

Collective Reputation and Learning in Political Agency Problems*

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Abstract

This study aims to reveal how an endogenous change in political trust affects the performance of a representative democracy. To this end, we construct a two-period political agency model wherein voters face uncertainty about the distribution of politicians' types (model uncertainty) as well as each individual politician's type. Such model uncertainty allows political trust to endogenously change over time, whereas political trust is invariant without model uncertainty. We show that model uncertainty substantially increases corruption. Furthermore, it generates self-fulfilling multiple equilibria: a high-accountability equilibrium and a low-accountability equilibrium coexist. In countries experiencing democracy only for a short time, model uncertainty would be severe. Our results indicate that democratic performance tends to be low and even similar countries could experience different performances depending on citizens' expectations in such new democracies. By extending the model, we also discuss the relationship between political trust and the rise of an outsider candidate.

Keywords: Political trust; Model uncertainty; Corruption; Multiple equilibria; Political agency

JEL classification: D72; D73; D83

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