

PEB2008

The Political Economy of Bargaining



PROGRAM &
BOOK OF ABSTRACTS

April 24-26, 2008

Wilfrid Laurier University
Waterloo, Ontario, Canada

LAURIER

Business & Economics



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Organizer: Maria Gallego

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Local Organizers: Caroline Graham, Ryan Marr and Christopher Wallbank

Thursday, April 24

Time	Speaker	Title
8:30-9:15	REGISTRATION AND BREAKFAST - SBE ATRIUM	
9:15-9:30	Laurier President: Max Blow	Opening remarks
9:30-10:30	Chair: Loren King Norman Schofield and Ugur Ozdemir	Political Bargaining under Democracy and Autocracy
10:30-11:00	BREAK - SBE ATRIUM	
11:00-1:00	Chair: Johanna Goertz Christopher Kam , William Bianco, Regina Smyth and Itai Sened Dan Usher	Parliaments, Cabinets and Uncovered Sets Mysterious Bargaining
1:00-2:00	LUNCH - ERNST AND YOUNG BOARD ROOM	
2:00-4:00	Chair: Christopher Kam Vincent Anesi and Philippe De Donder Woojin Lee	Secondary Issues and Party Politics - An Application to Environmental Policy Bandwagon, underdog, and political competition: The unidimensional case
4:00-4:15	BREAK - SBE ATRIUM	
4:30-5:30	Chair: Maria Gallego John Roemer	A positive theory of income taxation where politicians focus upon swing and core voters
7:00	CIGI GALA DINNER - WILDCRAFT	

Friday, April 25

9:00-9:30	BREAKFAST - SBE ATRIUM	
9:30-10:30	Chair: John Duggan David P. Baron	Common Agency Lobbying and Majority Rule Institutions
10:30-11:00	BREAK - SBE ATRIUM	
11:00-1:00	Chair: Martin Osborne Steven J. Brams and Marc Kilgour Steven J. Brams and Marc Kilgour	Stabilizing Power Sharing How Democracy Resolves Conflict in Difficult Games
1:00-2:00	LUNCH - ERNST AND YOUNG BOARD ROOM	
2:00-4:00	Chair: David P. Baron Michael Laver , Scott de Marchi and Hande Mutlu Guillaume Frechette, John Kagel and Massimo Morelli	Bargaining in n-party legislatures over government formation? Pork Versus Public Goods: An Experimental Study of Public Good Provision Within a Legislative Bargaining Framework
4:00-4:30	BREAK - SBE ATRIUM	
4:30-5:30	Chair: Olga Shvetsova Hülya Eraslan and Antonio Merlo	Some Unpleasant Bargaining Arithmetics?
7:00	LAURIER DINNER - SOLE	

Saturday, April 26

9:00-9:30	BREAKFAST - SBE ATRIUM	
9:30-10:30	Chair: Michael Laver John Duggan	Coalitional Bargaining Equilibria
10:30-11:00	BREAK - SBE ATRIUM	
11:00-1:00	Chair: Patrick Martin Daniel Diermeier and Pohan Fong John Duggan, Tasos Kalandrakis and Vikram Manjunath	Legislative Bargaining with Reconsideration Dynamics of the Presidential Veto: A Computational Analysis
1:00-2:00	LUNCH - ERNST AND YOUNG BOARD ROOM	
2:00-4:00	Chair: Philippe De Donder Maria Gallego and David Scoones Francisco Gonzalez and Jean Francois Wen	The Art of Compromise The Supply of Social Insurance
7:00	TENTATIVE DINNER - DETAILS AT THE WORKSHOP	

POLITICAL ECONOMY OF BARGAINING, PEB 2008

April 24-26, 2008

Wilfrid Laurier University, Waterloo ON, Canada

<http://www.wlu.ca/sbe/gallego/PEB2008/>

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Plenary Speakers:

- David P. Baron, Stanford University
- John Duggan, University of Rochester
- Antonio Merlo, University of Pennsylvania
- John E. Roemer, Yale University
- Norman Schofield, Washington University in St. Louis

Speakers:

- Steven Brams, New York University
- Philippe De Donder, Université de Toulouse
- Pohan Fong, Northwestern University and Concordia University
- Maria E. Gallego, Wilfrid Laurier University
- Francisco Gonzalez, University of Calgary
- Tasos Kalandrakis, University of Rochester
- Christopher Kam, The University of British Columbia
- Marc Kilgour, Wilfrid Laurier University
- Michael Laver, New York University
- Woojin Lee, University of Massachusetts Amherst
- Massimo Morelli, Columbia University
- Dan Usher, Queen's University

Organizer:

Maria Gallego, Wilfrid Laurier University

Scientific Committee:

- Philippe De Donder Université de Toulouse I Sciences Sociales IDEI - Institut d'économie Industrielle
- Maria Gallego Wilfrid Laurier University, Department of Economics
- Norman Schofield William Taussig Professor of Political Economy Washington University in St. Louis
Department of Economics and of Political Science

Local Arrangements:

- Caroline Graham, Ryan Marr and Christopher Wallbank

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- Laurier Office of Research Services (LORS)

Plenary Speakers

Common Agency Lobbying and Majority Rule Institutions

David P. Baron

Abstract: Interest groups and their lobbies attempt to influence policy choices of legislatures and more broadly of governments. The extent of their influence depends not only on their preferences and resources but also on the preferences of government officeholders and the characteristics of institutions and their procedures. This paper identifies the influence of lobbies relative to political officeholders in the context of a majority-rule government where lobbies offer schedules of contributions to officeholders to influence both the choice of a decisive coalition and a policy. The institutional model is an extension of the Baron and Diermeier (2001) bargaining model of government formation and policy choice (without an election). Policy can be affected by lobbying in two ways: 1) pulling the policy in the direction preferred by the lobbyist and 2) switching the legislature from one coalition to another. Lobby influence thus is both position based and spending based. Position based means that an interest group has influence because its preferences are taken into account by legislators. It is spending based when the spending by a lobby shifts the proposer's choice of a coalition. Equilibrium policies maximize the aggregate utility of coalition members and the lobbies who support them, but the policies can be outside the Pareto set of the legislators, resulting in a political failure. Lobbying can also be counteractive with no influence on policy. Lobbyist competition can also bid up the price of a vote when one or more lobby offers an additional contribution to induce the proposer to switch to a coalition and policy different from those that the proposer would choose if contribution schedules were at their minimums. These spending-based incentives can lead to a race to the top in which lobbies bid up their contributions to the point at which no lobby is willing to offer more to elicit a different coalition.

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Coalitional Bargaining Equilibria

John Duggan

Abstract: This paper takes up the foundational issue of existence of stationary subgame perfect equilibria in a general class of bargaining games. General conditions on primitives ensuring the existence of such equilibria are currently lacking for many bargaining models of interest: models with non-concave stage utility functions, the model with an explicit status quo alternative and heterogeneous discount factors, and economic models where property rights restrict the feasible alternatives of a coalition. The paper generalizes known existence results and establishes existence in these new environments.

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Some Unpleasant Bargaining Arithmetics?

Hülya Eraslan and **Antonio Merlo**

Abstract: It is commonly believed that, contrary to majority rule, unanimity rule safeguards the rights of each individual, and hence protects minorities from the possibility of expropriation. We show that this is not necessarily the case in bargaining environments. We study a multilateral bargaining model where players have access to different technologies for the production of a "cake." Which cake is produced and how it is allocated are determined collectively through voting. We show that it is possible for unanimity rule to generate equilibrium outcomes that are more unequal (or less equitable) than equilibrium outcomes under majority rule. In fact, there exist conditions under which in the unique equilibrium under unanimity rule only one player receives a positive expected payoff, while the expected payoff of all players in the unique equilibrium under majority rule is positive. We explore the general trade-offs between equity and efficiency for a class of bargaining games, and establish a number of results that pertain to the issue of inequality of equilibrium allocations across different voting rules.

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A positive theory of income taxation where politicians focus upon swing and core voters

John E. Roemer

Abstract: We construct an equilibrium model of party competition, in which parties are especially concerned with their core and swing voters, concerns which American political scientists have focused upon in their attempts to understand party behavior in general elections. Parties compete on a large policy space of possible income-tax policies. An element in this infinite-dimensional space is a function which maps pre-fisc income into post-fisc income. The only restrictions are that the function be continuous, and satisfy exogenously specified upper and lower bounds on its derivative, where it is differentiable. Only a fraction of each voter type will vote for each party, perhaps because of issues not modeled here or voter misperceptions of policies. Each party's policy makers comprise two factions, one concerned with maximizing the welfare of its constituency, or its core, the other with winning over swing voters. An equilibrium is a pair of parties (endogenously determined), and a pair of policies, one for each party, in which neither party can deviate to another policy which will be assented to by both its core and swing factions. Formally, this is a Nash equilibrium where each party possesses only a quasi-order over the policy space. We fully characterize the equilibria. There are many. In a specially important case, each party proposes a piece-wise linear tax schedule, and these schedules coincide for a possibly large interval of middle-income voters, while the left party gives more to the poor and the right party more to the rich. An empirical section uses the data of Piketty and Saez on taxation in the US during the twentieth century to assess the model's predictions. We argue that the model is roughly confirmed.

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Political Bargaining under Democracy and Autocracy.

Norman Schofield and Ugur Ozdemir

Abstract: Models of elections tend to predict that parties will maximize votes by converging to an electoral center. There is no empirical support for this prediction. In order to account for the phenomenon of political divergence, this paper offers a stochastic electoral model where party leaders or candidates are differentiated by differing valences—the electoral perception of the quality of the party leader. If valence is simply intrinsic, then it can be shown that there is a “convergence coefficient”, defined in terms of the empirical parameters, that must be bounded above by the dimension of the space, in order for the electoral mean to be a Nash equilibrium. The idea of valence is then extended to include the possibility that activist groups contribute resources to their favored parties in response to policy concessions from the parties. The equilibrium result is that parties, in order to maximize vote share, must balance a centripetal electoral force against a centrifugal activist effect. Finally this model is applied to the case of a non-democratic regime, where an autocrat must bargain with economic and military elites in order to stay in power.

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Speakers

How Democracy Resolves Conflict in Difficult Games

Steven J. Brams and D. Marc Kilgour

Abstract: Democracy resolves conflicts in difficult games like Prisoners Dilemma and Chicken by stabilizing their cooperative outcomes. It does so by transforming these games into games in which voters are presented with a choice between a cooperative outcome and a Pareto-inferior noncooperative outcome. In the transformed game, it is always rational for voters to vote for the cooperative outcome, because cooperation is a weakly dominant strategy independent of the decision rule and the number of voters who choose it. Such games are illustrated by 2-person and n-person public-goods games, in which it is optimal to be a free rider, and a biblical story from the book of Exodus.

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Party Formation and Racism

Vincent Anesi and **Philippe De Donder**

Abstract: We develop a model where voters differ in their exogenous income and in their ideological views regarding what we call racism. Electoral competition, modeled à la Levy (2004), takes place between (one or several) parties who propose platforms consisting of both an ideological and an economic dimension. Our objective is to explain the emergence of racist policies when a majority of voters is not racist, and to understand the role played by political parties in this emergence. We first show that, in a pure citizen-candidate model where parties are absent, the only equilibrium consists of the non-racist policy. We then show that allowing for the formation of political parties generates equilibria with racist policies. Finally, our main result states that, if the economic issue is sufficiently salient compared to the ideological one, all equilibria consist of a racist policy, and that the lowest degree of racism of these policies increases with the proportion of poor people in the economy.

Legislative Bargaining with Reconsideration

Daniel Diermeier and **Pohan Fong**

Abstract: We present a dynamic model of legislative bargaining in which policymaking proceeds until the agenda setter has no more incentive to make a new proposal to replace the previously approved policy. We characterize the stationary equilibria of the game and show that in a class of pure-strategy equilibria, a majority of voters without proposal power have an incentive to protect each others.benefits to secure their own long-term bargaining positions in the legislature. As a consequence, the value of proposal power is constrained. In an extended version of the model that includes public goods production we show that the lack of commitment due to the possibility of reconsideration enhances policy efficiency.

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The Art of Compromise

Maria E. Gallego and David Scoones

Abstract: A policy is the outcome of negotiations between two three-party parliamentary states. An election in jurisdiction A determines the composition of the legislature that selects a representative to negotiate an intergovernmental policy agreement with the representative from the legislature of jurisdiction B. Negotiations are modeled using Nash's (1950) bargaining framework, modified to account for a simultaneous legislative ratification vote. With heterogeneous parties, agreements and electoral outcomes depend on the negotiators' willingness to compromise. Agreements between the bargainers may not follow the ordering of the parties' ideal policies. An electoral outcome where support for the center party comes from extreme voters may emerge.

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The Supply of Social Insurance

Francisco Gonzalez and Jean Francois Wen

Abstract: We propose a theory of the welfare state, in which social transfers are chosen by a governing group interacting with non-governing groups repeatedly. Social demands from the non-governing groups are credible because these groups have the ability to generate social conflict. In this context social insurance is supplied as an equilibrium response to income risks within a self-enforcing social contract. When we explore the implications of such a view of the social contract, we find four main determinants of the welfare state: the degree of aggregate income risk; the heterogeneity of group-specific income risks; the public administration's ability to implement group-specific transfers; and the ability of the non-governing groups to coordinate their social demands.

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Dynamics of the Presidential Veto: A Computational Analysis

John Duggan, **Tasos Kalandrakis** and Vikram Manjunath

Abstract: We specify and compute a dynamic, multidimensional model of legislative policy making between a president and a legislature under institutional rules that emulate those of the US Constitution. Partisan control of these institutions changes probabilistically over time. We find that players compromise their ideal policy in equilibrium, and that the degree of compromise increases when the opposition party is more likely to take control of the legislature in the next period, while politicians become relatively more extreme when the opposition party is more likely to control the presidency. Both gridlock and the welfare of a representative voter are maximized when government is divided without a supermajority in the legislature. Under unified government, the endogeneity of the status quo leads to a non-monotonic effect of the size of the legislative majority on gridlock; in particular, under unified government, our measure of gridlock is higher when the party in control of the legislature has a supermajority than when it has a bare majority. Furthermore, a relatively larger component of policy change occurs in a non-partisan policy dimension, rather than the ideological dimension, when a supermajority controls the legislature. We conduct constitutional experiments and find that the representative voter's welfare is maximized when the veto override provision is abolished and minimized when the presidential veto is abolished.

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Parliaments, Cabinets and Uncovered Sets

Christopher Kam, William Bianco, Regina Smyth and Itai Sened

Abstract: We use survey data on the political attitudes of British MPs to estimate the uncovered sets of i) the Labour and Conservative Parties, and ii) the House of Commons from 1987 to 2005. These uncovered set maps allow us to test several hypotheses about the relationship between parliamentary and intra-party politics. Our results suggest, first, that there are limits to majority power even in parliamentary systems such as Britain's where single-party majority governments and powerful prime ministers are the norm, and second, that prime ministers and their cabinets are sensitive to party members' interests.

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Stabilizing Power Sharing

Steven J. Brams and **D. Marc Kilgour**

Abstract: Power sharing is modeled as a duel over some prize. Each of two players may either share the prize in some ratio or fire at the other player either in sequence or simultaneously and eliminate it with a specified probability. A player that eliminates its opponent without being eliminated itself captures the entire prize, but the prize is damaged over time when there is shooting. Simultaneous shooting, which is more damaging than sequential shooting, tends to induce the players to share the prize and expand their opportunities for sharing it. It was effectively implemented by the superpowers with the doctrine of launch on warning during the Cold War, and it was strengthened by the development of second-strike capability. Detering terrorism has proved a different matter, because terrorists are difficult to detect and present few targets that can be damaged.

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Bargaining in n-party legislatures over government formation?

Michael Laver, Scott de Marchi and Hande Mutlu

Abstract: This paper questions results that claim to extend non-cooperative models of bargaining in legislatures from the highly atypical three-party case to a generic n-party setting. It identifies problems both with the derivation of theoretical results and the empirical evaluation of these. No empirically robust formateur advantage can be observed in field data on bargaining over government formation. The paper concludes with a modeling agenda of uncontroversial empirical statements about the government formation process and argues that these should form the premises of a more compelling new model of this crucial political process.

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Bandwagon, underdog, and political competition: The unidimensional case

Woojin Lee

Abstract: The present paper studies the Hotelling-Downs and Wittman-Roemer models of two-party competition when voter conformism is present and the policy space is uni-dimensional. We consider two types of voter conformism, bandwagon and underdog, and study their effects on the political equilibrium of the two models. Even if voter conformism is present, the Hotelling- Downs parties propose an identical policy at the equilibrium, which is equal to a strict Condorcet winner. Thus voter conformism, both bandwagon and underdog, has no effect on the Hotelling- Downs political equilibrium. In the Wittman-Roemer model, parties propose differentiated equilibrium policies, and the extent of such policy differentiation depends on the degree of voter conformism. In general, the stronger the bandwagon effect is, the more differentiated the equilibrium policies are. The opposite holds when the underdog effect is present; an increasing underdog effect mitigates the policy differentiation of the two parties, although the effect is not large. We also find multiple Wittman-Roemer equilibria when the bandwagon effect is sufficiently strong.

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Pork Versus Public Goods: An Experimental Study of Public Good Provision Within a Legislative Bargaining Framework

Guillaume Frechette, John Kagel and Massimo Morelli

Abstract: Abstract: Once the legislature is faced with an exogenous budget constraint, public goods (both level and scope) have to be determined by some collective-choice procedure. We experimentally investigate a recent model in which legislators allocate a fixed budget between collective public goods and particularistic goods. Our results confirm that when legislators value of collective goods is relatively low, then the budget is almost exclusively allocated to particularistic goods within a minimum winning coalition. However, in the mixed region in which both collective goods and particularistic goods are provided, the share of the budget devoted to the public good decreases as the relative value of the public good decreases, which is inconsistent with the stationary subgame perfect equilibrium prediction of the bargaining game but can be rationalized given the subjects voting behavior.

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Mysterious Bargaining

Dan Usher

Abstract: We know that people strike bargains and that civilized life could not proceed otherwise. We do not know how bargains are struck. This paper is a study of propositions about bargaining: theorists derivations of equilibrium bargains based upon a supposed sense of fairness or an imposed bargaining procedure, lawyers notion of a transaction cost of bargaining to be minimized in the choice of laws, economists analogy between social and technical production, the transformation of impediments to bargaining into a virtue when democracy is preserved by checks and balances between branches of government, and the common leap from the existence of equilibria within formal bargaining models to the presumption that there must exist a bargaining equilibrium - comparable to the equilibrium of prices, quantities and assignment of goods to people in competitive markets - when each bargainer acts in this own interest exclusively in the light of how others behave. The central thesis of this paper is that our models of bargaining are too far from our experience of bargaining to justify inferences about the terms of bargains or to guarantee that some bargain must be struck. Such confidence as we have in the determinacy of bargaining must derive from experience rather than from theorems. Bargaining is at once ubiquitous and mysterious.

Speakers and Attendees:

1. J. Atsu Amegashie, University of Guelph
2. David P. Baron, Stanford University
3. Steven Brams, New York University
4. Braz Camargo, University of Western Ontario
5. Ross Cressman, Wilfrid Laurier University
6. Philippe De Donder, Université de Toulouse I
7. John Duggan, University of Rochester
8. Andrew Elkington, Wilfrid Laurier University, M.A. Student
9. Pohan Fong, Northwestern University and Concordia University
10. Jean Guillaume Forand, University of Toronto, Ph.D. Candidate
11. Maria Gallego, Wilfrid Laurier University
12. Jozsef Garay, Eotvos Lorand University
13. Johanna Goertz, University of Guelph
14. Francisco Gonzalez, University of Calgary
15. Tasos Kalandrakis, University of Rochester
16. Loren King, Wilfrid Laurier University
17. Christopher Kam, The University of British Columbia
18. D. Marc Kilgour, Wilfrid Laurier University
19. Jerzy D. Konieczny, Wilfrid Laurier University
20. Maurice Kugler, Wilfrid Laurier University
21. Steve Lafleur, Wilfrid Laurier University, M.A. Student
22. Michael Laver, New York University
23. Woojin Lee, University of Massachusetts Amherst
24. Patrick Martin, University of Guelph
25. Antonio Merlo, University of Pennsylvania
26. Massimo Morelli, Columbia University
27. Haizhen Mou, Carleton University, Ph.D. Candidate
28. Martin Osborne, University of Toronto
29. Ugur Ozdemir, Washington University in St. Louis, Ph.D. Candidate
30. Carolyn Pitchik, University of Toronto
31. John E. Roemer, Yale University
32. Asha Sadanand, University of Guelph
33. Tammy D. Schirle, Wilfrid Laurier University
34. Norman Schofield, Washington University in St. Louis
35. Olga Shvetsova, Binghamton University
36. Dan Usher, Queen's University