World Academy of Science, Engineering and Technology International Journal of Economics and Management Engineering Vol:18, No:07, 2024

Electability of Stable Insiders' Coalition Governments

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Abstract : In this paper, we formulate a general equilibrium theory that explains the existence and stability of democratically elected governments that support certain groups of individuals in society (insiders) to the detriment of everybody else (outsiders), even if the latter constitute a majority. The vehicle is a dynamic general equilibrium model, where insiders get monopoly rents and outsiders get less than what they would have gotten under a common good regime. We construct such political economy equilibria, and we identify the conditions under which such political regimes (coalitions of insiders): (a) can safeguard against opportunistic behavior (i.e., do not fall from within) and (b) may come to power in the first place (i.e., manage to get elected). To that end, we highlight the role of perception manipulation and self-serving bias as a gluing device to garner an electable coalition.

Keywords: insiders, coalition governments, stability, electability, politico-economic equilibrium, perceptions manipulation

Conference Title: ICPEPE 2024: International Conference on Public Economics and Political Economy

Conference Location : Berlin, Germany **Conference Dates :** July 22-23, 2024