Draft, November 9, 2005

Chapter 2

Bargaining, Transaction Costs, and Coalition Governance

Arthur Lupia

University of Michigan, USA

lupia@umich.edu

Kaare Strøm

University of California, San Diego, USA

kstrom@ucsd.edu

Prepared for Kaare Strøm, Wolfgang C. Müller, and Torbjörn Bergman (eds.) ***Cabinets and Coalition Bargaining: the Democratic Life Cycle in Western Europe.*** Forthcoming from Oxford University Press, 2006. We thank Torbjörn Bergman, James N. Druckman, Jesse Menning, Wolfgang C. Müller, Gisela Sin, and participants at Coalition Governance conferences in Vienna, Siena and Canterbury for helpful suggestions. The authors acknowledge the support of the Center for Advanced Study in the Behavioral Sciences

(CASBS).

Introduction

Representative democracies face two fundamental challenges, delegation and coalescence. Delegation is necessary because most citizens have neither the capacity nor the time to make many important political decisions on their own. To facilitate large-scale governance, delegation must occur. Citizens must find and select representatives whom they can trust to make public policy in accordance with particular principles. Elected representatives, in turn, must delegate to leaders of political parties or bureaucratic agencies to further the pursuit of policy goals. Heads of executive agencies have to delegate to their subordinates. While delegation makes large-scale representative democracy possible, it is not without risk. Problems of delegation need to be overcome. For with the power of the elective or appointive office also comes opportunities to act against the public interest.

The second challenge is coalition-building. Coalescence is necessary because representative democracies typically produce a multitude of political actors and because democratic rules often require that decisions be supported by a simple or qualified majority of the representatives in a national legislature. In a democracy, no one person can legislate or make power without the support of others. To facilitate large-scale governance, coalitions must be built. To pass laws or implement public policy, at least some of the agents that are empowered to act on citizens' behalf must find a way to work with others who are also empowered.

All representative democracies of necessity face both of these challenges, and the ways in which they solve or confront them in the long run has a decisive influence on the feasibility and quality of democratic governance. If the problem of delegation is not solved, then we may end up with a "democratic deficit" in which political representatives do not enjoy the trust of their constituents. The political order may be illegitimate in the eyes of many citizens, and therefore fragile. If coalescence does not occur, then the same representatives may not be able to make authoritative decisions. The result may be gridlock or "immobilism". In either case, the prospects for democratic rule are gloomy.

The challenges of delegation and coalition are not wholly distinct. In fact, they intersect in the coalition life cycle described in Chapter One. It is the electoral setting that integrates these demands. While most democratically elected politicians work in coalitions with others on a daily basis, many such actions occur in the shadow of elections. Many politicians act knowing that the electorate who once delegated power to them will have an opportunity to take it away in the future. When coalescing, politicians must keep in mind their delegation relationship with the voters. When delegating, in turn, citizens and elected representatives are generally aware that the needs and desires of relevant political coalitions will affect the consequences of delegating to particular people.

In a previous study (Strøm, Müller and Bergman 2003) we have explored at length the challenges of delegation in contemporary Western European democracies. Although in this book we shall frequently refer to and build on the lessons of that previous effort, our purpose here is different. Here, we turn our attention to questions of coalescence.

The previous chapter accounts for the ways in coalition formation, maintenance, and termination in parliamentary democracies have been understood. In this chapter, we shall delve more deeply into the questions of what such political coalitions are, why they exist, and how they operate. The answers that we shall provide to these questions will inform the analysis that will be presented in the various empirical chapters in this volume.

To begin at the beginning, a coalition is a team of individuals or groups that unites for joint action. In many countries, teams of political parties coalesce for the purpose of running a government. Together, these coalition members convert a wide range of social demands into a manageable set of state-sanctioned activities. While working for a common cause, coalition members may disagree about important matters. Some disagreements come from members' attempts to please distinct constituencies (e.g., members who represent urbanites want different policies than members who represent rural regions). Conflicts can also arise from self-interest when multiple members crave a particular seat of power (e.g., that of the prime minister). How coalition members cultivate their common interests and manage internal conflicts affects the fate and effectiveness of the governments they run. Throughout this book, we study these decisions in order to better understand coalition governance around the world.

In this chapter, we offer a theoretical framework. It yields clarifying generalizations about coalition behavior in political contexts. While this framework can be applied to governance dynamics in many nations, we focus on Western Europe's parliamentary democracies.

Generalizing about coalition politics is no trivial matter. Every country challenges those who govern it with a unique mix of historical precedents, democratic principles, political institutions, social conventions, and popular demands. It is natural, therefore, to expect that accounts that clarify one country's coalition politics will seem bizarre when applied elsewhere.

Consider, for example, the coalition politics of Italy, which since 1945 has averaged approximately one new cabinet every 13 months. This frequency of cabinet turnover is the highest in Western Europe. It is indeed more than twice the average for the region (Müller and Strøm 2000: 561). At the same time, Italian politics was uniquely stable in that for more than a third of a century (1945-81) a single political party (the Christian Democrats) dominated every government and accounted for every single person that passed through the revolving door that the Italian prime ministership often resembled. If a theoretical framework can explain important aspects of coalition governance in this unusual circumstance, can we use it to better explain coalition governance in other countries? Throughout this book, we answer "Yes."

Our approach builds on the premise that parliaments are deliberately organized to recognize and reinforce a central role for political parties (Müller 2000).[1] Hence, we examine coalition governance by focusing on how political parties juggle the interests of constituents and coalition partners when making critical decisions (e.g., coalition formation, policy making, ministerial replacements, and the timing of elections). This is not to say that what happens inside parties is not important for understanding cabinet politics. Several chapters will in fact show that intra-party politics can systematically affect inter-party bargaining. Our approach is rather built on a pragmatic recognition that a full account of intra-party politics would be far beyond our capabilities in this project, and that as analysts we benefit from the fact that, for better or worse, parties have a strong incentive to maintain cohesion within their ranks.

Our framework has six components. Five of these come from established approaches to the study of coalition governance. While these components are often used one-at-a-time, we produce additional insights by integrating them into a unified framework. The sixth component, our framework's backbone, provides the means for integration. Components 1-5 are as follows:

---

[1] The behavior of political parties can, in principle, be understood as an interaction between party members, officers, and activists (see, for example, Strøm 1994). Yet, any systematic and tractable version of such an account is beyond the grasp of current social science. Thankfully, most political parties are sufficiently institutionalized and hierarchical that many of their behaviors in the legislative setting can be understood as if they were those of a person. So, throughout this book, we assume that we can treat parties, or more specifically their parliamentary

1. **Exogenous contextual factors, while important, are not the whole story.**

A venerable tradition in the social sciences emphasizes the uniqueness of the contexts in which collective decisions are made. These accounts tend to highlight factors associated with the particular community in which events take place. Such accounts may seek causality in aspects of a country's culture and history. It is often argued, and no doubt true, that political decisions reflect peculiar characteristics of a national or other systemic context that are not easily captured in the form of discrete and parsimoniously defined variables. Applied to the Italian propensity for cabinet turnover cited above, such accounts might privilege particularly Italian conditions such as its culture of distrust (Banfield 1958).

A second type of account in this broad tradition stresses the historical precedents of social events. The argument is that each community is profoundly and pervasively influenced by its own past, in ways that can neither be modeled parsimoniously nor ignored. Moreover, each new historical event adds to a society's uniqueness and further constrains all future decisions. This is the argument of path dependency. A strong version of this argument would imply that political decisions are so heavily conditioned by past choices that there can be no meaningful comparisons across political settings with different histories (see Thelen and Steinmo 1992 for a review). If path dependence is indeed a fruitful perspective, then one must seek the explanation of, for example, what happened in Italy in 1950 in the events of previous years in the same country, such as its late unification or the legacy of fascism.

Contextual arguments may also stress the importance of shared, rather than separate, experiences. According to this logic, political events are determined by contemporaneous events, even if these occur in mutually remote locations. This view presumes that politicians in different countries live interdependent lives, in which they may be subject to a "mood" of the times or simultaneously influenced by shared experience of traumatic periods such as the Great Depression or World War II. The mood of the times may be diffused through the common icons or symbols of a period. If such common experiences are indeed decisive, then coalition decisions of the 1950s, for example, can only be understood in that historical context, and not those of the 1980s or 1990s. Whether one stresses cultural uniqueness, path dependency, or a shared history, however, the implication for scientific work is that once an analyst controls for context, there is little left to explain.

---

leaderships, as if they were unitary actors (see Laver and Schofield 1990; for a more elaborate exposition, see

Yet, accounts that stress the uniqueness of time and space cannot both hold for the same phenomena. If path dependency is strictly the key to party behaviour, then similarities across countries cannot also be due to common and contemporary experiences. Despite profoundly different historical paths, many European societies, including such unlikely cases as the Netherlands and Switzerland, have in recent years witnessed the growth of populist right-wing parties. On the other hand, the pervasive "mood" of European secularization has been reflected in party systems in surprisingly varied ways. Why, for example, did Christian Democrats in the 1990's collapse in Italy, weaken in the Netherlands, but experience exhilarating new highs in highly secular Sweden?

Approaches that stress either path dependency or other contextual factors thus seem inconsistent with the observed trajectories of political representation in contemporary democracies. Invocations of time and place clearly cannot fully substitute for more fine-grained scholarly analysis. Our own conviction is to be somewhat more ambitious on behalf of political theory. In this and subsequent chapters, we show that while temporal and country-specific effects can be important, they do not provide the whole story.

2. **Resource distribution among political actors, while important, is not the whole story.**

Some observers see political life as a contest between large and powerful political forces (e.g., Miliband 1990) in which resources ultimately decide the winners. As Stein Rokkan (1966: 105) succinctly put it, "Votes count, but resources decide." Such perspectives are often coupled, though they need not be, with structural perspectives on political contestations. In the context of parliamentary politics, they may contend that bigger is always better. Hence, the most important asset that a political party can bring to the political bargaining table is the size of its parliamentary delegation, complemented, perhaps, by currencies such as money. In the Italian case cited above, this approach could portray cabinet turnover as the consequence of a standoff between two powerful forces in Italian politics: the Christian Democrats and the Communists.

While politics is often dominated by the strong and the resourceful, such domination is neither inevitable nor is it sufficient to explain many past events. In the early 1980s, for example, Italian politics did indeed seem dominated by the parties of Christian Democracy and

---

Müller and Strøm 1999, ch. 1).

Communism, respectively. Yet, in 1981 the Christian Democrats had to give over the prime ministership to the much smaller and less imposing Republican Party (PRI), and within about ten years both of the once so dominant parties were effectively dead and gone.

3. **Politicians' preferences, while important, are not the whole story.**

The two perspectives we have identified above account for many of the classic studies of coalition politics. If the emphasis on country-specific and historical factors dominated the discipline up to the 1960s, the behavioral revolution brought resource questions to the fore. Riker's (1962) seminal coalition theory shifted scholarly attention to the motivations and strategic interactions of political parties. Subsequent scholars have contended that contextual factors and resources are insufficient explanations of coalition politics.

Some argue for a direct link between politicians' policy preferences and coalition decisions -- a link that cultural factors, resources, and institutions do not affect. One manifestation of this idea is that if two parties share common policy agendas (or have policy ideal points that are close to one another), then they will have a stronger, more effective, and longer-lasting coalition than will coalitions with less common agendas (De Swaan 1973, Warwick 1994). Applied to the Italian case cited above, the argument might be that the large differences in policy preferences between Christian Democrats, Communists, and Neo-fascists make coalition bargaining difficult – and that such interests would clash under any institution, political resource distribution, or flag.

But politics sometimes makes for strange bedfellows. Countries such as Finland and the Netherlands have in recent years experienced the formation of "purple" or "rainbow" coalitions of ideologically very diverse parties. Even more so, studies of subnational coalitions have shown a surprising incidence of partnerships that fly in the face of those that exist at the national level and that seem to defy explanation in terms of common policy preferences (Downs 1999, Bäck 2003). In this and the chapters that follow, we argue that while preference-based hypotheses sometimes have great explanatory power, there are also contexts in which they explain very little or yield mistaken conclusions.

4. **Institutions, while important, are not the whole story.**

Another view is that institutions drive coalition politics and, indeed, our knowledge of the effects of the institutions of coalition politics has grown greatly since the 1980s. A strong version of the institutionalist position holds that particular institutions (such as a proportional electoral system, a constructive vote of no confidence, a powerful legislative committee structure, or an investiture requirement) have consistent effects on coalition politics, regardless of national setting, resource distribution, or the personalities involved. In the Italian example, this view not only implies that electoral and legislative rules generate the high frequency of coalitional change, but also that if you changed the nationality of the participants, while leaving the institutions constant, the outcome would be the same. Institutionalist ideas are implicit in many writings on coalition government, including the "structural attributes" literature on cabinet duration and the literature on bargaining constraints (see, e.g., Powell 1982; Lijphart 1999; Laver and Schofield 1990; Strøm, Budge and Laver 1994).

Institutions surely affect coalition politics, and it is important to understand their effects. We concur with scholars such as Luebbert (1986, especially pp. 29-44) that institutions privilege certain behaviors. We also agree that institutions can shape the expectations and preferences of political actors. But if institutions are the sole factor in explaining coalition decision making, then the implication for empirical work is that once an analyst controls for institutional differences, there is little left to explain. To put it starkly, if only Iraq were to adopt the institutions of New Zealand, the politics of the two countries would be interchangeable. To our regret, we suspect that reality is more complex. Throughout this book, we clarify how institutional effects depend on, and are affected by, other factors.

5. Critical events, while important, are not the whole story.

Finally, there are also those that stress the importance of critical events in shaping modern elite-level politics. The Great Depression brought to power many political parties with radical policy agendas and indeed brought down democracy in a number of countries. The oil crisis of the 1970s resulted in severe losses for governing parties, whoever they happened to be, all over the Western world. The collapse of the Soviet Union and its European empire in the late 1980s and early 1990s embarrassed and severely weakened communist parties all over Western Europe.

Critical events may also take more modest forms and be confined to specific countries. Thus, coalition politics may be substantially affected by national events such as political scandals, bankruptcies, natural disasters, crimes, the sexual escapades of politicians, or even the fortunes of cherished national athletes (for example, the national football team).

Since the early 1980s, students of coalitions have tried to take the importance of political events seriously, and some have gone so far as to argue that the importance of such unpredictable factors obliterates any effort to account for coalition politics in deterministic ways (see Browne et al., 1986). But while critical events can certainly play a major role in coalition politics, they do not seem to preclude any attempt to account for coalition bargaining in systematic terms. Indeed, we shall argue that we can best capture the significance of critical events within a larger theoretical framework.

6. Bargaining Requirements Provide an Organizing Framework

Each the five perspectives we have briefly identified names a determinant of coalition behavior. A primary theme in this book is that when factors such as these are examined together, under a unified framework, they can teach us even more. Our framework's final component provides a means of unification. This component begins with the fact that all members of potential governing coalitions, regardless of country, resources, institutions, or preferences, face a common prize and a common problem. The prize is the opportunities for gain, honor, and policy advantage that control of the national government affords. The problem of the same contestants is that to reap the benefits of governing, they must satisfy two requirements simultaneously:

1. **Form and maintain agreements with other parties.**

2. **Please voters.**

This is seldom easy. It is made difficult when a party's electoral constituents and coalition partners want different things. It is even more difficult when a party's political goals – such as enacting a wide-ranging policy agenda – necessitate that both requirements are met for an extended period of time.[2] Yet, challenging as it may be, parties must respond to both demands. Parties that fail to cultivate voter support are replaced in parliament by parties that succeed, while parties that fail to maintain coalition agreements are replaced in cabinets by parties that can. For these reasons, coalition members have an incentive to engage in coalition bargaining thinking not just about their present desires, but also about *the shadow of the future* (i.e., the likely reactions of voters and political opponents).

This representation of coalition politics is the backbone of our framework. At every stage of a coalition's life cycle, ***coalition decisions are the result of bargaining, where every bargaining outcome is the result not only of past bargains that affect history, institutions, and members' resources but also of the fact that bargaining occurs in the shadow of citizen opinions and under the constant threat posed by political rivals who want to replace them.***

Our bargaining-based framework will clarify how each of the components listed above influences coalition decisions. It can be applied at every stage of a coalition's life cycle, it answers important questions about when one component (i.e., country-specific attributes) dominates another, (i.e., institutional) and it clarifies how uncertainty affects all components. Various applications of this framework throughout this book will also reveal the limitations inherent in attempts to simplify the analysis of coalition governance by turning a blind eye to the necessity of bargaining, to the anticipated response of the electorate, or to the shadow cast by threats to the incumbent coalition. While removing such factors can simplify analyses, the practice can yield erroneous conclusions.

This chapter continues as follows. In Section 2, we introduce our theoretical framework. In Section 3, we offer an example of the framework's usefulness – we use it to correct errors in widely held beliefs about the timing and nature of a coalition's decision to terminate. Section 4 summarizes our findings.

[2] This is why credibility can be such a difficult problem in democratic politics. The problem is not just that it takes time to forge and implement political agreements. For such agreements to be effective, it is often also necessary for other political elites and ordinary citizens to act in compliance, which they may not do unless they believe that the agreements, or the coalitions that sustain them, will endure. Consider, for example, tax schemes intended to promote investment or any policy that requires costs paid now in exchange for future benefits. If potential investors perceive a coalition government as unwilling or unable to repay such debts in the future, they may be less likely to contribute or make sacrifices in the present. Indeed, economic downturns may make it extremely expensive to live up to commitments made in rosier times. Coalitions seen as unlikely to keep promises in such times will have a harder time making such policies work.

2. Bargaining: The Engine of Coalition Governance

Coalition decisions are the product of agreements between coalition members – each of whom, if they want to remain on the governing team, must satisfy the two requirements of coalition participation. Bargaining is the means by which such agreements are usually reached. With these facts in mind, we present a framework whose purpose is to clarify fundamental aspects of coalition bargaining. We introduce it first in the context of answering simple questions about coalition governance. As this chapter proceeds, we use it to engage increasingly complex situations. Throughout, we denote key concepts in **bold.**

Our main premises are as follows:

- Bargaining is the means by which parties attempt to satisfy the first requirement of coalition participation – to form and maintain agreements with other coalition partners.

- Who gets what in coalition bargaining depends on what political parties can offer to one another. Which offers parties will make and accept depends – in particular ways -- on country-specific factors, institutions, party preferences, voter support, the complexity of the agreements being sought, and party leaders' beliefs about an uncertain future.

- Voter support – the second requirement for coalition participation – in turn depends on the qualities of the agreements that parties strike.

- At any stage in a coalition's life cycle (e.g., formation, policy making, conflict management, termination) the outcome of the bargaining process depends on the past as well as the present. The past determines the resources that different players have available to them. Past bargains also affect the history and institutions under which bargaining occurs. The future affects the participants' expectations about the kinds of bargains they should accept. While most scholars have treated the different stages of bargaining as distinct, our approach implies that bargaining dynamics and outcomes at every stage of the process are inextricably linked to one another.

Let us now define the key terms of our approach. **Bargaining** is a process by which actors engage in communication for the purpose of finding a mutually beneficial agreement. Bargaining is required to reach such agreements, if

a. there exist individual benefits that can only be achieved through collective action,

b. there are multiple ways of distributing the benefits associated with such actions, and

c. no actor can simply impose a collective arrangement upon everyone else.

By **individual benefits** we mean that potential partners can accomplish more as a coalition than they can otherwise (i.e., party 1 acting alone can produce social output X, party 2 acting alone can produce social output Y, the parties acting together can produce social output Z and there is a way to distribute the benefits of Z between the parties such that each party is better off than if it had produced X and Y alone). Policy decisions, legislation, military operations, enforcement of laws and property rights help coalition members satisfy their goals, but often require coalescence. Consider, for example, cases in which lawmaking requires a legislative majority and no single party has such support. Working alone, no single party can pass a law. Working together, however, a coalition of parties can. As we shall see, this is indeed the typical situation in European parliamentary democracies.

A challenge to every coalition is that there are usually **multiple ways to distribute the individual benefits associated with coalescence.** If public problems allowed only one solution, then coalition politics would be simple (and not very interesting). The only question would be whether or not to employ the solution – a relatively simple bargaining problem. But such simplicity is rare. More often, there are many ways to distribute social resources, many different policy platforms that a majority of MP's can support, and more politicians desirous of high office than offices available. If the different means of achieving a collective goal vary in the costs and benefits they imply for individual coalition members, then these members can have different preferences about what the coalition should do. Bargaining is the means by which such conflicts are managed.

Contracts are the usual currency of bargaining. Contracts are agreements, oral or written, in which participants commit to certain actions in return for specified benefits. A contract's purpose is to clarify terms of agreement, to delineate punishments for noncompliance and rewards for compliance, and to reduce risk. To draft a contract that serves all these purposes is rarely easy, especially when the agreement is meant to cover a broad range of future events that can only be partially anticipated. Generally, the more important the contract, the more difficult it is to craft one that is mutually agreeable to all parties. The costs of reaching such agreements are known as **transaction costs,** which Kreps (1990: 743) defines as follows:

> "When undertaking a transaction, parties to the transaction must incur several sorts of costs… [Some] costs are incurred before the transaction takes place. If the transaction is to be governed by a written contract, the contract must be drafted. Whether governed by a contract or simply by verbal commitments, the terms of the transaction must be negotiated. [Other] costs are incurred in consummating and safeguarding the deal that was originally struck."

Indeed, those who participate in coalition bargaining must spend time and effort obtaining an agreement that they and their constituents find acceptable. The amount of these expenditures depends on the complexity of the agreement being sought. As potential partners encounter an increasing number of issues to resolve – such as which policy stances the coalition will take and which parties will obtain particular leadership positions – more time and effort may be needed to weave each resolution into a general agreement. Similarly, when potential partners are seeking an agreement that they want to last for several months or years, they may find it worthwhile to spend time and effort setting up ways to enforce the contract's terms. Because such expenditures are an essential part of contracting, transaction costs are an important factor in understanding the role of bargaining in coalition politics.

What can we learn about coalition governance from a framework based on the premises listed above? Our initial answer to this question comes in the context of explaining why parties coalesce at all. Once we establish that parties have strong incentives to form and maintain lasting coalitions, we then turn our attention to the key decisions that enduring coalitions must make.

Why Coalesce?

A single political party may gain sufficient support among the voters that it can govern alone, and in most (though not all) such cases it will. Much more commonly, however, elections in parliamentary democracies yield a result in which no single party is so privileged (i.e., a minority situation, see Strøm 1990). This is, of course, especially common under Proportional Representation. In most such circumstances, the resulting government is a self-recognized and enduring coalition of political parties. Why does this happen?

It is not obvious that parties should prefer formal and enduring patterns of cooperation. Commitment to a coalition agreement can constrain individual parties in important ways (e.g., through the loss of voter support associated with legislative compromises that the party would not have sought on its own). Given that the world is unpredictable, why shouldn't political parties prefer to just drop in and out of free-floating majorities? Indeed, the advantage of not coalescing is freedom – parties need not be burdened by their coalition partners' demands and could indeed change partners from issue to issue. Thus, they might avoid the most costly demands of any coalition partner and would be free to remain more responsive to their own constituents at any time.

Prevailing against such freedom, however, is a host of problems and inefficiencies. Among the most serious are the following:

- *Increased transaction costs.* Free-floating majorities force participants to negotiate every decision anew. The time and energy needed to proceed in this manner can exhaust a party's resources and reduce its abilities to accomplish broad or multiple goals. An important part of the rationale for stable coalitions is that they economize on transaction costs.

- *Less policy continuity and impact.* Without a formal coalition, why should the majority that forms on a Tuesday morning enforce the laws made by Monday evening's legislature? Such instability would greatly reduce the value of any decision that a governing coalition would be able to make. After all, what is the value of governing if you have no idea whether your decisions would stand long enough even to be implemented? In a situation of free-floating majorities, the impact of any government decision could be radically reduced, so that the public or private gain from controlling the levers of government might simply vanish.

- *Less policy credibility and outside support for government programs.* As just mentioned, a polity governed strictly by free-floating majorities might be one in which public policy would have little long-term stability or credibility. This might adversely affect citizens in many ways. Imagine, for example, what buying a house or investing in stocks would be like if a nation's basic notion of property rights were subject to frequent and unpredictable change. The costs of such arrangements to anyone with a long-term interest in a society would be tremendous. Indeed, for people attempting to base social, political, or economic plans on government policies, free-floating majorities can spell disaster.

Policy credibility is not a concern simply for those who “consume” government decisions. For most government policies to be effective, people outside of government must cooperate. Citizens must abide by the laws, businesses must adhere to the terms of their contracts, and countries must act within the terms of existing treaties. If a government cannot credibly uphold agreements tomorrow that its leaders sign today, anyone who deals with that government has less incentive to trust or cooperate with it. Unstable governments might encounter such problems of cooperation very close to their own ranks. Even if a free-floating majority were in power long enough to name its cabinet ministers, there is little reason to expect others in government to abide by their ministerial directives. Indeed, we should expect bureaucrats who dislike today’s legislative directives to disregard them if they believe that tomorrow’s governing coalition will change the law in ways that they prefer (see, e.g., Huber 1998, Huber and Lupia 2001). In other words, government on land is like the government on high seas – the prospect of leadership instability makes mutiny more attractive.

- *Less reliable voter support.* In democratic countries, parties are in a position to bargain for a place in government *only if* citizens delegate policy-making authority to them through elections. **The electoral connection** – the threat that eventually voters will judge coalition members – governs member behavior. This connection means that parties cannot simply bargain as they please. Voters give power to parties and they can take it back. Therefore, if voters prefer a government whose actions are at least somewhat predictable, then politicians who can credibly commit themselves to something other than a transitory coalition stand to gain. Stable coalitions can tie parties to specific policies, which gives voters a more credible policy-oriented rationale for differentiating between candidates for office. Members of stable coalitions can also more easily establish "policy brand names" that reduce citizens’ uncertainty about the policy consequences of voting for a particular candidate (Cox and McCubbins 1993). Indeed, stable coalitions make it easier for voters to hold government officials accountable for their actions than would free-floating majorities.

In sum, formalized, stable coalescence is a survival strategy – it provides parties with the ability to influence government decisions, earn the trust of non-governmental actors, and maintain good long-term relations with voters while paying relatively low transaction costs. To the extent that such relations and cost savings are more important than the policy freedom that free-floating coalitions could allow, stable coalitions will prevail, and indeed in west European parliamentary democracies they do.

Having established why parties choose to coalesce, we now turn to the question of who gets what in coalition bargaining. We begin with a simple scenario in which parties are *certain about the future*. This simplification allows us to clarify important aspects of coalition bargaining. We then move to more realistic settings where parties bargain in the shadow of an uncertain future.

Walk-Away Values Affect Who Gets What

In the simplest economic bargaining models, everybody knows everything. When applied to coalition governance, such models imply that every party leader knows everything about the situation at hand -- such as the preferences, options, and constraints of every other party leader – both at the time of negotiation and forever into the future. In such a world, negotiators anticipate all consequences of their actions and bargainers can engage in **complete contracting**. Complete contracts allow coalitions to specify in detail what each partner will do in any circumstance. Of course, members of governing coalitions seldom know so much. However, examining some properties of complete contracting is an efficient way to uncover key insights about coalition governance. Consider, for example, the question of who gets what when coalition members disagree.

In bargaining models, the answer to the question "Who gets what?" hinges on the credibility of a bargainer's negotiating positions. We call this factor his **walk-away value**. A walk-away value is what a negotiator, such as a party leader, can gain without a new agreement; i.e., what he or she secures by walking away from the bargaining table.[3] Economists also use the term reservation wage to describe this concept (see, e.g., McMillan 1992).

[3] By walk-away value, we mean something related to, but different from, famous bargaining power indices such as those of Banzhaf (1968) and Shapley-Shubik (1954). Our concept is, however, directly comparable to those two only if we restrict our analysis to the case of zero transaction costs. In other words, the bargaining power indices account for the number of alternative coalitions each bargainer can join, but under the assumption that such moves do not require costly contracting. Since these indices are widely available, they will be used in some of the chapters that follow. When they are used in conjunction with this chapter's theoretical framework, they should be interpreted with this footnote's caveat in mind.

In a bargaining session, walk-away values function as implicit threats against other parties. The more easily a party can walk away from the bargaining table and still end up with an acceptable payoff, the more concerned the other parties have to be about satisfying that party's demands -- *if* they want that party in the coalition. Put another way, those who have little to lose from disagreement often have much to gain from negotiation. In a market economy, walk-away values are usually determined by the monetary values of other economic opportunities. For example, a worker who can earn high wages from many employers has a higher walk-away value than a similarly situated worker with no outside opportunities.

The source of walk-away values in parliamentary contexts often lies elsewhere. In democracies, **public support is the lynchpin of a political party's power.** Parties who lack public support can make no promises that are of value to other potential coalition partners. **But while public support is necessary for a party to have a positive walk-away value in coalition negotiations, it is not sufficient.** For a party to have a positive walk-away value, it must be able to benefit from its assets (including its public support) without tying itself to any specific coalition agreement. For example, when one party has enough seats to govern on its own, only it has a positive walk-away value (i.e., only it can govern without the help of others). When no party has resources (i.e., seats) sufficient to govern alone, walk-away values are determined by which party combinations are capable of governing (i.e., which teams of parties can control a number of seats sufficient to control parliamentary decisions). Parties that can be members of more than one governing coalition can have increased walk-away values. For example, party X, a member of the incumbent governing coalition, gets bargaining leverage when other incumbent coalition members believe that failure to defer to it on a particular issue will cause it to join or construct a different majority. Indeed, if a party can maintain a credible exit threat throughout a coalition's term (i.e., if by defecting it can bring down a government and produce a situation from which it benefits), then we expect it to have great political influence. The religious bloc in the Israeli Knesset has such power – it can, and has, coalesced with each of the two major parties (Labour and Likud) and it regularly gets its way on social policy -- though the bloc never holds anywhere near a majority of seats.

Coalition decisions depend on how parties evaluate each other's walk-away values. Understanding this fact clarifies many aspects of coalition behavior – including the errors inherent in the common belief that resources, such as number of seats held, transfer directly into bargaining power. Many people believe that the larger a party is, the more powerful it is in coalition negotiations. This belief is true only in cases where walk-away values and size are positively and strongly correlated. In such cases, we expect allegiance to “parity norms” – agreements where a coalition member’s share of portfolios corresponds to its size relative to other coalition members. When walk-away value and size are less correlated, we expect parity norms to be abandoned.

To see how size and walk-away value can have very little relation to one another, consider a simple example. Three parties have seats in a 101-member parliament. The parliament uses majority rule to make all of its decisions. Party A has 50 seats, Party B has 48 seats, and Party C has 3 seats. No party has a majority. For policy reasons, all parties prefer certain coalitions to others. Suppose that all parties know these preferences and all other important aspects of the bargaining situation. Suppose further that any realized gains from coalescence are divisible among coalition members, that all parties prefer a larger share of power in a coalition to a smaller share, and that any party is free to negotiate with any other party. To simplify the example, we describe the case where any coalition including C produces individual benefits for both coalition members, whereas a coalition including both A and B produces no such benefits. Party C may be a centrist party whose members are not repulsed by the policy desires of other parties and vice versa, while A and B have disagreements so fundamental that there is nothing that they that could agree to do together.

The result of bargaining in this case (following Lupia and Strøm 1995) is as follows:

- C has the fewest seats, but is the only one with a positive walk-away value -- it is the only party that can threaten potential suitors that it will seek to be part of another value-generating coalition.
- Although A and B are much larger than C, they have no positive walk-away values when negotiating with C.
- The only sustainable outcome is a contract giving party C virtually all of the benefits from the governing coalition.

In this simple example, size and bargaining power are not positively correlated. C, by far the smallest party, is the most powerful. The lesson here is that walk-away values trump size. Put another way, **size is not always power**. This example is also interesting because it resembles West Germany in the 1970s and 1980s – where the Social Democrats and the

Christian Democrats were like parties A and B, and the Free Democrats were like party C. Though smaller than the other two parties, the Free Democrats (FDP) wielded great bargaining power. Our framework implies that the FDP should then have secured a disproportionate share of cabinet portfolios, and indeed they did.

Walk-away values, however, do not affect coalition bargaining outcomes in isolation. Politics often feature a variety of rules about who gets to bargain over what, and we broadly refer to such rules as institutions. **Institutions, which are the product of previous bargaining, affect walk-away values in the present.** Institutions such as size or composition rules, formateur/investiture rules (Huber and McCarty 2001), recognition rules (Bawn 1991, 1993), the independence of the judiciary/civil service, cabinet operating procedures, and internal party rules affect coalition bargaining by constraining the options of party leaders (Strøm, Budge, and Laver 1994). For a few years in the 1990's, for example, Israel's Basic Law transferred the first opportunity to form a coalition from the largest party in parliament to a separately elected Prime Minister. This change affected party walk-away values and was sufficient to affect whether its defense policies would be left or right of center (i.e., whether Labour or Likud would be in the coalition). In Belgium, unique institutions have an analogous effect on party walk-away values. There, the constitution requires linguistic parity in the cabinet and thus constrains coalitions to contain both Flemish and Walloon parties. This constraint affects the set of coalition agreements from which parties can credibly walk away. In sum, when institutional constraints affect parties' walk-away values, then they can affect who gets what in coalition bargaining.

Understanding the role of bargaining and, by implication, walk-away values, casts the actions of coalitions in a new light. Under majority rule, size need not be power in coalition governance. Unless a party earns more than one-half of the seats in parliament, its bargaining power depends on walk-away values. The same logic implies that ***any*** **institutional, resource-based, preference-based, or country-specific factor affects coalition agreements only if it affects a potential coalition partner's walk-away value**. In some nations, for example, cultural taboos make certain coalition agreements untenable to voters and can make parties' relative walk-away values different than they would otherwise be.

Another common belief about coalitions is that if parties share common preferences, then they will necessarily coalesce. Focusing on the necessity of bargaining ultimately reveals such conjectures to be false. For example, **if the transaction costs of reaching agreement with a particular partner are too high, then parties may cast agreements with that partner aside – opting instead for an agreement entailing lower transaction costs *with a partner whose preferences are less common*.** Indeed, even between parties with otherwise common interests, if there are too many items to negotiate or too many contingencies that might arise, then we cannot simply assume that they will coalesce. As Fudenberg and Tirole (1991: 397) explain:

> "A bargaining situation involves players who must reach an agreement in order to realize gains from trade. The standard example is the problem of sharing a pie. No player can have any pie until they all agree about the shares each will receive. Negotiating about the shares is costly, and the pie may decay or disappear if the negotiations go on for very long."

Such concerns certainly ring true in parliamentary democracies. Bargaining can take considerable time. In the Netherlands, coalition formation negotiations often last at least three months and in 1977 lasted for the better part of a year! In the meantime, decisions on major political issues are suspended, the government is reduced to caretaker status, and parties do not enjoy the perquisites of office. In such cases, there is no doubt that the "pie" decays as the parliamentary term passes and the next election approaches.

Uncertainty and Discount Rates Make Patience a Virtue in Bargaining

High transaction costs are sufficient to derail an otherwise successful bargaining session. Uncertainty is another factor with the same potential. An important source of uncertainty in coalition politics is *the two requirements of coalition politics* (the need to form and maintain agreements with other parties while simultaneously cultivating voter support). The first of these requirements introduces uncertainty when party leaders lack information about each other's strategies. The second requirement introduces uncertainty if voters are fickle or if their preferences are difficult to gauge.

We turn our attention now to coalition governance dynamics in cases where such uncertainty is present. Coalition members may, for instance, lack information about what other parties want or what sacrifices they are willing to make in exchange for coalition membership.

In such cases, parties may try to strengthen their bargaining position by overstating their walk-away values (e.g., to insist that you will settle for nothing less than ministries X, Y, and Z, when, in fact, you would be satisfied with two of the three). Therefore, **a key to bargaining under uncertainty is separating fact from fiction when assessing other parties' walk-away values**.

A complete account of what people believe about the walk-away values of others would involve a fair amount of psychology. However, bargaining models built from the premises described above produce important insights about these cognitions with less effort (see, e.g., the review in Laffont and Tirole 1993). They show that **credible commitment** is the key to bargaining under uncertainty.

While any party can claim a high walk-away value, such claims are more credible if commitments back them. If, for example, a party leader can credibly commit to resigning his post if a particular objective is not achieved, then his coalition partners may have a greater incentive to give in (especially if they dislike his potential replacement). Thus, actors who can credibly commit can increase other players' perceptions of their walk-away values and benefit in negotiation.

How do actors credibly commit? Some make public promises that are costly to contradict (Lupia and McCubbins 1998). In 1979, for example, the Irish Labour Party adopted the Killarney Compromise, which removed the party leader's power to take the party into a coalition with another party (in this case, Fine Gael). From that time on, Labour's entry into a government coalition required ratification by a Special Conference. This commitment subsequently strengthened Labour's hand in bargaining (Marsh and Mitchell 1999).

In addition to lacking information about what other partners want now, parties may also lack information about the future. Uncertainty about the future makes discount rates a critical aspect of coalition bargaining. A **discount rate** measures an actor's valuation with respect to time -- how much the enjoyment of a certain benefit today is worth relative to the enjoyment of future benefits. All else constant, the more uncertainty an actor has about the future, the higher is his discount rate (i.e., the more he prefers benefits now to promises of future benefits). Discount rates also depend on other factors, such as how much parties care about the issues facing the government at any time.

Many studies clarify how discount rates affect bargaining (see, e.g., Kreps 1990). Their main lesson is that **patience is power**. For example, if one person can afford to wait longer than another for a particular good, then the more patient person can credibly commit to give up less in the present to receive the good. Put simply, greater patience implies higher walk-away values.

To show how discount rates affect coalition bargaining, we return to the three-party example given above. Here, however, we suppose that a formateur rule gives party A the first opportunity to form a government, followed by party B. Also suppose that Party A's constituents are impatient, so that party A regards the benefits of agreements reached in a second or later period of bargaining as far less valuable than agreements reached in the first round. If the constituents of parties B and C are more patient, then Party A has much to lose if it fails to make a successful offer in the initial round. In such a case, Party A's walk-away value is small relative to that of more patient parties.

One type of instance in which discount rates come into play is when parties delegate authority to "term-limited" party leaders. Consider Ireland following the 1989 election. Then, long-time Fianna Fáil leader Charles Haughey, in the twilight of his career, broke his party's no-coalition rule so that he could form a coalition government with the Progressive Democrats (PD). This was remarkable not just because it conflicted with Fianna Fáil's long-standing contempt for coalitions, but also because there was considerable bad blood between the leaders of the two parties. Analysts have suggested, however, that if Haughey had failed to take this action, he might have lost his last opportunity to become prime minister. Indeed, he might even have been deposed as leader of his party (Laver and Arkins 1990, Mitchell and Marsh 1999). Haughey had a high discount rate, which likely propelled him to negotiate an unconventional agreement.

A critical implication of how discount rates affect coalition bargaining is that **deadlines matter**. This is particularly important when a deadline affects parties differently. Consider, for example, Norway's 1987 Presthus debacle. The Parliament was about to take its summer recess. With no further meeting time scheduled, there would be no opportunity for the non-socialist parties to topple Gro Harlem Brundtland's Labor minority government before local and regional elections in September. Rolf Presthus was the leader of a Conservative party that had strongly committed itself to toppling the government. He felt compelled to defeat

Brundtland's government, even if it meant large policy concessions to prospective coalition partners and the risk of failure. As it turned out, Presthus' attempt failed, and he paid a heavy political and personal price. The timing of his overtly self-defeating behavior suggests that he was driven by a high discount rate, by his need to show results before the election (Strøm 1994).

Indeed, those with low discount rates (i.e., parties that can afford to wait) can find it advantageous to use time strategically. Such parties may know that if they wait another week to come to an agreement, a desperate partner (perhaps one whose time as formateur is about to end) will offer them a much better deal. Therefore, **we should be cautious about the conventional wisdom that the time it takes a coalition to negotiate tells us something about the quality of governance**. As Gregory M. Luebbert observed, "it is wrong to assume that, because interparty negotiations take a long time, much is being negotiated among the parties" (Luebbert 1986: 52). If people have differing preferences over time and use time strategically, the length of negotiations may reveal nothing about the policy differences between the partners or the likely success of the final agreement. Time need not imply craftsmanship in bargaining. Instead, bargaining models show that long negotiations can be a sign that at least one coalition partner is willing to be patient in order to get a more favorable contract (see, e.g., Fudenberg and Levine 1998 on the role of patience). The same models reveal no relationship between length of bargaining and the success of the agreement.

Uncertainty and Transaction Costs Induce Restrictive Arrangements

We address additional questions about how uncertainty affects coalition politics by focusing on transaction costs. A key tenet of transaction cost economics is that bargainers account for opportunism when making and maintaining coalitional arrangements. **Opportunism** arises when coalition members can use uncertainty to benefit at other members' expense. Attention to opportunism is particularly important in agreements where one party receives benefits before another. In such cases, the party that gets its payoff early may be tempted not to uphold its end of the bargain later on. If coalition members anticipate such reactions and have no way to guard against them, then otherwise valuable agreements may not be reached.

When uncertainty and opportunism are paired as described above, one likely result is increased transaction costs**.** Williamson's (1975) research on this topic is focal. Before his work, numerous claims about the performance of markets and negotiations were made as if transaction costs in such situations were negligible or could be ignored. It was believed that if potential gains from trade existed, negotiations would lead to their realization (present day versions of such arguments include the conclusion that parties with similar policy interests will necessarily coalesce and the conclusion that such coalitions will necessarily be more effective or longer lasting than others). Williamson's transaction cost economics approach shows such beliefs to be false -- uncertainty and opportunism can prevent such outcomes. This work redirected analysts' attention to how people structure their arrangements when they are faced with an uncertain future (see, e.g., Williamson 1975, Epstein and O'Halloran 1999).

While controversial in economics at the outset – many economists preferred to explain bargaining outcomes strictly through analyses of the relative resources of participants – the importance of transaction costs is now widely accepted. Indeed, as Williamson (1993: 105) notes:

> "The logic of transaction cost economics … has been applied to a wide range of phenomena – including vertical integration, vertical market restrictions, franchising, labor market regulation, the organization of work, corporate finance and corporate governance, regulation and deregulation, family firms, multinational firms, and the economics of trust, among others. Furthermore… transaction costs economics has been subject to numerous empirical tests – most of which are corroborative."

For our purpose – explaining coalition governance – an important lesson from Williamson is that bargainers have incentives to adapt to transaction costs by structuring agreements in particular ways. For example, when uncertainty and the threat of opportunism generate large transaction costs, coalition members have an incentive to seek **restrictive arrangements** (i.e., contracts that provide at least some coalition members with minimal flexibility). While restrictive arrangements may limit coalition members' future discretion, they can keep coalitions together in contexts of mistrust. In short, the threat of opportunism may force coalitions to choose between viability and flexibility.

Transaction cost economics also directs our attention to the unusual role of **specialization** in coalition politics. The complexity of modern governance can provide parties and individuals with an incentive to specialize. For parliaments as a whole, specialization can provide broad benefits (e.g., certain members become so knowledgeable about a complicated subject that they can simplify the topic for all other members). While specialization can be valuable for those with expertise, greater expertise need not imply an advantage in bargaining. In fact, the prospect of opportunism by other members can lead to a negative relationship between expertise and walk-away values. In Germany, for example, the FDP has been a member of several governing coalitions -- some dominated by the left and others by the right. Switching sides for the FDP has been far from costless -- it has often required leadership change within the party and has caused substantial turnover among party activists. While the FDP's pivotal position secured it a role in government, its previous commitments made its political assets difficult to transfer, thus increasing the costs it faced for joining subsequent governments (Poguntke 1999).[4]

Attention to how transaction costs affect bargaining also directs us to the fact that coalescence, by reducing uncertainty and curtailing opportunism, can produce **convergent expectations** about government's future actions among coalition partners. In complex situations, the value of convergent expectations cannot be underestimated. Coalition members who share beliefs about the consequences of their collective actions can act with greater confidence. As a result, they are better able to adopt a long-term perspective, and their decisions are more likely to be credible. As many important policies require government to maintain support for an extended period of time (as is often the case, for example, with economic reforms that involve painful transition periods), convergent expectations can give everyone involved a greater confidence that they will realize long-term benefits from short-term sacrifices.

Convergent expectations generate broader benefits as well. To see how, consider that many government objectives can be achieved only if bureaucrats or private citizens cooperate (i.e., the efficiency and legitimacy of a change in the tax code are helped if citizens do not defy the changes). For such policies to work, outside interests (including private citizens) must opt to "invest" in the government's plan of action. If outside interests do not share convergent expectations with the government, they may be reluctant to participate in activities that benefit

[4] This kind of problem is known as one of asset specificity. Asset specificity is the degree to which an asset's value depends on the continuation of a specific relationship. A politician's assets are specific when he invests time and prestige in pursuits that are difficult to transfer to other coalitions or portfolios. Asset specificity and walk-away values can be negatively correlated – particularly when a coalition is capable of terminating a member after it receives the value of that members' specialization.

the country. With coalition-instilled convergent expectations, it becomes less risky for private citizens to invest in publicly beneficial actions. Therefore, coalition agreements that counter uncertainty and opportunism can generate broad collective benefits.[5]

3. Electoral Connections, the Shadow of the Future and Termination

We now apply the framework to a specific, and important, stage in a coalition's life cycle – the decision to replace the government or dissolve parliament. In most parliamentary democracies, such decisions can be made on any given day. As Lupia and Strøm (1995: 648) describe it, governments in parliamentary democracies live precariously:

> "Typically, they can fall on any given day, and sometimes with little or no warning. The circumstances surrounding coalition termination vary greatly, occasionally producing great drama. Some politicians are forced from their cabinet offices in a daze, never knowing what hit them. Others choose their date of departure and leave with smirks on their faces."

In most parliamentary systems, election dates are not entirely fixed by the constitution, but are subject to decisions by members of parliaments themselves. In countries where coalition governments are the norm, the timing of elections is often the product of the kind of bargaining dynamics described above. In what follows, we apply our framework to explain why, when, and how coalition governments choose to end their reigns. The application is a formal model of coalition decision-making (Lupia and Strøm 1995) in which termination decisions are made via bargaining and where parties can factor voter reactions, transaction costs, and the shadow of the future into their negotiations. After a brief description of the model itself, we focus on conveying its main substantive insights. Lupia and Strøm (1995) contains a complete description of the model.

[5] This point also reinforces our earlier claims about the drawbacks of floating majorities. The promise of a stable coalition reduces the risk to any member of specializing because stable coalitions are better able to offer long-term rewards. If coalition partners are better able to specialize, the number of areas in which the government has expertise will grow. Such investments in expertise permit the government to adapt to a wider range of unforeseen contingencies, which, in turn, allows it to govern more effectively.

The Model

In most parliamentary democracies, simple legislative majorities have dismissal power (the power to recall the cabinet at any time). Many parliamentary democracies also have dissolution powers (the power to dissolve parliament and force early elections). Here, we examine the case in which both powers exist. We use the model to explain when and why parliamentarians use these powers. We find that coalition terminations are not, as they are often portrayed, automatic responses to external events. Instead, the causes and consequences of coalition terminations are predictable and negotiated responses to political circumstances.

We clarify the causes and consequences of coalition termination by modeling coalition bargaining, in a parliament with dismissal and dissolution powers, as a game between three unitary parties. We develop a three-party model because doing so provides the simplest formal framework for examining the bargaining dynamics of coalition government.

We call the three parties the "first" party, the "second" party, and the "out" party. Each party's name indicates its relationship to the initial governing coalition. We describe the case in which the first and second parties are members of the initial governing coalition, the out party is not, and any two parties can form a new majority coalition. The only substantive distinction between the first and second parties, upon which none of our results depend, is that the first party reacts to the event before the second. We do not assume that a party's name necessarily indicates its relative size. Thus, neither the first nor the second party need be the largest.

Each party's objective is to maximize the value it derives from its role in parliament. We make three basic assumptions about these objectives. First, *parties care about controlling seats in parliament.* Each party prefers more seats to fewer seats, all else constant. Second, *parties value power within a governing coalition.* Each party prefers to hold any particular portfolio than not to do so, all else constant. We make no assumptions about the relative value of different appointments or about whether cabinet and other portfolios are valued for policy or patronage reasons. If we think of what a governing coalition does as dividing a valuable pie, then this assumption is akin to stating that each party prefers larger pieces of pie to smaller ones. Third, *parties can value some potential coalition partners more than others.* In other words, if we think of one of the things that a governing coalition does as making (and then dividing) a valuable pie, then we can conceive of parties preferring some flavors of pie to others. The benefits that a party receives by participating in a given coalition derive from the similarity in policy preferences and/or the complementarity of office preferences among coalition members. So, for instance, a coalition containing parties with similar policy agendas is likely to generate greater benefits for its members, all else constant, than would a coalition of parties with conflicting policy agendas. Equivalently, a coalition of parties with different preferences over cabinet appointments can have greater value to its members than one in which all parties covet the same portfolios.[6]

Having just described the benefits that parties derive from governing, we now describe an event that may lead the parties to cast these benefits aside. This event (represented by a poll that credibly signals public opinion *or* a set of shared past experiences that informs electoral expectations) provides all parties with information about what would happen to them if they were to call an election. What this event reveals is $b_i \in \Re$, the expected utility of new elections to party i (b_i is a measure of party *i*'s post-election well-being).

For example, suppose that the first party cares only about its ability to form a single-party majority government in period 2, while the second party cares only about the number of period 2 seats it will control. We would then characterize the value of b_1 as increasing only in the first party's belief about the subjective probability that it will be able to form a single-party majority government in period 2, given new elections. Similarly, we would characterize the value of b_2 as increasing only in the second party's expectation of the number of seats that it will control in period 2 given new elections.

While elections can provide benefits, calling them can also impose several types of costs, such as the forfeiture of the policy-making opportunities or rent-collection opportunities made possible by holding valuable offices and those involved in election-related intra-party negotiation, campaigning and electioneering. For each party, we assume that $E_i \geq 0$ represents party *i*'s election-related transaction and opportunity costs (i.e. the cost of achieving the benefits, b_i, revealed by the event). We do not assume that these costs are the same for all parties. Together, our assumptions about the event and election-related transaction costs imply that party i expects a utility of $b_i - E_i$ from new elections.

[6] In effect, we assume that parties are goal-oriented without making a general (and controversial) assumption about the extent to which parties are interested in patronage, policy outcomes or the prestige of holding office. Stated another way, we assume that the parties share convergent beliefs about the value of the gains from trade that can be created by each possible coalescence.

New elections, however, are not the parties' only possible response to the event. They can also make new offers to each other (i.e., reshuffle portfolios within a government or institute a new government without calling new elections). The consequence of an accepted offer will be either a redistribution of power among members of the initial governing coalition or the formation of a new governing coalition.

We assume that making offers may involve a transaction cost. We represent such a cost by assuming that an offering party must pay $K_i \in \Re$. Our motivation for K_i is the party-specific costs of formulating an offer to redistribute power. These costs include the effort required to obtain the approval of party members and constituents. Like electoral costs, these negotiation costs may be different for different parties.

If no party is willing to make an offer that another is willing to accept, then there may be a vote of confidence. The requirements for such a vote to occur are (1) that no offer is made and accepted and (2) that a parliamentary majority wants such a vote. If the vote is held, and parties controlling a majority of seats vote "no," then parliament is dissolved, new elections are held, the game ends and party *i*'s period 2 utility is b_i - E_i. If no elections are held, and no new coalition contracts offered and accepted, then the incumbent government survives intact.

Results

In the model, dissolutions require a set of parties that collectively have a parliamentary majority and, individually, each prefer new elections to continuing parliament as it is. Moreover, each party that has the ability to be part of such a majority must also prefer the anticipated consequences of new elections to the most favorable and acceptable offer for a replacement cabinet that any other party can make (Lupia and Strøm 1995, Theorem 1).

This result, which comes from conceiving of coalition decisions as the product of bargaining, amends widely held beliefs about election timing. Grofman and van Roozendaal (1994: 158), for example, argue that "anticipation of future electoral gains may cause a certain party or a group of parties to seek to bring down the cabinet at a moment when their anticipated electoral success will be greatest," and hypothesize that "Parties terminate cabinets when they expect electoral gains". Accounting for the role of bargaining in coalition politics reveals this hypothesis as only partially correct. Indeed, **a party with favorable electoral prospects will also consider the option of extracting advantages through non-electoral means** (e.g., bargaining with parties that have less favorable electoral prospects.). A replacement cabinet, rather than new elections, is particularly likely if key members of the existing coalition have a strong desire to avoid elections. Therefore, good **electoral prospects for any particular party are not sufficient to cause a parliamentary dissolution**.

The same logic (Lupia and Strøm 1995, Corollary 1) shows that dissolution is most likely when there exist parties in the coalition that: (a) expect large benefits from an election; (b) face small election-related transaction costs, (c) face large transaction costs for negotiating non-electoral transfers of power, (d) derive little value from the seats they currently control and (e) derive little value from the other coalitions they could enter.

The corollary is important as it suggests an interactive effect between time elapsed since the last election and whether a specific event (such as a war) will end a government or parliament. To see this effect, first note that most parliamentary democracies have constitutionally mandated limits on the maximum length of a parliament's term - the "constitutional interelection period" (King et. al. 1990). Before the time since the last election reaches the limit, calling new elections is merely an option. When this limit is reached, elections must be held.

If calling early elections means that parties sacrifice policy-making opportunities and benefit-collection opportunities, then -- all else constant -- the benefits parties can expect from maintaining the current agreement should decrease as the parliamentary term approaches its limit. That is, all else constant, the value of sustaining the current coalition should be relatively high early in a parliament's term, should decrease continually over that term, and should reach its minimum when parties have no other choice but to hold an election. Parties must forfeit currently held assets when an election is held. To the extent that a party derives value from being part of a coalition or parliament, the fact that such assets may be lost through an election means that, all else constant, **a coalition's value to its members should decay as parliament ages - converging to zero when there is no choice but to hold an election**. Hence (following the corollary), an event that does not cause dissolution early in a parliament's term could do so later.

In general, **focusing on coalition decision making as a process of bargaining that occurs in the shadow of public opinion reveals that the extent to which an event is "critical" depends on the bargaining environment**. For instance, if the transaction costs of having an early election are high, then dissolution requires a large event. Thus, if these costs decrease over time, then dissolution requires smaller events as a parliament ages.

Such conclusions run counter to the assumption of a constant hazard rate – a measure of the relationship between a government's likelihood of failure and its age -- in early models of cabinet stability (Browne, et. al. 1986; Cioffi-Revilla 1984). Warwick and Easton (1992) and Kaashoek (1993) have questioned this assumption in the past, showing little empirical support. Moreover, Warwick (1992) finds impressive cross-national evidence that the hazard rate for executive coalitions increases over time. This is consistent with what our model predicts (i.e., the corollary stated above). Indeed, since the original publication of our result, scholars have used our model as the basis for more effective empirical analyses of coalition termination (e.g., Diermeier and Stevenson 1999, Gordon 2002.)

Similar logic affects several widely held claims about coalitions. For example, formal theories of coalition formation in a three-party legislature predict that the governing coalition will comprise the largest and smallest legislative parties (e.g., Austen-Smith and Banks 1988 and Baron 1991). Our approach reveals that these predictions are not robust to the introduction of parties who look forward to the next coalition termination or election when they bargain. To see why, notice that a necessary condition for the "largest-smallest" prediction is that the party to whom an acceptable offer is made must control either the smallest or the largest number of seats. Now consider the general case in which the largest party is in the position to make an offer. All else constant, the offering party should prefer to coalesce with the more valuable coalition partner (assuming that there is a difference). If all else is not constant, however, then the offering party must consider the trade-off between the value of a coalition partner and the share of portfolios and other benefits that it can retain. If the larger potential coalition partner has a lower walk-away value than the smaller one (e.g., if the former is a virtual pariah) and is willing to make a better deal, then the offering party could choose to coalesce with the larger of the two remaining parties.

In sum, if an offer is made, it will be made to the party whose walk-away value is lowest. Such behavior **does not require the largest and smallest parties to coalesce**. Instead, **an offer is made to the weakest party**, where the weakest party is the one that faces the most damaging combination of (1) bad electoral prospects, (2) high election-related transaction costs, (3) high bargaining costs or discount rates, (4) low-value coalition alternatives, and, (5) highly valued seats or coalition-related power (that must be forfeited as a result of coalition termination or parliamentary dissolution).

Reconsidering Coalition Politics

Let us now briefly return to the various clusters of explanatory factors that we discussed at the beginning of this chapter. We believe that although none of these clusters is by itself sufficient to account for all the interesting variation in coalition politics, each of them contributes to understanding such matters. Moreover, each of these clusters can be captured through, or lodged within the Lupia and Strøm model.

Our model includes parameters that reflect many the traditional concerns in the coalitions, including preferences, institutions, transaction costs, and critical events. These factors collectively make up the “engine” that drives our results. Our model does not, obviously, include particular terms for the contextual effects of time and place, but it is easy enough to see how such effects could be captured. Country effects, for example, could have to do with culturally induced and sustained particularities of preference. In some countries, for example, politicians may be more concerned about holding executive office than elsewhere, perhaps due to historical memories of how such offices have been used (or abused).

At the same time that our model is comprehensive, however, there are clearly also ways in which it is highly stylized and in which future research may want to consider alternative or additional specifications. This is clearly true with respect to our treatment of critical events, structural attributes and political institutions. In all cases, we have kept our account very simple.

In our original 1995 model, we portrayed the occurrence of a potentially critical events thus: “an event (represented by a poll that credibly signals public opinion or a set of shared past experiences that informs electoral expectations) provides all parties with information about what would happen to them if an election were to be held.” Laver and Shepsle (1998) have broadened this approach by considering additional types of shocks, such as sudden and unanticipated changes in party policy, in the policy agenda (meaning the relative importance to specific parties of different policy dimensions), or in government decision rules. Within their portfolio allocation approach, they show that different coalitions react differently to the various types of shocks.

While broadening our understanding of critical events is surely a worthwhile exercise, we believe that it is still most fruitful to focus on those shocks that are most common, most clearly exogenous, and most critical to the democratic process. Our understanding of democratic policy-making suggests that sudden, important changes in government decision rules (decision rule shocks) are not very common and rarely exogenous. And as regards changes in party ideal points and the relative weights of different policy dimensions (policy shocks and agenda shocks, respectively), Laver and Shepsle (1998: 36) themselves admit that "party ideal points represent the tastes of parties, which Laver and Shepsle take in all other parts of their argument to be primitives, not strategic variables." In other words, party policy positions are clearly under the control of party leaders themselves and must be understood as such if we are to have any analytical traction. Yet, like the present authors, Laver and Shepsle see party leaders as agents of their respective constituencies of voters and argue that changes in the preferences of these constituents may put pressure on party policy positions. While there is clearly some truth in this claim, we would prefer to locate the source of critical events in changes in the voters' opinions, rather than in the politicians' responses to these changes. To avoid circular or fuzzy arguments, we prefer to retain the conception of critical events as exogenous (beyond the immediate control of party leaders themselves), a conception that was very much part and parcel of the early critical events literature. Public opinion shocks, as featured in Lupia and Strøm's (1995) original analysis, suggest themselves in this context. This is the only type of critical event that flows directly from the delegation process between citizens and representatives and is not just a description of the behaviour of party leaders themselves.

Structurally, our model considers only two-party majority governments in a three-party world. Needless to say, most parliamentary democracies are structurally considerably more complex, with coalition governments of frequently up to five parties, and parliaments that may well contain more than ten. Although there has so far been no formal attempt to model such structural complexity within our analytical framework, our intuition suggests that the greater the structural complexity, the more important the role of transaction costs and information uncertainty.

The institutional framework captured by the Lupia and Strøm model is also very simple. We assume, for example, that parties bargain freely without the intervention of a head of state (president) and that parliamentary dissolution is always feasible if they should fail to reach a sustainable solution. Reality is obviously more complex. Most European parliamentary democracies today have presidential heads of state, and most of these presidents are at least formally empowered to affect coalition bargaining (see Amorim Neto and Strøm 2006). And although Norway is the only parliamentary democracy in which parliamentary dissolution can never occur, many constitutions put more or less stringent restrictions on the use of this procedure (see Strøm and Swindle 2002). We welcome theoretical efforts to model this more complex institutional environment, which we expect will reinforce the arguments made in this chapter. Again, the upshot of considering such institutional variation is likely to be that transaction costs and information uncertainties gain increasing salience.

Our theoretical framework, particularly as it appears in the Lupia and Strøm model, implies that empirical work that includes credible measures of each of these factors will provide more reliable and robust estimates of what parties do at each stage of a coalition's life cycle than will empirical work that includes only a subset of these factors. However, our message is not simply that more variables are better. Instead, it is that more variables are better if the rationale for including these variables is related to the fundamental coalitional dynamics of interest.

For the authors of this book, the theoretical framework developed in this chapter provides such a rationale. It highlights the importance of asking the question about when and whether contextual, resource-related, preference-related, institutions-oriented variables have the ability to affect the walk away values of the parties being studied. If such factors can affect bargaining dynamics, then the framework provides basic instructions for how to include them in empirical work. For variables representing factors that cannot affect walk away values, more is not better. More generally, we believe that significant advances can be made in the study of government coalitions if we properly understand bargaining dynamics and the sources from which bargaining power springs, such as uncertainty and transaction costs and their implications for walk-away values.

While we believe that a framework that captures all of these factors, and specifically transaction costs, is a suitable way to understand coalition politics, it is not, however, the only possible way forward. Some scholars suggest that we would be better off ignoring transaction costs. Consider, for example, a recent conclusion offered by Diermeier and Merlo (2000: 57):

> "[L]ike Lupia and Strøm (1995) we find that in equilibrium governments may terminate in early elections and replacements. However, once we allow for efficient bargaining [zero transaction costs] and reshuffles, the Lupia and Strøm framework can no longer generate early terminations. If a government commands a majority of seats -- the only case considered by Lupia and Strøm – reshuffles can always be used to capture any changes in the bargaining environment within the current coalition. Once efficient bargaining is not possible, however, as in the case of bargaining between the minority government and the parties in its supporting coalition, governments may fall."

We agree with their result. However, in the process of working with all of the other authors in this book and bearing witness to the incredible range of data about coalition governance that they have assembled, we have yet to encounter a real-world governmental setting where we have felt assured that transaction costs are zero (or where the preconditions for what Diermeier and Merlo call efficient bargaining come close to being met). Therefore, we take the difference between our results (in Lupia and Strøm 1995) and Diermeier and Merlo's claim as evidence of the importance of transaction costs in explanations of coalition dynamics. Diermeier and Merlo prove that assuming away such costs leads to very different predictions about coalition dynamics. The virtue of their approach lies in its parsimony. Yet, we believe there is a substantial price to be paid in verisimilitude, and that as a consequence, such a "neo-classical" approach will be unable to capture many of the "messier" aspects of coalition politics.

The later chapters of this book reveal substantial evidence of positive transaction costs (e.g., failed or long bargaining rounds) in virtually every stage of a coalition's life cycle. While we endorse Diermeier and Merlo's attempt to study government formation dynamics in a systematic manner, we follow scholars such as Williamson in contending that as scholarly attention to the role of bargaining in coalition governance grows, so does the importance of integrating carefully considered theoretical and empirical treatments of transaction costs.

4. Conclusion

In this chapter, we offer and apply a framework for understanding coalition governance. Its main premise is that at every stage of a coalition's life cycle, ***coalition decisions are the result of bargaining, where every bargaining outcome is the result not only of past bargains that affect history, institutions, and members' resources but also of the fact that bargaining occurs in the shadow of citizen opinions and under the constant threat posed by political rivals who want to replace them.*** This framework illuminates how factors such as walk-away values, institutions, discount rates, and deadlines affect what coalitions do. It also clarifies how uncertainty and opportunism affect the content of coalition agreements. Its main lesson is that if you want to understand coalition governance, it is important to realize that bargaining occurs at every stage of a coalition's life cycle and that the outcome of bargaining at any particular stage depends on the results of previous bargains (which give parties the resources they have at any particular time) and the prospect of future bargains (which affects walk-away values and the credibility of current agreements).

The institutions that typify parliamentary democracies make coalition bargaining a constant and critical feature of most such systems. In that environment, coalitions regularly have to pass two tests. They have to please the voters and they have to sustain agreement. A coalition's ability to accomplish anything requires that it come to an agreement, maintain that agreement, and have it approved by the citizenry. Some policies, such as those required for economic and social development, require longer government commitments if they are to be successful. Transaction cost economics reminds us that in order to accomplish such objectives politicians must be able to overcome problems caused by opportunism and uncertainty over long periods of time. Coalitions must be able to write agreements that protect these policies -- giving coalition partners incentives to choose to stick with the agreement rather than defect. In other words, coalitions who recognize the centrality of bargaining, electoral connections, and the shadow of the future are far more likely to succeed politically than parties who focus exclusively on any of the four factors named above. Bargaining in the shadow of the future is the key to governance at every stage in a coalition's life cycle.

One important implication of these conclusions is that coalitions that expect to survive over longer periods can accept more risk and expect higher returns from long-run policy commitments. They can expect higher returns even if a particular policy agenda can lead to bad outcomes in the short run because they are more likely to survive until the return of better days. Coalitions that expect to survive will therefore have a greater legislative range -- an ability to undertake agendas that more vulnerable coalitions cannot touch.

This framework is a basis for the empirical work that will be applied in subsequent chapters. These hypotheses describe important decisions such as coalition formation, policy making, and coalition termination. Throughout, these analyses correct the errors in beliefs such as "size is power," "length of bargaining implies effectiveness of contract" and "external shocks cause coalition terminations" and replace them with hypotheses that are more consistent with bargaining dynamics.

While coalition governments vary in ways that often seem inscrutable, it is imperative for the student of coalition politics to make their dynamics as transparent as possible. The point of this chapter is to increase that transparency. While paying attention to bargaining dynamics is not the only way to explain coalition governance, it can be very effective. It is also a road that has been surprisingly little traveled, given that many previous studies of the topic ignore bargaining entirely. Since party coalitions dominate parliamentary democracies, which in turn rule about one-third of the world’s population, the potential payoff from focusing on bargaining and greater theoretical transparency makes research efforts like the ones that follow in this book extremely worthwhile.

References

Amorim Neto, Octavio, and Kaare Strøm. 2006. “Breaking the Parliamentary Chain of Delegation: Presidents and Non-partisan Cabinet Members in European Democracies.” *British Journal of Political Science* (forthcoming).

Austen-Smith, David, and Jeffrey Banks. 1988. "Elections, Coalitions and Legislative Outcomes." *American Political Science Review* 82: 405-422.

Bäck, Hanna. 2003. *Explaining Coalitions. Evidence and Lessons from Studying Coalition Formation in Swedish Local Government*. Uppsala: Uppsla Universitet.

Banfield, Edward C. 1958. *The Moral Basis of a Backward Society*. Chicago: The Free Press.

Banzhaf, John F. III. 1968. “*One Man, 3,312 Votes: A Mathematical Analysis of the Electoral College*.” *Villanova Law Review* 13, 2, 304-346.

Baron, David P. 1991. "A Spatial Bargaining Theory of Government Formation in Parliamentary Systems." *American Political Science Review* 85: 137-64.

Browne, Eric C., John P. Frendreis, and Dennis W. Gleiber. 1986. "The Process of Cabinet Dissolution: An Exponential Model of Duration and Stability in Western Democracies." *American Journal of Political Science* 30, 3, 628-650.

Cioffi-Revilla, Claudio. 1984. "The Political Reliability of Italian Governments." *American Political Science Review* 78, 2, 318-337.

Cox, Gary W., and Mathew D. McCubbins. 1993. *Legislative Leviathan*. Cambridge: Cambridge University Press.

De Swaan, Abram, 1973. *Coalition Theories and Cabinet Formations*. Amsterdam: Elsevier.

Diermeier, Daniel, and Randolph P. Stevenson. 1999. "Cabinet Survival and Competing Risks." *American Journal of Political Science* 43, 4, 1051-1068.

Diermeier, Daniel, and Antonio Merlo. 2000. “Government Turnover in Parliamentary Democracies.” *Journal of Economic Theory* 94, 1, 46-79.

Downs, William. 1999. *Coalition Government, Subnational Style*. Columbus: Ohio State University Press.

Epstein, David, and Sharyn O’ Halloran. 1999. *Delegating Powers: A Transaction Cost Politics Approach to Policy Making Under Separate Powers.* New York: Cambridge University Press.

Fudenberg, Drew, and Jean Tirole. 1991. *Game Theory*. Cambridge, MA: MIT Press.

Fudenberg, Drew, and David K. Levine. 1998. *The Theory of Learning in Games*. Cambridge, MA: MIT Press.

Gordon, Sanford C. 2002. “Stochastic Dependence in Competing Risks.” *American Journal of Political Science,* 46, 1, 200-217.

Grofman, Bernard, and Peter van Roozendaal. 1994. "Toward a Theoretical Explanation of Premature Cabinet Termination: With Application to Post-war Cabinets in the Netherlands." *European Journal of Political Research* 26:155-170.

Huber, John D. 1998. "How Does Cabinet Instability Affect Political Performance: Credible Commitment, Information, and Health Care Cost Containment in Parliamentary Politics." *American Political Science Review* 92: 577-592.

Huber, John D., and Arthur Lupia. 2001. "Cabinet Instability and Delegation in Parliamentary Democracies." *American Journal of Political Science* 45: 18-32.

Huber, John D., and Nolan McCarty. 2001. “Cabinet Decision Rules and Political Uncertainty in Parliamentary Bargaining.” *American Political Science Review* 95: 345-360.

Kaashoek, Remco. 1993. "The Process of Coalition Termination in European Democracies." Paper presented at the Joint Sessions of Workshops of the European Consortium for Political Research, Leiden.

King, Gary, James E. Alt, Michael J. Laver, and Nancy E. Burns. 1990. "A Unified Model of Cabinet Dissolution in Parliamentary Democracies." *American Journal of Political Science* 34, 3, 846-871.

Kreps, David M. 1990. *A Course in Microeconomic Theory*. Princeton: Princeton University Press.

Laffont, Jean-Jacques, and Jean Tirole. 1993. *A Theory of Incentives in Procurement and Regulation.* Cambridge MA: MIT Press.

Laver, Michael J., and Audrey Arkins. 1990. "Coalition and Fianna Fáil." In *How Ireland Voted 1999,* eds. Michael Gallagher and Richard Sinnott. Galway: Galway University Press and PSAI Press.

Laver, Michael J., and Norman Schofield. 1990. *Multiparty Government: The Politics of Coalition in Europe.* Oxford: Oxford University Press.

Laver, Michael J., and Kenneth A. Shepsle. 1998. "Events, Equilibria, and Government Survival." *American Journal of Political Science*, 42, 1, 28-54.

Lijphart, Arend. 1999. *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries*. New Haven: Yale University Press.

Lupia, Arthur, and Kaare Strøm. 1995 "Coalition Termination and the Strategic Timing of Parliamentary Elections." *American Political Science Review* 89: 648-665.

Lupia, Arthur, and Mathew D. McCubbins. 1998. *The Democratic Dilemma: Can Citizens Learn What They Need to Know?* New York: Cambridge University Press.

Marsh, Michael, and Paul Mitchell. 1999. "Office, Votes, and Then Policy: Hard Choices for Political Parties in the Republic of Ireland. In Wolfgang Müller and Kaare Strøm (eds.) *Policy, Office, or Votes? How Political Parties in Western Europe Make Hard Decisions.* Cambridge: Cambridge University Press.

McMillan, John. 1992. *Games, Strategies, and Managers: How Managers Can Use Game Theory to Make Better Business Decisions.* New York: Oxford University Press.

Miliband, Ralph. 1990. *Divided Societies: Class Conflict in Contemporary Capitalism*. Oxford: Oxford University Press.

Müller, Wolfgang C. 2000. "Political Parties in Parliamentary Democracies: Making Delegation and Accountability Work." *European Journal of Political Research* 37, 3: 309-33.

Müller, Wolfgang C. and Kaare Strøm, eds. 1999. *Policy, Office, or Votes? How Political Parties in Western Europe Make Hard Decisions*. Cambridge: Cambridge University Press.

Müller, Wolfgang C. and Kaare Strøm. 2000. "Conclusion: Coalition Governance in Western Europe." In Wolfgang C. Müller and Kaare Strøm. *Coalition Governments in Western Europe*. Oxford: Oxford University Press.

Poguntke, Thomas. 1999. In Wolfgang C. Müller and Kaare Strøm, eds., *Policy, Office, or Votes*. Cambridge: Cambridge University Press.

Powell, G. Bingham, Jr. 1982. *Contemporary Democracies*. Cambridge, MA: Harvard University Press.

Riker, William H. 1962. *The Theory of Political Coalitions*. New Haven: Yale University Press.

Rokkan, Stein. 1966. “Norway: Numerical Democracy and Corporate Pluralism.” In Robert A. Dahl, ed., *Political Oppositions in Western Democracies*. New Haven: Yale University Press.

Shapley, Lloyd S., and Martin Shubik. 1954. “A Method for Evaluating the Distribution of Power in a Committee System.” *American Political Science Review*, 48, 787-792.

Strøm, Kaare. 1990. "A Behavioral Theory of Competitive Political Parties." *American Journal of Political Science* 34, 2, 565-98.

Strøm, Kaare. 1994. "The Presthus Debacle: Intraparty Politics and Bargaining Failure in Norway." *American Political Science Review* 88, 1, 112-27.

Strøm, Kaare, and Steven M. Swindle. 2002. "Strategic Parliamentary Dissolution." *American Political Science Review* 96, 3, 575-591.

Strøm, Kaare, Ian Budge and Michael J. Laver. 1994. "Constraints on Cabinet Formation in Parliamentary Democracies." *American Journal of Political Science* 38: 303-335.

Thelen, Kathleen, and Sven Steinmo. 1992. “Historical Institutionalism in Comparative Politics.” In Sven Steinmo, Kathleen Thelen, and Frank Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Politics*. New York: Cambridge University Press.

Warwick, Paul V. 1992. "Rising Hazards: An Underlying Dynamic of Parliamentary Government." *American Journal of Political Science* 36, 4, 857-876.

Warwick, Paul V. 1994. *Government Survival in Parliamentary Democracies*. Cambridge: Cambridge University Press.

Warwick, Paul V., and Stephen Easton. 1992. "The Cabinet Stability Controversy: New Perspectives on a Classic Problem." *American Journal of Political Science* 36, 1, 122-146.

Williamson, Oliver E. 1975. *Markets and Hierarchies: Analysis and Antitrust Implications.* New York: Free Press.

Williamson, Oliver E. 1993. "Contested Exchange versus the Governance of Contested Relations." *The Journal of Economic Perspectives* 7, 1, 103-108.