The Electoral Costs of Policy Commitments

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Abstract

Existing arguments posit that parties in government use domestic or international institutions to lock in their own policy preferences by tying the hands of successors. This paper shows that these arguments contrast with the assumption of office-seeking parties, and therefore portray an incomplete picture of the incentives of governments. The paper emphasizes the trade-off between implementing policy preferences, on the one hand, and exploiting partisan differences for electoral success, on the other hand: Locking in a policy takes an issue off the table, but it also undermines a party’s ability to leverage differences to the opposition in elections. Because office-seeking parties need to take into account such electoral implications of a commitment, they have a disincentive to tie their successors’ hands. The paper advances this argument in the context of the establishment of independent central banks, provides empirical evidence, and suggests implications for the literature on hands-tying mechanisms.

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Why do governments establish institutional commitments that lock in policies, and why do they refrain from such reforms? Existing arguments posit that parties in government use domestic or international institutions to lock in their own policy preferences by tying the hands of successors (see, e.g., Keohane 1984; Moravcsik 2000; Ginsburg 2005; de Figueiredo 2002). This paper argues that these explanations portray an incomplete picture of the incentives of governments. It emphasizes the trade-off between implementing policy preferences, on the one hand, and exploiting partisan differences for electoral success, on the other hand: Locking in a policy takes an issue off the table, but it also undermines a party’s ability to leverage differences to the opposition in elections. The argument explains why governments refrain from reforms, even where they are in their perceived partisan interest: they need to take into account the electoral cost of giving up an issue.

The paper advances this argument in the context of the establishment of independent central banks, which allow right-wing parties that prefer low inflation to tie the hands of inflation-prone, left-wing successors (see, e.g., Goodman 1991; Lohmann 1998; Boylan 2001). The incentive to tie the hands of successors is frequently reinforced by a government’s attempts to solve time-inconsistency problems by tying its own hands – a concern that applies to both right-wing and left-wing governments, but is usually more pressing for the latter (Barro and Gordon, 1983; Giavazzi and Pagano, 1988; Bodea, 2010). Yet, a right-wing government perceived as delivering low inflation rates may gain and hold office based on its anti-inflationary stance. Once it takes inflation off the table, it loses this advantage. Contrary to a view based on policy preferences, the larger are the differences between parties and the more important inflation is to voters, the less attractive is a commitment to a right-wing government.

The emphasis on electoral considerations in this paper therefore challenges the view that right-wing governments benefit from using central banks to tie the hands of their left-wing successors; and it provides a nuance to the view that both left-wing and right-wing governments benefit from using central banks to solve time-inconsistency problems. To right-wing govern-
ments, solving time-inconsistency problems not only may be less important than to left-wing governments, but detrimental to their electoral success. Thus, while the literature produced an extensive debate over whether left- or right-wing governments are more likely to lock in monetary policy-making, this paper stresses a different effect: how electoral competition creates a disincentive for right-wing governments to lock in monetary policy-making, and therefore an incentive to delay reforms that increase central bank independence.

Evidence from central bank reforms in preparation for joining the European Monetary Union provides tentative support for the argument: Right-wing governments were reluctant to implement the required central bank reforms and often delayed them until they lost office. These reforms provide a unique opportunity to evaluate the argument. While member states had to implement them, the timing was left to national governments, which provided an exogenous impetus to reform, with discretion over the timing of these reforms. And because the reforms were mandatory, it is unlikely that other considerations – such as attempts to use these reforms as signals – were driving them.

Beyond the political economy of central banks, the paper underscores the importance of commitment problems in explaining the reluctance of governments to implement reforms and instead to rely on inefficient policy instruments (Powell, 2004; Robinson and Torvik, 2005). At the core of the theory in this paper is a dual commitment problem. Some parties have incentives to maintain discretion over policy, because voters are unable to commit to supporting them after policies are locked in. Moreover, some parties can maintain an electoral advantage in the absence of a commitment because they are the only party which can credibly deliver specific policies. This dual commitment problem creates inefficient policy discretion – in this case, the absence of a monetary commitment, even if this would make all voters better off.

Second, the paper points to an irony of competitive political systems with weak political allegiances. Electoral competition and the ability to switch between parties are supposed to benefit voters. Yet, electoral competition can undermine the incentives for parties to lock in
policies, even if a commitment would be optimal from the perspective of voters. The result arises not because of special interest groups, policy-oriented parties, or entry barriers to political markets. It arises because the fear of losing votes by insulating an issue creates incentives to withhold reforms. If there was no electoral competition, parties would aim to maximize voter utility. Because voters are responsive to policy promises, and because parties are responsive to electoral concerns, voters are denied reforms that would improve their welfare. Electoral competition can be a culprit, not a remedy, for ensuring that voter interests are represented.

**Elections and Policy Commitments**

The following discussion builds on a probabilistic voting model to formalize the argument. The model allows for parties to be explicitly office-seeking, while at the same time incorporating partisan; and it is sufficiently flexible to be applied to different issue areas or to incorporate different forms of political competition (through policy platform choices or through issue emphasis). The main text presents the most simplified model to convey the argument. The appendix several extensions and variations.

Two parties, \( p \in \{g, o\} \) for government and opposition, compete for office. The parties compete on two dimensions. On the first dimension, they are characterized by some exogenously given parameter, \( \pi_p \geq 0 \). This parameter \( \pi_p \) reflects a dimension on which parties are perceived to differ, due to partisan interests, differences in their electoral base, or because they differ in their perceived ability to produce policies. The parameter reflects the partisan characteristics of parties. On the second dimension, \( q_p \), the two parties compete freely (an assumption that is relaxed in the appendix by allowing \( q_p \) and \( \pi_p \) to be related). Both parties simultaneously propose policy platforms, \( q_g \) and \( q_o \), which they implement after being elected. The presence of this second dimension is not necessary for the following, but the contrast to

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1Persson and Tabellini (2002) and Enelow and Hinich (1989) provide introductions to probabilistic voting.
the fixed party attribute helps clarify the role of electoral competition in generating the results.

The sequence of moves is as follows. First, the government decides whether to establish a commitment or to retain discretion. Then, both parties simultaneously propose policy platforms in order to maximize their probability of voting. Finally, an election is held where voters evaluate parties. Voters vote for the party that yields the best outcome for them.

To focus on monetary policy-making, suppose $\pi_p$ reflects voters’ inflation expectations under party $p$, or the party’s inflation reputation. I refer to a government with $\pi_g < \pi_o$ as a low-inflation government and a government with $\pi_g > \pi_o$ as an inflation-prone government. These labels are relative, not absolute. They describe the inflation rate that voters expect if the party is in power. This assumption does not imply that the identity of the party in government is the only factor that affects inflation rates. Current market conditions and future market expectations, international capital flows, and the global economic environment, for instance, also plausibly affect inflation rates. The assumption merely reflects that inflation expectations are, in addition to these other factors, also a function of the party in government.

I equate inflation-prone governments with left-wing governments, and low-inflation governments with right-wing governments. Such a relationship between left parties and higher inflation expectations is common in the theoretical and empirical literature on monetary policymaking (e.g., Hibbs 1977; Alesina 1987; Franzese 1999; Clark and Hallerberg 2000; Leblang 2002; Clark and Arel-Bundock 2013). While there is some debate whether left-wing parties, in fact, produce higher inflation rates, this is less important for the following than what voters believe to be the case when casting their vote. Even if left parties may not be any more inflationary than right parties, markets and voters certainly appear to have that belief. Even central banks consistently expect higher inflation under left-wing governments, and in particular appear to overestimate inflation rates (Gandrud and Grafstrom, 2015).

Differences in inflation expectations across parties might arise for a number of reasons, even in a competitive two-party system, and the appendix accordingly provides alternative models.
Most pertinent to monetary policy-making, the Phillips curve links deviations of inflation from inflation expectations to deviations of growth from the natural growth rate. In the presence of a Phillips curve trade-off, different inflation expectations arise endogenously if voters evaluate different parties differently. The literature on economic voting suggests that right-wing parties are evaluated more on delivering low inflation rates than other parties, and are rewarded electorally for delivering lower inflation rates (Powell and Whitten, 1993). The appendix shows how such different yardsticks create, endogenously, different inflation expectations, even if parties are purely office-seeking and differ on no other dimension than their party label.

Different inflation expectations may, alternatively, arise because of differences in the ability of parties to produce policies – for instance, because of differences in candidates (right-wing parties tend to attract candidates with higher expected expertise on economic issues) or because of the need to cater to core voters while attempting to appeal to swing voters simultaneously (left-wing parties tend to have core voters more tolerant of inflation). Because for the following, the specific mechanism giving rise to partisan differences is less important than their presence, and to avoid unnecessary notation, these models are relegated to the appendix. The following proceeds under the assumption that parties are characterized by exogenously given characteristics, $\pi_g$ and $\pi_o$.

With respect to $\pi_p$, the government may rely on an international institution or a bureaucratic agency to fix policy at a given level and insulate it from the political process, locking it in permanently (Moe, 1991; de Figueiredo, 2002) – in the present context, through delegating monetary policy-making to an independent central bank. Once the commitment is in place, the ruling party no longer influences the policy outcome on this dimension. Thus, the government chooses

$$\omega = \begin{cases} 
1 & \text{if discretion}, \\
0 & \text{if commit}, 
\end{cases}$$

such that from the perspective of voters, the inflation rate under party $p$ is $\omega \pi_p$. The as-
sumption entails that a commitment arbitrarily fixes the policy at zero, which simplifies the exposition but is not necessary for the following results.\textsuperscript{2} Important for the following is only that the commitment fixes policy at a given level and that this level is closer to one of the parties’ fixed characteristics (which is necessarily the case as long as \( \pi_g \neq \pi_o \)).

If the government establishes a commitment, I assume that it is perfectly credible. The credibility of the commitment does not depend on the partisanship of the government or domestic institutions, and it cannot be revoked. That some governments are able to make credible commitments that work as effective hands-tying mechanisms is consistent with the existing literature (Bernhard et al., 2002; Gilardi, 2002). The literature points to a number of factors that make this possible, such as reputational costs for backtracking on actions and public statements, the creation of new vested interests that make it difficult to reverse legislation, and the presence of veto players (Broz, 2002; Tsebelis, 2002; Keefer and Stasavage, 2003; Bodea and Hicks, 2015b). The assumption that the commitment is perfectly credible can be relaxed; the following results also obtain when the commitment is imperfect, such that inflation is a weighted average of the government’s characteristic and the policy under a commitment.\textsuperscript{3}

After the parties announce the policy platforms \( q_g \) and \( q_o \), an election is held. The electorate is composed of \( J \) groups, indexed by \( j = 1, 2, \ldots, J \), which each constitute a share \( \lambda_j \) of the electorate; the groups could be thought of as different socio-economic groups. Voter \( i \) in group \( j \) obtains utility from voting for party \( p \) of

\[
    u_{ij,p}(q_p, \pi_p, \omega) = \alpha_j v_j(\omega, \pi_p) + (1 - \alpha_j)w_j(q_p) + v_{ij,p}.
\]

\textsuperscript{2}As commonly done in the literature, this formulation incorporates two distinct decisions. First, insulating the policy through a commitment implies that the policy is no longer influenced by the government. Second, the policy is fixed at some level \( v \). In the case of delegation to a central bank, \( v \) is determined by the identity, or the preferences, of the central banker (Adolph, 2013), and it is usually assumed that \( v < \min\{\pi_g, \pi_o\} \): the central banker is more inflation-averse than political actors.

\textsuperscript{3}See, e.g., Franzese 1999 and Clark and Arel-Bundock 2013). Then, the inflation rate under a commitment would be \( \rho \pi_g \), where \( \rho \in (0, 1) \) denotes the government’s relative influence: as \( \rho \) approaches zero, the central bank has more influence over monetary policy-making. This assumption would not alter the substance of the following results. A right-wing party would still be better off with discretion (and, more generally, higher levels of \( \rho \)) than with a commitment.
Voter $i$ in group $j$ votes for the current government if $u_{ij,g} > u_{ij,o}$, and votes for the opposition otherwise. In that regard, the analysis can be interpreted as being concerned primarily with swing voters, who are not immutably committed to voting for one of the parties. Voters may have biases towards one of the parties, as detailed below, but are nonetheless sensitive to different platforms. Voters evaluate parties’ electoral platforms on the basis of $\pi_p$ and $q_p$, and weigh these in their utility with $\alpha_j$ and $(1 - \alpha_j)$, respectively, where $\alpha_j \in [0, 1]$. Thus, as in standard models of voter evaluations of the economy (Clark and Hallerberg, 2000; Scheve, 2004), $\alpha_j$ represents the public’s inflation-aversion. For the following, it is not crucial that all voters are concerned about inflation. It is sufficient that, for at least one of the groups, $\alpha_j > 0$; the following results hold if a majority of the voters are not concerned with inflation at all.

Within each group, all voters share the same ideal points $q_j$ and $\pi_j$. Because $q_j$ and $\pi_j$ are the ideal points, I assume that $v_j(\omega, \pi_p) = - (\omega \pi_p - \pi_j)^2$ and $w_j(q_p) = - (q_p - q_j)^2$. As is common in political economy models (e.g., Clark and Hallerberg 2000), all $J$ groups prefer the lowest possible value on the first dimension, such that $\pi_j = 0$ for all $j$. This assumption implies that all voters, provided they are concerned with inflation in the first place (such that $\alpha_j > 0$), prefer the lowest possible inflation rate. Easterly and Fischer (2001) provide empirical evidence that voters of all income strata prefer lower inflation rates. Studies of economic voting, similarly, find that voters reward governments when inflation is low (Tufte, 1978; Franzese, 2002). The assumption does not imply that voters do not also prefer other policies or economic outcomes – in particular, high employment or economic growth – that would have inflationary effects. The assumption only stipulates that, everything else equal, voters prefer lower inflation rates to higher inflation rates. If voters preferred positive inflation, governments would have a trivial incentive to refrain from a monetary commitment that ties inflation to zero. Thus, the assumption allows to derive conditions under which a government refrains from monetary commitments, even though all voters prefer zero inflation.

Voters may perceive other differences among parties that are independent of the proposed
policies. As a consequence, parties are uncertain about each individual voter’s decision. For instance, some voters might be ideologically biased toward one of the parties or prefer one of the parties for other policies implemented by it. Some voters may also have a preference for or against the current government due its track record. These differences between parties are reflected by $v_{ij}$. Let $v_{ij} = v_{ij,g} - v_{ij,o}$ be the disposition of voter $i$ towards the government. If $v_{ij}$ is positive, the voter is biased towards the current government. I follow standard formulations of probabilistic voting models (e.g., Persson and Tabellini 2002) and assume two types of uncertainty. From the perspective of the parties, voter $i$ in group $j$ receives a random shock from voting for party $P$, $v_{ij,p}$, which is decomposed as $\delta$ with cumulative density function $F$ and as $\sigma_{ij}$ with cumulative density function $G_j$, such that

$$v_{ij,g} - v_{ij,o} = \delta + \sigma_{ij},$$

where $\delta \sim \mathcal{U}\left(-\frac{1}{2\psi}, \frac{1}{2\psi}\right)$ and $\sigma_{ij} \sim \mathcal{U}\left(-\frac{1}{2\phi_j}, \frac{1}{2\phi_j}\right)$,

where $\delta$ affects aggregate preferences and $\sigma_{ij}$ affects preferences at an individual level.

Voter $i$ in group $j$ votes for the current government if and only if $u_{ij,g} > u_{ij,o}$, which is equivalent to

$$\sigma_{ij} > \sigma_j(\omega) = \alpha_j[v_j(\omega, \pi_o) - v_j(\omega, \pi_g)] + (1 - \alpha_j)[w_j(q_o) - w_j(q_g)] - \delta,$$

where $\sigma_j(\omega)$ is the swing voter in group $j$. Define $\hat{\delta}_\omega$ such that for $\delta > \hat{\delta}_\omega$ the government wins the election, whereas for $\delta \leq \hat{\delta}_\omega$, the opposition wins the election. The probability that the government wins the election, $p_g$, is given by

$$p_g(\omega) = Pr(\delta > \hat{\delta}_\omega).$$

The government maximizes the probability of winning, given in equation (5), by first de-
ciding whether to commit or to retain discretion and then by choosing its policy platform simultaneously with the opposition party. For the following, define

\[ \kappa \equiv F(\hat{\delta}_{\omega=1}) - F(\hat{\delta}_{\omega=0}) \]  

as the government’s electoral incentive to commit. For \( \kappa > 0 \), the government benefits from a commitment, since its probability of winning increases. For \( \kappa < 0 \), the government benefits from retaining discretion, since its probability of winning decreases. As \( \kappa \) increases, the electoral incentive to commit increases, and the probability that the government implements a commitment and locks in the policy increases; as \( \kappa \) decreases, the electoral incentive to commit decreases and the probability that the government retains discretion increases.

**Proposition 1.** If \( \pi_g < \pi_o \), the opposition gains and the government loses votes from a commitment. Thus, the government has an electoral disincentive to lock in the policy (\( \kappa < 0 \)).

To prove the proposition, note that \( \kappa = F(\hat{\delta}_{\omega=1}) - F(\hat{\delta}_{\omega=0}) = \psi[\hat{\delta}_{\omega=1} - \hat{\delta}_{\omega=0}] \). The proposition follows from the fact that, for \( \pi_g < \pi_o \), it follows that \( \hat{\delta}_{\omega=0} > \hat{\delta}_{\omega=1} \); consequently, \( \kappa \) is negative. For \( \pi_g > \pi_o \), the opposite is true.

Proposition 1 states the key insight of the argument: Right-wing governments are better off retaining discretion than locking in the policy. Because the two parties compete freely on \( q_p \), they propose the same policy platform in equilibrium, such that \( q_g = q_o \). Consequently, the two parties are indistinguishable to voters based on their policy platforms: Where no partisan differences exist, the party platforms converge. The parties differ, however, on the first dimension, \( \pi_p \). Since all voters dislike higher values of \( \pi_p \), right-wing parties have a systematic advantage over left-wing parties under discretionary policy-making. Locking in the policy would imply losing that advantage and therefore losing votes in the election. Once the policy is locked in, voters who previously preferred the right-wing party are willing to turn to the left-wing party.
The proposition provides a contrast to arguments that right-wing governments benefit from locking in their preferred policy preferences: electorally, they lose. The argument also contrasts with the alternative argument that governments use central banks to overcome time-inconsistency problems. Time-inconsistency problems create incentives for both left-wing and right-wing governments to delegate to central banks (see, e.g., Barro and Gordon 1983). This incentive to commit, driven by time-inconsistency problems, may be more pronounced for left-wing than for right-wing governments, because the former face stronger credibility problems, but it exists for both parties (see, e.g., Giavazzi and Pagano 1988; Bodea 2010) – similar to other considerations that drive central bank independence, such as raising financing (Bodea and Hicks, 2015a) or solving bargaining problems in large government coalitions (Bernhard, 1998). The present argument provides a nuance to this literature. The key result in Proposition 1 is not that right-wing governments are less likely than left-wing governments to lock in the policy (though they should be, based on electoral concerns). The result states that locking in a policy carries an electoral cost for right-wing parties, and therefore creates a disincentive to commit which has the potential to offset other advantages of delegating to a central bank – such as those arising from time-inconsistency problems.

This result is, of course, dependent on the assumptions that voters prefer, everything else equal, lower inflation rates and that right-wing parties are better able to deliver those – assumptions that seem broadly consistent with the existing literature. However, as noted previously, it is not necessary that all voters prefer lower inflation rates. It is sufficient if one of the groups of voters is concerned about inflation rates, with the majority of voters not affected by inflation rates. Similarly, while right-wing parties are assumed to be better able to deliver low inflation, it is not necessary that right-wing parties, overall, are advantaged in the election. For instance, while right-wing parties might be perceived as being better able to deliver low inflation rates, they might be perceived as being less able to design and implement welfare spending. The result that right-wing parties lose electorally from locking in monetary policy-making does not
depend on the presence or absence of such additional differences between parties. Even if the electorate is biased towards one of the parties, a commitment implies a vote loss for right-wing parties and a vote gain for left-wing parties. Perhaps most notably, the result would also arise if parties were characterized by completely fixed attributes and instead competed for votes through issue competition. Then, electoral competition proceeds not on the basis of choosing policy platforms, but by choosing which attributes to emphasize in a campaign, as is most explicitly considered in the literature on issue ownership (Budge and Farlie, 1983; Petrocik, 1996). This difference would not, however, undermine the intuition of the argument: a party would not want to give up an issue on which it can compete successfully.

To further illustrate the intuition behind the proposition, note that there is a set of voters who previously were willing to vote for the right-wing party even when other factors, as captured by $v_{ij}$, pushed them towards the left-wing party: for these voters, the right-wing party’s inflation reputation was sufficient to offset other considerations in favor of the left-wing party. Once inflation is locked in and the identity of the party in government no longer determines the inflation rate, these voters switch to the left party. Thus, left-wing parties increase their vote shares, and hence their probability of winning the election, at the expense of the right-wing party. When inflation is no longer a political concern that distinguishes parties, right parties lose those voters that prefer the left party based on party characteristics other than inflation. Locking in the policy enables voters that previously favored the right party, solely based on its anti-inflationary stance, to abandon the right party and move to the left party. Anticipating this loss, right-wing parties have an incentive to retain discretion and to keep inflation rates salient in electoral campaigns.

This vote loss is illustrated in Figure 1. Under discretion, the right party has a a higher probability of winning the election, as indicated in the top panel by the area shaded with vertical bars. Under a commitment, both parties have the same probability of winning and the election is tied. Without locking in the policy, the right party would gain votes from a slice of
voters who would otherwise prefer the left party, as indicated by the dotted area. For these voters, the right party is preferable based on its anti-inflationary stance, and this advantage is large enough to offset the bias towards the left-wing party caused by a negative value of $v_{ij}$. These voters switch to the left party once the policy is locked in, because the left party is more attractive on some other dimension. These voters afford the right party an electoral advantage under discretion which it would cede with a commitment.

Moreover, not all voters are equally well off in equilibrium. The policy platforms are closer to some voters’ ideal points than others: for larger groups and groups that are more sensitive to changes in the policy, the distance between their ideal points and the policy platform is smaller. Most notably, however, all voters are better off when locking in the policy than with discretion. The policy platforms are identical and not affected by locking in the policy, whereas inflation is strictly lower under a commitment. In that regard, discretion is inefficient compared to a policy commitment. This point, of course, forms the basis of the literature that views central banks – and exchange rate pegs – as mechanisms for governments to overcome time-inconsistency problems (Barro and Gordon, 1983; Bodea, 2010), and all governments should have incentives to lock in policies through monetary policy commitments.

Yet, this is not the case under electoral competition. Parties maximize vote shares, not voter utility. Parties that currently hold an electoral advantage try to maintain it. What matters to parties is not whether voters obtain the best possible outcome, but whether voters obtain a better outcome than what a competitor could promise. This effect of political competition creates a distortion away from the best possible policy from the perspective of voters. In contrast to other explanations for why governments fail to pursue policies that maximize aggregate welfare, this distortion is not caused by interest group influence, by parties that have goals beyond maximizing their vote shares, or by limitations on electoral competition. The distortion exists not despite, but because of electoral competition. If it weren’t for electoral competition and parties instead would strive to maximize voter welfare, either party would tie its own hands.
Figure 1: Vote shares for right-wing party under discretion (top panel) and commitment (bottom panel). The right party’s vote comprises the vertically patterned area. If locking in the policy, the right party loses the slice of its previous voters that are most left-leaning, as indicated by the dotted area in the bottom panel. These voters have an inclination to vote for the left party, but under discretion vote for the right party because it delivers lower inflation rates.
and lock in the policy: a commitment unambiguously improves the welfare of all voters relative to the absence of a commitment. Yet, while public inflation aversion increases the incentive for governments to tie their own hands, electoral competition makes this strategy feasible only for one side: because of electoral considerations, right-wing parties have an incentive to retain discretion and withhold a reform that would benefit all voters.

These electoral implications explain why some governments abstain from reforms, even when these reforms are perceived to unambiguously improve voter welfare. For instance, the central bank of the United Kingdom, the Bank of England, was for a long time among the most dependent central banks in the world. Ben Bernanke called it “essentially an agent of the British Treasury for a substantial part of the 20th century” (Bernanke, 2010). During its eleven years in office, the conservative government of Margaret Thatcher, which stressed minimal government interference in the economy and implemented numerous other reforms, refused to grant the central bank more independence, despite repeated demands from some Members of Parliament. It was a newly elected left-wing Labour government that increased the Bank of England’s independence in 1997, immediately after the conservative government lost office. This reluctance of Thatcher’s government to grant the Bank of England more independence is consistent with the intuition in Proposition 1.

The emphasis on electoral competition also points to a limitation of the argument. Where electoral competition is curtailed, other considerations trump electoral concerns and induce governments to seek central bank independence regardless of potential electoral effects. For instance, where the political system is not competitive, a sitting government has little to lose by giving away an issue on which it can compete successfully. Likewise, during periods of hyper-inflation, when an institutional reform is perceived as necessary by markets and the only viable way for governments to regain some control over the economy, or in periods of foreign exchange shortages, when an independent central bank may work as an important signal to markets, a government may have little to gain from withholding such reforms. Yet, absent such
periods of crises, and in competitive political environments, right-wing parties have more to lose from tying the government’s hands than left-wing parties.

This is not to say that governments have no incentives to grant central bank independence; the point is that, in terms of votes, a right-wing government has a disincentive to commit. Both right- and left-wing governments, for instance, gain from granting central bank independence if this helps them hold together a large, diverse coalition (Bernhard, 1998; Bernhard and Leblang, 2002). Likewise, where veto players are numerous, it may be more difficult to grant central bank independence, but the resulting reforms tend to be more credible (Keefer and Stasavage, 2003). Independent central banks can also help alleviate large fluctuations in economic indicators, thereby increasing economic efficiency and, by allowing governments to focus on other issues, increasing legislative efficiency. These are important explanations of central bank reforms. But they apply to all parties alike and are, in most cases, a function of institutional features of the political system. The electoral incentives emphasized here cut across these factors and, for right-wing parties, create a disincentive to commit.

The following proposition points to an additional result that underscores the intuition behind the argument.

**Proposition 2.** If \( \pi_g < \pi_o \), the government’s electoral incentive to commit decreases in the inflation-aversion of the electorate \( (\frac{\partial \kappa}{\partial \alpha_j} < 0) \) and in the differences with the opposition \( (\frac{\partial \kappa}{\partial \pi_o} < 0) \).

Proposition 2 states two results that contrast with the standard hands-tying argument. First, right-wing governments are less likely to lock in the policy as the electorate is more concerned with low inflation. The result underscores the core argument in this paper. If the electorate’s emphasis on inflation increases, the right party’s advantage in electoral campaigns increases. Removing this advantage by locking in is therefore more costly. This comes at the expense, in particular, of voters. The more voters are concerned about inflation, the less likely are right governments to lock in low inflation rates. As in Scheve (2004), this result suggests that in countries where inflation-aversion is high, some governments might shy away from central
bank reforms. While Scheve (2004) emphasizes that this is the case because higher inflation-aversion lessens the time-inconsistency problem, electoral competition has additional effects: higher inflation-aversion raises the value of a commitment to left-wing governments but raises the value of discretion to right-wing governments.

The same logic holds as the differences with the opposition increase. As the inflation reputation of the opposition party becomes more dissimilar from the right party’s inflation reputation, the right party’s electoral advantage increases. Discretion becomes more valuable, which reduces a right party’s incentive to lock in the policy. By contrast, as the two parties become more similar, the incentive to retain discretion disappears. In the case where $\pi_g = \pi_o$, both parties weakly prefer to commit: the two parties are no longer differentiated by their exogenously given characteristic, which makes it possible to pursue a policy that benefits all voters. These results contrast with a theory of commitments based on policy preferences. Based on policy preferences, the incentive to lock in the policy and tie down inflation should be strongest when the differences to the opposition party are large.

Italy provides an example to illustrate these aspects of the argument. Between 1946 and 1990, Italian governments suffered from large credibility problems in monetary policy-making. Inflation rates were as high as 24.5 per cent in 1974, and never fell below 10 per cent between 1973 and 1983. From an economic perspective, the Italian government would have had much to gain from establishing an independent central bank. A monetary commitment even may have helped in the negotiation and maintenance of coalition governments (Bernhard and Leblang, 2002). This was a particularly pressing factor in Italy, where governments were inherently unstable and often formed among very diverse coalition partners: on average, Italy had more than one government change per year. A party with a relatively free-market oriented stance, the Christian-Democratic Party (*Democrazia Christiana*, DC), headed all but three governments between 1946 and 1990. Based on the extant literature, one would expect

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4Two of the three governments were technocratic, non-partisan governments.
an independent central bank under these circumstances – the economic conditions called for it, and the governing party had more than enough time to implement reforms. Nevertheless, the Italian central bank, the Banca d’Italia, remained under tight government control.

This pattern is consistent with the theoretical propositions. The Communist Party (Partito Comunista Italiano, PCI) constituted the other major party in the political system. The governing coalitions under the DC were often held together primarily by an attempt to preclude the PCI from taking power. While the PCI won consistently high vote shares and entered administrations on the local and regional level, it never participated directly in a government coalition on the national level. The PCI was backed by the working class, and made this clear during electoral campaigns. Since inflation was in large part due to indexed wage increases, the PCI suffered a credibility problem – it had even less inflation-fighting credibility than the governing coalitions under the DC. It was good politics from the perspective of the DC to not establish an independent central bank: it rendered coalitions among the PCI and the DC’s coalition partners unlikely, and voters concerned about inflation were reluctant to vote for the PCI. The DC moved towards supporting greater CBI only when it started to suffer from credibility problems as a consequence of consistently high inflation rates (Bernhard, 1998).

The situation in the late 1970s therefore mirrored the scenario where the two parties’ inflation reputations are almost identical, with both the PCI and the DC being perceived as unable to deliver low inflation rates. Then, the electoral incentive to retain discretion declines for right-wing parties. The first central bank reform was enacted in 1981, when the ‘divorce’ freed the Banca d’Italia from the obligation to purchase otherwise unsold government debt. The reform was, notably, undertaken under the first government in the postwar period headed by a left-wing prime minister. The reforms to the central bank were supported by the PCI (Bernhard, 2002, 134), which otherwise advocated expansionary monetary and fiscal policies.

The timing of these reforms, and that they were backed by the PCI, is surprising from the perspective of theories of hands-tying that point to monetary commitments as focal points in
otherwise unstable coalitions (Bernhard, 1998; Bernhard and Leblang, 2002). During the 1960s and 1970s, and in contrast to much of the 1950s, most Italian governments were composed of large coalitions of several governing parties; an independent central bank could have provided an anchor for coalition negotiations, yet reforms were not implemented until the early 1980s. Another way to view this pattern is that an independent central bank as an anchor for a large coalition would have been attractive to the government, but that the electoral effects made reforms unattractive to the DC as long as it could keep the left-wing PCI out of government by maintaining inflation as a salient issue. The coalition argument became more salient and decisive in pushing the government towards a reform only once the DC could no longer capitalize on its anti-inflationary stance. Thus, these explanations complement each other: The fear of enabling electoral victory for an inflation-prone opposition party plausibly prevented the governments under the DC from establishing an independent central bank. Reforms came only once the PCI was perceived as barely more inflation-prone than the DC.

Central banks, elections, and central bank reform

If right-wing parties in government have a disincentive to reform central banks, they should delay increasing the degree of central bank independence. The introduction of a common European currency, the Euro, provides an opportunity to evaluate whether right-wing parties delay increasing central bank independence when presented with an exogenous impetus to do so. The central banks of the Euro member states are joined together in the Eurosystem. In order to join the Eurosystem, the prospective members had to bring their central bank legislation in line with what would become the European Central Bank in 1998. For all but two members (Portugal and Germany), this required legal increases in CBI.

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5Similarly, there was no notable change in the number of institutional veto players during this time period, which might explain either the reluctance to implement reforms (Tsebelis, 2002) or the credibility of such reforms (Bodea and Hicks, 2015b).
The changes to the central bank laws were mandatory. Each government had little discretion in whether to implement these reforms. However, governments had substantial discretion in the timing of the reforms. Some passed reforms as early as 1993, others waited until 1998. Moreover, in every country, at least one election occurred between 1992 and 1998. This provides an opportunity to evaluate the argument: presented with an exogenous impetus to reform the central bank, right-wing governments should have been reluctant to implement these reforms and delay them as long as possible.

That these reforms happened in the context of the creation of the European Monetary Union helps address a number of concerns. First, because the reforms were mandatory, governments had to implement them. In that regard, the pressure to implement these reforms was exogenous. Governments knew that the reforms had to be implemented, but the timing was left to their discretion. Second, the data displays wide variation in the timing of these reforms, with several reforms occurring within the first few years and several reforms occurring only in 1998. And because of the election timing in these countries, the governments that implemented the reforms in several cases differed from those that agreed to them in the first place. These points alleviate concerns that the timing of reforms was simply driven by the party in power at the time – some governments delayed reforms, other were eager to implement them. Third, because the reforms had to be implemented, it is unlikely that governments used them to signal their support for liberal economic policies or for low-inflation policies with these reforms. If that was the case, governments should have implemented these reforms voluntarily; and if everyone pursues the same policy, the signal loses its informational content (Bodea and Hicks, 2015a). Fourth, while an alternative monetary anchor, in the form of the European Exchange Rate Mechanism, existed, it also lacked credibility, as the speculative attacks on the British pound showed; hence, the central bank reforms could still matter for inflation expectations, given the imperfect nature of the existing exchange rate commitment (Bodea, 2010). Finally, because of the concomitant creation of the European Monetary Union, economic issues were
plausibly an important electoral concern in all member states.

To assess whether right-wing governments were reluctant to reform their central bank laws, I combine data on the timing of central bank reforms for the eleven initial Euro members (except for Portugal and Germany) and Greece (which joined only in 2000) from Acemoglu et al. (2008) with data on the partisanship of the central government from Beck et al. (2001) for 1992 through 1998.

I consider both centrist and right governments as governments that are perceived to deliver low inflation rates. This yields a total of 47 observations (23 observations drop out of the sample after a reform passed). Descriptive statistics support the argument: left-wing governments passed more than twice as many of the reforms (7 as opposed to 3), even though they were in place just about half of the time (48.9 per cent) – right-wing governments appear to be reluctant to pass these reforms. For instance, in the Netherlands, a right-wing government delayed reforms during its entire term, even though it was the same government that negotiated entry into the Eurosystem. Among the governments that waited until the last year to implement the reforms, 40 per cent were right-wing. By contrast, four of the five reforms that occurred within two years after they were agreed to were implemented by left-wing governments. Thus, the data provide some support for the argument that right-wing governments delayed reforms intentionally. It certainly was not the case that the government in power immediately implemented the reforms in each country; and some governments left office without implementing the reforms at all. This provides evidence that there was at least some calculation on behalf of the government as to (i) whether to implement these reforms and (ii) when to implement these reforms.

This pattern is further illustrated in Figure 2, which plots the cumulative hazard rates for left and right governments. These show the cumulative hazard that, at any point in time, a left (left panel) or right (right panel) government will have implemented the required central bank reform. As the graph indicates, left governments implement reforms earlier. The small sample
size notwithstanding, a non-parametric log-rank test suggests that the difference between left-wing and right-wing governments is significant at the 10 per cent level. The results from a semi-parametric Cox proportional hazards model provide further support: left governments are about two times more likely to enact central bank reforms than right governments. The estimated hazard ratio for the variable for left governments is 2.05, with a $p$-value of .067. A test based on Schoenfeld residuals does not reject the assumption of proportional hazard rates ($p$-value of .605). The results from a parametric, exponential regression provide even stronger support: left parties are about 2.4 times more likely to pass central bank reforms than conservative governments; the coefficient estimate has a $p$-value of .033.

An alternative explanation for the association between left governments and central bank reform is that states with strong left parties tend to have small, open economies that rely on global capital (Katzenstein, 1985). The need to attract global capital may induce central bank reforms. Including a measure of the reliance on foreign capital (net inflows of foreign direct and portfolio investment as a percentage of gross domestic product, GDP) limits the sample to 38 observations. The coefficient on left governments remains positive. The coefficient on left governments further remains positive when controlling for veto players, trade openness (exports plus imports as a percentage of GDP), the trade balance (exports minus imports as a percentage of GDP), or country size (log population or log GDP), as reported in the appendix.

Conclusions

This paper emphasized that the incentives for governments to lock in policies can be offset by electoral effects. Office-seeking governments have disincentives to lock in their own policy preferences if these align with the preferences of the electorate. In the context of the literature on central bank independence, the theory in this paper dovetails with the observation that “it may be the case that the time-inconsistency framework does not capture how political actors
evaluate the benefits and costs of different monetary arrangements” (Bernhard et al., 2002, 694). By providing a political theory of policy commitments, this paper suggests just that: For political, that is electorally motivated, actors, the costs of tying their hands can undermine incentives to solve the time-inconsistency problem, and similarly can undermine incentives to use central banks as institutions for solving bargaining problems in large government coalitions (Bernhard, 1998) or for raising financing from foreign investors (Bodea and Hicks, 2015a). Within the same institutional or external economic environment, electoral concerns create divergent effects across parties.

The theory in this paper has similar implications for other forms of policy commitments. An example are Bismarck’s social security programs in 19th century Germany. Faced with pressures from the working class, Bismarck took the issue of social security off the table by creating an institutionalized welfare state, much to the frustration of the Social Democratic Party. Following a similar logic, office-seeking Green parties should be the least likely to push for independent environmental protection agencies. Indeed, in the run-up to the 2013 federal election, the
German Green party suggested the creation not of a politically independent bureaucracy to oversee the transition to renewable energies, but a government department headed by a cabinet member. The proposal would increase political discretion, rather than lock in policies, and by increasing attention to environmental policies further improve the electoral chances of the Green party.⁶

Similar arguments possibly explain why conservative parties prefer courts to rule on social issues or immigration reform, thereby taking issues off the table on which, due to core voters, conservative parties find it difficult to compete with liberal parties. Notably, in 2013, parts of the Republican Party in the United States changed their stance on immigration reform, with some law-makers noting that taking the immigration debate off the table would help the party’s electoral chances by removing an issue from the political debate on which the Democratic Party held an inherent advantage – the idea was that, in particular, Latino voters could only be convinced to vote for the Republican Party once the issue of immigration reform was resolved.⁷

Instead of locking in policies through domestic institutions, governments may also turn to international institutions. Yet, many international institutions stipulate only modest departures of behavior compared to the absence of an agreement (Downs et al., 1996). This paper potentially reconciles this challenge with the view common in institutionalist accounts that governments use international institutions as commitment devices. Office-seeking governments should negotiate agreements that require few changes to the behavior of their successors and that are easily honored by themselves – or what might be termed shallow agreements with weak enforcement mechanisms. They do so not because they fear being held accountable to an overly onerous agreement, but because they fear losing their electoral advantage if their successors are held accountable to it. For instance, one party may be perceived as more prone to support free trade. Such a party would cede re-election chances by signing a trade agreement

⁶Süddeutsche Zeitung, September 2, 2013.
⁷See, for instance: Nate Cohn. The Challenge of Rebranding the GOP. New Republic, July 9, 2013.
with deep tariff cuts and strong enforcement mechanisms. This provides an explanation for the occurrence of trade agreements that bind tariffs above currently applied rates, creating tariff water. The existence of this policy space keeps trade policy electorally salient and benefits a party perceived as less interventionist.

That office-seeking and policy motives work in opposite directions creates a novel, domestically driven cooperation problem in international relations. Some governments might refuse to join international agreements not because these are too distinct from their own preferences, but because they are too similar. This point provides a domestic electoral rationale for a result familiar from the literature on policy misfit and European integration (Boerzel and Risse, 2003). Further exploring such links between domestic electoral considerations and international cooperation remains a promising area for future research; and allowing for weak commitments, which can potentially be rolled back and where the credibility of the commitment depends on the party in office, would provide for a promising extension of the argument in the paper.

Finally, the theory in this paper assumes that voters are free and willing to switch parties; any partisan loyalties in the electorate, and differences between parties, are uncorrelated with the perception of party platforms. Different results would arise if voters were loyal and could commit to keep voting for the current government. In that regard, a decline of ideology has two conflicting effects for voters. On the one hand, it frees voters to side with the party that puts forward the best policy proposal, in turn increasing the responsiveness of parties to voters. On the other hand, it also hurts voters: it makes it more costly for parties to create programs that lock in benefits for voters permanently, and instead creates incentives to provide temporary policies that voters risk losing if a new government comes into place.
References


Online appendix

A Main results

Parties maximize the probability of winning, which for the government is given by

$$\Pr(\text{g wins}) = \Pr(\delta > \hat{\delta}_\omega),$$

(1)

where

$$\hat{\delta}_\omega \equiv \frac{1}{\sum_j \lambda_j \phi_j} \left[ \sum_j \lambda_j \phi_j \left[ \alpha_j (v_j(\omega, \pi_o) - v_j(\omega, \pi_g)) + (1 - \alpha_j)(w_j(q_o) - w_j(q_g)) \right] \right].$$

(2)

Each party’s policy choice is defined by

$$\psi \sum_j \lambda_j \phi_j \left[ \sum_j \lambda_j \phi_j (1 - \alpha_j) \frac{\partial w_j(q_p)}{\partial q_p} \right] = 0,$$

(3)

which shows that the two policy platforms are identical in equilibrium. In the symmetric sub-game perfect Nash equilibrium, the equation describes the equilibrium platforms, with $q_o = q_g$; voter $i$ votes for the government if and only if $u_{ij,g} > u_{ij,o}$. The current government locks in the policy if $\kappa > 0$, where $\kappa$ is defined in the text as the difference between the probability of winning under commitment and the probability of winning under discretion.

Note that in the symmetric equilibrium, $q_g = q_o$, as defined above. It follows that $\hat{\delta}_\omega$ collapses to

$$\hat{\delta}_\omega = \frac{1}{\sum_j \lambda_j \phi_j} \left\{ \sum_j \lambda_j \phi_j \alpha_j [v_j(\omega, \pi_o) - v_j(\omega, \pi_g)] \right\}.$$

(4)

With a commitment, it further follows that $\hat{\delta}_\omega = 0$. Then, the government’s probability of winning is one half, and the opposition’s probability of winning is one half: the election is tied under a commitment. (If $\delta$ has a non-zero mean, the expected election result would shift
accordingly.) Under discretion, the government’s vote share is

\[ \Pr(\delta > \hat{\delta}_\omega) = 1 - F(\hat{\delta}_{\omega=1}), \]  

\[ = \frac{1}{2} - \sum_j \psi \left\{ \sum_j \lambda_j \phi_j \left[ v_j(\omega = 1, \pi_o) - v_j(\omega = 1, \pi_g) \right] \right\}, \]  

and the incentive to commit, \( \kappa \), consequently is

\[ \kappa = \sum_j \psi \left\{ \sum_j \lambda_j \phi_j \left[ v_j(\omega = 1, \pi_o) - v_j(\omega = 1, \pi_g) \right] \right\}. \]  

For \( \pi_g < \pi_o \), it follows that \( v_j(\omega = 1, \pi_o) - v_j(\omega = 1, \pi_g) < 0 \), such that \( \kappa < 0 \); the opposite is the case for \( \pi_g > \pi_o \). Moreover, notice that

\[ \frac{\partial \kappa}{\partial \pi_o} = \sum_j \sum_j \psi \lambda_j \phi_j v_j(\omega = 1, \pi_o) \frac{\partial v_j(\omega = 1, \pi_o)}{\partial \pi_o} < 0, \]  

which shows that the incentive to commit decreases in \( \pi_o \). Similarly,

\[ \frac{\partial \kappa}{\partial \alpha_j} = \lambda_j \phi_j \left[ v_j(\omega = 1, \pi_o) - v_j(\omega = 1, \pi_g) \right], \]  

which is negative for a \( \pi_g < \pi_o \) and positive for \( \pi_g > \pi_o \).

\section*{B Issue competition and fixed party attributes}

As emphasized in the literature on issue ownership, parties may have entirely fixed attributes, or policy platforms, and instead compete by emphasizing different issues. Suppose both parties can allocate a share of their campaign resources \( c_p \in [0, 1] \) to emphasizing inflation as an issue in the election, and \( \alpha \), the weight voters put on inflation, is an increasing function of \( c_g \) and \( c_o \),
such that
\[
\frac{\partial \alpha(c_g, c_o)}{\partial c_g} > 0 \quad \text{and} \quad \frac{\partial \alpha(c_g, c_o)}{\partial c_o} > 0.
\] (10)

Then, the current government chooses \( c_g \) to maximize its probability of winning the election, given as before by
\[
p(g \text{ wins}) = \frac{1}{2} - \sum_j \lambda_j \phi_j \left\{ \sum_j \lambda_j \phi_j \alpha(c_g, c_o) \left[ v_j(\omega, \pi_g) - v_j(\omega, \pi_o) \right] \right. \\
\left. + \sum_j \lambda_j \phi_j (1 - \alpha(c_g, c_o)) \left[ w_j(q_o) - v_j(q_g) \right] \right\}.
\] (11)

As before, suppose that \( \pi_g < \pi_o \) for a right-wing government; moreover, suppose that while the right-wing government has an advantage on inflation, the left-wing government has an advantage on other issues, such as environmental policies or social issues, such that \( w_j(q_g) < w_j(q_o) \) for a right-wing government.

Under discretion, the government’s probability of winning strictly increases in \( \alpha_g \) if the government is a right-wing party: the partial derivative is
\[
\frac{\partial p(g \text{ wins}|\omega = 1)}{\partial c_g} = \frac{\partial \alpha(c_g, c_o)}{\partial c_g} \frac{\psi}{\sum_j \lambda_j \phi_j} \sum_j \lambda_j \phi_j \left\{ [v_j(\omega, \pi_g) - v_j(\omega, \pi_o)] + [w_j(q_o) - v_j(q_g)] \right\},
\] (13)
which is positive for \( \pi_g < \pi_o \). Thus, for \( \pi_g < \pi_o \), the government’s equilibrium choice is to put all emphasis on the first issue, where it holds an advantage; likewise, the opposition’s equilibrium choice is to put all emphasis on the second issue. Hence, for \( \pi_g < \pi_o \), in equilibrium \( c_g = 1 \) and \( c_o = 0 \).

Under a commitment, the derivative is given by
\[
\frac{\partial p(g \text{ wins}|\omega = 0)}{\partial c_g} = \frac{\partial \alpha(c_g, c_o)}{\partial c_g} \frac{\psi}{\sum_j \lambda_j \phi_j} \sum_j \lambda_j \phi_j \left\{ [w_j(q_o) - v_j(q_g)] \right\},
\] (14)
which also is positive for a right-wing government, such that \( c_g = 1 \) remains the equilibrium choice for \( \pi_g < \pi_o \). Hence, the government’s equilibrium choice for which issue to emphasize is not affected by its earlier choice of whether to commit or to retain discretion: \( 1 - \alpha_d \), the voter attention to the second issue under discretion, is identical to \( 1 - \alpha_c \), voter attention to the second issue under a commitment.

Moreover, the government is better off under discretion than under commitment if \( \pi_g < \pi_o \): the government is better off with discretion if

\[
\alpha_d \sum_j \lambda_j \phi_j [v_j(\omega, \pi_o) - v_j(\omega, \pi_g)] < (\alpha_d - \alpha_c) \sum_j \lambda_j \phi_j [w_j(q_o) - v_j(q_g)],
\]

(15)

which is always true for \( \pi_g < \pi_o \). Hence, the party’s equilibrium strategies are as follows: If \( \pi_g < \pi_o \): \( \omega = 1, c_g = 1, c_o = 0 \). If \( \pi_g > \pi_o \): \( \omega = 0, c_g = 0, c_o = 1 \).

C Policy trade-offs and inconsistent platforms

The model in the paper assumed that parties are free to propose any platform on the second dimension, despite having an exogenously given characteristic on the first dimension; and that party promises on this second platform are believed. However, voters may perceive the party characteristic to be correlated with its ability to deliver on policy platforms \( q_p \). To formalize this concern, trade-offs among \( q_p \) and \( \pi_p \) are captured by \( \gamma \in [0, 1 - \alpha] \). Then, voter \( i \) in group \( j \) obtains utility from voting for party \( p \) of

\[
u_{ij,p}(q_p, \pi_p, \omega) = \alpha v_j(\omega, \pi_p) + (1 - \alpha - \gamma) w_j(q_p) + \gamma c_j(\omega, \pi_p, q_p) + \nu_{ij,p}. \]

(16)

For \( \gamma = 0 \), voters perceive any combination of a policy \( q_p \) and the inflation reputation \( \pi_p \) as compatible or credible. Then, the model is equivalent to the main model. Positive values of \( \gamma \) reflect doubts of the electorate about the ability of a party to deliver a proposed mix of \( q_p \) and
\(\pi_p\), which leads voters to discount platforms that are inconsistent. The larger is \(\gamma\), the more aware are voters of inconsistent platforms, and the more costly they are as a consequence. Policies are defined as consistent when \(q_p = \omega \pi_p\) and as inconsistent otherwise; the larger the deviation, the larger the penalty. Thus, \(c_j(\omega, \pi_p, q_p) = -(\omega \pi_p - q_p)^2\).

Parties are allowed to make inconsistent proposals, such that \(q_p \neq \omega \pi_p\). Other political parties have incentives to make voters aware of such inconsistencies, as it may further their own electoral prospects, such that inconsistent platforms are likely to be recognized and discounted by voters. In other contexts, parties or candidates may have an acquired reputation in specific issue areas, which are captured by the parameter \(\pi_p\) (Krasa and Polborn, 2010); voters discount policy proposals on issues that are closely related, but at odds with the acquired reputation.

In the present context, \(q_p\) might represent government expenditures. Large fiscal deficits generally drive inflation, and hence are inconsistent with low inflation (Bodea and Higashijima, 2015). In the presence of an exploitable Phillips curve, expansionary policies that increase growth also drive inflation upwards, such that high growth and low inflation are inconsistent.\(^8\) Voters may nevertheless have inconsistent preferences and leave it to parties to derive a solution. I impose an assumption of ‘limited consistency’ on voters: if \(q_p\) and \(\pi_p\) are perceived to be inconsistent, such that if \(\gamma > 0\), then \(q_j \leq \max\{\pi_g, \pi_o\}\). Voters cannot prefer a policy that is ‘larger’ than what would be consistent with at least one party’s inflation reputation.

That \(q_p\) might be related to \(\pi\) changes the calculus of parties. Left governments now may benefit from discretion, because it allows them to cater to voters that prefer policies which require higher inflation rates. Right parties, because they deliver lower inflation rates, are unable to capture these voters. Thus, right governments may have an indirect benefit from a commitment: it forces left parties to propose less inflationary policies. While this effect can

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\(^8\)If the Phillips curve is not exploitable – if prices are flexible and inflation expectations are formed rationally – and this is understood by voters, \(q_p\) is determined by the natural rate of growth. This would yield identical implications for the incentives to lock in policies as in the previous section; the point is also shown in the appendix.
provide incentives for right parties to lock in the policy, the following proposition suggests that circumstances where this is the case are very restrictive.

**Proposition 1.** Suppose at least one of the following conditions is met:

1. Voters are less concerned about the inconsistency between policies and inflation rates than about the inflation rate itself: \( \gamma \leq \alpha \).

2. Voters are sufficiently inflation-averse: \( \alpha \geq 0.2 \).

3. A (density-weighted) majority of the electorate prefers a policy that is more compatible with lower inflation: \( \bar{q} \leq \frac{\pi_g + \pi_o}{2} \).

Then, if \( \pi_g < \pi_o \), the government is better off retaining discretion, whereas for \( \pi_g > \pi_o \), the government is better off with a commitment.

The conditions do not appear particularly stringent. For instance, Scheve (2004) provides estimates of public inflation aversion for a number of countries; most of the countries in that sample meet the threshold stated in Proposition 1. The only scenario in which inflation-prone governments prefer to refrain from a monetary commitment is when the electorate is highly concerned about the inconsistency between the policy \( q \) and inflation, is more concerned about this inconsistency than about the inflation rate, exhibits little inflation-aversion, and favors a policy that is inconsistent with low inflation, but consistent with high inflation.

A noteworthy implication arises for policy convergence. Electoral competition induces divergence on \( q_p \) under discretion, but convergence under a commitment. Low-inflation parties propose less inflationary policies than inflation-prone parties. The relative inflation reputation of parties, in this interpretation, is self-sustaining. In the absence of a commitment, each party's policy proposal is a weighted average of a policy that balances the demands of the \( J \) groups and the inflation reputation of that party. The fact that parties have fixed attributes, and that expectations about these attributes are difficult to change in the short term – because...
of a history of policy choices in the past, because labels such as left-wing or right-wing are
prone to be sticky, or because some voters are reluctant to update their beliefs about different
parties – is sufficient to drive divergence on other policy dimensions as well.

To prove the above: The parties’ utility functions are given by the probability of winning
the election. The first-order condition for maximizing a party’s probability of winning yields

\[ q_p(\omega) = \frac{\gamma}{1-\alpha} \omega \pi_p + \frac{1-\alpha-\gamma}{1-\alpha} \bar{q}, \]  

(17)

where \( \bar{q} = \frac{1}{\sum_i \lambda_i \phi_i} \sum_i \lambda_i \phi_j q_j \). Substituting the optimal policy proposals into the equation defining the government's probability of winning yields

\[ p_g(\omega = 0) = \frac{1}{2} \]  

(18)

under a monetary commitment and

\[ p_g(\omega = 1) = \frac{1}{2} + \alpha \psi (\pi_o^2 - \pi_g^2) + \gamma \psi \left( \frac{1-\alpha-\gamma}{1-\alpha} \right) (\pi_o - \pi_g) (\pi_o + \pi_g - 2\bar{q}) \]  

(19)

under discretionary monetary policy. \( \psi \in (0, 1) \) is sufficient for this expression to be bounded between 0 and 1. Comparing the probabilities of winning and simplifying yields the government’s electoral incentive to commit, which is defined as

\[ \kappa = p_g(\omega = 0) - p_g(\omega = 1) = \alpha \psi (\pi_g^2 - \pi_o^2) + \gamma \psi \left( \frac{1-\alpha-\gamma}{1-\alpha} \right) (\pi_g - \pi_o) (\pi_g + \pi_o - 2\bar{q}). \]  

(20)

For \( \kappa > 0 \), the government prefers a commitment, since its chance of winning the election increases; for \( \kappa < 0 \), the government prefers discretion. As \( \kappa \) increases, the government’s incentive to commit increases. Moreover, when comparing the parties’ utility functions, a right-wing government is more likely than a left-wing government to commit if \( \kappa \) for a right-wing
government is larger than $\kappa$ for a left-wing government.

The resulting subgame perfect Nash Equilibrium is described in the following proposition.

**Proposition 2.** The subgame perfect Nash Equilibrium is described as follows.

1. If $\kappa > 0$, the government chooses a monetary commitment ($\omega = 0$). Otherwise, the government chooses to retain discretion over monetary policy ($\omega = 1$).

2. After the government made its choice of $\omega$, each party proposes

$$q_p^* = \frac{\gamma}{1 - \alpha} \omega \pi_p + \frac{1 - \alpha - \gamma}{1 - \alpha} \bar{q}.$$  \hspace{1cm} (21)

3. Each voter $i$ in $j$ votes for $g$ if and only if $U_{ij,g}(\omega) \geq U_{ij,o}(\omega)$.

To show that for low-inflation governments the electoral incentive to commit decreases in the inflation-aversion of the electorate, note that $\kappa$ decreases in $\alpha$: for $\pi_g < \pi_o$, the derivative with respect to $\alpha$ satisfies

$$(\pi_o + \pi_g)(1 - \alpha)^2 - (\pi_o + \pi_g - 2\bar{q})\gamma^2 \geq 0.$$  \hspace{1cm} (21)

The left-hand is always positive when $\gamma = 0$; for $\gamma > 0$, it is positive for $\bar{q} \geq \frac{1}{2}(\pi_o + \pi_g)$. When $\bar{q} < \frac{1}{2}(\pi_o + \pi_g)$, a sufficient condition is that $(1 - \alpha)^2 \geq \gamma^2$, which is true because $\gamma < 1 - \alpha$ by definition.

To show that for low-inflation governments the electoral incentive to commit decreases in the inflation-proneness of the opposition, note that

$$\frac{\partial \kappa}{\partial \pi_o} = -\alpha \psi(1 - \alpha)2\pi_o - \gamma \psi(1 - \alpha - \gamma)(\pi_g + \pi_o - 2\bar{q}) - \gamma \psi(1 - \alpha - \gamma)(\pi_o - \pi_g) < 0.$$  \hspace{1cm} (22)

The derivative is always negative for $\gamma = 0$. For $\gamma > 0$, for $\bar{q} < \frac{1}{2}(\pi_g + \pi_o)$, all terms are negative. If $\bar{q} > \frac{1}{2}(\pi_g + \pi_o)$, the second term is positive. From limited consistency, it follows
that $\pi_o + \pi_g - 2\tilde{q} \geq \pi_g - \pi_o$, and hence the second and the third term yield at least a negative sum, while the first term is always negative.

For Proposition 1, consider a low-inflation government $(\pi_o > \pi_g)$. Then, $\kappa < 0$ for $\tilde{q} < \frac{1}{2}(\pi_g + \pi_o)$, which is the third condition in the proposition. If this condition fails, the government has an electoral incentive to retain discretion whenever

$$0 \leq \alpha(1 - \alpha)(\pi_o + \pi_g) - \gamma(1 - \alpha - \gamma)(2\tilde{q} - \pi_o - \pi_g), \quad (23)$$

and a sufficient condition for this to be true is

$$\alpha(1 - \alpha) \geq \gamma(1 - \alpha - \gamma),$$

$$(\pi_o + \pi_g) \geq (2\tilde{q} - \pi_o - \pi_g).$$

By limited consistency, $2\tilde{q} - \pi_o - \pi_g \leq \pi_o - \pi_g$, and therefore the second line holds. A sufficient condition for the first line to be true, and hence a sufficient condition for a low-inflation government to have an electoral incentive to retain discretion, is $\alpha > \gamma$. This is the first condition in Proposition 1.

If this condition fails as well, a sufficient condition for condition (23) to hold is that

$$\alpha(1 - \alpha) \geq \gamma(1 - \alpha - \gamma). \quad (24)$$

The right-hand side is maximized for $\gamma = \frac{1}{2}(1 - \alpha)$. Substituting into condition (24) yields $\alpha \geq \frac{1}{5}$ as a sufficient condition, which is the second condition in Proposition 1. Repeating the same for an inflation-prone government shows that an inflation-prone government has an electoral incentive to commit under the same conditions under which a low-inflation government has an electoral incentive to retain discretion (in fact, an inflation-prone government has an electoral incentive to commit if and only if a low-inflation government has an electoral incentive to retain discretion).
discretion). Combining the results with the probability of winning given in equation (19) shows that the vote share of inflation-prone parties increases under a monetary commitment.

D  Endogeneous inflation reputation

This section presents several models where the inflation reputation of the government is no longer exogenously given, but instead is derived endogenously. As before, the government maximizes its probability of winning the election, and each voter chooses the party whose proposed policies yield a higher utility to that voter.

D.1 Different yardsticks

Suppose parties are no longer characterized by different exogenous inflation reputations. Each party chooses its policies freely. Instead, voters evaluate different parties differently. In particular, following the literature on economic voting, right-wing parties are punished more heavily for deviations in the inflation rate from voter preferences (relative to left-wing parties), while left-wing parties are punished more heavily for deviations in the growth rate (relative to right-wing parties). Thus, voter $i$ in group $j$ receives utility

$$u_{ij,p} = \alpha_p V_j(\pi_p) + (1 - \alpha_p)W_j(q_p) + v_{ij,p},$$

The assumption that right-wing parties are punished relatively more heavily for inflation implies that $\alpha_g > \alpha_o$ if the current government is a right-wing government, and $\alpha_g < \alpha_o$ if the current government is left-wing.

If $q_p$ represents economic growth or, alternatively, employment, the standard, expectations-
augmented Phillips curve links inflation and growth as

$$\pi_p = E[\pi] + \mu(q_p - q^*),$$  \hspace{1cm} (26)$$

where $q^*$ is the natural growth rate.

As before, voters have quadratic utility functions, such that

$$V_j(\pi_p) = -\pi_p^2,$$ \hspace{1cm} (27)$$

$$W_j(q_p) = -(q_p - k_jq^*)^2.$$ \hspace{1cm} (28)$$

That is, all voters prefer zero inflation. $k_j > 1$ indicates the growth target above the natural rate. Different groups have different growth targets; for instance, relative to capital owners, workers may prefer higher growth rates – and hence lower unemployment – in exchange for higher inflation. Now, the sequence of play is as follows. Voters form inflation expectations for each party. Then, parties announce platforms that maximize their vote share, given the (party-specific) expected inflation rate and the Phillips curve trade-off. Then, the election is held.

Given these assumptions, the first-order condition yields for the inflation rate

$$\pi_p = \frac{1 - \alpha_p}{\alpha_p \mu} (k - 1)q^*,$$ \hspace{1cm} (29)$$

where $k = \sum_j \lambda_j \phi_j k_j / \sum_j \lambda_j \phi_j$ is a density-weighted average of $k_j$ across all groups. Higher values of $k$, and hence voter preferences to push growth further above its natural rate, result in higher inflation rates. The growth rate under party $p$ is given by

$$q_p = \frac{\alpha_p \mu^2 + (1 - \alpha_p)k}{\alpha_p \mu^2 + (1 - \alpha_p)} q^* - \frac{\alpha_p \mu}{\alpha_p \mu^2 + (1 - \alpha_p)} E[\pi].$$ \hspace{1cm} (30)$$
Because right-wing governments are punished more for inflation than left-wing governments, from the differences in $\alpha_p$ it follows that $\pi_g < \pi_o$ if a right-wing party is currently in government: $\partial \pi_p / \partial \alpha_p < 0$. Rational expectations ensure that $E[\pi] = \pi_g$, such that there is no systematic bias in inflation expectations. It follows that $q_p = q^*$, which underscores the time inconsistency problem emphasized in much of the literature on monetary policy-making.

Because voters prefer growth above the natural rate ($k > 1$), governments are tempted to exploit the trade-off inherent in the Phillips curve. Inflation expectations form accordingly. Consequently, governments are unable to affect economic growth but have to accept higher inflation, due to their inability to commit to not exploit the Phillips curve. Moreover, inflation increases in the government’s temptation to increase inflation for an increase in economic growth: The time inconsistency problem is therefore most severe for left governments.

The model underscores how, even if both parties are office-seeking, differences in how party platforms are evaluated create different policy proposals, such that different inflation reputations arise. The expected inflation rate under a left party is higher than the expected inflation under a right party, even though both are office-seeking and even though economic growth is the same under both parties; moreover, in this model, all voters prefer zero inflation rates. This provides a justification for the assumption that left-wing parties carry a reputation for higher inflation rates. It also provides a simple nexus between models of economic voting, which tend to focus on voter evaluations of past government behavior, and a model of vote choice with purely forward-looking actors. If parties are evaluated differently, maybe because they are perceived to have different skill sets, different policies and different outcomes may obtain under different parties, even where parties are office-seeking and have no agenda of their own.

As before, right-wing governments refrain from a commitment: because left-wing governments are expected to produce higher inflation rates, without an attendant increase in growth rates, right-wing governments have an electoral advantage that they would cede by establish-
ing an independent central bank. In fact, the intuition for the results and comparative statics will be identical to the first model: The outcome on $q_p$ is identical for both parties, while $\pi_p$ is higher for left-wing governments than for right-governments. One notable difference is that now, $q_p$ is determined by the inflation rate under each party, and therefore further away from the density-weighted median voter’s ideal point than the policy proposed under free competition (except in the degenerate case where the two coincide). The second notable difference is that now, the party’s deviations from the voters’ ideal points are weighted differently for the two parties, due to the differences in $\alpha_p$. However, right-wing parties are still better off under discretion. To see this, note that for each individual voter, the right-wing party is strictly preferred in terms of $q_p$ (the deviation from the voter’s ideal point is the same as for the left-wing party, and the weight on the deviation is larger for the left-wing party than for the right-wing party), but also in terms of inflation. The loss for an individual voter from the inflation component is $-\alpha_p \pi_p^2$. For a low-inflation government, with $\alpha_g > \alpha_o$, it follows that discretion is better if and only if

$$-\alpha_g \pi_g^2 > -\alpha_o \pi_o^2,$$

$$\Leftrightarrow \alpha_g \alpha_o < 1,$$

where the second line follows from using the equilibrium inflation rate and simplifying, and the second line is always true. Hence, under discretion, the right-wing party gains from both its stance on inflation and its stance on the policy platform; under commitment, the right-wing party only gains from its policy platform, and hence loses votes relative to discretion. It follows that the right-wing party has a disincentive to commit, and an incentive to retain discretion.

Finally, note that a variation of the model allows to incorporate a legislative efficiency argument, created from the uncertainty about who holds office after the election, which allows parties to temporarily exploit the Phillips curve. Suppose voters cannot form party-specific
inflation rates. The expected inflation-rate, should the currently ruling party retain office, is
\[ E[\pi|g \text{ wins}] = \frac{1-a}{\alpha} (k-1)q^* = \pi_g, \]
and similarly for the opposition party. Then, if inflation expectations are formed before the election and cannot distinguish between party platforms, the expected inflation rate \( E[\pi] \) depends on the inflation rate implemented under the winning party. It is determined as
\[
E[\pi] = p \pi_g + (1-p)\pi_o, \tag{31}
\]
where \( p \) is the probability that the current government wins the election and remains in office. While the Phillips curve, in the presence of rational expectations, rules out expected policy changes from affecting growth, the election injects an unexpected policy change, which allows inflation to – temporarily – affect growth.

Under discretionary policy-making, this effect disadvantages right parties. If the current government is a low-inflation government,
\[
E[\pi] = p \pi_g + (1-p)\pi_o > \pi_g, \tag{32}
\]
which implies that \( q_g < q^* \). The economy therefore contracts after the election if the inflation-averse party stays in office, while it expands if the inflation-prone party gains office. The reason is that the election causes the inflation rate to rise above the expected inflation rate under a low-inflation-averse government but to drop below the expected inflation rate under an inflation-prone government. This creates unexpectedly high inflation if the inflation-prone party wins office, which pushes economic growth upwards. By contrast, if the inflation-averse party wins office, inflation will be unexpectedly low, pushing down economic growth. Anticipating these effects, voters may have an incentive to favor the left-wing government in the upcoming election, especially if they put a large emphasis on combating unemployment relative to inflation. By contrast, if the inflation rate is determined by a central bank and not dependent on the party holding office, inflation expectations match the implemented inflation rate, removing the in-
crease in output under left-wing parties that would emerge under discretionary policy-making.

This presents potentially conflicting incentives to right-wing parties. On the one hand, establishing an independent central bank ties inflation rates down, which means that the party foregoes an issue on which it would outperform a left-wing party. As before, the incentive to refrain from a commitment for this reason increases in the differences with the opposition and in the inflation-aversion of the electorate. On the other hand, establishing an independent central bank removes the growth bias immediately after an election in favor of left-wing parties. Removing this bias through a commitment benefits right-wing parties. Yet, as can be verified, the first effect always outweighs the latter: the benefit from retaining discretion and leveraging the difference in expected inflation rates always outweighs the benefit from a commitment and smoothing out inflation rates across different parties.

D.2 Limited resources

Instead of the trade-off implied by the Phillips curve, suppose more generally that the two parties have limited resources to create and implement legislation on the two policy dimensions. Specifically, the two parties have a budget of resources (which may include, for instance, time, political capital, legislative staff and resources), $z$, and can allocate these resources to two policies, $q_p$ and $m_p$. The cost of producing one unit of $q_p$ is one, while the cost of producing $m_p$ is $r_p > 0$. Moreover, suppose that inflation is related to $q_p$ through a decreasing function $f(m_p) = \pi_p$, where $f'(m_p) < 0$ and $f''(m_p) \geq 0$. Thus, $m_p$ can be thought of as policies to address and lower inflation rates. As noted in the manuscript, suppose that right-wing governments have a lower relative cost of addressing inflation – for instance, because they attract candidates who are better able to design and implement such policies.

As before, voter $i$ in group $j$ receives utility

$$u_{ij,p} = \alpha v_j(\pi_p) + (1 - \alpha) w_j(q_p) + \nu_{ij,p}. \quad (33)$$
Suppose that $v' < 0$, $v'' > 0$, and $w' > 0$, $w'' < 0$. The following results also hold when using quadratic utility functions instead (and previous models hold with these assumptions), but because they guarantee that the budget constraint becomes a binding constraint, these conditions facilitate notation.

The parties’ policy proposals are defined implicitly by the first-order condition, such that

$$
\alpha \sum_j \lambda_j \sigma_j v'_j (f(m_p)) f'(m_p) = r_p (1 - \alpha) \sum_j \lambda_j \sigma_j w'_j (z - r_p m_p).
$$

(34)

Thus, the parties equate the marginal returns of moving on the two dimensions, weighted by the relative importance of the issue areas, as determined by the inflation-aversion $\alpha$, and the relative cost of fighting inflation, given by $r_p$. Then, using the implicit function theorem,

$$
\frac{\partial m_p}{\partial r_p} = \frac{(1 - \alpha) \sum_j \lambda_j \sigma_j w'_j (q_p) - m_p r_p (1 - \alpha) \sum_j \lambda_j \sigma_j w'_j (q_p)}{\alpha \sum_j \lambda_j \sigma_j v'_j (f(m_p)) f'(m_p) + \alpha \sum_j \lambda_j \sigma_j v''_j (f(m_p)) [f'(m_p)]^2 + r_p^2 (1 - \alpha) \sum_j \lambda_j \sigma_j w''_j (q_p)},
$$

(35)

and note that the nominator is strictly positive, whereas the denominator is strictly negative (which also proves that the above equation defines a global maximum), such that the overall expression is negative (with quadratic utility functions, the same is true: the denominator is strictly negative, which is easy to see; the nominator is strictly positive, because where the budget constraint binds it follows that $q_p < q_j$, such that $w'(q_p) > 0$ in equilibrium). It follows that $m_p$ decreases in $r_p$, such that inflation increases in $r_p$. Consequently, right-wing governments are characterized by lower inflation rates than left-wing governments. Moreover, it is easy to verify that the right-wing government is better off with discretion than with a commitment, where it loses its advantage on the low-inflation policy.

The model also formalizes the idea that commitments become, absent electoral effects, more appealing to governments when it is difficult to address inflation, say because the government is composed of a large set of diverse coalition partners. This effect, as argued in the
literature (e.g., Bernhard 1998; Bernhard and Leblang 2002), creates the cost of addressing monetary policy-making politically. This effect drives up $r_p$, therefore lowers $m_p$, and hence increases $\pi_p$. As a consequence, voters are better off with a monetary commitment than without one, because the higher cost of addressing inflation makes parties more reluctant to invest in that policy area; at the same time, a commitment also allows parties to focus more resources on other policy areas, here $q_p$ – with a commitment, the entire budget will be invested into $q_p$, allowing parties to move policy closer to the median voter’s preferred policy. However, these effects apply to both parties alike. The difference between left-wing and right-wing parties, and in particular the vote loss of a right party, relative to a left party, that results from a commitment, remains.

If utility functions were quadratic, obtain the two parties’ policy proposals form the Lagrangian to obtain the following first-order conditions (the second-order condition is easily verified):

\[
\frac{\partial L}{\partial m_p} = \alpha \sum_j \lambda_j \sigma_j V'_j(f(m_p)) f'(m_p) - \lambda r_p = 0, \tag{36}
\]

\[
\frac{\partial L}{\partial q_p} = (1 - \alpha) \sum_j \lambda_j \sigma_j W'_j(q_p) - \lambda = 0, \tag{37}
\]

\[
\frac{\partial L}{\partial \lambda} = z - q_p - r_p m_p \leq 0. \tag{38}
\]

If the budget constrain was not binding, $\lambda = 0$; in that case, both parties would satisfy the policy preferences of a density-weighted median voter, and the low-inflation party would weakly prefer to retain discretion. If the budget constrain is not binding, parties would deviate on both dimensions from the median voter’s preferred policy, due to the resource constraint. The remainder follows as above.
D.3 Partisan base and policy differentiation

This model incorporates the idea that parties may be beholden to a group of voters, which in the following is called its ‘base.’ These can be core voters, or a group from which the party predominantly recruits. Because of this electoral base, voters may be uncertain to which extent parties will follow through on the policy platforms they propose in electoral campaigns. In contrast to the earlier model, and to focus on the effects of the partisan base, this model dispenses with the assumption that parties differ in their ability to create policies; they have the same ‘technology’ to craft and implement legislation. Thus, parties have limited resources to create policies, but with no difference in the relative cost of producing policies: $z = r m_p + q_p$, where $\pi_p = f(m_p)$.

To sequence of play now is as follows. First, the current government decides whether to implement a commitment. Second, voters cast their vote for the party which yields the highest expected utility. Third, the left party learns whether it is neutral or of the biased type. With probability $\gamma$, the left party is neutral and not beholden to its base once in office; with probability $1 - \gamma$, the left party is biased. The party in government then implements its policies.

To incorporate the notion of an electoral base, suppose the left-wing party implements, once in office, not necessarily the promised platforms. If it is of the biased type, the left-wing party instead implements a policy which gives additional weight to one of the groups, $k \in \{1, \ldots, J\}$. That is, once in office, the left party implements the policies that maximize

$$
\Omega = \frac{1}{2} - \frac{\psi}{\sum_j \lambda_j \phi_j} \left\{ \sum_j \lambda_j \phi_j \alpha_j \left[ v_j(\omega, \pi_o) - v_j(\omega, \pi_g) \right] + \sum_j \lambda_j \phi_j (1 - \alpha_j) \left[ w_j(q_o) - v_j(q_g) \right] \right\} + \left\{ s \lambda_k \alpha_k v_k(\omega, \pi_o) + s \lambda_k (1 - \alpha_k) w_k(q_g) \right\},
$$

subject to $z = r m_p + q_p$,

where $s \geq 0$ captures the additional weight put on group $k$. If the left-wing party is biased,
which occurs with probability $1 - \gamma$, it follows that $s > 0$. If the left-wing party is neutral, and therefore with probability $\gamma$, it follows that $s = 0$. Before proceeding, define $m^e$ and $q^e$ as the optimal unbiased policies: they maximize the probability of winning if there was only the unbiased type and no voter uncertainty about the party’s type.

Suppose the right-wing government won the election. This results in the policy choices $m^e$ and $q^e$. If the neutral type of the left-wing party wins the election, it also implements $m^e$ and $q^e$. If the biased type wins the election, it implements policies $q^b$ and $m^b$ defined implicitly by

$$
\sum_j \lambda_j \phi_j \alpha_j \frac{\partial v_j(\omega, \pi_g)}{\partial \pi_g} \frac{\partial \pi_g}{\partial m_g} + \sum_j \lambda_j \phi_j (1 - \alpha_j) \frac{\partial w_j(q_g)}{\partial q_g} \frac{\partial q_g}{\partial m_g}
$$

$$
= s \lambda_k \left( \sum_j \lambda_j \phi_j \right) \left[ \alpha_k \frac{\partial v_k(\omega, \pi_g)}{\partial \pi_g} \frac{\partial \pi_g}{\partial m_g} + (1 - \alpha_k) \frac{\partial w_k(q_g)}{\partial q_g} \frac{\partial q_g}{\partial m_g} \right].
$$

The left-hand side is identical to the first-order condition from the unbiased type, but evaluated at different equilibrium policies, because the right-hand side is generally non-zero for $s > 0$. Hence, the equilibrium policies $q^b$ and $m^b$ chosen by the biased type differ from $q^e$ and $m^e$. It follows that voters expect from a left-wing government, with probability $\gamma$, to obtain policies $m^e$ and $q^e$, and with probability $1 - \gamma$ policies $m^b$ and $q^b$. If both parties implemented $m^e$ and $q^e$, the election would be a tie; by contrast, if the left-wing party implements $m^b$ and $q^b$ and the right-wing party implements $m^e$ and $q^e$, the right-wing government has an electoral advantage. Since voters expect the left-wing government to implement $m^b$ and $q^b$ with probability $1 - \gamma$, the election under discretion favors the right-wing government. By contrast, under a commitment, the election is a tie: inflation is taken off the table, and both parties allocate all of their resources to the second dimension $q_p$. Regardless of the left-wing’s electoral base or whether it is biased, both parties allocate $q_p = z$, resulting in a tie. As a consequence, right-wing governments are worse off under a commitment than under discretion, and have a disincentive to commit.

What remains to be shown is whether expected inflation rates are, indeed, higher under
left-wing governments. Using the implicit function theorem,

$$\frac{\partial m^b}{\partial s} = \lambda_k \alpha_k \frac{\partial v_k(\omega, \pi_g) \partial \pi_g}{\partial m_g} + \lambda_k (1 - \alpha_k) \frac{\partial w_k(q_g) \partial q_g}{\partial m_g}$$

$$-SOC,$$  \hspace{1cm} (40)

where the denominator is the second-order condition multiplied by -1 and always positive. It follows that \( m^b \) decreases in \( s \) if and only if

$$\alpha_k < \hat{\alpha} \equiv \frac{rw'_k(q_g)}{\nu'_k(\omega, \pi_g) f'(m_g) + rw'_k(q_g)}.$$  \hspace{1cm} (41)

It follows that \( \hat{\alpha} \) is bound between zero and one. Thus, \( \alpha_k < \hat{\alpha} \) exists if \( \alpha_k \) is sufficiently small, that is, if the left-wing party’s base is sufficiently inflation-averse. The condition always holds if the left-wing party’s base is insensitive to inflation. It follows that, for the biased type of the left-wing party, inflation is higher than for the right-wing party and higher than for the unbiased type, as long as the left-wing party’s base is sufficiently inflation-averse. From the perspective of voters, the expected inflation rate if the left party wins is \( E[\pi | \text{left wins}] = \gamma f(m^e) + (1 - \gamma) f(m^b) > \pi^e \). That is, voters expect higher inflation rates under left-wing governments, because there is a chance that the left-wing government caves in to its base, which is relatively inflation-tolerant. Similar results would be obtained if parties would make policy proposals before the election, and voters discount deviations of implemented policies from policy platforms.

\section*{E Results from Cox proportional hazards model}

The empirical section mentions a number of additional results. Coefficient estimates and \( p \)-values, based on robust standard errors, from the respective models are shown in Table 1. The variable \texttt{CAPITAL INFLOWS} measures net inflows of foreign direct investment and portfolio investment as a percentage of gross domestic product (GDP) in order to capture reliance on
foreign capital. TRADE BALANCE measures exports minus imports as a percentage of GDP. TRADE OPENNESS exports plus imports as a percentage of GDP. All of these variables are obtained from the World Bank. VETO PLAYERS measures the number of veto players, obtained from the Database of Political Institutions.

Table 1: Cox Proportional Hazards Model: Results

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Coefficient estimates, p-values in parentheses.
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