

14.773 Political Economy of Institutions and  
Development.  
Lectures 2 and 3: Introduction to Dynamic Voting and  
Constitutions

Daron Acemoglu

MIT

February 5 and 10, 2015

# Introduction

- How does the anticipation of changes in political power effects political equilibria and economic efficiency?
- We now investigate this question focusing on Markov Perfect Equilibria of dynamic political games.
- This notion is different from myopic rules because they take into account the effect of current votes on future political decisions.
- These issues are more salient and important when current political decisions affect the *distribution of political power* in the future.
- The set of issues that arise here are very similar to those that will be central when we think about endogenous institutions.
- Thus useful to start considering more general dynamic voting models.

# Why Worry about the Dynamics of Political Power?

- Why does political equilibrium lead to “inefficiency”?
  - Why doesn't even the most corrupt and kleptocratic dictator just choose economically efficient actions and then redistribute things towards himself?
- In static models, as we have seen, political equilibria are often Pareto efficient (though often inefficient in other ways).
- In dynamic models, there is a new reason why inefficiency will arise: *the political losers effect*.
  - If you do the right thing, this may reduce your political power and your future rents.
- To study these issues, we need dynamic models with endogenous distribution of political power.

# Dynamic Voting in Clubs

- Let us start with a model due to Roberts (1999).
- Voting directly over club size (utilities directly from club size).
- Relatively parsimonious model, but it gets quickly complicated.
- Nevertheless, some important insights can be obtained.
- We will see both later in the lecture and when we study endogenous institutions later in the class how similar insights arise in different settings.
- Key issue: what type of structure we should impose on dynamic models so that they are tractable, while capturing real-world relevant phenomena?

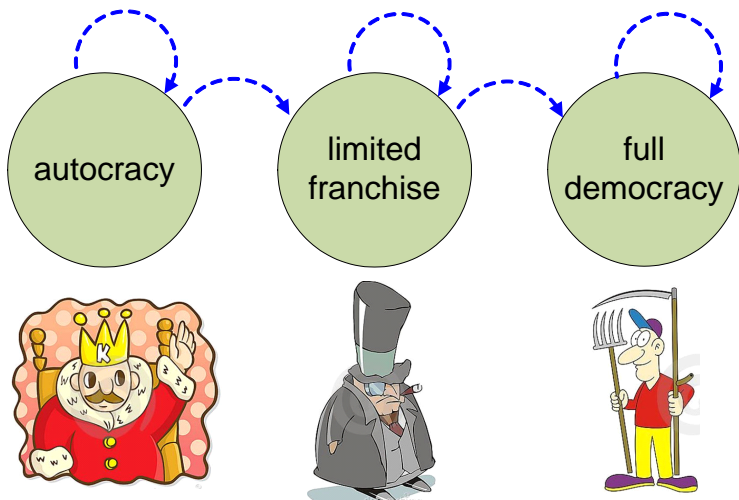
## Specifics of Roberts's Model

- An economy consisting of a finite group  $\mathcal{N} = \{1, 2, \dots, n\}$ .
- There is a seniority system so that if the voting population is of size  $x$ , it includes individuals  $\{1, 2, \dots, x\}$ , i.e., lower index individuals are always included before higher index individuals.
- Size of voting club at time  $t$  is  $x_t$  and instantaneous utility of individual  $\zeta$  when the size of the (voting) club is  $x$  is  $w_{\zeta}(x)$ .
- In terms of more micro models, this instantaneous utility function incorporates what the utility of individual  $\zeta$  will be when tax policies are determined by a club of  $x$  individuals.
- Key assumption: **(Strict) Increasing Differences:** For all  $x > x'$ ,  $\zeta > \zeta'$ , we have

$$w_{\zeta}(x) - w_{\zeta}(x') > w_{\zeta'}(x) - w_{\zeta'}(x').$$

- Slight variant on single crossing: Higher ranked individuals included later in the club than lower-ranked individuals, but also have preference towards larger groups.

# Constitutional Choice



## Constitutional Choice—Simple Example

- Three states: absolutism  $a$ , constitutional monarchy  $c$ , full democracy  $d$
- Two agents: elite  $E$ , middle class  $M$

$$w_E(d) < w_E(a) < w_E(c)$$

$$w_M(a) < w_M(c) < w_M(d)$$

- $E$  rules in  $a$ ,  $M$  rules in  $c$  and  $d$ .
- Myopic elite: starting from  $a$ , move to  $c$
- Farsighted elite (high discount factor): stay in  $a$ —as moving to  $c$  will lead to  $M$  moving to  $d$
- But very different insights when there are stochastic elements and intermediate discount factors.

# States and Utilities

- More formally, “society” starts period in “state” (e.g., size of club, constitution, policy)  $s_{t-1}$  and decides on (feasible)  $s_t$
- Individual  $i$  in period  $t$  gets instantaneous utility

$$w_i(s_t)$$

- **Strict increasing differences:** For any agents  $i, j \in \mathcal{N}$  such that  $i > j$ ,

$$w_i(s) - w_j(s)$$

is increasing in  $s$

- This could be weakened to weak increasing differences for some results.



# Transition Mapping

- Let us consider Markov transition rules for analyzing how the “state” changes over time.
- A Markov transition rule is denoted by  $\phi$  such that

$$\phi : \mathcal{S} \rightarrow \mathcal{S}.$$

- A transition rule is useful because it defines the path of the state  $s$  recursively such that for all  $t$ , i.e.,

$$s_{t+1} = \phi(s_t).$$

- Why Markov?
- If there is an  $s_\infty$  such that  $s_\infty = \phi(s_\infty)$ , then  $s_\infty$  is a *steady state* of the system (and we also use  $\phi^\infty(s)$  to denote limiting value starting with  $s$ ).
- We will consider both deterministic and stochastic transition rules  $\phi(\cdot)$ . But for now, useful to think of it as non-stochastic.

# Recursive Representation

- Value function (conditioned on transition mapping  $\phi$ ):

$$V_i^\phi(s) = w_i(s) + \sum_{k=1}^{\infty} \beta^k w_i(\phi^k(s)).$$

- Recursively

$$V_i^\phi(s) = w_i(s) + \beta V_i^\phi(\phi(s)).$$

## Recursive Representation (continued)

- In the stochastic case:

$$V_{E,i}^{\phi}(s) = w_{E,i}(s) + \beta_E \sum_{E'} q(E, E') V_{E',i}^{\phi}(\phi_{E'}(s)).$$

where  $E$  denotes different “environments” with different payoffs, transition costs or political processes, and  $q(E, E')$  denotes transition probabilities.

- **Key observation:** If  $w$  satisfies (strict) increasing differences, then so does  $V$ .

# Roadmap

- We now study some special cases, then returning to the general framework so far outlined.
  - A (finite) game of political eliminations.
  - Characterization for the general model without stochastic elements and with  $\beta$  close to 1.
  - Applications.
  - Characterization for the general model with stochastic elements and arbitrary discount factor  $\beta$ .
  - Applications.

# Voting Over Coalitions

- Another obvious example of dynamic voting with changing constituencies.
- Model based on Acemoglu, Egorov and Sonin (2008).
- A coalition, which will determine the distribution of a pie (more generally payoffs), both over its own membership.
- Possibility of future votes shaping the stability of current clubs illustrated more clearly.
- *Motivation:*
  - 1 the three-player divide the dollar game.
  - 2 eliminations in the Soviet Politburo.

# Political Game

- Let  $\mathcal{I}$  denote the collection of all individuals, which is assumed to be finite.
- The non-empty subsets of  $\mathcal{I}$  are *coalitions* and the set of coalitions is denoted by  $\mathcal{C}$ .
- For any  $X \subset \mathcal{I}$ ,  $\mathcal{C}_X$  denotes the set of coalitions that are subsets of  $X$  and  $|X|$  is the number of members in  $X$ .
- In each period there is a designated *ruling coalition*, which can change over time.
- The game starts with ruling coalition  $N$ , and eventually the *ultimate ruling coalition* (URC) forms.
- When the URC is  $X$ , then player  $i$  obtains *baseline* utility  $w_i(X) \in \mathbb{R}$ .
- $w(\cdot) \equiv \{w_i(\cdot)\}_{i \in \mathcal{I}}$ .
- Important assumption: game of “non-transferable utility”. Why?

# Political Power

- So far, our focus has been on “democratic” situations. One person one vote.
- Now allow differential powers across individuals.
- *Power* mapping to:

$$\gamma : \mathcal{I} \rightarrow \mathbb{R}_{++},$$

- $\gamma_i \equiv \gamma(i)$ : political *power* of individual  $i \in \mathcal{I}$  and  $\gamma_X \equiv \sum_{i \in X} \gamma_i$  political power of coalition  $X$ .

# Winning Coalitions

- Coalition  $Y \subset X$  is **winning** within coalition  $X$  if and only if

$$\gamma_Y > \alpha \gamma_X,$$

where  $\alpha \in [1/2, 1)$  is a (weighted) supermajority rule ( $\alpha = 1/2$  corresponds to majority rule).

- Let us write:  $Y \in \mathcal{W}_X$  for  $Y \subset X$  winning within  $X$ .
- Since  $\alpha \geq 1/2$ , if  $Y, Z \in \mathcal{W}_X$ , then  $Y \cap Z \neq \emptyset$ .



# Payoffs

**Assumption:** Let  $i \in I$  and  $X, Y \in C$ . Then:

(1) If  $i \in X$  and  $i \notin Y$ , then  $w_i(X) > w_i(Y)$  [i.e., each player prefers to be part of the URC].

(2) For  $i \in X$  and  $i \in Y$ ,  $w_i(X) > w_i(Y) \iff \gamma_i/\gamma_X > \gamma_i/\gamma_Y$   
 ( $\iff \gamma_X < \gamma_Y$ ) [i.e., for any two URCs that he is part of, each player prefers the one where his relative power is greater].

(3) If  $i \notin X$  and  $i \notin Y$ , then  $w_i(X) = w_i(Y) \equiv w_i^-$  [i.e., a player is indifferent between URCs he is not part of].

- Interpretation.
- Example:

$$w_i(X) = \frac{\gamma_{X \cap \{i\}}}{\gamma_X} = \begin{cases} \gamma_i/\gamma_X & \text{if } i \in X \\ 0 & \text{if } i \notin X \end{cases} . \quad (1)$$

## Extensive-Form Game

- Choose  $\varepsilon > 0$  arbitrarily small. Then, the extensive form of the game  $\Gamma = (N, \gamma|_N, w(\cdot), \alpha)$  is as follows. Each *stage*  $j$  of the game starts with some ruling coalition  $N_j$  (at the beginning of the game  $N_0 = N$ ). Then:

- Nature randomly picks agenda setter  $a_{j,q} \in N_j$  for  $q = 1$ .
- [Agenda-setting step] Agenda setter  $a_{j,q}$  makes proposal  $P_{j,q} \in \mathcal{C}_{N_j}$ , which is a subcoalition of  $N_j$  such that  $a_{j,q} \in P_{j,q}$  (for simplicity, we assume that a player cannot propose to eliminate himself).
- [Voting step] Players in  $P_{j,q}$  vote sequentially over the proposal. More specifically, Nature randomly chooses the first voter,  $v_{j,q,1}$ , who then casts his vote  $\tilde{v}(v_{j,q,1}) \in \{\tilde{y}, \tilde{n}\}$  (Yes or No), then Nature chooses the second voter  $v_{j,q,2} \neq v_{j,q,1}$  etc. After all  $|P_{j,q}|$  players have voted, the game proceeds to step 4 if players who supported the proposal form a winning coalition within  $N_j$  (i.e., if  $\{i \in P_{j,q} : \tilde{v}(i) = \tilde{y}\} \in \mathcal{W}_{N_j}$ ), and otherwise it proceeds to step 5.

## Extensive-Form Game (continued)

4. If  $P_{j,q} = N_j$ , then the game proceeds to step 6. Otherwise, players from  $N_j \setminus P_{j,q}$  are eliminated and the game proceeds to step 1 with  $N_{j+1} = P_{j,q}$  (and  $j$  increases by 1 as a new transition has taken place).
5. If  $q < |N_j|$ , then next agenda setter  $a_{j,q+1} \in N_j$  is randomly picked by Nature among members of  $N_j$  who have not yet proposed at this stage (so  $a_{j,q+1} \neq a_{j,r}$  for  $1 \leq r \leq q$ ), and the game proceeds to step 2 (with  $q$  increased by 1). If  $q = |N_j|$ , the game proceeds to step 6.
6.  $N_j$  becomes the ultimate ruling coalition. Each player  $i \in N$  receives total payoff

$$U_i = w_i(N_j) - \varepsilon \sum_{1 \leq k \leq j} \mathbf{1}_{\{i \in N_k\}}, \quad (2)$$

where  $\mathbf{1}_{\{\cdot\}}$  is the indicator function taking the value of 0 or 1.

# Discussion

- Natural game of sequential choice of coalitions.
- $\varepsilon$  introduced for technical reasons (otherwise, indifferences lead to uninteresting transitions).
- Important assumption: players eliminated have no say in the future.
- Stark representation of changing constituencies, but not a good approximation to democratic decision-making.
- More reminiscent to “dealmaking in autocracies” —or coalition formation in nondemocracies.

# Main Result

## Theorem

Fix  $\mathcal{I}$ ,  $\gamma$ ,  $w(\cdot)$  and  $\alpha \in [1/2, 1)$ . Then there exists a set  $\phi^\infty(N)$  such that:

1. For any  $K \in \phi^\infty(N)$ , there exists a pure strategy profile  $\sigma_K$  that is an SPE and leads to URC  $K$  in at most one transition. In this equilibrium player  $i \in N$  receives payoff

$$U_i = w_i(K) - \varepsilon \mathbf{1}_{\{i \in K\}} \mathbf{1}_{\{N \neq K\}}.$$

This equilibrium payoff does not depend on the random moves by Nature.

2. Suppose that  $\gamma$  is generic (in the sense that no two coalitions have the same power), then  $\phi^\infty(N)$  is a singleton (and  $\phi^\infty(\cdot)$  is single-valued).

## Main Result (continued)

### Theorem

#### (continued)

3. This mapping  $\phi^\infty$  may be obtained by the following inductive procedure. For any  $k \in \mathbb{N}$ , let  $\mathcal{C}^k = \{X \in \mathcal{C} : |X| = k\}$ . Clearly,  $\mathcal{C} = \cup_{k \in \mathbb{N}} \mathcal{C}^k$ . If  $X \in \mathcal{C}^1$ , then let  $\phi^\infty(X) = \{X\}$ . If  $\phi^\infty(Z)$  has been defined for all  $Z \in \mathcal{C}^n$  for all  $n < k$ , then define  $\phi^\infty(X)$  for  $X \in \mathcal{C}^k$  as

$$\phi^\infty(X) = \underset{A \in \mathcal{M}(X) \cup \{X\}}{\operatorname{argmin}} \gamma_A, \text{ and}$$

$$\mathcal{M}(X) = \{Z \in \mathcal{C}_X \setminus \{X\} : Z \in \mathcal{W}_X \text{ and } Z \in \phi^\infty(Z)\}.$$

Proceeding inductively  $\phi^\infty(X)$  is defined for all  $X \in \mathcal{C}$ .

- Intuitively,  $\mathcal{M}(X)$  is the set of proper subcoalitions which are both **winning** and **self-enforcing**. When there are no proper winning and self-enforcing subcoalitions,  $\mathcal{M}(X)$  is empty and  $\phi^\infty(X) = X$ .

## Discussion and Implication

- Implication: Essential uniqueness when there are no “ties”.
- Application: coalition formation among three players with approximately equal powers.
- What happens among  $k$  players with approximately equal powers?

### Corollary

*Coalition  $N$  is self-enforcing, that is,  $N \in \phi(N)$ , if and only if there exists no coalition  $X \subset N$ ,  $X \neq N$ , that is winning within  $N$  and self-enforcing. Moreover, if  $N$  is self-enforcing, then  $\phi(N) = \{N\}$ .*

- Main implication: a coalition that includes a winning and self-enforcing subcoalition cannot be self-enforcing. This captures the notion that the stability of smaller coalitions undermines stability of larger ones.

# Characterization

- Equilibrium characterize simply by a set of recursive equations.
- What are the implications of equilibrium coalition formation
- Let us impose one more assumption

**Assumption:** For no  $X, Y \in \mathcal{C}$  such that  $X \subset Y$  the equality  $\gamma_Y = \alpha\gamma_X$  is satisfied.



# Continuity of Ruling Coalitions

**Proposition** Consider  $\Gamma = (N, \gamma, w(\cdot), \alpha)$  with  $\alpha \in [1/2, 1)$ . Then:

1. There exists  $\delta > 0$  such that if  $\gamma' : N \rightarrow \mathbb{R}_{++}$  lies within  $\delta$ -neighborhood of  $\gamma$ , then  $\Phi(N, \gamma, w, \alpha) = \Phi(N, \gamma', w, \alpha)$ .
2. There exists  $\delta' > 0$  such that if  $\alpha' \in [1/2, 1)$  satisfies  $|\alpha' - \alpha| < \delta'$ , then  $\Phi(N, \gamma, w, \alpha) = \Phi(N, \gamma, w, \alpha')$ .
3. Let  $N = N_1 \cup N_2$  with  $N_1$  and  $N_2$  disjoint. Then, there exists  $\delta > 0$  such that for all  $N_2$  such that  $\gamma_{N_2} < \delta$ ,  $\phi(N_1) = \phi(N_1 \cup N_2)$ .

# Fragility of Self-Enforcing Coalitions

**Proposition** Suppose  $\alpha = 1/2$  and fix a power mapping  $\gamma : \mathcal{I} \rightarrow \mathbb{R}_{++}$ .  
Then:

1. If coalitions  $X$  and  $Y$  such that  $X \cap Y = \emptyset$  are both self-enforcing, then coalition  $X \cup Y$  is not self-enforcing.
2. If  $X$  is a self-enforcing coalition, then  $X \cup \{i\}$  for  $i \notin X$  and  $X \setminus \{i\}$  for  $i \in X$  are not self-enforcing.
  - Implication: under majority rule  $\alpha = 1/2$ , the addition or the elimination of a single agent from a self-enforcing coalitions makes this coalition no longer self-enforcing. Why?

# Size of Ruling Coalitions I

**Proposition** Consider  $\Gamma = (N, \gamma, w(\cdot), \alpha)$  with  $\alpha \in [1/2, 1)$ . Suppose that there exists  $\delta > 0$  such that  $\max_{i,j \in N} \{\gamma_i / \gamma_j\} < 1 + \delta$ . Then:

1. When  $\alpha = 1/2$ , any ruling coalition must have size  $k_m = 2^m - 1$  for some  $m \in \mathbb{Z}$ , and moreover,  $\phi(N) = N$  if and only if  $|N| = k_m$  for  $k_m = 2^m - 1$ .

2. When  $\alpha \in [1/2, 1)$ ,  $\phi(N) = N$  if and only if  $|N| = k_{m,\alpha}$  where  $k_{1,\alpha} = 1$  and  $k_{m,\alpha} = \lfloor k_{m-1,\alpha} / \alpha \rfloor + 1$  for  $m > 1$ , where  $\lfloor z \rfloor$  denotes the integer part of  $z$ .

- When powers are approximately equal, the size of the URC is determined tightly.

## Rules and Coalitions

- Should an increase in  $\alpha$  raise the size of the URC? Should an individual always gain from an increase in his power?
- Intuitive, but the answers are no and no.

### Proposition

1. An increase in  $\alpha$  may reduce the size of the ruling coalition. That is, there exists a society  $N$ , a power mapping  $\gamma$  and  $\alpha, \alpha' \in [1/2, 1)$ , such that  $\alpha' > \alpha$  but for all  $X \in \Phi(N, \gamma, w, \alpha)$  and  $X' \in \Phi(N, \gamma, w, \alpha')$ ,  $|X| > |X'|$  and  $\gamma_X > \gamma_{X'}$ .
2. There exist a society  $N$ ,  $\alpha \in [1/2, 1)$ , two mappings  $\gamma, \gamma' : N \rightarrow \mathbb{R}_{++}$  satisfying  $\gamma_i = \gamma'_i$  for all  $i \neq j$ ,  $\gamma_j < \gamma'_j$  such that  $j \in \Phi(N, \gamma, w, \alpha)$ , but  $j \notin \Phi(N, \gamma', w, \alpha)$ . Moreover, this result applies even when  $j$  is the most powerful player in both cases, i.e.  $\gamma'_i = \gamma_i < \gamma_j < \gamma'_j$  for all  $i \neq j$ .

- Why?

# Conclusions

- Once dynamic voting also affects the distribution of political power, richer set of issues arise.
- Endogeneity of constituencies is both practically relevant and related to endogenous institutions.
- Ensuring equilibria in situations of dynamic voting harder, but often we can put economically interesting structure to ensure equilibria (once we know what we are trying to model).

# Introduction

- Why do constitutions matter?
- What is written in constitutions seems to matter, but constitutions can be disobeyed and rewritten.
- How do we think about the role of constitutions?
- Different approaches.

# Philosophical

- What is written on paper should not matter:
  - because whatever is written down could have been expected even when it was not written down
  - a constitution is as good as the force behind it
- But this perspective may not be too useful in studying how constitutions are written in practice, why they persist and why and when they matter.

# Dynamics and Stability: A More General Approach

- A more general approach towards stability and change in social arrangements (political regimes, constitutions, coalitions, clubs, firms)—without giving up existence.
- Essential ingredients:
  - **Payoffs:** different arrangements imply different payoffs
  - **Power:** different arrangements reallocate political or decision-making power
- In this light, we need to study:
  - *Change:* which arrangements will be changed by force or reform
  - *Stability:* which arrangements will resist change
- Approach based on Acemoglu, Egorov and Sonin (2012).
- *Strategy:* Formulate a general dynamic framework to investigate the interplay of these two factors in a relatively “detail-free” manner.
  - Details useful to go beyond general insights.



## Simple Example: Recap

- Consider a simple extension of franchise story
- Three states: absolutism  $a$ , constitutional monarchy  $c$ , full democracy  $d$
- Two agents: elite  $E$ , middle class  $M$

$$w_E(d) < w_E(a) < w_E(c)$$

$$w_M(a) < w_M(c) < w_M(d)$$

- $E$  rules in  $a$ ,  $M$  rules in  $c$  and  $d$ .
- Myopic elite: starting from  $a$ , move to  $c$
- Farsighted elite: stay in  $a$ : move to  $c$  will lead to  $M$  moving to  $d$ .
- Same example to illustrate resistance against socially beneficial reform.

# Naïve and Dynamic Insights

- *Naïve insight*: a social arrangement will emerge and persist if a “sufficiently powerful group” prefers it to alternatives.
- Simple example illustrates: power to change towards a more preferred outcome is not enough to implement change
  - because of further dynamics
- Social arrangements might be stable even if there are powerful groups that prefer change in the short run.
- **Key**: social arrangements change the distribution of political power (decision-making capacity).
- **Dynamic decision-making**: future changes also matter (especially if discounting is limited)

# Simple Implications

- A particular social arrangement is made stable by the instability of alternative arrangements that are preferred by sufficiently many members of the society.
  - stability of a constitution does not require absence of powerful groups opposing it, but the absence of an alternative stable constitution favored by powerful groups.
- Efficiency-enhancing changes are often resisted because of further social changes that they will engender.
  - Pareto inefficient social arrangements often emerge as stable outcomes.

## Model: Basics

- Finite set of individuals  $\mathcal{I}$  ( $|\mathcal{I}|$  total)
  - Set of coalitions  $\mathcal{C}$  (non-empty subsets  $X \subset \mathcal{I}$ )
- Each individual maximizes discounted sum of payoffs with discount factor  $\beta \in [0, 1)$ .
- Finite set of states  $\mathcal{S}$  ( $|\mathcal{S}|$  total)
- Discrete time  $t \geq 1$
- State  $s_t$  is determined in period  $t$ ;  $s_0$  is given
- Each state  $s \in \mathcal{S}$  is characterized by
  - Payoff  $w_i(s)$  of individual  $i \in \mathcal{I}$  (normalize  $w_i(s) > 0$ )
  - Set of winning coalitions  $\mathcal{W}_s \subset \mathcal{C}$  capable of implementing a change
  - Protocol  $\pi_s(k)$ ,  $1 \leq k \leq K_s$ : sequence of agenda-setters or proposals ( $\pi_s(k) \in \mathcal{I} \cup \mathcal{S}$ )

# Winning Coalitions

**Assumption (Winning Coalitions)** For any state  $s \in \mathcal{S}$ ,  $\mathcal{W}_s \subset \mathcal{C}$

satisfies two properties:

(a) If  $X, Y \in \mathcal{C}$ ,  $X \subset Y$ , and  $X \in \mathcal{W}_s$  then  $Y \in \mathcal{W}_s$ .

(b) If  $X, Y \in \mathcal{W}_s$ , then  $X \cap Y \neq \emptyset$ .

- (a) says that a superset of a winning coalition is winning in each state
- (b) says that there are no two disjoint winning coalitions in any state
- $\mathcal{W}_s = \emptyset$  is allowed (exogenously stable state)
- Example:
  - Three players 1, 2, 3
  - $\mathcal{W}_s = \{\{1\}, \{1, 2\}, \{1, 3\}, \{1, 2, 3\}\}$  is valid (1 is dictator)
  - $\mathcal{W}_s = \{\{1, 2\}, \{1, 3\}, \{2, 3\}, \{1, 2, 3\}\}$  is valid (majority voting)
  - $\mathcal{W}_s = \{\{1\}, \{2, 3\}\}$  is not valid (both properties are violated)

# Dynamic Game

- 1 Period  $t$  begins with state  $s_{t-1}$  from the previous period.
- 2 For  $k = 1, \dots, K_{s_{t-1}}$ , the  $k$ th proposal  $P_{k,t}$  is determined as follows. If  $\pi_{s_{t-1}}(k) \in \mathcal{S}$ , then  $P_{k,t} = \pi_{s_{t-1}}(k)$ . If  $\pi_{s_{t-1}}(k) \in \mathcal{I}$ , then player  $\pi_{s_{t-1}}(k)$  chooses  $P_{k,t} \in \mathcal{S}$ .
- 3 If  $P_{k,t} \neq s_{t-1}$ , each player votes (sequentially) yes (for  $P_{k,t}$ ) or no (for  $s_{t-1}$ ). Let  $Y_{k,t}$  denote the set of players who voted yes. If  $Y_{k,t} \in \mathcal{W}_{t-1}$ , then  $P_{k,t}$  is accepted, otherwise it is rejected.
- 4 If  $P_{k,t}$  is accepted, then  $s_t = P_{k,t}$ . If  $P_{k,t}$  is rejected, then the game moves to step 2 with  $k \mapsto k + 1$  if  $k < K_{s_{t-1}}$ . If  $k = K_{s_{t-1}}$ ,  $s_t = s_{t-1}$ .
- 5 At the end of each period (once  $s_t$  is determined), each player receives instantaneous utility  $u_i(t)$ :

$$u_i(t) = \begin{cases} w_i(s) & \text{if } s_t = s_{t-1} = s \\ 0 & \text{if } s_t \neq s_{t-1} \end{cases}$$

# Recursive Representation

- Take a transition mapping  $\phi$
- Value function conditioned on transition mapping  $\phi$ :

$$V_i^\phi(s) = w_i(s) + \sum_{k=1}^{\infty} \beta^k w_i(\phi^k(s)).$$

- Recursively

$$V_i^\phi(s) = w_i(s) + \beta V_i^\phi(\phi(s)).$$

- **Key observation:** If  $w$  satisfies (strict) increasing differences, then so does  $V$ .

# Markov Voting Equilibrium

- Let  $\mathcal{W}_x$  denote the set of “winning coalitions”—i.e., the set of agents politically powerful enough to change the state—starting in state  $x$ . The structure of these sets will be explained in detail below.
- $\phi : S \rightarrow S$  is a *Markov Voting Equilibrium* (MVE) if for any  $x, y \in S$ ,

$$\left\{ i \in \mathcal{N} : V_i^\phi(y) > V_{E,i}^\phi(\phi(x)) \right\} \notin \mathcal{W}_x$$

$$\left\{ i \in \mathcal{N} : V_i^\phi(\phi(x)) \geq V_i^\phi(x) \right\} \in \mathcal{W}_x$$

- The first ensures that there isn't another state transition to which would gather sufficient support.
  - Analogy to “core”.
- The second one ensures that there is a winning coalition supporting the transition relative to the “status quo”.



# Single Crossing and Single Peakedness

## Definition

Take set of individuals  $\mathcal{I} \subset \mathbb{R}$ , set of states  $\mathcal{S} \subset \mathbb{R}$ , and payoff functions  $w_i(\cdot)$ . Then, single crossing condition holds if whenever for any  $i, j \in \mathcal{I}$  and  $x, y \in \mathcal{S}$  such that  $i < j$  and  $x < y$ ,  $w_i(y) > w_i(x)$  implies  $w_j(y) > w_j(x)$  and  $w_j(y) < w_j(x)$  implies  $w_i(y) < w_i(x)$ .

## Definition

Take set of individuals  $\mathcal{I} \subset \mathbb{R}$ , set of states  $\mathcal{S} \subset \mathbb{R}$ , and payoff functions  $w_i(\cdot)$ . Then, single-peaked preferences assumption holds if for any  $i \in \mathcal{I}$  there exists state  $x$  such that for any  $y, z \in \mathcal{S}$ , if  $y < z \leq x$  or  $x \geq z > y$ , then  $w_i(y) \leq w_i(z)$ .

# Generalizations of Majority Rule and Median Voter

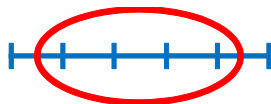
## Definition

Take set of individuals  $\mathcal{I} \subset \mathbb{R}$ , state  $s \in \mathcal{S}$ . Player  $i \in \mathcal{I}$  is a **quasi-median voter** (in state  $s$ ) if  $i \in X$  for any  $X \in \mathcal{W}_s$  such that  $X = \{j \in \mathcal{I} : a \leq j \leq b\}$  for some  $a, b \in \mathbb{R}$ .

- That is, quasi-median voter is a player who belongs to any “connected” winning coalition.
- **Quasi-median voters:**



simple majority



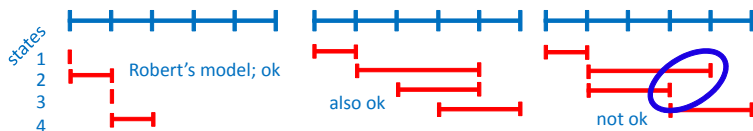
5/6 supermajority

# Generalizations of Majority Rule and Median Voter (continued)

- Denote the set of quasi-median voters in state  $s$  by  $M_s$  (it will be nonempty)

## Definition

Take set of individuals  $\mathcal{I} \subset \mathbb{R}$ , set of states  $\mathcal{S} \subset \mathbb{R}$ . The sets of winning coalitions  $\{\mathcal{W}_s\}_{s \in \mathcal{S}}$  has **monotonic quasi-median voter property** if for each  $x, y \in \mathcal{S}$  satisfying  $x < y$  there exist  $i \in M_x, j \in M_y$  such that  $i \leq j$ .



## Some More Notation

- Define binary relations:

- states  $x$  and  $y$  are payoff-equivalent

$$x \sim y \iff \forall i \in \mathcal{I} : w_i(x) = w_i(y)$$

- $y$  is weakly preferred to  $x$  in  $z$

$$y \succeq_z x \iff \{i \in \mathcal{I} : w_i(y) \geq w_i(x)\} \in \mathcal{W}_z$$

- $y$  is strictly preferred to  $x$  in  $z$

$$y \succ_z x \iff \{i \in \mathcal{I} : w_i(y) > w_i(x)\} \in \mathcal{W}_z$$

- Notice that these binary relations are **not** simply preference relations
  - *they encode information about preferences and political power.*

# Theorem on Single Crossing and Single Peakedness

## Theorem

If preferences are generic (extending our previous definition) and satisfy **single crossing** and the **monotonic quasi-median voter property** holds, or if preferences are generic and **single peaked** and **all winning coalitions intersect** (i.e.,  $X \in \mathcal{W}_x$  and  $Y \in \mathcal{W}_y$  imply  $X \cap Y \neq \emptyset$ ), then  $\succ_{s_j}$  is **acyclic**. That is:

1. For any sequence of states  $s_1, \dots, s_k$  in  $\mathcal{S}$ ,

$$s_{j+1} \succ_{s_j} s_j \text{ for all } 1 \leq j \leq k-1 \implies s_1 \not\succeq_{s_k} s_k, \text{ and}$$

2. For any sequence of states  $s, s_1, \dots, s_k$  in  $\mathcal{S}$  such that  $s_j \approx s_l$  and  $s_j \succ_s s$ ,

$$s_{j+1} \succ_s s_j \text{ for all } 1 \leq j < k-1 \implies s_1 \not\succeq_s s_k.$$

# Noncooperative Characterization

## Theorem

There exists  $\beta_0 \in [0, 1)$  such that for all  $\beta \geq \beta_0$ , the following results hold.

1. Any MVE can be characterized by a mapping  $\phi^\infty$  constructed as follows: reorder states as  $\{\mu_1, \dots, \mu_{|\mathcal{S}|}\}$  such that if for any  $l \in (j, |\mathcal{S}|]$ ,  $\mu_l \not\succeq_{\mu_j} \mu_j$ . Let  $\mu_1 \in \mathcal{S}$  be such that  $\phi^\infty(\mu_1) = \mu_1$ . For  $k = 2, \dots, |\mathcal{S}|$ , let

$$\mathcal{M}_k = \{s \in \{\mu_1, \dots, \mu_{k-1}\} : s \succ_{\mu_k} \mu_k \text{ and } \phi^\infty(s) = s\}.$$

Define, for  $k = 2, \dots, |\mathcal{S}|$ ,

$$\phi^\infty(\mu_k) = \begin{cases} \mu_k & \text{if } \mathcal{M}_k = \emptyset \\ z \in \mathcal{M}_k : \nexists x \in \mathcal{M}_k \text{ with } x \succ_{\mu_k} z & \text{if } \mathcal{M}_k \neq \emptyset \end{cases}.$$

(If there exist more than one  $s \in \mathcal{M}_k$ :  $\nexists z \in \mathcal{M}_k$  with  $z \succ_{\mu_k} s$ , pick any of these).

# Noncooperative Characterization (continued)

## Theorem

### (continued)

2. *There is a protocol  $\{\pi_s\}_{s \in \mathcal{S}}$  and a MPE  $\sigma$  such that  $s_t = \phi^\infty(s_0)$  for any  $t \geq 1$ ; that is, the game reaches and stays in  $\phi^\infty(s_0)$  after one.*
3. *For any protocol  $\{\pi_s\}_{s \in \mathcal{S}}$  there exists a MPE in pure strategies. Any such MPE  $\sigma$  has the property that for any initial state  $s_0 \in \mathcal{S}$ , it reaches some state,  $s^\infty$  by  $t = 1$  and thus for  $t \geq 1$ ,  $s_t = s^\infty$ . Moreover, there exists mapping  $\phi^\infty : \mathcal{S} \rightarrow \mathcal{S}$  is constructed above such that  $s^\infty = \phi^\infty(s_0)$ .*
4. *If, in addition, the following property holds: For  $x, y, z \in \mathcal{S}$  such that  $x \succ_z z$ ,  $y \succ_z z$ , and  $x \approx y$ , either  $y \succ_z x$  or  $x \succ_z y$ , then the MVE is unique, and also, the MPE is essentially unique in the sense that for any protocol  $\{\pi_s\}_{s \in \mathcal{S}}$ , any MPE strategy profile in pure strategies  $\sigma$  induces  $s_t \sim \phi^\infty(s_0)$  for all  $t \geq 1$ .*

# Efficiency

- A state  $s$  is “myopically stable” if  $s = \phi(s)$  because there does not exist  $s' \succ_s s$
- Clearly a myopically stable state is stable, but not vice versa.

## Corollary

*If a state  $s$  is myopically stable, then it is Pareto efficient. If it is stable but not myopically stable, then it can be Pareto inefficient.*

- Previously, no issue of Pareto inefficiency, because you are focusing on a game of pure redistribution (like divide the dollar game). This is no longer the case.



## Extension of Franchise Example

- Three states: absolutism  $a$ , constitutional monarchy  $c$ , full democracy  $d$
- Two agents: elite  $E$ , middle class  $M$

$$w_E(d) < w_E(a) < w_E(c)$$

$$w_M(a) < w_M(c) < w_M(d)$$

- $\mathcal{W}_a = \{\{E\}, \{E, M\}\}$ ,  $\mathcal{W}_c = \{\{M\}, \{E, M\}\}$ ,  
 $\mathcal{W}_d = \{\{M\}, \{E, M\}\}$
- Choose  $d$  as  $\mu_1$  and thus  $\phi(d) = d$  and  $\phi^\infty(d) = d$ .
- Next choose  $c$  as  $\mu_2$  and we have  $\phi(c) = d$  and  $\phi^\infty(c) = d$
- Therefore,  $\phi(a) = a$  (and  $\phi^\infty(a) = a$ ).

# Voting in Clubs

- $N$  individuals,  $\mathcal{I} = \{1, \dots, N\}$
- $N$  states (clubs),  $s_k = \{1, \dots, k\}$
- Assume single-crossing condition

for all  $l > k$  and  $j > i$ ,  $w_j(s_l) - w_j(s_k) > w_i(s_l) - w_i(s_k)$

- Assume “genericity”:

for all  $l > k$ ,  $w_j(s_l) \neq w_j(s_k)$

- Then, the theorem for ordered spaces applies and shows existence of MPE in pure strategies for any majority or supermajority rule.
- It also provides a full characterization of these equilibria.

# Voting in Clubs

- If in addition only odd-sized clubs are allowed, unique dynamically stable state.
- Equilibria can easily be Pareto inefficient.
- If “genericity” is relaxed, so that  $w_j(s_l) = w_j(s_k)$ , then the theorem for ordered spaces no longer applies, but both the axiomatic characterization and the noncooperative theorems can still be applied from first principles.
- Also can be extended to more general pickle structures (e.g., weighted voting or supermajority) and general structure of clubs (e.g., clubs on the form  $\{k - n, \dots, k, \dots, k + n\} \cap \mathcal{I}$  for a fixed  $n$  and different values of  $k$ ).

## An Example of Elite Clubs

- Specific example: suppose that preferences are such that

$$w_j(s_n) > w_j(s_{n'}) > w_j(s_{k'}) = w_j(s_{k''})$$

for all  $n' > n \geq j$  and  $k', k'' < j$

- individuals always prefer to be part of the club
- individuals always prefer smaller clubs.
- Winning coalitions need to have a strict majority (e.g., two out of three, three out of four etc.).
- Then,
  - $\{1\}$  is a stable club (no wish to expand)
  - $\{1, 2\}$  is a stable club (no wish to expand and no majority to contract)
  - $\{1, 2, 3\}$  is not a stable club (3 can be eliminated)
  - $\{1, 2, 3, 4\}$  is a stable club
- More generally, clubs of size  $2^k$  for  $k = 0, 1, \dots$  are stable.
- Starting with the club of size  $n$ , the equilibrium involves the largest club of size  $2^k \leq n$ .

# Stable Constitutions

- $N$  individuals,  $\mathcal{I} = \{1, \dots, N\}$
- In period 2, they decide whether to implement a reform ( $a$  votes are needed)
- $a$  is determined in period 1
- Two cases:
  - Voting rule  $a$ : stable if in period 1 no other rule is supported by  $a$  voters
  - Constitution  $(a, b)$ : stable if in period 1 no other constitution is supported by  $b$  voters
- Preferences over reforms translate into preferences over  $a$ 
  - Barbera and Jackson assume a structure where these preferences are single-crossing and single-peaked
  - Motivated by this, let us assume that they are strictly single-crossing
- Stable voting rules correspond to myopically (and dynamically) stable states
- Stable constitutions correspond to dynamically stable states

# Political Eliminations

- The characterization results apply even when states do not form an ordered set.
- Set of states  $\mathcal{S}$  coincides with set of coalitions  $\mathcal{C}$
- Each agent  $i \in \mathcal{I}$  is endowed with political influence  $\gamma_i$
- Payoffs are given by proportional rule

$$w_i(X) = \begin{cases} \gamma_i/\gamma_X & \text{if } i \in X \\ 0 & \text{if } i \notin X \end{cases} \quad \text{where } \gamma_X = \sum_{j \in X} \gamma_j$$

and  $X$  is the “*ruling coalition*”.

- this payoff function can be generalized to any function where payoffs are increasing in relative power of the individual in the ruling coalition

## Political Eliminations (continued)

- Winning coalitions are determined by weighted (super)majority rule  $\alpha \in [1/2, 1)$

$$\mathcal{W}_X = \left\{ Y : \sum_{j \in Y \cap X} \gamma_j > \alpha \sum_{j \in X} \gamma_j \right\}$$

- Genericity:  $\gamma_X = \gamma_Y$  only if  $X = Y$
- Assumption on Payoffs is satisfied and the axiomatic characterization applies exactly.
- If players who are not part of the ruling coalition have a slight preference for larger ruling coalitions, then Stronger Acyclicity Assumption is also satisfied.

## Other Examples

- Inefficient inertia
- The role of the middle class in democratization
- Coalition formation in democratic systems
- Commitment, (civil or international) conflict and peace



# General Model

- Based on Acemoglu, Egorov and Sonin (forthcoming).
- We now return to the general model with stochastic elements and discount factor  $< 1$
- Key challenge: when the game is finite or there is little discounting (and no stochastic shocks), different paths can be evaluated in terms of the utility from the limit state they will lead to.
- This is no longer true in the general model.
- Nevertheless, increasing differences in preferences and the monotonic quasi-median voter property enable us to provide a characterization of MVE.

## Approach

- Introduce different environments with different payoffs and power distributions.
- Now any MPE in pure strategies can be represented by a set of transition mappings  $\{\phi_E\}$  such that
  - if  $s_{t-1} = s$ , and environment  $E_t = E$ , then  $s_t = \phi_E(s)$  along the equilibrium path.
- Transition mapping  $\phi = \{\phi_E : S \rightarrow S\}$  is **monotone** if for any  $s_1, s_2 \in S$  with  $s_1 \leq s_2$ ,  $\phi_E(s_1) \leq \phi_E(s_2)$ .
  - natural, given monotonic median voter property.
- Definition of MVE and recursive representation the same as before:

$$V_{E,i}^\phi(s) = w_{E,i}(s) + \beta_E \sum_{E'} q(E, E') V_{E',i}^\phi(\phi_{E'}(s))$$

where  $E$  denotes different “environments” with different payoffs, transition costs or political processes, and  $q(E, E')$  denotes transition probabilities.

# General Results

## Theorem

1. *There exists an MVE  $\phi = \{\phi_E\}_{E \in \mathcal{E}}$ . Furthermore, there exists a limit state  $s_\tau = s_{\tau+1} = \dots = s_\infty$  (with probability 1) but this limit state depends on the timing and realization of stochastic shocks and the path to a limit state need not be monotone.*

2. *The MVE is (generically) unique if at least one of the following conditions holds:*

- (i) for every environment  $E \in \mathcal{E}$  and any state  $s \in S$ ,  $M_{E,s}$  is a singleton;*
- (ii) in each environment, only one-step transitions are possible; each player's preferences are single-peaked; and moreover, for each state  $s$  there is a player  $i$  such that  $i \in M_{E,s}$  for all  $E \in \mathcal{E}$  and the peaks (for all  $E \in \mathcal{E}$ ) of  $i$ 's preferences do not lie on different sides of  $s$ .*

- Thus monotone transition mappings arise naturally.
  - though equilibria without such monotonicity may exist.

## MPE vs. Markov Voting Equilibria

- There is again a close connection between MPE and MVE.

### Theorem

*For any MVE  $\phi$  (monotone or not) there exists a set of protocols such that there exists a Markov Perfect equilibrium of the game above which implements  $\phi$ .*

*Conversely, if for some set of protocols and some MPE  $\sigma$ , the corresponding transition mapping  $\phi = \{\phi_E\}_{E \in \mathcal{E}}$  is monotone, then it is MVE.*

*In addition, if the set of quasi-median voters in two different states have either none or one individual in common, and only one-step transitions are possible, every MPE corresponds to a monotone MVE (under any protocol).*

- For each MVE, there exists a protocol  $\pi$  such that the resulting (pure-strategy) MPE induces transitions that coincide with the MVE.

# Efficiency

## Theorem

*If each  $\beta_E$  is sufficiently small, then the limiting state is Pareto efficient. Otherwise the limiting state may be Pareto inefficient.*

- Recall in the above example that Pareto inefficiency arises when the discount factor is large.

# “Monotone” Comparative Statics

## Theorem

Suppose that environments  $E^1$  and  $E^2$  coincide on  $S' = [1, s] \subset S$  and  $\beta_{E^1} = \beta_{E^2}$ ,  $\phi_1$  and  $\phi_2$  are MVE in these environments. Suppose  $x \in S'$  is such that  $\phi_1(x) = x$ . Then  $\phi_2(x) \geq x$ .

- Implication, suppose that  $\phi_1(x) = x$  is reached before there is a switch to  $E_2$ . Then for all subsequent  $t$ ,  $s_t \geq x$ .
- Intuition: if some part of the state space is unaffected by shocks, it is either reached without shocks or not reached at all.

## Application: Implication of Radical Politics

- There is a fixed set of  $n$  players (groups)  $N = \{-l, \dots, r\}$  (so  $n = l + r + 1$ ).
- We interpret the order of groups as representing some economic interests (poor vs. rich) or political views.
- Stage payoff with policy  $p$  (and repression of groups  $j \notin H_s$ ):

$$u_i(p) = -(p - b_i)^2 - \text{cost of repression.}$$

## Application (continued)

- The set of states is  $S = \{-l - r, \dots, l + r\}$  (so the total number of states is  $m = 2l + 2r + 1 = 2n - 1$ ).
- These correspond to different combinations of political rights/repression.
- Repression: a way of reducing the political rights of certain groups
  - the set of players who are *not* repressed in state  $s$  is  $H_s$ , where  $H_s = \{-l, \dots, r + s\}$  for  $s \leq 0$  and  $H_s = \{-l + s, \dots, r\}$  for  $s > 0$ .
  - thus, the states below 0 correspond to repressing the rich (in the leftmost state  $s = -l - r$  only group  $-l$  has the vote);
  - the states above 0 correspond to repressing the poor (again, the rightmost state  $s = l + r$  only group  $r$  has the vote), and
  - the middle state  $s = 0$  involves no repression and corresponds to full democracy (with the median voter, normalized to be from group 0, ruling in state 0).



## Application (continued)

- The weight of each group  $i \in N$  is denoted by  $\gamma_i$  and represents the number of people within the group, and thus the group's political power.
- in state  $s$ , coalition  $X$  is winning if and only if

$$\sum_{i \in H_s \cap X} \gamma_i > \frac{1}{2} \sum_{i \in H_s} \gamma_i.$$

- Incorporating repression, payoffs given by:

$$u_i(p) = -(p - b_i)^2 - \sum_{j \notin H_s} \gamma_j C_j.$$

## Application: Model (continued)

- It is possible that a radical will come to power without having majority because of shocks and crises.
- Let us model this by assuming that there is a set of  $k$  environments  $R_{-l-r}, \dots, R_{-l-r+k-1}$ , and probabilities  $\lambda_j \in [0, 1]$ ,  $j = 1, \dots, m$ , to transition to each of these environments; the environment  $R_j$  is the same as  $E$ , except that in states  $-l-r, \dots, j$ , the decision-making rule comes into the hands of the most radical group  $-l$  if they choose to repress the rest. We can think of radicals being “stronger” in state  $R_j$  than  $R_{j'}$  if  $j' < j$ .
- A single transition to one of these environment, and then potentially another transition back to the original environment (so the threat of articles could be transitory or permanent).
- Overall, the probability of a radical coming to power if the current state is  $s$  is  $\mu_s = \sum_{j=-l-r}^s \lambda_j$ , and it is nondecreasing in  $s$ .

# Application: Results

## Proposition

**(Equilibria without radicals)** *In the absence of shocks (i.e., if environment  $E$  never changes), there exists a unique MVE given by a function  $\phi : S \rightarrow S$ . In this equilibrium:*

- 1 *Democracy is stable:  $\phi(0) = 0$ .*
- 2 *For any costs of repression  $\{C_j\}_{j \in N}$ , the equilibrium involves non-increasing repression: if  $s < 0$  then  $\phi(s) \in [-s, 0]$ , and if  $s > 0$ , then  $\phi(s) \in [0, s]$ .*
- 3 *Consider repression costs parametrized by parameter  $k$ :  $C_j = kC_j^*$ , where  $\{C_j^*\}$  are positive constants. Then there is  $k^* > 0$  such that: if  $k > k^*$ , then  $\phi(s) = 0$  for all  $s$ , and if  $k < k^*$ , then  $\phi(s) \neq 0$  for some  $s$ .*

## Application: Results (continued)

- But if there are radicals, then radicals themselves will use repression, and this will depend on the differences between their preferences and the rest of society and on the extent of their power.

### Proposition

**(Equilibria with radicals)** *There exists a unique MVE. Suppose when the society is at state  $s$ , there is a transition to environment  $R_z$  happens (where  $z \geq s$ ) so that radicals can grab power. Then the radicals are more likely to move to their preferred state  $-l - r$  if: (a) they are more radical (meaning their ideal point  $b_{-l}$  is lower, i.e., further from 0); (b) they are “weaker” (i.e.,  $z$  is smaller) in the sense that there is a smaller set of states in which they are able to control power.*

## Application: Results (continued)

- The first part of the result is intuitive (repressing the rest of society has greater benefit in this case).
- The second part follows by considering that when they are “stronger” in this sense, radicals will have the option to choose one from the larger set of states where they can control power with the threat of repression.

## Application: Results (continued)

- The next result gives a fairly complete characterization of when repression will happen in anticipation of radicals' arrival.
- Here  $V_{R_z, i}(s)$  is the value function of player  $i$  when the environment is realized as  $R_z$  starting in state  $s$ .
- This corresponds to the value function after radicals “come to power” and thus depend only on payoffs after the radicals come to power and can be computed easily.

# Application: Results (continued)

## Proposition

### (Repression by moderates anticipating radicals)

- 1 If  $s \leq 0$ , then  $\phi_E(s) \geq s$ .
- 2 If for some  $s$

$$u_0(0) - u_0(s) < \beta \left( \sum \lambda_z V_{R_z,0}(s) - \sum \lambda_z V_{R_z,0}(0) \right),$$

then there is a state  $x \geq 0$  such that  $\phi_E(s) > s$ , i.e., there is an increase in repression to reduce the likelihood of radicals coming to power (where  $\sum$  stands for  $\sum_{z=-l-r}^{-l-r+k-1}$ ).

- 3 If for all states  $y > x \geq 0$  (e.g., because repression costs are high),

$$u_{M_x}(y) - u_{M_x}(x) < \beta \left( \sum \lambda_z V_{R_z,M_x}(x) - \sum \lambda_z V_{R_z,M_x}(y) \right),$$

then for all  $s \geq 0$ ,  $\phi_E(s) \leq s$ .

## Application: Results (continued)

- Comparative statics of repression:

### Proposition

**(Comparative statics of repression)** *Suppose that there is a state  $s \geq 0$  (i.e., full democracy or some state favoring the right), which is stable in  $E$  for some set of probabilities  $\{\mu_j\}$ . Let us change  $\{\mu_j\}$  to  $\{\mu'_j\}$  such that  $\mu'_j = \mu_j$  for  $j \geq s$ . In this case, there will be less repression of the left, i.e.,  $\phi'_E(s) \geq \phi_E(s) = s$ .*

- Both greater and lesser power of radicals in “left” states leads to less repression.



## Application: Results (continued)

- Strategic complementarities and repression:

### Proposition

**(Strategic Complementarity)** *Suppose the costs of repressing other groups declines for the radicals. Then it becomes more likely that  $\phi(s) > s$  for at least one  $s \geq 0$ .*

- The history of repression in places such as Russia may not be due to the “culture of repression” but to small differences in costs of repression (resulting from political institutions and economic structure).

# Conclusion

- A general approach to modeling dynamics of change in power and its economic and efficiency implications.
- Some general lessons and rich applications, but many interesting applications will also require new theory to be developed (e.g., with more heterogeneity or idiosyncratic shocks for problems such as social mobility).