where the second line follows by inserting for \hat{T}^P from (14) always holding as equality.

When $\alpha > \alpha^*$ we use (19) to obtain

$$U^r[\gamma = 1] = \frac{(1 - \bar{\tau})\theta\bar{y}}{\delta} + \frac{q\hat{b}^P}{\delta} \left(\frac{\alpha(1 - \alpha^*)v(\hat{b}^P)}{\alpha^*(1 - \alpha)v'(\hat{b}^P(\alpha^*))\hat{b}^P} - 1 \right),$$

which is increasing in q for $\alpha > \alpha^*$ (since in this case $\hat{b}^P \leq \hat{b}^P(\alpha^*)$ which implies that $v(\hat{b}^P) > v'(\hat{b}^P(\alpha^*))\hat{b}^P$).

When $\alpha < \alpha^*$ we use (21) to obtain

$$U^r[\gamma = 1] = \frac{(1 - \bar{\tau})\theta\bar{y}}{\delta} + \frac{qR^*}{\delta} \left(\frac{v(R^*)}{v'(R^*)R^*} - 1 \right),$$

which is also increasing in q .

For $q > q^*$, it follows from (24) and (25) that the constitution will never involve checks and balances, in which case the utility of the rich is given by

$$U^r[\gamma = 0] = \frac{(1 - \bar{\tau})\theta\bar{y}}{\delta},$$

which is independent of q . Comparing $U^r[\gamma = 0]$ with $U^r[\gamma = 1]$ we see that the latter always exceeds the former, and the corollary follows. ||

Intuitively, with checks and balances, the utility of the rich (lobby) is monotone increasing in q —their ability to bribe politicians. But when q exceeds q^* , this triggers the lifting of the checks and balances, increasing redistribution and presidential rents, and making the rich worse off.

In sum, our baseline model shows that poor voters who make up the majority and would like to see income redistribution may prefer a constitution without checks and balances because checks and balances, by reducing politician rents, make them “cheaper to buy” for the rich lobby. Our analysis also shows that a constitution without checks and balances is more likely when the rich are more likely to solve the collective action problem and successfully bribe politicians, and when potential taxes are higher, making redistribution more valuable to the poor.

2.8. *The judiciary*

We now extend the model so that under checks and balances there is an independent judiciary and show that this does not affect the main insights presented so far, but the quality of the judiciary increases the likelihood that checks and balances will emerge in equilibrium.¹⁴

Checks and balances typically gives the judiciary an independent role, and thus the judiciary may prevent illegal bribing. In particular, we assume that when it becomes common knowledge whether the rich are able to solve their collective action problem and make bribe offers, it also becomes common knowledge whether the judiciary will be able to discover such bribing. We assume that the judiciary is able to do so with probability $s \in [0, 1]$. When the judiciary can clamp

14. The model in this subsection can be viewed as an example of a framework with multiple veto players along the lines of Diermeier and Myerson (1999). This class of models is discussed in greater detail in the Supplementary Appendix.

down on bribing, we assume that it is too costly for the rich to undertake it (given that the judiciary cannot be bribed).

Consider first the case where the judiciary is incorruptible. The only situation that differs from the model above is when $\gamma = 1$ and $\kappa = 1$, *i.e.* when there are checks and balances and the rich are able to affect policy through bribing. Now this is no longer a sufficient condition for bribing to take place, since there is a probability s we are in a case where bribing is prevented by the judiciary. It immediately follows that the probability of bribing, which was q in the previous model, is now reduced to $(1-s)q$. This case can thus be summarized in the following proposition (proof in text).

Proposition 4. *Suppose the judiciary is incorruptible. Then all of the results in Proposition 3 and the subsequent corollaries hold in the current model (with $(1-s)q$ replacing q).*

The main noteworthy implication of this proposition is that low quality of judicial institutions (low s) makes checks and balances less likely. Thus when the judicial institutions are weak voters do not see it in their own interest to have a constitution that places constraints on politicians. Judicial institutions that provide weak control over the behaviour of the rich lobby then encourage the emergence of political institutions that impose only weak controls on the president.

From this proposition it is also clear that if the judicial system were perfect in the sense that it always discovered bribing ($s = 1$) and were also incorruptible, then voters would always prefer a constitution with checks and balances (because the rich lobby would never be able to influence policy under such a constitution). When the judiciary can also be bribed, however, the picture is different. To see this consider the case where bribing will always be discovered but where the rich (when they solve their collective action problem) can also bribe the judiciary. We assume that the appointed judiciary J is from the poor and we denote the bribe to the judiciary by $b^J \geq 0$.¹⁵ In contrast to the case in the basic model, the rich will now need to bribe both the president and the judiciary. Thus the problem of the rich lobby can be written as

$$\begin{aligned} \max_{\{\hat{b}^P, \hat{b}^J, \hat{T}^P, \hat{\tau}\}} & \frac{(1-\hat{\tau})\theta\bar{y}}{\delta} - \frac{\hat{b}^P + \hat{b}^J}{\delta} + \frac{\hat{\tau}\bar{y} - (1-\delta)\hat{T}^P}{\delta} \text{ subject to} & (26) \\ \alpha v(\hat{b}^P) + (1-\alpha) & \left(\frac{(1-\hat{\tau})(1-\theta)\bar{y}}{1-\delta} + \hat{T}^P \right) \geq (1-\alpha) \left(\frac{(1-\theta + \bar{\tau}\theta)\bar{y}}{1-\delta} \right), \\ \alpha v(\hat{b}^J) + (1-\alpha) & \left(\frac{(1-\hat{\tau})(1-\theta)\bar{y}}{1-\delta} + \hat{T}^P \right) \geq (1-\alpha) \left(\frac{(1-\theta + \bar{\tau}\theta)\bar{y}}{1-\delta} \right), \end{aligned}$$

$\hat{T}^P \geq 0$, and $\bar{\tau} \geq \hat{\tau}$. Characterizing the solution to the maximization problem leads to the following proposition:

Proposition 5. *Consider the case where bribing will always be discovered by the judiciary and the judiciary can be bribed. Then there exists $\alpha^{**} > \alpha^*$ such that all of the results in Proposition 3 hold in the current model, except that α^{**} replaces α^* .*

15. If the judiciary is from the rich we are back in exactly the same model as without an independent judiciary. The reason for this is that under checks and balances, the rich get a higher utility with bribing than without, and thus the judiciary will have a higher utility not clamping down on bribing. In other words, when the rich can bribe, the participation constraint of the judiciary is thus fulfilled even with $\hat{b}^J = 0$.

Proof Denoting the multipliers on the four constraints in (26) by $\lambda_1, \lambda_2, \lambda_3$, and λ_4 , the first-order conditions with respect to $\hat{b}^P, \hat{b}^J, \hat{T}^P$, and $\hat{\tau}$ are:

$$-\frac{1}{\delta} + \lambda_1 \alpha v'(\hat{b}^P) = 0, \tag{27}$$

$$-\frac{1}{\delta} + \lambda_2 \alpha v'(\hat{b}^J) = 0, \tag{28}$$

$$-\frac{(1-\delta)}{\delta} + (\lambda_1 + \lambda_2)(1-\alpha) + \lambda_3 = 0, \tag{29}$$

and

$$-\frac{\theta \bar{y}}{\delta} + \frac{\bar{y}}{\delta} - (\lambda_1 + \lambda_2)(1-\alpha) \frac{(1-\theta)\bar{y}}{1-\delta} - \lambda_4 = 0. \tag{30}$$

From (27) and (28) it follows that the participation constraints of the president and judiciary hold with equality. Moreover, both participation constraints holding as equality implies that $\hat{b}^L = \hat{b}^J$, and this in turn implies $\lambda_1 = \lambda_2$. From (29) and (30) we then get $\lambda_4 = \lambda_3(1-\theta)\bar{y}/(1-\delta)$. Solving for λ_1 from (27) and inserting in (29), we find that $\lambda_3, \lambda_4 > 0$ and thus $\hat{T}^P = 0$ and $\hat{\tau} = \bar{\tau}$ if

$$\frac{\alpha}{1-\alpha} v'(\hat{b}^P) > \frac{2}{1-\delta}. \tag{31}$$

The participation constraint of the president also implies that when $\hat{T}^P = 0$ and $\hat{\tau} = \bar{\tau}$, \hat{b}^P must be decreasing in α , *i.e.* $\hat{b}^P = \hat{b}^P(\alpha)$ with $\hat{b}^{P'}(\alpha) < 0$. Thus the left-hand side of (31) is increasing in α , while the right-hand side does not depend on α . The following equation thus implicitly defines a unique value of α , α^{**} , such that

$$\frac{\alpha^{**}}{1-\alpha^{**}} v'(\hat{b}^P(\alpha^{**})) = \frac{2}{1-\delta}. \tag{32}$$

Note from (32) that the only change from Equation (19) in the basic model is that the right-hand side of (32) is twice the right-hand side of (19). This immediately implies $\alpha^{**} > \alpha^*$.

It is then straightforward to see that when $\alpha > \alpha^{**}$ the condition for the poor to prefer no checks and balances is identical to the case where $\alpha > \alpha^*$ above. When $\alpha < \alpha^{**}$ the condition is also the same as when $\alpha < \alpha^*$ above, but with b^* replaced by $b^{**} < b^*$ such that

$$v'(b^{**}) = \frac{2(1-\alpha)}{\alpha(1-\delta)}. \quad \parallel \tag{33}$$

Note also that, with the exception of Corollary 1, all of the corollaries above hold. The reason Corollary 1 need not hold is because when $\alpha < \alpha^{**}$ the condition for no checks and balances in the constitution is given by $q > v'(b^{**})R^*/v(b^{**})$ (where b^{**} is given by (33) in the proof of Proposition 5), which in contrast to the case above need not hold when $q=1$. The intuition for this is that the bribing solution is now more favourable for the poor compared to the case above, as the solution involves more income redistribution and lower bribes.

2.9. Income inequality

In the above model, income inequality did not affect the choice of the poor to remove checks and balances from the constitution or not. This is a result of our simple utility function. We

now explore the solution of the basic model when the utility function of politicians is no longer quasi-linear. In particular, suppose that the utility function of a politician j from income group $i \in \{p, r\}$ is given by

$$V^{j,i} = (R^j + b^j + r)^\beta (U^i)^{1-\beta}, \quad (34)$$

where $\beta \in (0, 1)$, and $r > 0$ denotes the ego rents of becoming an elected politician. These ego rents may also be interpreted as the wage of a politician. With $r > 0$ the utility function is defined and well behaved also in cases where $R^j + b^j = 0$.

To facilitate comparison with the model above that does not include ego rents, we simplify by focusing on the case where $r \rightarrow 0$, so that for simplicity the ego rent term vanishes. Nevertheless, the presence of this vanishing term implies that even when $R^j = b^j = 0$ the utility function has standard properties. We show the solution in this case and also in the slightly more complicated case when r can take any value in the Supplementary Appendix.

We then reach the following proposition:

Proposition 6. *Let $\beta^H \equiv \frac{\bar{\tau}}{1-\theta+\bar{\tau}\theta}$ and suppose that $r \rightarrow 0$. Then:*

1. *When $\beta > \beta^H$ the constitution will always involve checks and balances.*
2. *When $\beta < \beta^H$ then the constitution will involve no checks and balances if*

$$q > \frac{\beta(1-\theta+\bar{\tau}\theta)}{\bar{\tau}}, \quad (35)$$

and it will involve checks and balances if the converse inequality holds.

Proof See the Supplementary Appendix. \parallel

As in the basic model a higher q and a higher $\bar{\tau}$ make it more likely that checks and balances are removed from the constitution. But importantly, we can also see that because the right-hand side of (35) is decreasing in θ , removal of checks and balances are more likely with greater inequality, which is stated in the next corollary.

Corollary 5. *A constitution without checks and balances is more likely when θ is greater (when income inequality is higher).*

Intuitively, without checks and balances the president now appropriates less rents when inequality is higher (with quasilinearity these rents did not depend on inequality). The more general utility function considered here then implies that the extent of redistribution increases with inequality, and this raises the cost to the poor of bribes by the rich lobby, and thus encourages the removal of checks and balances when there is more inequality.

2.10. Robustness

The main insight we have emphasized so far is that checks and balances may be costly for the poor majority because, by reducing the president's rents, they make him more amenable to lobbying and bribery by an organized rich lobby. In the Supplementary Appendix, we show that this main insight is robust under a variety of different modelling assumptions. We first consider another model of separation of powers, along the lines of Diermeier and Myerson (1999) and Tsebelis (2002), where checks and balances give the legislature veto power over all dimensions of policy. We show that all of the results from our baseline model apply for this model as well.

We also study an alternative model of separation of powers along the lines of Persson *et al.*'s (1997, 2000) approach, which assumes that, under separation of powers, the president decides the tax rate and the legislature makes the spending decisions. We again show that all of our main results generalize to this case. In addition, we show that now, even with quasilinear utility function, checks and balances are more likely to be removed when income inequality is high. This is because in this model, even with checks and balances, there are equilibrium rents, now captured by the legislator, and as a consequence, the president may choose a tax rate less than the maximum. When the rich lobby is organized, the president may respond to bribes by choosing redistribution away from the poor to the rich rather than the other way around. As a result, redistribution towards the poor without checks and balances becomes more valuable to the poor when inequality is high, and this encourages the removal of checks and balances with high inequality.

Finally, we also use this alternative model of separation of powers to study how including political minorities (representatives of the rich) in the legislature affects the results. The main result is the following paradoxical finding: greater power sharing in the legislature can backfire and lead to an equilibrium with fewer checks on the president. Thus when the rich are politically powerful in parliament, their power may end up being stripped off through changes in the constitution.

3. CASE STUDY EVIDENCE

In this section, we provide case study evidence from Ecuador, Venezuela, and Bolivia, three countries exemplifying the mechanisms proposed in this article.¹⁶ We focus on the arguments of the main protagonists themselves in Bolivia, Ecuador, and Venezuela as well as the conventional wisdom in the secondary academic literature. In each case, the evidence suggests that the rhetoric of the presidents seeking greater powers and the support they ultimately received was based on the perception that the “oligarchy” was wielding disproportionate political power, largely because of its ability to control and buy politicians at all levels of government. In all three cases, the “politics of betrayal” (or fear of such betrayal) was crucial to these dynamics as previous presidents brought to power to change politics-as-usual either backtracked or were unsuccessful.

The overall interpretation in the secondary academic literature, which depicts the changes we have been analysing as part of Latin American populism, is also broadly supportive of this interpretation. Though there is no convention about the exact definition of populism, existing studies all portray populism in very similar ways. For example, Levitsky and Roberts (2011, p. 6) define it as “the top-down political mobilization of mass constituencies by personalistic leaders

16. The other two countries that have experienced similar major removals of congressional checks against presidential powers since the late 1980s are Peru and Nicaragua. In Peru, President Alberto Fujimori suspended the sitting congress by issuing Decree 25418 in 1992, and oversaw new elections in which his supporters gained a majority in the congress. They proceeded to rewrite the constitution, moving from a bicameral to a unicameral legislature, weakening the congress and judicial independence, and strengthening presidential powers. These changes were popularly approved by a referendum (Mauceri, 2006). In Nicaragua, the process started with the 1987 Sandinista constitution, which strengthened presidential powers, for example by moving from bicameral to unicameral legislature. The constitution was amended again in 1995 during the Violeta Chamorra government to strengthen the power of the legislature, for instance, allowing it to over-ride presidential decrees by a simple majority. Presidential powers were increased again under Daniel Ortega, in 2009, allowing him to run again for presidency in 2011. In addition, there have also been increases in the powers of the president (but no major removals of congressional checks) in Argentina, where President Carlos Menem ran for office again in 1994 by changing the constitution to relax term limits; in Columbia, where President Álvaro Uribe did the same in 2004. In Honduras, however, President Manuel Zelaya attempted to start a process of constitutional change in 2009, but this was stopped by a coup.

who challenge established political or economic elites on behalf of an ill-defined pueblo, or ‘the people’”. Similarly De la Torre (2010, p. viii) argues “Populist leaders have constructed politics as a...confrontation...between the people and the oligarchy” and “populism is a...worldview...that perceives history as a Manichean struggle between...[the] common interest of the citizens...[and] a conspiring elite. Wholesale institutional change...is required in order to restore the will of the people” (Hawkins, 2010, p. 5). This literature notes the correlation between the rise of populist leaders such as Chávez in Venezuela, Correa in Ecuador, and Morales in Bolivia, but it has not proposed any precise mechanism linking populism as a political strategy to the dismantling of checks and balances, and it does not clarify why citizens who vote for populist leaders would not be equally interested in using checks and balances to stop them extracting rents than any other type of leader.

Though the evidence we present does not precisely pinpoint the mechanism underlying the dismantling of checks and balances and the support for “strongman” politicians in Latin America, it does paint a picture where support for such measures originates from a widespread view that politics is dominated by a traditional elite or “oligarchy”, a phenomenon made possible by this elite’s control over the legislature and sometimes over the presidents. Notably, and perhaps at first paradoxically, the solution to this is viewed by the protagonists as strengthening the state and the presidency, exactly as in our model (though of course without the formal reasoning in our model).

A related question is why this backlash favouring presidential power has taken place in Latin America and why this started in the late 1990s and then came to a head in the 2000s. Though we do not have a precise answer to this question, we suspect it is related (1) to the reality that politics in many Latin American countries has been dominated by traditional elites through corruption and other non-electoral means, underpinning the very high levels of economic inequality in much of the region, and (2) to the collapse of these non- or quasi-democratic regimes in several countries in the 1990s, opening the way to electoral competition with stronger appeals to the fundamental concerns of the majority of voters in these countries.¹⁷

Ecuador: Democracy returned to Ecuador in 1979 after the withdrawal of the military from politics. The following period degenerated into political instability with a pattern emerging of presidents running for power on redistributive “populist” platforms, from which they deviated after assuming power, only to be thrown from power by popular uprisings which were then ratified in some way. The most recent episodes feature the election of Abdalá Bucaram in 1996 on a redistributive platform aimed at reversing “Washington consensus” type policies. Once in power, Bucaram abandoned the policies and imposed fiscal retrenchment and was forced from office within one year by street demonstrations. He was followed by Jamil Mahuad, elected in 1998 and forced from office by a joint civilian-military coup in 2000, partially in response to the dollarization of the economy and the bailing out of the banking system which “from the point of view of ordinary citizens...looked like a generous bailout of predatory financiers” (Conaghan, 2012, p. 263). Next was Lino Gutiérrez, who took part in the coup and was elected as president on a left-wing platform, only to be forced from power by a popular uprising in 2005 after also

17. For example, though Ecuador came out of military rule in 1979 and for the first time illiterate citizens could also vote, politics was at the time still controlled by the traditional elite, especially via the clientelistic party system. It took time for the previously disenfranchised to organize with their first success being the election of Abdalá Bucaram in 1996. But as we explain below, it did not lead to significant changes in policy, fueling concerns of the “politics of betrayal” and setting the scene for Correa’s presidency as we explain below. The political history of Bolivia is similar with the military leaving even later, in 1982. In Venezuela, the military left in 1958 but were replaced by a two-party “partyarchy”. The political barriers to entry that the system posed were eroded only in the 1980s as a result of economic crisis and mounting corruption scandals.

renege on his agenda. In the transitional government that replaced Gutiérrez, a young economist, Rafael Correa, got the job as minister of finance. He used his position as a platform to attack the “neoliberal” economic policies of his predecessors and launched a bid for the presidential election in 2006. Correa’s campaign focused on

two overarching, interrelated themes: (1) the degeneration of state institutions and the moral bankruptcy of the political class and (2) the disintegration of the nation/homeland (*patria*) as a result of the elite-imposed economic policies that sacrificed the public interest in favor of private gain. In Correa’s imagery, Ecuador was a country “kidnapped”, a nation held hostage by political and economic elites...the state was an edifice of domination controlled by the traditional parties, the *partidocracia* (the “partyarchy”) (Conaghan, 2012, p. 265).

Correa’s vision based on the control of the political system by the “partidocracia”, the elite, or the “oligarchy” was crucial to his broader rhetoric. So he advised supporters:

Let’s not be naive... We won the elections, but not power. Power is controlled by economic interests, the banks, the partidocracia, and the media connected to the banks. (Conaghan, 2008, p. 47)

During the campaign Correa gambled on his power to re-write the constitution. His party Movimiento Patria Altiva y Soberana (Proud and Sovereign Fatherland Movement—PAIS) did not run any candidates for congress. Nevertheless after taking office in January 2007 by April, he forced through a referendum on whether to hold a constitutional convention. Eighty-two per cent of people voted in favour. In elections held that September his party took 80 of the 130 seats in the convention, and its first action was to dissolve the sitting congress, a hotbed of opposition. The convention sat until July 2008, and “Not surprisingly, the institutional design of the new constitution strengthened the executive branch. It provided the president with various pathways to manage Ecuador’s chronic problem of executive-legislative stalemate. For example, the president can convoke referenda on virtually any issue, thus trumping legislative opponents. Another weapon...is the power to dissolve the legislative and call new elections once during his term of office. The constitution also stripped the legislative assembly of powers with respect to appointments in the judicial and executive branch...The capstone of presidential power in the new constitution is the provision allowing the president to run for an additional consecutive terms of four years: this reversed Ecuador’s previous practice” (Conaghan, 2012, p. 271). The new constitution was approved by 64% of the voters in September 2008.

What were the consequences of this rebalancing of political power? A significant one for this article is described by Conaghan (2012, p. 274): “the Correa administration took actions to eliminate or significantly eclipse the influence of interest groups. In some cases this involved reasserting central government control over public entities that had been controlled by interest groups or rejigging the composition of their boards”. But overall, the entire project was driven by the notion that Ecuadorian politics was controlled by the elite or the “oligarchy” whose power had to be broken. As Conaghan and de la Torre (2008, p. 278) put it, his view was that

political opponents are not simply wrong-headed, misguided, or misinformed; they are corrupt and immoral representatives of the privileged, *la oligarquía*.

The same motivation for the dismantling of checks and balances and strengthening of presidential powers is clearly articulated in Rafael Correa’s speeches since he assumed power in Ecuador. No doubt his speeches contain large amounts of rhetoric, yet presumably this rhetoric strikes a chord with the Ecuadorian voters which is why he uses it. The way he analyses the problems of Ecuadorian politics in these speeches is very consistent and uses a recurrent set of concepts and images. For example, on 28 February 2007, he made a significant speech, proposing

a referendum for a constitutional assembly and advocating a new constitution as a means of breaking the capture of political institutions by Ecuadorian elites. He began:

We said we were going to transform the fatherland in the citizen's revolution, democratic, constitutional...but revolutionary, without getting entangled in the old structures, without falling into the hands of those with the traditional power, without accepting that the fatherland has particular owners. The fatherland is for everyone without lies with absolute transparency... (Correa, 2007a, p. 2)

He continued, referring to the same elite as the "mafias", and articulating the notion that the objective is to strengthen the (his) presidency in order to reduce the de facto power of the elite:

A new constitution is required...to extract the country from the economic, political and social blockade, to which the mafias who have always dominated, have condemned this country...of course today there are still other de facto powers and we are seeing them, these are powers that believe that they are owners of regions and the country, owners of truth, owners of the president of the republic. (Correa, 2007a, p. 5)

On 15 March 2007, addressing the congress, Correa argued that the government was not going to be bribed into abandoning its principles, stressing that the threat was for the elite to use its financial power to bribe all levels of governments and politicians.

This government is not submissive, it's not for sale and it doesn't know, as someone said a long time ago "the geometry of the bent knee",...Maybe that's why they don't understand who we are. They try to find the man with the bag...in the figure...of the vicepresident of the republic. (Correa, 2007b, p. 11).¹⁸

Correa continually relates the capture of institutions by the elite to the pre-existing structure of institutions, particularly the constitution of 1998. On 25 July 2008, Correa addressed the closing session of the Constitutional Assembly, noting: "Let's not forget that the 98 constitution was never brought forward for the consideration of the people, and that the ones who dominated that constitution are now the ones leading the campaign for the no" (Correa, 2008a, p. 21). The new constitution was different and was going to be democratically ratified, but it nevertheless dismantled checks and balances. In a very telling passage of the same speech on 25 July, Correa also justifies the stripping of the powers of the Supreme Court: "This is the constitution of the 21st century...the title of supreme has been eliminated from the different institutions, the Supreme Court of justice, here the only one which is supreme is the Ecuadorian people, on it depends all the decisions" (Correa, 2008a, p. 23).

After the new constitution had been proposed, it had to be ratified by a plebiscite. Correa campaigned vigorously for a yes vote, arguing: "We didn't make concessions with the 'partidocracia'. We summoned a constitutional assembly in our first act of government and now we have a new political charter for the country, which totally breaks with the regime of perks and privileges consecrated in the 1998 Constitution." Correa argues that the new constitution is not authoritarian or one of "hyper-presidentialism", but one which attempts to make the state (and in particular, the president) stronger and which gives it the capacity to implement policies for the development of the nation (Correa, 2008b, p. 10). Confronting this project are "powerful enemies, groups who, as we have seen, have in a stubborn and shameless way lied without scruples...so they don't lose their privileges, their spaces...We have confronted the big media power which is now taking the place of the ruined partidocracia, this is the direct voice of the powerful the instrument in the service of the bastard's interest" (p. 13).

18. By "the geometry of the bent knee" ("la geometría de la rodilla doblada"), Correa means the government will not be begging on its knees to the elite. With "the bag", in Spanish "el maletín", he refers to a bag of money used to bribe politicians.

Summing up the importance of ratifying the constitution, Correa articulated the notion that the dominant elite in Ecuador was able to control politics by its control of all levels of governments, including the presidency and the legislature, and demanded greater powers for the state and the president in order to change things, ideas that echo the key components of our model. The picture that emerges both from Correa's own political platform and his explanation for it and the analysis of political scientists and students of Ecuadorian politics is thus fairly close to the mechanisms that are central to our model, even though, to the best of our knowledge, nobody has articulated it as exactly in our model.

Venezuela: The roots of the rise to power of Hugo Chávez after 1999 have many similarities with the Ecuadorian case. The first is an oligarchic party system in the case of the “punto fijo system” in Venezuela, named after the pact of 1958 between the two major parties, AD (Acción Democrática) and COPEI (Comité de Organización Política Electoral Independiente) to share and rotate power. Behind the elites of the political parties were a group of economic elites known as the “twelve apostles” (Di John, 2009, p. 212). Coppedge (1994) refers to the system as a “partyarchy” noting that Venezuelans themselves called it a *partidocracia*, exactly the same word used so pejoratively in Ecuador by Correa (see also Crisp, 2000). The second is the experience of new forces coming to power with alternative platforms and then changing their minds once in power. In Venezuela this process was manifested in the presidency of Carlos Andrés Pérez, who implemented free market reforms after being elected on a completely different platform. In 1992 he faced a military coup masterminded by Chávez and a group of military officers under the banner of the *Movimiento Bolivariano Revolucionario 200*. Though the coup failed, the officers were released from prison by Pérez's successor Rafael Caldera.

Chávez was first elected president in 1998 and thereafter, like Correa, he focused on the process of getting the constitution re-written. We noted some of the important changes away from checks and balances in Venezuela in the Introduction. In addition, there was also a movement away from the use of super-majorities (also common in all cases) so that, for example, future constitutional changes can be approved by a simple majority of the legislature. Also significant was the fact that the legislature could grant by a majority almost unlimited decree powers to the president, a feature which has seen heavy use. These powers turned out to be significant in many ways. For example in 2004 the National Assembly passed a law expanding the size of the Supreme Court from 20 to 32 members and making it possible to ratify the appointment of new judges with a simple majority. Five justices resigned in protest, allowing Chávez to nominate 17 new justices (Castaldi, 2006).

The rhetoric which Chávez used to argue in favor of the constitutional reform was very similar to that used by Correa. As he himself put it, the problem was:¹⁹

how to break with the past, how to overcome this type of democracy that only responds to the interests of the oligarchical sectors; how to get rid of the corruption (quoted in Wilpert, 2003)

Chávez's arguments were persuasive because ordinary people viewed the Venezuelan elite as “a corrupt cogollo (big wigs) that had privatized the state, looted the nation's wealth and abused the people... The people have been betrayed by their leaders and democracy has become a façade behind which an elite had used the state for its own advantage” (Coronil, 1997, p. 378).

Unlike the much sparser academic literature on either Ecuador or Bolivia, that on Venezuela has developed more explicit hypotheses about the rise of Chávez and the political success of his movement (see Hawkins, 2010 Chapter 5 and Seawright, 2012 Chapter 1). The main ideas in this literature are that Chávez triumphed because of (1) economic decline (the so-called “economic

19. See also Hawkins (2010, Chapter 3) for many similar examples.

voting hypothesis”); (2) a rise in oil prices which facilitated his redistributive platform; (3) the corruption of the pre-existing political parties, the hypothesis favoured by both Hawkins and Seawright. Hawkins (2010, p. 6), for example, sums up his argument on the importance of corruption of pre-existing political parties by stating “populist movements become successful when there is a widespread failure of government to implement rights of citizenship, particularly the rule of law, that allows citizens to characterize their governments as corrupt”. Though this latter idea is in the spirit of our analysis, neither scholar provides a specific mechanism as to why concern for corruption with pre-existing political elites would induce voters to support the removal of checks and balances. Indeed the conventional wisdom in political economy would suggest the opposite course of action.

Though political scientists have attempted to develop rational theories of Chavismo, there are many who remain baffled by the whole phenomenon. For example Krauze (2009, p. 10) concludes “Chávez does not act like the president of Venezuela; he acts like its owner. He is the proprietor of his public office, the CEO of state enterprises that answer to no laws of transparency and accountability, the big and indiscriminate spender of oil revenues (between 1999 and 2008 he spent, on average, \$122 million per day), the supreme leader of a Legislative Assembly and Tribunal of Justice that is supposed to serve as a check and a balance”. The model of this article can help explain why the majority of voters in Venezuela are prepared to support such a situation. The fact that Chávez acts as the “owner” of Venezuela and engages in a foreign policy that does little for most Venezuelans corresponds to a form of (significant) rents conceded by voters to Chávez in order to get the policies they want in other dimensions.

Bolivia: The final case we briefly discuss, which also highlights several ideas developed in our model, is Bolivia. An important aspect of Bolivian politics over the last decade, left out of our model, is the rise of indigenous politics. Evo Morales, the leader of the MAS party (Movimiento Al Socialismo—Movement Towards Socialism) was elected president for the first time in December 2005. His government was elected “to put into practice what other governments had decided or accepted... The political failure to put these pacts into practice led to a loss of legitimacy among the parties... such as Poder Democrático Social (Podemos...). For a large section of voters, Podemos came to personify the traditional political party-game in which a series of formations take turns at being in power and sharing out posts: the so-called ‘democracy by agreement’ ” (Aguirre and Moreno, 2006). Thus, as discussed above, Bolivia also shares the important legacy of “politics of betrayal” with Ecuador and Venezuela, having also seen a president promising change entirely fail at delivering it. Moreover, as in these other cases, popular revolt forced presidents—in the Bolivian case, Gonzalo Sánchez de Lozada in 2003—from power in the period leading up to the dismantling of checks and balances.

Like Correa and Chávez, Morales came to power set on re-writing the constitution, and creating a constitutional assembly was one of his first acts. In this assembly, MAS had a majority but not the 2/3 representation required to completely dominate the process (a difference with the other cases). Re-writing the constitution was justified by Morales in similar ways to that of Correa and Chávez. De la Torre (2010, p. 119) notes that the perception that democracy in Bolivia had been captured by white elites could be seen by the fact that “Aymara leaders refer to Bolivia’s representative democracy as q’aracracia, a term that “combines q’ara (‘plucked,’ ‘bare’ or ‘hairless’ in Aymara and Quechua, meaning ‘white person’) with ‘democracia’”. The new constitution, ratified by a plebiscite in January 2009, “brought about sweeping changes to the Bolivian state that strengthened executive authority and undermined horizontal accountability” (Madrid, 2012, p. 252). In addition to the change in the presidential term limit to allow for two terms (MAS wanted permanent re-election but could not get it into the constitution), these changes included getting rid of supermajorities on the confirmation of government appointees

such as ombudsman, comptroller general and the National Election Court. The changes enshrined in the constitution soon led to further reductions in checks and balances; for instance in early 2010 a law was passed authorizing Morales to appoint 5 Supreme Court justices, 10 Constitutional Tribunal judges, and 3 members of the Judicial Council, none of which would have been possible under the old constitution. Madrid concludes his analysis (2012, pp. 239–240) “Although the MAS has helped boost political participation and increase mass satisfaction with democracy... it has... undermined democratic checks and balances”.

The evidence suggests that these changes have strengthened people’s confidence in democracy rather than undermined them. In the Latinobarómetro surveys the proportion of people who were satisfied or very satisfied with democracy in Bolivia rose from 24% in 2005 to 41% in 2007 and 50% in 2009. The raw data from the Latin American Public Opinion Project, shows a similar pattern (see Madrid, 2012, p. 254, for discussion). Thus the Bolivian case further highlights not only the popularity of the removal of checks on presidential power but also that this strengthened people’s belief in democracy. In our model, this is because removing checks and balances helps people to get a policy closer to the one they want.

Summing up the commonalities of the political transitions that have occurred in Ecuador, Venezuela, and Bolivia, Ellner (2012, p. 98–99) argues that a distinguishing feature “is their defense of radical democracy... and rejection of many of the precepts of liberal democracy... [which] with its central concern for the rights and prerogatives of minorities (which is often synonymous with “elites”), places a premium on the system of checks and balances and the diffusion of authority”. Our model formalizes precisely why citizens in these countries would wish to move from “liberal” to “radical” democracy.

4. CONCLUSION

In many weakly institutionalized democracies, particularly in Latin America, voters have recently dismantled constitutional checks and balances that are commonly thought to limit presidential rents and abuses of power. In this article, we develop an equilibrium model of checks and balances in which voters may vote for the removal of such constraints on presidential power. Our main argument is simple: checks and balances are indeed effective (at least partially) in reducing presidential discretion and preventing policies that are not in line with the interests of the majority of the citizens. This naturally reduces presidential rents, which is however a double-edged sword. By reducing presidential rents, checks and balances make it cheaper to bribe or influence politicians through non-electoral means such as lobbying and bribes. In weakly institutionalized polities where such non-electoral influences, particularly by the better organized elite, are a major concern, voters may prefer a political system without checks and balances as a way of insulating politicians from these influences. In consequence, voters may dismantle checks and balances, implicitly accepting a certain amount of politician rent or politicians’ pet policies that they do not like, in order to ensure redistribution when they believe that the rich elite can influence politics through non-electoral means.

Though simple, our model leads to a number of interesting comparative statics. In particular, we show that checks and balances are less likely to emerge when politician rents are low in equilibrium; when the elite is better organized and more able to influence or bribe politicians; and when inequality and potential taxes are high (which makes redistribution more valuable to the majority).

To illustrate the main insight in this article, that checks and balances, by reducing politician rents, also make them easier to bribe by the better organized rich elite, we set up a very simple model of checks and balances in which the legislature can control the distribution of rents between itself and the president, forcing the president to choose zero rents and use all tax revenues for

redistribution. We show in the Supplementary Appendix that the same insights apply with different models of checks and balances. In particular, we analyse both a model in which the presence of checks and balances implies veto power by the president and the legislature related to the view in Diermeier and Myerson (1999) and a variant of the model proposed by Persson *et al.* (1997, 2000), where separation of powers (checks and balances) corresponds to the separation of taxation and spending decisions. With both alternatives, it continues to be the case that checks and balances, again by making politicians cheaper to bribe, are potentially costly to the majority. We also show how providing representation to political minorities (here the rich elite) in the legislature, paradoxically, may make the rich worse off because it encourages dismantlement of checks and balances.

We view our article as only one facet of the paradoxes of democratic politics under weak institutions. The more general message is that in such environments, political conflict can lead to the opposite of the results that we are used to from environments with strong institutions. Thus while voters always prefer checks and balances under strong institutions, they may prefer the absence of checks and balances under weak institutions. Similarly, perhaps, under weak institutions, voters may vote for incumbents that have chosen policies that are not in line with their preferences because this may be viewed as a signal that politicians are independent (as argued in Acemoglu *et al.*, 2013). Furthermore, under weak institutions political competition can lead to a situation in which the group currently holding power may fear a power switch and as a result, entirely fail to monitor its leaders (*e.g.* Padro-i-Miquel, 2007) and a levelling of the democratic playing field may sometimes lead to worse outcomes because of the reactions from the elite that this engenders (*e.g.* Acemoglu and Robinson, 2008). We believe that further analysis of how, under weak institutions, political competition works and may get distorted, and perhaps how it can be designed so that it does not, is a fruitful area of future research.

APPENDIX A

In this appendix, we show that without checks and balances there does not exist a bribing proposal that gives the rich strictly higher utility, and also that all bribing proposals are payoff equivalent for all agents. The problem for the rich lobby to solve is

$$\begin{aligned} & \max_{\{\hat{b}^P, \hat{T}^P, \hat{T}^r, \hat{R}^P, \hat{\tau}\}} \frac{(1-\hat{\tau})\theta\bar{y}}{\delta} + \hat{T}^r - \frac{\hat{b}^P}{\delta} \text{ subject to} \\ & \alpha v(\hat{b}^P + \hat{R}^P) + (1-\alpha) \left(\frac{(1-\hat{\tau})(1-\theta)\bar{y}}{1-\delta} + \hat{T}^P \right) \geq \alpha v(R^*) + (1-\alpha) \left(\frac{(1-\theta + \bar{\tau}\theta)\bar{y} - R^*}{1-\delta} \right) \\ & \hat{\tau}\bar{y} \geq (1-\delta)\hat{T}^P + \delta\hat{T}^r + \hat{R}^P. \end{aligned}$$

Denoting the multipliers on the two constraints by λ_1 and λ_2 , the first-order conditions with respect to \hat{b}^P , \hat{T}^P , \hat{T}^r , \hat{R}^P , and $\hat{\tau}$ are:

$$-\frac{1}{\delta} + \lambda_1 \alpha v'(\hat{b}^P + \hat{R}^P) = 0, \quad (\text{A.1})$$

$$\lambda_1(1-\alpha) - \lambda_2(1-\delta) = 0, \quad (\text{A.2})$$

$$1 - \lambda_2 \delta = 0, \quad (\text{A.3})$$

$$\lambda_1 \alpha v'(\hat{b}^P + \hat{R}^P) - \lambda_2 = 0, \quad (\text{A.4})$$

and

$$-\frac{\theta}{\delta} - \lambda_1 \frac{(1-\alpha)(1-\theta)}{1-\delta} + \lambda_2 = 0. \quad (\text{A.5})$$

From (A.1) it follows that $\lambda_1 > 0$ and from (A.3) that $\lambda_2 > 0$, establishing that the participation constraint of the president and the budget constraint both hold with equality. Substituting for λ_1 and λ_2 in (A.2) we find

$$\alpha v'(\hat{b}^P + \hat{R}^P) = \frac{1 - \alpha}{1 - \delta}, \quad (\text{A.6})$$

which implies, from (6), that $\hat{b}^P + \hat{R}^P = R^*$. From the participation constraint of the president holding with equality, the income of poor agents must be unchanged compared to the case without bribing. Substituting for \hat{T}^P from the budget constraint in the participation constraint of the president we then find the tax rate as

$$\hat{\tau} = \bar{\tau} - \frac{\hat{b}^P - \delta \hat{T}^r}{\theta \bar{y}}.$$

Substituting this in the maximand of the rich we find

$$\frac{(1 - \hat{\tau})\theta \bar{y}}{\delta} + \hat{T}^r - \frac{\hat{b}^P}{\delta} = \frac{(1 - \bar{\tau})\theta \bar{y}}{\delta},$$

which shows that any bribing proposal leaves the rich with the same income as if they do not bribe. Thus any lower tax rate or higher transfer to the rich must be compensated by the exact same amount in bribes, leaving all agents with the exact same utility as if there is no bribing. (Also, note that (A.5) is redundant as inserting from λ_1 and λ_2 this reduces to (A.6)). Thus without loss of any generality we consider the case where $\hat{b}^P = 0$.

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Supplementary Data

Supplementary data are available at *Review of Economic Studies* online.

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