

# Strategic Voting and Intergovernmental bargaining in a two-tier three-party parliamentary system

**Maria E. Gallego**

Department of Economics  
Wilfrid Laurier University  
Waterloo, ON, Canada N2L 3C5  
(519) 884-0710 ext. 2635; (fax) (519) 884-0201  
e-mail: mgallego@wlu.ca  
January 18, 2002

## ABSTRACT

In this paper policy making is the result of bargaining between government formateurs in a two-tier government. At each level of government, three parties compete in the elections. The model focuses on elections at the sub-national level and takes as given the most recent results at the central level. For a given level of government, voters simultaneously vote for a single party. The election determines each party's seat share and is followed by a legislative bargaining game (a standard agenda setter model; Austen-Smith, *Journal of Political Economy*, 2000). Legislative bargaining rules states that when a party obtains a simple majority (more than 50% of the votes), it becomes the legislative formateur. Its ideal policy is then the policy taken to the intergovernmental bargaining game. If no party obtains a simple majority, the formateur randomly chosen according to vote shares makes a policy proposal that if accepted by another party within the legislature becomes the policy position that the formateur takes to the intergovernmental bargaining game. If the proposal is rejected, legislative policy remains at the beginning-of-game status quo policy. Once legislative policies are chosen, an intergovernmental bargaining game that allows for the break down of negotiations between the central and sub-national formateurs follows (a "split the dollar game", Binmore, Rubinstein, and Wolinsky, *Rand Journal of Economics* 1986). The formateurs bargain using their policy preferences. When intergovernmental negotiations fail the status quo prevails. The intergovernmental policy agreement is then simultaneously taken to the legislatures for a ratification vote. If the intergovernmental policy agreement passes the joint ratification vote, it is implemented. If at least one of the legislatures vetoes the intergovernmental policy agreement the status quo prevails.

The equilibrium policy outcome depends on the identity of both formateurs, on the majority or coalition status, and on their policy preferences. If both formateurs control majorities in the legislatures and both prefer the policy agreement to the status quo, the policy agreement passes the ratification vote. If at least one formateur prefers the status quo, it vetoes the policy agreement and the status quo prevails. When there is a coalition government at one level of government and the intergovernmental policy agreement is preferred to the status quo by a majority in both legislatures, the equilibrium policy outcome is closer to the coalition partner's ideal policy. If at least one legislature prefers the status quo, it vetoes the policy agreement and the status quo is implemented. Coalition partner(s) influence policy outcomes through legislative bargaining and the ratification vote. That is, even if the formateurs are from the same party, a policy closer to the coalition partner's ideal policy is implemented if there is a coalition government. At the election, voters take into account policy position of the formateur at the central level and vote to increase the probability that the party closer to their ideal policy becomes the formateur. Through their choice of sub-national formateurs voters influence the set of intergovernmental policies and thus influence policy outcomes.