The Economic Origin of Power Alternation

Zanhui Liu
Tsinghua University
zhliu2018@nsd.pku.edu.cn

Zhaotian Luo
University of Chicago
luozhaotian@uchicago.edu

Yucheng Qiu
Peking University
ycqiu2018@nsd.pku.edu.cn

Shuyi Yu
University of Chicago
yushuyi@uchicago.edu

Hongding Zhu
University of Chicago
hongding@uchicago.edu

January 14, 2025

Abstract

We develop a dynamic game of allocation to study the cooperation between parties and long-term survival of the regime. In each period, both parties can exert effort to produce income with one being the incumbent. The incumbent allocates income and chooses spending on dealing with stochastic security shocks which threaten the regime's survival. The key to sustain cooperation is to resolve the incumbent's commitment problem in compensating the opposition's effort, which is intensified by series of security shocks. We show that power alternation after series of shocks is necessary for sustaining cooperation and regime survival in the long-run. To solve the game, we innovate the framework of dynamic principal-agent models by allowing the position of principal to be endogenously determined and alternating over time.