

An Optimal Constitution in a Stochastic Environment

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October 1991

ABSTRACT

This paper analyzes how political stability depends on economic factors. Fluctuations in groups' economic capacities and in their abilities to engage in rent-seeking or predatory behavior create periodic incentives for those groups to renege on their social obligations. A constitution remains in force so long as no party wishes to defect to the noncooperative situation, and it is reinstated as soon as each party finds it to its advantage to revert to cooperation. Partnerships of equals are easier to sustain than are arrangements in which one party is more powerful in some economic or noneconomic trait. In this sense, inequality is bad for social welfare. Surprisingly, perhaps, it is the rich, and not the poor segments of society who in our model pose the greater threat to the stability of the social order.

* We thank the C.V Starr Center for Applied Economics at New York University for support, and seminar participants at NYU for useful comments.