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INSTABILITY OF POLITICAL REGIMES AND ECONOMIC GROWTH

Abstract:

This paper models the influence of political instability on long run economic growth. We consider three political systems that can be roughly associated to real-world political systems of increasing participation in policymaking: dictatorship, majority rule and proportional representation. For each system the society chooses a representative agent that remains in power unless instability, represented as a shortening of the period in office, sets in. The resulting participation-growth relation shows an U shape. Nevertheless, if instability is introduced, leading to a shortening of the temporal horizon, this shape may change. The representative agent, taking this into account, reevaluates the optimal consumption program, by increasing the rate of time preference and the consumption. With a positively skewed income distribution, the participation-growth relation can adopt a flat or even an inverted U shape. These results seem compatible with previous empirical findings.

Keywords:

optimal growth, political systems, instability, mathematical modeling

JEL Classification: C69, O40, P16