Decay of Long-established Democracies*

Weijia Li† Yang Xie‡

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Very Preliminary and Incomplete, Please Do Not Circulate

Thank You for Your Understanding

Abstract

A key insight used to reign theories of democracy. New democracies tend to backslide, while advanced, long-established democracies are exempted from backsliding pressure (Przeworski (2006); Acemoglu et al. (2013a); Acemoglu et al. (2013b)). Yet across these advanced democracies, politicians begin to transgress norms and institutions that have long been respected (Chafetz and Pozen (2018)). These transgressions in long-established democracies are especially puzzling. Indeed, leading economists have argued that prolonged experience with democratic governance should foster value, norms, and behavioral patterns that reinforce democracy (Bidner and Francois (2013); Besley and Persson (2019); Acemoglu and Robinson (forthcoming)). Under these reinforcements, long-established democracies should have been immune to transgression.

In this paper, we ask the following question: can a democracy break down despite, or even because of, long experience with democratic governance? Our analysis starts from a defining feature of any institution that has long deterred abuse of political power: its credible deterrence would not be deployed on the equilibrium path. Therefore, because

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†Department of Economics, Monash University; weijia.li@monash.edu.

‡Department of Economics, University of California, Riverside; yang.xie@ucr.edu.

of its very credibility, such an institution has not been "tested" for a long time. People may begin to doubt the credibility of such an untested institution. The doubt is rational in a world that is ever changing, where the institution may have changed a lot since the last time it was tested.

To clarify our intuition, we build a model between a transgressor ("the president") and a punisher ("the congress"). We characterize the condition for the inevitability of presidential transgression, no matter how "good" the history is. A good history revealed a "tough" congress that was extremely willing to punish the president, inducing a long duration that is free of presidential transgression. But then players cannot observe the off-equilibrium path where a transgressing president would be confronted by the congress, a confrontation that would have revealed the toughness of the current congress. Players can only estimate the toughness of the current congress based on the last confrontation between the congress and the president. How tough congress was during the last confrontation becomes increasingly irrelevant for the current congress. The president believes that the current congress will punish transgression with ever lower credibility, eventually approaching a totally random threat.[1] When the reward from transgression dominates the cost, the convergence towards random threat is bound to trigger another presidential transgression. Since the president is bound to transgress, democracy always has a finite duration: the longer the congress has deterred the president, the closer is the next transgression. Long experience with democracy can indeed sow the seeds of its own crises.

On a more conceptual level, at the heart of our argument is an intrinsic lack of *empirical* knowledge about political institutions that seem to function well. We simply cannot know much about an institution that is not under stress. This epistemic trap even applies to an ideal-type liberal society that imposes no distortion in knowledge production and exchange (Popper (2012)). A fully liberal society still cannot eradicate a deficiency of empirical knowledge about its fundamental institutions.

We then analyze the situation where it is feasible to heavily punish a transgressing president. Here democracy can be fully consolidated. The congress will eventually be revealed to be sufficiently tough, and thereafter the president will never transgress. In the long run, the president believes that the congress will punish a transgression with one half probability, a belief that deters the president because the punishment is

[1]The convergence highlights an irremediable problem with "learning from history:" people learn much about the world through high-profile historical events, but such lessons from history are destined to become increasingly irrelevant and obsolete.

sufficiently harsh. This result questions a fundamental principle in the economics of crimes, the principle that crime deterrence should focus far more on the probability of crime punishment than the harshness of punishment (Durkheim (1964); Chalfin and McCrary (2017); Guriev and Treisman (2020)). The principle applies well to ordinary crimes (Chalfin and McCrary (2017)). But we show that the principle does no apply to "apex crimes," crimes that are committed by officials "elected or appointed to high positions in a national government" (Huq (2018)). Indeed, our model suggests a sharp demarcation between apex crimes from ordinary crimes, a demarcation that renders it absolutely necessary to inflict heavy punishment on apex crimes.

Our paper also contributes to the literature on democratic backsliding. One strand of the literature focuses on how economic elites undermine democracy (Acemoglu and Robinson (2008); Acemoglu et al. (2013b); Gethin et al. (2022)). In another strand, democracy breaks down because voters are irrational or asymmetrically informed (Acemoglu et al. (2013a);Achen and Bartels (2017); Matějka and Tabellini (2021); Luo and Przeworski (forthcoming)). In contrast to previous literature, voters in our model (relabelled from the congress) are fully rational, all players are symmetrically informed, and economic factors plays no role. Instead, our model attributes democratic backsliding to a fundamental deficiency of empirical knowledge about critical political institutions, a deficiency that is *endogenously* generated by an accountable government. By doing so, we also contribute to the game-theoretic literature on learning (e.g., Fudenberg and Levine (2016)) by identifying a novel constraint on learning about institutions. Related, our paper also contributes to a sizable literature on organizational economics that focuses on how organizations adapt to new situations that arise *exogenously* (Garicano and Rayo (2016); Barron et al. (2020); Gibbons et al. (2021)).

Our paper also makes a novel contribution to the literature on credible deterrence. In the game theory literature, deterrence is credible when it is the optimal strategy of the "punisher" in the off-equilibrium sub-game (Osborne and Rubinstein (1994)). As a key implication, credible deterrence would never be deployed on the equilibrium path. We show that the canonical result can be knife-edge because credibility will become increasingly uncertain for deterrence that has not been empirically tested for a long time. In many cases, deterrence loses its credibility over time even when the pace of change is very slow, as long as it is not zero; it is then impossible to permanently maintain deterrence credibility. Therefore, our model questions the general concept of credible deterrence, a concept central to many fields in social sciences, such as industrial organization (Tirole (1988)), law and economics (Chalfin and McCrary (2017)), and international relations (Powell (1990)).

Furthermore, our paper contributes to a small strand of literature in economics on the consequences of intrinsic knowledge deficiency about the world (Weitzman (2009); Stern (2013)). The existing literature focuses on an *exogenous* lack of empirical knowledge about catastrophes (Li et al. (2022)), especially climate catastrophes (Stern (2013)). As far as we know, our paper is the first to show that knowledge about key political institutions can be *endogenously* hidden by actions that are desirable.

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