Online Appendix

A Exporting Ideology: The Right and Left of Foreign Policy

A.1 Proof of Proposition 1

In this Appendix, we study how changes in capital taxes affect the allocation of capital across countries, as well as the worldwide return to capital. We begin by totally differentiating equation (2) to find:

$$\frac{dr}{d\tau_i} = \frac{\partial^2 F_i\left(K_i, \bar{L}_i\right)}{\partial\left(K_i\right)^2}\frac{dK_i}{d\tau_i} - 1 \quad \text{for all } i = 1, ..., N, \tag{A.1}$$

and

$$\frac{dr}{d\tau_j} = \frac{\partial^2 F_i\left(K_i, \bar{L}_i\right)}{\partial\left(K_i\right)^2}\frac{dK_i}{d\tau_j} \qquad \text{for } j \neq i. \tag{A.2}$$

Totally differentiating the capital-market clearing condition (4) further implies

$$\sum_{j=1}^{N} \frac{dK_j}{d\tau_i} = 0,$$

which, using (A.1) and (A.2), can be written as

$$\frac{1}{\frac{\partial^2 F_i\left(K_i,\bar{L}_i\right)}{\partial\left(K_i\right)^2}} + \frac{dr}{d\tau_i}\sum_{j=i}^{N}\frac{1}{\frac{\partial^2 F_j\left(K_j,\bar{L}_j\right)}{\partial\left(K_j\right)^2}} = 0,$$

and thus

$$\frac{dr}{d\tau_i} = \frac{-1}{\frac{\partial^2 F_i\left(K_i,\bar{L}_i\right)}{\partial\left(K_i\right)^2}\sum_{j=1}^{N}\frac{1}{\frac{\partial^2 F_j\left(K_j,\bar{L}_j\right)}{\partial\left(K_j\right)^2}}} < 0. \tag{A.3}$$

Note that $|dr/d\tau_i|$ is necessarily smaller than 1.

Plugging in (A.1), this in turn implies

$$\frac{dK_i}{d\tau_i} = \frac{\sum_{j\neq i}^{N} \frac{1}{\frac{\partial^2 F_j\left(K_j,\bar{L}_j\right)}{\partial\left(K_j\right)^2}}}{\frac{\partial^2 F_i\left(K_i,\bar{L}_i\right)}{\partial(K_i)^2} \sum_{j=1}^{N} \frac{1}{\frac{\partial^2 F_j\left(K_j,\bar{L}_j\right)}{\partial\left(K_j\right)^2}}} < 0 \tag{A.4}$$

Finally, plugging in (A.2) into (A.3), we have

$$\frac{dK_i}{d\tau_j} = \frac{-1}{\frac{\partial^2 F_j\left(K_j,\bar{L}_j\right)}{\partial(K_j)^2} \frac{\partial^2 F_i\left(K_i,\bar{L}_i\right)}{\partial(K_i)^2} \sum_{i=1}^{N} \frac{1}{\frac{\partial^2 F_i(K_i,\bar{L}_i)}{\partial(K_i)^2}}} > 0. \tag{A.5}$$

In sum, when a country i raises its tax τ_i^K on capital, it (i) depresses the global return to capital r, (ii) decreases the capital stock K_i in country i, and (iii) increases the capital stock K_j in all other countries $j \neq i$.

We note also that

$$\frac{dr/d\tau_i^K}{dK_i/d\tau_i^K} = \frac{1}{\sum_{j\neq i}^{N} \frac{1}{-\frac{\partial^2 F_j\left(K_j,\bar{L}_j\right)}{\partial\left(K_j\right)^2}}}.$$

Because $\partial^2 F_j\left(K_j,\bar{L}_j\right)/\partial\left(K_j\right)^2 < 0$, when τ_i^K rises and K_j rises for all $j \neq i$, the terms $\partial^2 F_j\left(K_j,\bar{L}_j\right)/\partial\left(K_j\right)^2$ increase or decrease depending on the third derivative of the production function $F_j\left(K_j,\bar{L}_j\right)$. When this third derivative is positive, as in the Cobb-Douglas case, τ_i^K rises and $\left(dr/d\tau_i^K\right)/\left(dK_i/d\tau_i^K\right)$ falls. This in turn implies that the optimal capital tax in equation (12), i.e.,

$$\tau_i^K = \frac{dr/d\tau_i^K}{dK_i/d\tau_i^K}\left(K_i - \beta_i \bar{K}_i\right),$$

is necessarily unique. To see this, note that we can express this expression as

$$K_i - \tau_i^K \frac{1}{\frac{dr/d\tau_i^K}{dK_i/d\tau_i^K}} = \beta_i \bar{K}_i,$$

where the left-hand side is monotonically decreasing in τ_i^K because (i) K_i decreases in τ_i^K, and (ii) $\left(dr/d\tau_i^K\right)/\left(dK_i/d\tau_i^K\right)$ also decreases in τ_i^K.

From this last expression it is also clear that the lower is β_i, the higher is the capital tax τ_i^K, as stated in the main text. A non-negative third derivative of the production function with respect to capital is sufficient for this result.

A.2 Proof of Lemma 1

Given their preferences in (14), and their anticipation of the policies that the pro-capital 'right' R and the pro-labor 'left' L would implement, Home capitalists vote for R whenever

$$\left(r\left(\tau_{H\mathcal{R}}^{K}\right)-r\left(\tau_{H\mathcal{L}}^{K}\right)\right)\bar{K}_{H}+\rho_{H}+\xi_{H}^{s}>0.$$

Given the uniform distribution of ξ_H^s, this implies that the share $P_{H\mathcal{R}}^K$ of Home capitalists who vote for the pro-capital party is given

$$\mathbb{P}_{H\mathcal{R}}^{K}=\frac{1}{2}+\gamma_{H}^{K}\left(\left(r\left(\tau_{H\mathcal{R}}^{K}\right)-r\left(\tau_{H\mathcal{L}}^{K}\right)\right)\bar{K}_{H}+\rho_{H}\right).$$

Similarly, a share $P_{H\mathcal{L}}^K$ of workers votes for the pro-capital party, where $P_{H\mathcal{L}}^K$ is given by

$$\mathbb{P}_{H\mathcal{L}}^{K}=\frac{1}{2}+\gamma_{H}^{L}\left(\left(w_{H}\left(\tau_{H\mathcal{R}}^{K},\tau_{H\mathcal{R}}^{L}\right)-w_{H}\left(\tau_{H\mathcal{L}}^{K},\tau_{H\mathcal{L}}^{L}\right)\right)\bar{L}_{H}+v_{H}\left(G_{Hc}\right)-v_{H}\left(G_{Hc}\right)+\rho_{H}\right).$$

As long as if γ_H^K and γ_H^L are small enough, these probabilities necessarily lie between 0 and 1. Allowing for corner solutions would be straightforward, though it would complicate the algebra while not generating additional insights.

The overall vote share of the right is then

$$\mathbb{P}_{H\mathcal{R}}=\kappa\mathcal{P}_{H\mathcal{R}}^{K}+(1-\kappa)\,\mathcal{P}_{H\mathcal{R}}^{L},$$

where remember that κ is the share of capitalists in the (voting) population.

Simple manipulations then show that

$$\begin{aligned}\mathbb{P}_{H\mathcal{R}} \;=\; & \frac{1}{2}+\kappa\gamma_{H}^{K}\left(r-r\left(\tau_{H\mathcal{L}}^{K}\right)\right)\bar{K}_{H}+(1-\kappa)\,\gamma_{H}^{L}\left(w_{H}\left(\tau_{H\mathcal{R}}^{K},\tau_{H\mathcal{R}}^{L}\right)-w_{H}\left(\tau_{H\mathcal{L}}^{K},\tau_{H\mathcal{L}}^{L}\right)\right)\bar{L}_{H}\\ & +\left(\kappa\gamma_{H}^{K}+(1-\kappa)\,\gamma_{H}^{L}\right)\rho_{H},\end{aligned}$$

which corresponds to the claim in Lemma 1.

A.3 Expropriation

In this Appendix, we study how changes in expropriation rates affect the allocation of capital across countries, as well as the worldwide return to capital. We begin by totally differentiating equation (18) to find:

$$\frac{dr}{d\phi_i^K} = -\frac{\partial F_i\left(K_i, \bar{L}_i\right)}{\partial K_i} + \left(1-\phi_i^K\right)\frac{\partial^2 F_i\left(K_i, \bar{L}_i\right)}{\partial\left(K_i\right)^2}\frac{dK_i}{d\phi_i^K}, \tag{A.6}$$

and

$$\frac{dr}{d\phi_j} = \left(1-\phi_i^K\right)\frac{\partial^2 F_i\left(K_i, \bar{L}_i\right)}{\partial\left(K_i\right)^2}\frac{dK_i}{d\phi_j^K} \text{ for } j \neq i. \tag{A.7}$$

Totally differentiating the capital-market clearing condition (4) further implies

$$\sum_{j=1}^{N}\frac{dK_j}{d\phi_i^K} = 0,$$

which, using (A.6) and (A.7), can be written as

$$\frac{\frac{\partial F_i\left(K_i, \bar{L}_i\right)}{\partial K_i}}{\left(1-\phi_i^K\right)\frac{\partial^2 F_i\left(K_i, \bar{L}_i\right)}{\partial\left(K_i\right)^2}} + \frac{dr}{d\phi_i^K}\sum_{j=1}^{N}\frac{1}{\left(1-\phi_j^K\right)\frac{\partial^2 F_j\left(K_j, \bar{L}_j\right)}{\partial\left(K_j\right)^2}} = 0,$$

and thus

$$\frac{dr}{d\phi_i^K} = \frac{-\frac{\partial F_i\left(K_i, \bar{L}_i\right)}{\partial K_i}}{\left(1-\phi_i^K\right)\frac{\partial^2 F_i\left(K_i, \bar{L}_i\right)}{\partial\left(K_i\right)^2}\sum_{j=1}^{N}\frac{1}{\left(1-\phi_j^K\right)\frac{\partial^2 F_j\left(K_j, \bar{L}_j\right)}{\partial\left(K_j\right)^2}}} < 0. \tag{A.8}$$

Plugging in (A.6), this in turn implies

$$\frac{dK_i}{d\phi_i^K} = \frac{\sum_{j\neq i}^{N}\frac{1}{\left(1-\phi_j^K\right)\frac{\partial^2 F_j\left(K_j, \bar{L}_j\right)}{\partial\left(K_j\right)^2}}}{\left(1-\phi_i^K\right)\frac{\partial^2 F_i\left(K_i, \bar{L}_i\right)}{\partial\left(K_i\right)^2}\sum_{j=1}^{N}\frac{1}{\left(1-\phi_j^K\right)\frac{\partial^2 F_j\left(K_j, \bar{L}_j\right)}{\partial\left(K_j\right)^2}}}\frac{\partial F_i\left(K_i, \bar{L}_i\right)}{\partial K_i} < 0.$$

And plugging (A.8) into (A.7) delivers

$$\frac{dK_i}{d\phi_j^K} = \frac{-\frac{\partial F_j\left(K_i, \bar{L}_i\right)}{\partial K_j}}{\left(1-\phi_j^K\right)\frac{\partial^2 F_j\left(K_i, \bar{L}_i\right)}{\partial\left(K_j\right)^2}\left(1-\phi_i^K\right)\frac{\partial^2 F_i\left(K_i, \bar{L}_i\right)}{\partial\left(K_i\right)^2}\sum_{j=1}^{N}\frac{1}{\left(1-\phi_j^K\right)\frac{\partial^2 F_j\left(K_j, \bar{L}_j\right)}{\partial\left(K_j\right)^2}}} > 0 \text{ for } j \neq i.$$

In sum, when a country i raises its expropriation rate ϕ_i^K on capital, it (i) depresses the global return to capital r, (ii) decreases the capital stock K_i in country i, and (iii) increases the capital stock K_j in all other countries $j \neq i$.

We also note that

$$\frac{dr/d\phi_i}{dK_i/d\phi_i} = \frac{-1}{\sum_{j \neq i}^{N} \frac{1}{(1-\phi_j)\frac{\partial^2 F_j\left(K_j,\bar{L}_j\right)}{\partial\left(K_j\right)^2}}},$$

and thus the optimal expropriation rate, whenever $K_i > \beta_i \bar{K}_i$, is given by (see equation (19)):

$$\phi_i^K = \frac{-1}{\frac{\partial F_i\left(K_i,\bar{L}_i\right)}{\partial K_i} \sum_{j \neq i}^{N} \frac{1}{(1-\phi_j)\frac{\partial^2 F_j\left(K_j,\bar{L}_j\right)}{\partial\left(K_j\right)^2}}} \left(K_i - \beta_i \bar{K}_i\right).$$

A.4 Proof of Proposition 7

In this Appendix, we study the version of our model with staggered elections leading to Proposition 7.

As stated in the main text, at any point in time, there are two types of incumbents at Home and in Foreign: first-term incumbents and second-term incumbents. Behavior of second-term incumbents is identical to that discussed in our baseline model. Analogously to equation (17) in the main text, we have that Foreign and Home second-term incumbents set

$$e_{Fc} = \chi_H \phi_F \left[W_F\left(\beta_F; \tau_{H\mathcal{R}}^K, \tau_{Fc}^K\right) - W_H\left(\beta_H; \tau_{H\mathcal{R}}^K, \tau_{Fc}^K\right)\right],$$

and

$$e_{Hc} = \chi_F \phi_H \left[W_H\left(\beta_H; \tau_{Hc}^K, \tau_{F\mathcal{R}}^K\right) - W_H\left(\beta_H; \tau_{Hc}^K, \tau_{F\mathcal{L}}^K\right)\right].$$

Furthermore, given our assumption of a lack of commitment regarding tax choices, these second-term incumbents continue to implement their preferred capital taxes, as they cannot credibly commit to implementing alternative values that may benefit their aligned candidate in the other country's election.

As in our baseline model, and again due to the lack of commitment, first-term incumbents also always implement their preferred capital taxes, but their choice of foreign influence is now distinct than that of second-term incumbents. To see this, consider the expected welfare of a first-term incumbent over its political horizon. Let us assume this first-time incumbent is a pro-capital party or politician. We can distinguish between four distinct periods in the lifetime of an elected politician: a first period right after being elected but before the first election in the other country; a second period right after the election abroad but before his or her domestic election; a third period right after being re-elected or after losing the reelection, but before a second election in the other country; and a fourth and last period right after the second election and until the end of his or her political life. For simplicity, we ignore discounting during that political lifetime.

In the first period, right after being elected, this incumbent enjoys a payoff equal $W_F\left(\beta_{F\mathcal{R}};\tau_{Hc}^K\right)$, where $\beta_{F\mathcal{R}}$ is its own pro-capital bias, and where τ_{Hc}^K is the capital tax implemented at Home, which depends on the bias of that incumbent party at Home.

In the second period, the Foreign incumbent is still in power, but its payoff depends on the outcome of the election at Home, so

$$\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)-\frac{1}{2\phi_F}\left(e_{F\mathcal{R}1}\right)^2.$$

After plugging in (15), this equation is analogous to equation (16) in the main text.

In the third period, the welfare of this pro-capital party is shaped by whether it wins its own election in that third period. Specifically, the Foreign incumbent realizes that its electoral prospects depends on the level of foreign influence put in place by the Home incumbent. Crucially, this level of Home influence is shaped by the pro-capital or pro-labor bias of the Home incumbent, which the Foreign incumbent tried to affect in the previous period. More formally, at the time of setting the foreign influence level $e_{F\mathcal{R}1}$ in period 2, the Foreign pro-capital incumbent expects a third period payoff equal to

$$\begin{aligned}&\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)\left[\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{R}}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)+\left(1-\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{R}}\right)\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{L}}^K\right)\right]\\&+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)\right)\left[\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{L}}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)+\left(1-\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{L}}\right)\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{L}}^K\right)\right].\end{aligned}$$

In its last period, the expected payoff at the time of setting $e_{F\mathcal{R}1}$ in period 2 is

$$\begin{aligned}
&\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{R}}\right)\times \\
&\quad\times\left[\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}2}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}2}\right)\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)-\frac{1}{2\phi_F}\left(e_{F\mathcal{R}2}\right)^2\right] \\
&+\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)\left(1-\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{R}}\right)\right) \\
&\quad\times\left[\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{L}1}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{L}}^K\right)+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{L}1}\right)\right)W_F\left(\beta_F;\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{L}}^K\right)\right] \\
&+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)\right)\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{L}}\right)\times \\
&\quad\times\left[\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}2}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}2}\right)\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)-\frac{1}{2\phi_F}\left(e_{F\mathcal{R}2}\right)^2\right] \\
&+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)\right)\left(1-\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{L}}\right)\right)\times \\
&\quad\times\left[\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{L}1}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{L}}^K\right)+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{L}1}\right)\right)W_F\left(\beta_F;\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{L}}^K\right)\right]
\end{aligned}$$

This Foreign expected welfare depends on who wins the second Home election, which is shaped by the second-term foreign influence effort e_{F2}. But note that $e_{F\mathcal{R}1}$ is still relevant for expected welfare because the Foreign pro-capital incumbent cares about whether he is an incumbent or not at that (which is shaped by $e_{H\mathcal{R}}$ or $e_{H\mathcal{L}}$, which is in turn shaped by $e_{F\mathcal{R}1}$).

Notice that this last payoff is the only one shaped by $e_{F\mathcal{R}2}$, and that $e_{F\mathcal{R}2}$ is set to maximize

$$\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}2}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}2}\right)\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)-\frac{1}{2\phi_F}\left(e_{F\mathcal{R}2}\right)^2$$

so

$$\begin{aligned}
e_{F\mathcal{R}2} &= \phi_F\frac{\partial\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}2}\right)}{\partial e_{F\mathcal{R}2}}\left[W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)-W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)\right] \\
&= \phi_F\chi_H\left[W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)-W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)\right],
\end{aligned}$$

where in the last line, we have used

$$\mathbb{P}_{H\mathcal{R}}\left(e_{F2}\right)=\frac{1}{2}+\Delta_H^u+\chi_H e_{F2}.$$

This confirms our claim above that second-term incumbents set foreign influence at the same level as in our baseline model.

The choice of $e_{F\mathcal{R}1}$ is more complicated. The derivative of overall expected welfare (ignoring discounting) with respect to $e_{F\mathcal{R}1}$ is given by

$$
\begin{aligned}
& \frac{\partial \mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)}{\partial e_{F\mathcal{R}1}}\left[W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)-W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)\right]-\frac{e_{F\mathcal{R}1}}{\phi_F} \\
& +\frac{\partial \mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)}{\partial e_{F\mathcal{R}1}}\left\{\begin{array}{c}\mathbb{P}_{F\mathcal{R}}\left(e_H\right)\left[W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)-W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)\right] \\ +\left(1-\mathbb{P}_{F\mathcal{R}}\left(e_H\right)\right)\left[W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{L}}^K\right)-W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{L}}^K\right)\right]\end{array}\right\} \\
& +\frac{\partial \mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)}{\partial e_{F\mathcal{R}1}}\left(\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{R}}\right)-\mathbb{P}_{F\mathcal{R}}\left(e_{H\mathcal{L}}\right)\right) \qquad\qquad (\text{A.9}) \\
& \times\left[\left\{\begin{array}{c}\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}2}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)+\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}2}\right)\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)-\frac{1}{2\phi_F}\left(e_{F\mathcal{R}2}\right)^2 \\ -\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{L}1}\right)W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{L}}^K\right)-\left(1-\mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{L}1}\right)\right)W_F\left(\beta_F;\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{L}}^K\right)\end{array}\right\}\right].
\end{aligned}
$$

This may look like a complicated expression, but note the following observations:

1. The first line of (A.9), when equated to 0, is identical to the first-order condition for the choice of effort of a second-term incumbent.

2. In the second line of (A.9), because

$$\mathbb{P}_{H\mathcal{R}}\left(e_{F1}\right)=\frac{1}{2}+\Delta_H^u+\chi_H e_{F1},$$

we have that

$$\frac{\partial \mathbb{P}_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)}{\partial e_{F\mathcal{R}1}}=\chi_H>0. \qquad (\text{A.10})$$

3. In the same second line of (A.9), as long as the Foreign incumbent is sufficiently pro-capital, it will always prefer lower capital taxes at Home (regardless of who is the incumbent in Foreign in the second term), so we necessarily have

$$W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{R}}^K\right)-W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{R}}^K\right)>0 \qquad (\text{A.11})$$

and

$$W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{R}}^K,\tau_{F\mathcal{L}}^K\right)-W_F\left(\beta_{F\mathcal{R}};\tau_{H\mathcal{L}}^K,\tau_{F\mathcal{L}}^K\right)>0. \qquad (\text{A.12})$$

Note that equations (A.10), (A.11) and (A.12) jointly imply that the term in the second line of the cumbersome derivative in (A.9) is necessarily positive.

4. In the third line of (A.9), $\partial P_{H\mathcal{R}}\left(e_{F\mathcal{R}1}\right)/\partial e_{F\mathcal{R}1}>0$ and $P_{F\mathcal{R}}\left(e_{H\mathcal{R}}\right)-P_{F\mathcal{R}}\left(e_{H\mathcal{L}}\right)>0$, as long as the Home incumbent tries to favor its ideologically aligned Foreign party,

implying $e_{H\mathcal{R}} > 0$ and $e_{H\mathcal{L}} < 0$. This is evident for second-term Home incumbents, but we conjecture that the same will be true for first-term Home incumbents, and we will later verify that this conjecture is true.

5. In the fourth line of (A.9), note that we have

$$\mathbb{P}_{H\mathcal{R}}(e_{F\mathcal{R}2}) W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{R}}, \tau^K_{F\mathcal{R}}\right) + (1-\mathbb{P}_{H\mathcal{R}}(e_{F\mathcal{R}2})) W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{L}}, \tau^K_{F\mathcal{R}}\right) - \frac{1}{2\phi_F}(e_{F\mathcal{R}2})^2 > \\ \mathbb{P}_{H\mathcal{R}}(0) W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{R}}, \tau^K_{F\mathcal{R}}\right) + (1-\mathbb{P}_{H\mathcal{R}}(0)) W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{L}}, \tau^K_{F\mathcal{R}}\right)$$

because $e_{F\mathcal{R}2} \neq 0$ can only deliver a higher welfare level to the Foreign second-term incumbent.

6. Furthermore, as long $e_{H\mathcal{L}} < 0$,

$$\mathbb{P}_{H\mathcal{R}}(0) W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{R}}, \tau^K_{F\mathcal{R}}\right) + (1-\mathbb{P}_{H\mathcal{R}}(0)) W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{L}}, \tau^K_{F\mathcal{R}}\right) > \\ \mathbb{P}_{H\mathcal{R}}(e_{F\mathcal{L}1}) W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{R}}, \tau^K_{F\mathcal{L}}\right) + (1-\mathbb{P}_{H\mathcal{R}}(e_{F\mathcal{L}1})) W_F\left(\beta_F; \tau^K_{H\mathcal{L}}, \tau^K_{F\mathcal{L}}\right)$$

because we can express this as

$$\mathbb{P}_{H\mathcal{R}}(0)\left[W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{R}}, \tau^K_{F\mathcal{R}}\right) - W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{R}}, \tau^K_{F\mathcal{L}}\right)\right] \\ + (1-\mathbb{P}_{H\mathcal{R}}(0))\left[W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{L}}, \tau^K_{F\mathcal{R}}\right) - W_F\left(\beta_F; \tau^K_{H\mathcal{L}}, \tau^K_{F\mathcal{L}}\right)\right] > \\ -(\mathbb{P}_{H\mathcal{R}}(0) - \mathbb{P}_{H\mathcal{R}}(e_{F\mathcal{L}1}))\left[W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{R}}, \tau^K_{F\mathcal{L}}\right) - W_F\left(\beta_F; \tau^K_{H\mathcal{L}}, \tau^K_{F\mathcal{L}}\right)\right],$$

which necessarily holds because $W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{R}}, \tau^K_{F\mathcal{R}}\right) > W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{R}}, \tau^K_{F\mathcal{L}}\right)$, $W_F\left(\beta_{F\mathcal{R}}; \tau^K_{H\mathcal{L}}, \tau^K_{F\mathcal{R}}\right) > W_F\left(\beta_F; \tau^K_{H\mathcal{L}}, \tau^K_{F\mathcal{L}}\right)$, and $P_{H\mathcal{R}}(0) > P_{H\mathcal{R}}(e_{F\mathcal{L}1})$, as long as $e_{F\mathcal{L}1} < 0$.

In sum, as long as the effort levels of Home incumbents satisfy $e_{H\mathcal{R}} > 0$ and $e_{H\mathcal{L}} < 0$, and as long as $e_{F\mathcal{L}1} < 0$, we have that first-term Foreign incumbents will have a marginal return to investing in foreign influence that is higher than for second-term Foreign incumbents. Intuitively, a pro-capital Foreign incumbent may not only want to help a Home pro-capital party get elected to benefit from the lower capital taxes this Home government would set, but also because they anticipate that a Home pro-capital incumbent will be more likely in the future to help the Foreign pro-capital government to get reelected in future elections in Foreign. This implies that $e_{F\mathcal{R}2} > e_{F\mathcal{R}1} > 0$.

A completely analogous set of derivations implies that first-term Home incumbents also set $e_{H\mathcal{R}2} > e_{H\mathcal{R}1} > 0$, which confirms our conjecture that $e_{H\mathcal{R}} > 0$, regardless of whether the

Home incumbent is a first- or second-term incumbent. Similarly, when studying the choices of first-term pro-labor incumbents, it can be verified following a completely analogous set of steps that first-term pro-labor incumbents will also exert more foreign influence, which in this case implies $e_{H\mathcal{L}2} < e_{H\mathcal{L}1} < 0$ and $e_{F\mathcal{L}2} < e_{F\mathcal{L}1} < 0$. This in turn implies that our conjectures $e_{H\mathcal{L}} < 0$ and $e_{F\mathcal{L}1} < 0$ above are verified. This completes the proof of Proposition 7.

A.5 Proof of Proposition 8

In this Appendix, we analyze the version of our model with commitment leading to Proposition 8. When the Home parties can credibly commit to their announced capital taxes, the timing of events of the political game is as follows:

- $(t = 1)$ The Home pro-capital and pro-labor parties announce a policy platform $\left(\tau_{Hc}^{K}, \tau_{Hc}^{L}\right)$ for $c = R, L$.
- $(t = 1.5)$ The incumbent party in Foreign decides how much effort e_F to exert with the goal of affecting the electoral outcome at Home.
- $(t = 2)$ The values of ξ_H^K and ξ_H^L are realized.
- $(t = 3)$ Elections occur at Home.
- $(t = 4)$ Policies announced at $t = 1$ are implemented by the winning party and payoffs are realized.

It is intuitive (though we will demonstrate this formally below) that, given the above timing of events, for a given $\left(\tau_{Hc}^{K}, \tau_{Hc}^{L}\right)$ for $c = R, L$, the choice of e_F will be analogous to that in the main text, and given by

$$e_F = \chi_H \phi_F \left[W_F\left(\beta_F; \tau_{H\mathcal{R}}^{K}\right) - W_F\left(\beta_F; \tau_{H\mathcal{L}}^{K}\right) \right]. \tag{A.13}$$

It is then clear that the first statement in Proposition 8 is necessarily true. A sufficiently pro-capital incumbent in a Foreign country will perceive $W_F\left(\beta_{F\mathcal{R}}; \tau_{H\mathcal{R}}^{K}\right) > W_F\left(\beta_{F\mathcal{R}}; \tau_{H\mathcal{L}}^{K}\right)$ and will thus take actions to increase the likelihood that an election at Home is won by a pro-capital party (or $e_{F\mathcal{R}} > 0$). Conversely, a sufficiently pro-labor incumbent in a Foreign country will perceive $W_F\left(\beta_{F\mathcal{L}}; \tau_{H\mathcal{R}}^{K}\right) < W_F\left(\beta_{F\mathcal{L}}; \tau_{H\mathcal{L}}^{K}\right)$, and will thus take actions to increase the likelihood that an election at Home is won by a pro-labor party (or $e_{F\mathcal{L}} > 0$).

The main novel aspect of the analysis with commitment is that capital taxes $\tau_{H\mathcal{R}}^K$ and $\tau_{H\mathcal{L}}^K$ are now set in stone at $t=1$ by each of the two parties at Home, and thus these choices are partly shaped by how these policies will affect their electoral prospects, internalizing the impact of those choices on the foreign influence function in (A.13). Assuming that parties, are risk neutral, the pro-capital party at Home sets $\tau_{H\mathcal{R}}^K$ to maximize

$$\tilde{W}_H\left(\beta_{H\mathcal{R}}\right)=\mathbb{P}_{H\mathcal{R}}W_H\left(\beta_{H\mathcal{R}},\tau_{H\mathcal{R}}^K\right)+\left(1-\mathbb{P}_{H\mathcal{R}}\right)W_H\left(\beta_{H\mathcal{R}},\tau_{H\mathcal{L}}^K\right),$$

while the pro-labor party at Home sets $\tau_{H\mathcal{L}}^K$ to maximize

$$\tilde{W}_H\left(\beta_{H\mathcal{L}}\right)=\mathbb{P}_{H\mathcal{R}}W_H\left(\beta_{H\mathcal{L}},\tau_{H\mathcal{R}}^K\right)+\left(1-\mathbb{P}_{H\mathcal{R}}\right)W_H\left(\beta_{H\mathcal{L}},\tau_{H\mathcal{L}}^K\right).$$

As in our baseline model, the probability $P_{H\mathcal{R}}$ is given by

$$\mathbb{P}_{H\mathcal{R}}=\frac{1}{2}+\Delta_H^u+\chi_H\rho_H,$$

with

$$\Delta_H^u\equiv\kappa\gamma_H^K\left(r\left(\tau_{H\mathcal{R}}^K\right)-r\left(\tau_{H\mathcal{L}}^K\right)\right)\bar{K}_H+\left(1-\kappa\right)\gamma_H^L\left(w_H\left(\tau_{H\mathcal{R}}^K,\tau_{H\mathcal{R}}^L\right)-w_H\left(\tau_{H\mathcal{L}}^K,\tau_{H\mathcal{L}}^L\right)\right)\bar{L}_H,$$

$$\chi_H\equiv\kappa\gamma_H^K+\left(1-\kappa\right)\gamma_H^L,$$

and

$$\rho_H=e_F.$$

A Pro-Capital Home Incumbent Consider first the problem solved by a pro-capital Home incumbent. The derivative of $\tilde{W}_H\left(\beta_{H\mathcal{R}}\right)$ with respect to $\tau_{H\mathcal{R}}^K$ is given by

$$\frac{d\tilde{W}_H\left(\beta_{H\mathcal{R}}\right)}{d\tau_{H\mathcal{R}}^K}=\mathbb{P}_{H\mathcal{R}}\frac{\partial W_H\left(\beta_{H\mathcal{R}},\tau_{H\mathcal{R}}^K\right)}{\partial\tau_{H\mathcal{R}}^K}+\frac{\partial\mathbb{P}_{H\mathcal{R}}}{\partial\tau_{H\mathcal{R}}^K}\left[W_H\left(\beta_{H\mathcal{R}};\tau_{H\mathcal{R}}^K\right)-W_H\left(\beta_{H\mathcal{R}};\tau_{H\mathcal{L}}^K\right)\right]$$

and

$$\begin{aligned}\frac{\partial\mathbb{P}_{H\mathcal{R}}}{\partial\tau_{H\mathcal{R}}^K} &= \frac{\partial\Delta_H^u}{\partial\tau_{H\mathcal{R}}^K}+\chi_H\frac{\partial e_F}{\partial\tau_{H\mathcal{R}}^K}\\ &= \kappa\gamma_H^K\bar{K}_H\frac{dr\left(\tau_{H\mathcal{R}}^K\right)}{d\tau_{H\mathcal{R}}^K}+\left(1-\kappa\right)\gamma_H^L\bar{L}_H\frac{dw_H\left(\tau_{H\mathcal{R}}^K\right)}{d\tau_{H\mathcal{R}}^K}+\chi_H\frac{\partial e_F}{\partial\tau_{H\mathcal{R}}^K}\\ &= \kappa\gamma_H^K\bar{K}_H\frac{dr\left(\tau_{H\mathcal{R}}^K\right)}{d\tau_{H\mathcal{R}}^K}+\left(1-\kappa\right)\gamma_H^L\bar{L}_H\frac{dw_H\left(\tau_{H\mathcal{R}}^K\right)}{d\tau_{H\mathcal{R}}^K}+\chi_H\phi_F\frac{\partial W_F\left(\beta_F;\tau_{H\mathcal{R}}^K\right)}{\partial\tau_{H\mathcal{R}}^K}.\end{aligned}$$

When setting the derivative $d\tilde{W}_H\left(\beta_{H\mathcal{R}}\right)/d\tau^K_{H\mathcal{R}}$ to 0, the resulting optimal tax $\tau^K_{H\mathcal{R}}$ will be distinct from the one in our baseline model, which simply sets

$$\frac{\partial W_H\left(\beta_{H\mathcal{R}}, \tau^K_{H\mathcal{R}}\right)}{\partial \tau^K_{H\mathcal{R}}} \leq 0; \quad \tau^K_{H\mathcal{R}} \geq 0,$$

because we will typically have

$$\frac{\partial \mathbb{P}_{H\mathcal{R}}}{\partial \tau^K_{H\mathcal{R}}} \neq 0.$$

The reason for this departure is twofold. On the one hand, and even in the absence of foreign influence (i.e., $e_F = 0$), the pro-capital Home incumbent now realizes that even though it may desire a very low (possibly 0) capital tax, if most of the voters are workers, such a policy announcement will cost the party lots of votes (note $dw_H\left(\tau^K_{H\mathcal{R}}\right)/d\tau^K_{H\mathcal{R}} > 0$), so this will attenuate its incentive to set a very low capital tax. On the other hand, foreign influence further shapes the choice of $\tau^K_{H\mathcal{R}}$ because the pro-capital Home party understands that announcing a $\tau^K_{H\mathcal{R}}$ in line with the ideology of the Foreign incumbent will enhance its electoral prospects.

What is the direction of the latter departure? Notice that it is driven by the sign of

$$W_H\left(\beta_{H\mathcal{R}}; \tau^K_{H\mathcal{R}}\right) - W_H\left(\beta_{H\mathcal{R}}; \tau^K_{H\mathcal{L}}\right) > 0,$$

which is positive because $\tau^K_{H\mathcal{R}}$ is a preferred policy for the Home pro-capital party, and by the sign of

$$\frac{\partial W_F\left(\beta_F; \tau^K_{H\mathcal{R}}\right)}{\partial \tau^K_{H\mathcal{R}}}.$$

From Proposition 5, this term will be positive when the Foreign government is sufficiently pro-labor, while it will be negative when the Foreign incumbent is sufficiently pro-capital. Regardless of the outcome of the election and the particular way in which commitment would affect policies in the absence of foreign influence, we can thus conclude that when the Foreign incumbent is sufficiently pro-capital, the Home pro-capital party will announce capital taxes that are weakly lower than those they would announce in the absence of foreign influence, while if the Foreign incumbent is sufficiently pro-labor, the Home pro-capital party will announce capital taxes that are weakly higher than those they would announce in the absence of foreign influence. We have thus established the second statement in Proposition 8 for the case of a pro-capital Home incumbent.

A Pro-Labor Home Incumbent The optimal policies set by a pro-labor Home incumbent can be solved analogously. We provide the details for completeness. The derivative of $\tilde{W}_H(\beta_{H\mathcal{L}})$ with respect to $\tau^K_{H\mathcal{L}}$ is given by

$$\frac{d\tilde{W}_H(\beta_{H\mathcal{L}})}{d\tau^K_{H\mathcal{L}}} = (1-\mathbb{P}_{H\mathcal{R}})\frac{\partial W_H\left(\beta_{H\mathcal{L}},\tau^K_{H\mathcal{L}}\right)}{\partial\tau^K_{H\mathcal{L}}} + \frac{\partial(1-\mathbb{P}_{H\mathcal{R}})}{\partial\tau^K_{H\mathcal{L}}}\left[W_H\left(\beta_{H\mathcal{L}};\tau^K_{H\mathcal{L}}\right) - W_H\left(\beta_{H\mathcal{L}};\tau^K_{H\mathcal{R}}\right)\right]$$

with

$$\begin{aligned}\frac{\partial\mathbb{P}_{H\mathcal{R}}}{\partial\tau^K_{H\mathcal{L}}} &= \frac{\partial\Delta^u_H}{\partial\tau^K_{H\mathcal{L}}} + \chi_H\frac{\partial e_F}{\partial\tau^K_{H\mathcal{L}}} \\ &= \frac{\partial\Delta^u_H}{\partial\tau^K_{H\mathcal{L}}} + \chi_H\phi_F\frac{\partial W_F\left(\beta_F;\tau^K_{H\mathcal{L}}\right)}{\partial\tau^K_{H\mathcal{R}}}.\end{aligned}$$

When setting the derivative $d\tilde{W}_H(\beta_{H\mathcal{L}})/d\tau^K_{H\mathcal{L}}$ to 0, the resulting optimal tax $\tau^K_{H\mathcal{R}}$ will be distinct from the one in our baseline model, which simply sets

$$\frac{\partial W_H\left(\beta_{H\mathcal{L}},\tau^K_{H\mathcal{L}}\right)}{\partial\tau^K_{H\mathcal{L}}} \le 0; \quad \tau^K_{H\mathcal{L}} \ge 0,$$

because we will typically have

$$\frac{\partial\mathbb{P}_{H\mathcal{R}}}{\partial\tau^K_{H\mathcal{L}}} \ne 0.$$

In part this is due to the fact that, even in the absence of foreign influence (i.e., $e_F = 0$), the pro-labor Home incumbent now realizes that even though it may desire a high capital tax, if many of the voters are capitalists, such a policy announcement will cost the party lots of votes (note $dr_H\left(\tau^K_{H\mathcal{L}}\right)/d\tau^K_{H\mathcal{L}} < 0$), so this will attenuate its incentive to set a very high capital tax. On the other hand, foreign influence further shapes the choice of $\tau^K_{H\mathcal{L}}$ because the pro-labor Home party understands that announcing a $\tau^K_{H\mathcal{L}}$ in line with the ideology of the Foreign incumbent will enhance its electoral prospects.

What is the direction of the latter departure? Notice that it is driven by the sign of

$$W_H\left(\beta_{H\mathcal{L}};\tau^K_{H\mathcal{L}}\right) - W_H\left(\beta_{H\mathcal{L}};\tau^K_{H\mathcal{R}}\right) > 0,$$

which is positive because $\tau^K_{H\mathcal{L}}$ is a preferred policy for the Home pro-labor party, and by the sign of

$$\frac{\partial W_F\left(\beta_F;\tau^K_{H\mathcal{L}}\right)}{\partial\tau^K_{H\mathcal{L}}}.$$

From Proposition 5, this term will be positive when the Foreign government is sufficiently pro-labor, while it will be negative when the Foreign incumbent is sufficiently pro-capital.

We can thus safely conclude that, regardless of the outcome of the election and the particular way in which commitment would affect policies in the absence of foreign influence, when the Foreign incumbent is sufficiently pro-capital, the Home parties will announce capital taxes that are weakly lower than those they would announce in the absence of foreign influence, while if the Foreign incumbent is sufficiently pro-labor, the Home parties will announce capital taxes that are weakly higher than those they would announce in the absence of foreign influence. This completes the proof of Proposition 8.