Two

Actors' Interests, Policy Preferences, and the Demand for International Cooperation

WHEN domestic actors share power over decision making and their policy preferences differ, treating the state as a unitary actor risks distorting our understanding of international relations. Instead polyarchy reigns, affecting how states act in international politics. This chapter lays the basis for my primary claim: the structure of domestic preferences holds a key to understanding international cooperation. Domestic actors' preferences are primordial. This chapter sets forth the interests of three key groups of domestic actors: the executive (the prime minister or president), the legislature, and interest groups. It then derives their policy preferences from these basic interests. The central question addressed is why these groups would ever be interested in cooperating. The main concern is to show when these three sets of actors will have policy preferences that favor international cooperation and when important differences in their preferences will arise.

The *policy* preferences of actors in domestic politics derive from their basic interests. Actors are assumed to have certain fundamental interests, captured by their utility functions, which they attempt to maximize. For political actors, this means maximizing their ability to retain office; for social actors, maximizing their net income. For both, their most preferred policy—or their "ideal point"—is that policy choice in the issue area that maximizes their basic interests—that is, retaining political office or maximizing income. This chapter seeks to model how these actors' policy preferences are shaped and to suggest the conditions under which various structures of domestic preferences are more likely. In particular, I am concerned with the case of divided government, where the preferences of the executive and the legislature diverge. As I will show in chapter 3, structures of preferences involving divided government have important consequences for international cooperation. This chapter shows the conditions under which (more) divided government is likely.

The Agents: Executives, Legislatures, and Interest Groups

Two sets of policy preferences are of importance: those of political actors, such as the executive and the legislature, and those of societal actors, such as interest groups. Each of these three groups is assumed to be unitary and rational. These assumptions are significant, and here I explain what they mean for each set of actors.

The executive refers to the executive branch of government or the cabinet either led by the prime minister in parliamentary systems or the president in presidential ones, as well as the departments supporting the cabinet in both systems. Obviously, to claim that the executive branch is unitary is to make a simplifying assumption. Politics within the executive branch may be as complex and consequential as politics between it and the other branches (King 1976). For heuristic purposes, however, the executive is considered to act as if she were a unitary entity. This can be justified in three ways. First, since the prime minister or president is *primes inter pares* among the cabinet, all decisions must have her backing to go forth. Therefore the prime minister or president is the actor referred to by the executive. Second, one could argue that on each policy issue the cabinet minister in charge of that issue is the most important (or only) decision maker, and hence the minister is the unitary actor meant by the executive (Laver and Shepsle 1995). In contrast, by the executive one might refer to the median cabinet member; that is, the minister who casts the deciding vote for a policy represents the executive. Whichever way one proceeds—and I use the first formulation—the consequence is to make the executive branch a unitary actor.

The executive is also treated as being rational. The executive wants to maximize her utility, which is assumed above all to depend on reelection. Reelection is not the only goal attributed to political actors; some have argued that political actors desire to implement their party program most of all (e.g., de Swaan 1973). In reality, some combination of these two motives is probably most accurate. Here, however, I make the simplifying assumption that staying in office is the main goal of executives. As Snyder and Diesing note, "Any politician who wishes to participate in public action is thus faced with the imperative of maintaining or increasing his power, authority or influence. As Sam Rayburn observed, 'To be a statesman you have to get elected'" (1977:354).

This assumption of an "office-seeking" motivation has a long tradition (Downs 1957). Practically, what this assumption means is that the policy preferences of executives need not follow their party platforms nor their campaign promises. Instead, executives can pick and choose among policies to best serve their immediate electoral interests. Moreover, it means that electoral considerations motivate policy choices. "Economic policy is chosen by political agents and political agents seek to win office through elections. An adequate theory of economic policy formation, therefore, will take account of the electoral incentives facing political decision-makers" (Austen-Smith 1991:73).

In order to maximize their chances of reelection, executives have to worry about two factors: the overall economy and the preferences of interest groups that support them (e.g., Grossman and Helpman 1994, 1995). Executives first must ensure that the general performance of the economy is good. A declining economy may lead voters to support those out of power in the hope that they can improve the situation. As the leading, recent survey of the relationship between economics and elections in Western democracies shows, voters use retrospective economic evaluations of their national situation both to punish and reward incumbents (Lewis-Beck 1990). This "performance constraint" forces executives to be concerned not just with policies that please their particular constituents but also with those that serve the general economy. It may also create a trade-off with the second element in executives' utility function: their support for special interests.

Although ultimately voters elect political leaders (directly or indirectly), special interests can be an enormous help to leaders. They can produce contributions, votes, campaign organization, media attention, and so on, all of which may make the difference between a winning and a losing campaign. Leaders need the support of interest groups, and to gain it they must promote (retard) the policies that help (hurt) these groups. "Politicians seek office through elections; to run campaigns they need resources; to acquire such resources, they include redistributional policies in their platforms . . . ; these [policies] induce the favored interest groups to provide such resources to support the relevant candidate" (Austen-Smith 1991:73). Hence executives will be concerned with maximizing their chances of reelection, which depend on both the state of the economy and the support of key interest groups. Executives will thus try to choose policies that optimize both the state of the national economy and the interests of their interest group supporters. Policies entailed by international cooperation will only be chosen if they fit this criteria.

The second actor is the legislature. Again it is assumed to be unitary and rational. Neither of these assumptions is unproblematic. The title of an article by Kenneth Shepsle (1992) summarizes the problems of the unitary actor assumption: "Congress Is a 'They,' Not an 'It': Legislative Intent as Oxymoron." As with the executive, legislatures have important internal politics that affect how they operate and what policies they adopt (e.g., Fenno 1973; Krehbiel 1992). Moreover, bicameralism explicitly undercuts the assumption of legislative unity. Nevertheless it seems useful to abstract from these considerations. What we want to know is whether the legislature will vote in favor of an international agreement proposed by the executive. Hence the focus is on the median legislator. The member of the legislature who casts the deciding vote on the international agreement becomes the actor who represents the "unitary" legislature. His preferences are what we mean by the legislature's preferences.

Like the executive, legislators are assumed to be rational. They seek to maximize their utility, which derives from maintaining their office. As political actors, both the legislature and the executive are assumed to have similar interests, although they may prefer different policies to maximize these interests. Hence legislators want reelection, which depends on the state of the economy and the support of their interest group constituents. Policies that enhance the economy and bring gains to their interest group supporters will be their preferred ones. These, however, may or may not be the same policies that the executive prefers.

Why, if the legislature and executive share common interests, might their policy preferences differ? Executives and legislators represent different constituencies. Both the type and importance of special interests in their constituencies may differ. In presidential systems, where the two are elected in separate elections this point is fairly obvious. Executives must worry about a national constituency, whereas legislators are concerned with their local district. Depending on the electoral laws, their district may represent a small or large part of the nation. Moreover, in multimember districts legislators may represent only part of their district, further narrowing their constituency and differentiating it from the executive's. As Olson (1993) and others (e.g., Lohmann and O'Halloran 1994) have noted, politicians with more encompassing jurisdictions are more concerned with overall national outcomes and thus have different preferences than those with more narrowly defined jurisdictions.

In parliamentary systems differences in preferences between the executive and the legislature seem less likely. The executive is usually chosen by the legislature; thus the election for legislators may be considered the same as that for the prime minister. Nevertheless each legislator is concerned primarily with his district whereas the prime minister must be concerned with all the districts, especially the median one. As Shugart and Carey (1992:3–4) observe:

> A major dilemma in democratic regimes concerns a divergence between what representative assemblies do best and what executives must do if democracy itself is to function well. Assemblies. . . are intended to be representative of the population. A typical democratic assembly is elected for the purpose of giving voice to the interests of localities or to the diversity of ideological or other partisan divisions in the polity or society. That is, assemblies are ordinarily expected to be parochial in nature. Executives, on the other hand, are charged with acting to address policy questions that affect the broader interests of the nation, as well as to articulate national goals.

The national focus of the executive and the more local concerns of legislators help explain why, although they may have the same interests, legislators and executives may have distinct policy preferences.

The third set of actors are interest groups. Each group is assumed to be unitary and rational. Politics within an interest group is important, as the literature on collective action suggests (Olson 1965). But I assume that each interest group behaves as a unit, reflecting the median member's preferences. Moreover, as discussed in detail later, each interest group is rational; it tries to maximize its members' income—for example, wages, profits, and so on. This assumption needs less justification than the others since it is fairly standard. Hence an interest group prefers policies that maximize its income, and it will support (oppose) policies entailed by international cooperation that promote (detract from) this interest.

In the model the policy preferences of these three domestic groups and of the foreign country are used to define the "structure of preferences." This structure relates the relative policy preferences of these groups along a single dimension. It assumes, that is, that the actors have preferences for a policy that can be arrayed along a line; they desire more or less of the policy. Their preferences are reducible to a single dimension. This assumption is a substantial but frequently employed one (McKelvey 1979; Schofield 1983; Enelow and Hinich 1990; Romer and Rosenthal 1978, 1979; Ferejohn and Shipan 1990; Laver and Hunt 1992). Empirically, this assumption does have some support as well (Poole and Rosenthal 1991). Thus one can label the preferences of each group as more or less hawkish or dovish, given their relationship to those of the foreign country. Actors whose preferences are closer to those of the foreign country are termed dovish; actors farther away are considered hawkish. The terms *hawk* and *dove* are used to simplify categorization of the actors' preferences; they are not intended as normative or pejorative terms. Rather than saying they are to the left or right of another actor, one can say a group's policy preferences are more hawkish or dovish than another's. The structure of preferences, then, varies according to the relative positions of the actors' preferences.

The Executive's Preferences versus the Legislature's: Divided Government

This section discusses why policy preferences might vary among political leaders, particularly between the executive and the legislature. As noted above, political actors have the same basic interest—retaining political office—but may have different policy preferences. A divergence between the policy preferences of the executive and the median legislator creates divided government. The more divergent these preferences are, the more divided government is.

Here divided government is a continuous variable. Most often it is used as a dichotomous one—either the party in control of the executive is the same as the majority in the legislature or it is not. This dichotomous usage is not always helpful since intraparty differences can matter. If the majority legislative party also controls the executive but lacks party discipline and/or is internally divided, then even so-called unified government may appear divided. In addition, though, the use of divided government as a continuous variable allows one to appreciate how both parliamentary and presidential systems may be divided and to understand how degrees of internal division matter. As chapter 3 shows, divided government—and the degree of division—matter for international cooperation. Here I address when the executive's ideal policy choice will differ from that of the median legislator and what factors will drive them further apart.

Divided government is a term usually reserved for presidential systems. In this context it occurs when the president's party is not the one in control of the majority in the legislature. In these systems two agents are elected—usually in separate elections—to represent the public: the executive and the legislature. The potential for conflict between these two is elevated when they have different policy preferences. Used dichotomously, this term implies that the preferences of the executive and the legislature differ (e.g., O'Halloran 1994; Lohmann and O'Halloran 1994); party affiliation is employed as a proxy for preferences. As a continuous variable, this term describes how much these preferences differ. It also captures the divergences in preferences that may occur even when the same party controls both but party discipline is low and/or the two agents have divergent preferences because of their different constituencies. In two-party presidential systems, like that in the United States, divided government may be sporadic; however, in multiparty presidential systems, like many in Latin America, legislative majorities depend on coalitions of parties, thus making divided government fairly constant.

Divided government is also an obvious possibility in "semi-presidential" political systems. In these systems a blend of presidential and parliamentary procedures is employed (Lijphart 1984; Shugart and Carey 1992; Baylis 1996). Semi-presidential systems—like the Fifth Republic in France and the current systems in Finland, Russia, and some countries in Eastern Europe—combine a popularly elected president with a cabinet run by a prime minister and dependent on the legislature's confidence, thus creating two agents to represent the electorate. When the legislative majority comes from the same party as does the president, these systems work much like unified presidential ones. When the executive comes from a different party than the one that controls the legislative majority, divided government emerges in which the conflict between prime minister and president can be intense.

Parliamentary systems are not usually associated with divided government; they should be, however. Fiorina (1992:112–25) notes the strong similarity between divided presidential systems and coalition governments in parliamentary systems:

> Most of the world's governments are *not* unified . . . Rather, governments controlled jointly by coalitions of two or more parties are, of course, the norm in European democracies, and in democracies generally. . . . The analogy between divided government and coalition government is worth exploring . . . [I]n both cases each party needs the acquiescence of others in order to govern. In both European coalition governments and American divided governments, one party cannot govern alone. . . . Most generally, the analogy between divided government and coalition government suggests that much of our theoretical treatment of two-party and multi-party politics exaggerates the differences. (112–13)

Divided government in this broad sense is also the norm among all types of democracies. As Alesina and Rosenthal claim:

> Long periods of divided government are hardly an American monopoly. On the contrary, in parliamentary democracies cases of unified government are rare. Laver and Shepsle (1990) appropriately define a government to be unified whenever a single party both forms the political executive and commands a majority in the legislature. In the period of 1945–82 fewer than 15% of the governments of parliamentary democracies satisfied this definition. All other governments were not unified: at least two parties were needed to participate either in the government or in the parliamentary majority supporting the government. Therefore, if one views coalition government as an example of division of power, divided government is the norm rather than the exception. . . . [D]ivided government in America and coalition government in Europe have much more in common than it would first appear. (1995:243)

Parliamentary systems may be just as susceptible to divided government as presidential ones. As Laver and Shepsle (1991:251–52) note:

> Since most European parliamentary democracies use proportional electoral systems, and since it is very rare indeed for any European party to win over 50% of all votes cast, most Western European legislatures have no single party controlling a majority of the seats. This means that the legislative investiture and confidence votes that allow Western European political executives to gain and retain office are based on multi-party coalitions. It is not uncommon for the coalition of parties that make up the executive to differ in politically salient ways from the coalition of parties that supports the executive in the legislature. . . . [C]ontemporary experience suggests that divided government is common both in the U.S. separation-of-powers system and in Continental European coalition systems. It is Great Britain and some of the Commonwealth countries that are exceptional in this respect.

In a humorous passage Laver and Shepsle (1991:262) spell out the differences for the relationship between the executive and the legislature under divided government in the United States and in parliamentary contexts:

> In short, a situation of divided government in the U.S. can turn the executive into a neutered duck, while constitutionally denying the legislature the right to shoot that duck. European legislatures, in contrast, have the constitutional right to shoot any duck they like, neutered or otherwise, if the fancy takes them. What we have seen, however, is that the fancy may not take them—that there may well be circumstances in which the legislature lacks the political will to shoot even the most irredeemably neutered duck, given their low collective opinion of whatever else is on offer.

Divided government is constitutionally enforced in the United States; it is strategically chosen in the parliamentary systems.

Divided government would seem to have different ramifications for presidential and parliamentary systems. In parliamentary systems, the fates of the executive and the legislature are linked. If the legislature does not support the prime minister, the government may fall and new elections follow. Legislators thus have to calculate the costs of new elections when deciding to vote against the prime minister. In presidential systems a vote against the executive does not usually lead to new legislative elections. Hence it would seem that legislators in parliamentary systems would be less likely to vote against the government, implying that even when divided government occurred the executive might not worry about its legislature's approval of its policies. Huber (1996:279), for example, shows that the ability of prime ministers to call votes of confidence allows them to exert "substantial influence over final policy outcomes, even when these procedures are not invoked." However, the prime minister is still constrained to propose a policy that the legislative majority favors over the status quo; the legislature in effect retains ratification powers.

Two factors mitigate the power of the executive in parliamentary systems. First, the prime minister will for the same reasons be highly motivated not to propose an agreement that fails to satisfy the legislature. The costs to the prime minister of legislative rejection may be very high; this is unlike a president who can survive legislative rejection and hence has less reason to anticipate and accommodate her legislative majority. Second, in parliamentary systems not all votes are votes of confidence, leading to new elections if they fail. In some cases, like Germany, only constructive votes of confidence are allowed, meaning that an old government cannot be turned out until a new government is at hand. In others, legislators can choose which votes are no-confidence or censure ones. For these two reasons I expect divided government to have fairly similar consequences in both systems.

Divided government, then, may characterize both presidential and parliamentary systems, especially multiparty ones where coalitions predominate. In the latter, divided government implies divisions not only between the legislature and the executive but also within the cabinet itself. Furthermore, bicameral legislatures make the probability of divided government even more likely. In systems where there are two chambers, there is a greater chance that one chamber will be controlled by parties not in the government. Even if the chamber controlled by the opposition is less important than the other, this can still represent a situation of divided government. In the early 1990s, for instance, control of the British House of Lords by the Labor Party and of the German Bundesrat by the SPD rendered government more divided in both countries.

Unified government is most likely in two-party systems. But even in these cases unified control depends on another factor: party discipline. Party discipline seeks to ensure that members of the governing party in the legislature vote for the policies proposed by their party in the government. When in opposition, party discipline requires that they do not vote for the government's proposed policies. The threat of party discipline raises the costs of not voting the party line. Since the executive is often the head of her party, party discipline compels members of the legislature in the executive's party to vote for her proposed policies by threatening various penalties if they do not. Even if large numbers of constituents or important interest groups press their legislators to oppose the policy, if party discipline is strong the executive will receive her party's votes. Under such conditions, legislators will pay a large cost should they decide to vote against their party on the executive's proposed policy. Among political systems, the mechanisms of party discipline vary, although candidate selection and campaign funding are two important means. On the other hand, the legislator may have to pay electoral costs for maintaining party discipline. If the preferences of constituents or important interest groups differ from those of the party on an issue, the legislator is forced to choose between the two. Following the party line may prove costly to the legislator at the next election, in terms of votes, endorsements, or campaign funds. The legislator must balance these costs to maximize his utility and electoral chances.

The degree of party discipline varies within a political system as well as among them. Different parties in a country may exhibit different levels of discipline. For instance, many scholars attribute greater party discipline to conservative, right-wing parties than to left-wing ones, although some, including Duverger (1959), have maintained the opposite. But party discipline also varies over time within the same party. At certain points a party may exercise more control over its members than at others. The nature of the issue at hand (how contentious it is, for example) clearly matters, as does the degree of government popularity. The British Conservative Party is a good example. In the early 1980s it was the model of a highly disciplined party; by the early 1990s it was so riven by factions that it depended on other parties for support on crucial votes and had trouble supporting its own prime minister.

In countries with high levels of party discipline the executive and the legislators of the same party will have the same preferences. In two-party systems when discipline is strong and one party controls both the executive and the legislature, the ideal policy choice of the median legislator will be identical to that of the executive. Indeed, in two-party parliamentary systems divided government is likely only when party discipline in the majority breaks down. As Crossman (1972:31) says, "The British Cabinet's concern today is not for its majority over the opposition, because that is almost automatic, but for its majority inside its own party. The key to power is *inside* the party. It is not in Parliament as such, it is in the party. And the opposition the Government fears is not that of the Opposition on the front bench opposite. . . . The only doubt the Prime Minister has is about his own supporters." Lack of party discipline in two-party systems—whether presidential or parliamentary—can seriously impair unified government.

The likelihood and extent of divided government are thus dependent not only on the preferences of the actors but also on the political institutions in place. Institutions cannot be neatly separated from the structure of domestic preferences. Constitutional systems, the number of political parties, and party discipline all affect the degree of divided government. In presidential systems where the legislature and executive are elected in separate elections, in multiparty parliamentary governments, and in two-party parliamentary systems when party discipline is lacking, the median legislator's preferences will often diverge from those of the executive. Divided government will be a possibility. The executive will have to be concerned about her majority in the legislature when undertaking international cooperation.

The Policy Preferences of Political Actors

When will political actors—executives or legislators—be interested in coordinating policies with another country? Why would they ever prefer multilateral over unilateral policy making? In this section I relate political actors' preferences for cooperation to their reelection prospects. In particular, I show how under certain conditions international cooperation can improve the overall state of the economy, thereby increasing their probability of remaining in office. As noted above, political actors also care about the preferences of interest groups; this element of the politicians' utility function is examined later in this chapter within a general discussion of the conditions under which interest groups prefer cooperative policies.

If the political actors making this choice are politicians who must be (re)elected to office, then their reasons for seeking cooperation with other nations can be related to electoral concerns. If politicians want above all else to remain in office and their reelection depends in part on economic conditions, then politicians will worry about the state of the economy. They will be concerned with the prospects for economic growth, employment, and inflation. This is a fairly standard set of assumptions, but it says nothing about why coordinated, multilateral policy making should be preferred. Indeed, as many economists note, taking care of the economy will begin at home.

Domestic, unilateral policy choices have much more effect on a country's economy than do international cooperative ones. Economists have shown that the gains from cooperation are small (Oudiz and Sachs 1984; Kenen 1987). Although acknowledging the primacy of domestic policy tools for influencing the national economy, international cooperative efforts are sometimes chosen and the reasons require explanation. My argument is not that cooperative policy should replace unilateral, domestic policy. A policy involving cooperation with other countries need not be the most economically efficient one; a unilateral domestic policy could be more efficient but less electorally beneficial to political leaders.

The central reason why rational policy makers might choose coordinated policy making depends on two factors: the degree of a nation's economic *openness* and the type of *externalities* that countries' policies generate. Openness refers to the extent of integration between a country's economy and the world economy. In trade, openness can be measured by the ratio of exports and imports to GNP. In monetary markets, capital mobility is a measure of openness. The growth of economic openness for a state means that other countries' policies have greater reverberations on that country's economy. As Cooper (1986:299) notes, "Increased openness in terms of goods or securities generally weakens the effectiveness of traditional instruments of macroeconomic policy on national output . . . [B]y the same token its impact on income in the rest of the world is increased. Thus, with increased interdependence, policy actions in one country become larger 'disturbances' in the other country." Greater openness also means that a country's prices of goods and capital are increasingly constrained to the world level. Only by coordinated action with many countries can these effects of openness be overcome.

Openness is associated with greater impact for other countries' policies on the home country. When through its choice of policies a foreign country generates costs or benefits for another country that are not included in the foreign country's calculation of the optimality of the policy, we can speak of externalities.[1] Two conditions are necessary for an externality to be present: (1) actor A's utility function includes variables whose values are chosen by

[1] Externalities are "present when the actions of one agent directly affect the environment of another agent [and] the effect is not transmitted through prices" (Papandreou 1994:5). There is a long history of ideas about externalities, beginning with Alfred Marshall and A. C. Pigou. Unfortunately many meanings have been associated with the term over the years. As a recent assessment claims, "At least one hundred years have passed since 'external economies' entered into economists' vocabulary. The concept has been used widely, but no precise and agreed-upon meaning of the term seems yet to have emerged" (Papandreou 1994:14). Externalities are related to other important concepts, such as interdependence, transaction costs, unintended consequences, and market failure; see also Mishan (1971).

actor B, who pays no attention to actor A's welfare, and (2) actor B does not receive the benefits or costs of his effect on actor A (Baumol and Oates 1975:17–18).

Externalities generate demand for cooperation. "The gains [from cooperation] are supposed to come specifically from taking into account externalities, or 'spillover' effects, that one country's policies have on other countries' economies, which the countries would have no incentive to do in the absence of coordination" (Frankel 1988:354). The externalities generated by other countries' policies tend to grow in importance as an economy is opened. As these externalities rise, ceteris paribus, so do the gains from cooperation, and hence so do the incentives for it. "Differences between countries in the expansiveness of macroeconomic policy spill over into trade balances. . . . Thus, as international trade becomes more important, countries face larger international payments imbalances as a consequence of divergent macroeconomic policy choices, and each government's interest in international policy coordination to reduce its burden of adjustment increases" (Webb 1991:316). Thus a country's level of economic growth, employment, and/or inflation may depend critically on the behavior of other states, not just on its own policies. Unilateral, domestic policies will exert the largest impact on the country, but as openness grows so too do the home effects of foreign countries' policy choices.

Openness and the presence of externalities are likely to generate demand for international cooperation among political actors. If countries' economies are tightly woven together through trade and capital flows, they may not be able to achieve their economic goals without other states' help. If rates of growth, employment, and/or inflation in one state depend on the policies chosen in other states, then politicians' reelection hopes are tied to the behavior of these foreign countries. Getting foreign countries to alter their policies to reduce (increase) the negative (positive) externalities they create for the home country may require a coordinated approach to policy making. For example, in an open world economy one country's efforts to increase growth may be unsuccessful without the cooperation of other states. The cases of the United States in the late 1970s and France in the early 1980s suggest that this is true, regardless of the exchange rate system. Unilateral attempts to promote growth proved unsuccessful; coordinated reflationary policies seemed to offer the best way for these leaders' to realize their objectives.

Cooperation is frequently desired to change the policies of other countries; either to prevent them from adopting some policy they intend to or to push them to adopt a policy that they would not otherwise adopt. If political leaders in country A with an open economy believe that country B will adopt policies that generate negative externalities for A's economy, then country A may hope to block country B from doing so. International coordination may be a way to prevent country B from unilaterally imposing negative externalities on A and thus from hurting country A's leaders' electoral chances. Country A may have to give up something in return, but this should be worth the price of binding B. Similarly, if political leaders in country A want country B to adopt a particular policy that generates positive externalities for country A, but that country B is not keen about, then international coordination may offer a way to craft a deal to get B to do so.

Leaders may also seek international cooperation to avoid domestic political problems. Policies have differential effects internally; some groups gain and some lose from a policy choice. Political leaders, as I argued above, care about both overall welfare and special interests' preferences. Powerful groups within a country may be able to prevent the adoption of policies they dislike in a unilateral setting, even when political leaders favor them. International coordination can allow political actors to overcome this opposition and adopt policies that they otherwise could not. Cooperation can bring additional gains (in the form of increased positive externalities or reduced negative ones) that accrue to other domestic groups, ones whose support in turn makes the policies desired by political actors more feasible and durable. For example, in trade negotiations offers of liberalization by foreign countries may mobilize exporters in the home country to push for reductions in domestic trade barriers, which otherwise would be opposed by protectionist domestic groups. Political leaders may desire trade liberalization because it promotes employment and growth and helps interest groups that support them, thus enhancing their reelection prospects. As one commentator notes, "Unless there is a significant group within a particular country that is leaning toward the proposed policy change anyway for purely internal reasons, it may be useless or even counterproductive to try to push a coordinated strategy" (Schultze 1988:56–57).

On the other hand, cooperation may allow leaders to bind themselves, thus "locking in" their preferred policies. If domestic groups want politicians to take actions that politicians believe would be deleterious for the economy and for reelection, they may wish to prevent themselves from being forced domestically to adopt such policies. International cooperation may be one way for political leaders to commit themselves to *not* doing something. This could apply to trade policy where national leaders may want to advantage groups desiring freer trade and avoid sectoral pressures for protectionism by forging international agreements that lock free trade policy into place. Or, in the macroeconomic area, for example, "participation in the ERM [Exchange Rate Mechanism] introduced an external discipline and thus reinforced the hand of institutions and interstate groups inside a country fighting for less inflationary policies" (Tsoukalis 1993:201). Both arguments depend on the existence of internal factions with different policy preferences; they are not understandable from a perspective that views the state as a unitary actor.

In each case political leaders must believe that the political benefits from international cooperation outweigh the costs; that is, the no cooperation outcome is seen as worse than the cooperative one. In the face of noncooperation the domestic economy would be worse off, and hence their reelection chances would be worse. This raises the issue of the costs of cooperation. As noted above, cooperation often has sizable domestic costs for political leaders, and thus their interest in it may seem puzzling. But it is only when these costs are expected to be less than the benefits that political leaders will initiate cooperative agreements.

What are the political costs of cooperation? The central costs for political leaders are two: the distributional consequences of choosing cooperative policies and the loss of unilateral control over a policy instrument. Cooperation involves a change in a country's policies; it adopts a policy that it otherwise would not choose. This change may have distributional effects internally. For example, trade agreements may require countries to reduce protection to various industries; this policy will redistribute income from these industries to others. Indeed, as studies by Hufbauer and Elliott (1994) indicate, the major redistributive effects of changes in trade policy occur at the domestic level, not across countries. Hence the distributive effects of policy changes induced by international cooperation may hurt special interests whose support is valued by political leaders, thus undermining their enthusiasm for cooperation.

Second, once committed to international cooperation, political actors are prevented from manipulating some policy variable that they otherwise could. As Wolfers (1962:27) claims, "Cooperation means sacrificing some degree of national independence with a view to coordinating, synchronizing, and rendering mutually profitable some political, military, or economic policies that cooperating nations intend to pursue." In trade policy, for example, cooperation might mean that policies like quotas are completely outlawed or that tariffs on goods are "bound" to low levels, which in principle cannot be changed without new international negotiations. In the macroeconomic area, the policy instrument lost is often exchange rate control. Monetary union, which goes even further, means the loss of one's own currency and of autonomous monetary policy. The costs of the loss of these instruments are both real and symbolic. In the future, political leaders may pay an electoral cost when they cannot improve the economy before an election by changing monetary policy or when they cannot politically appease potential supporters by raising trade barriers. The symbolic cost may entail a loss of "sovereignty" in the eyes of domestic constituents. These costs may be very high, so high that political leaders would not rationally choose cooperation.

This argument begins to lay out the microfoundations for a political approach to explaining international economic cooperation. But this approach needs more microfoundations to explain the issue areas in which leaders will choose to cooperate.

The Demand for Cooperation by Political Leaders by Issue Area

This section argues that political leaders' demand for cooperation will vary by issue area. The definition of issue areas here rests on the policy instrument involved. Policy instruments are assumed to correspond to issue areas. Although numerous policy instruments exist I examine four: trade and industrial policy (tariffs, quotas, and subsidies), *T*; monetary policy (money supply), *M*; exchange rate policy, *E*; and fiscal policy (public expenditures and taxes), *G*.

The central variables differentiating issue areas (or policy instruments) are two. The first concerns the nature (positive or negative) and *extent of externalities* that other countries' policies can impose on the home country. The traditional argument about economic openness is that as it grows externalities will rise as well, but that these may be positive (benefits) or negative (costs); that is, as an economy becomes more open, the effects of other countries' policies on it will be felt more. These effects may be both unintended side-effects and intentional influences. Logically, if the externalities experienced by the home country in a policy area become negative or more negative as its openness increases, the demand for cooperation by political leaders in the home country should rise. It follows, therefore, that if across issue areas, given a level of openness for the country, the negative externalities in one issue area (say, trade policy) are greater than in another issue area (say, monetary policy), the executive's demand for cooperation will be greater in the former area (trade policy), ceteris paribus.

The second variable is the nature and extent of benefits that the country's own unilateral use of the policy instrument can provide domestically. Let us call these the *home country benefits* of the policy instrument. The costs of cooperation include, as stated above, the losses associated with giving up unilateral use of the instrument. The net benefits of the unilateral use of a policy instrument also include the effects of foreign countries' retaliation against the home country for its unilateral use of the policy instrument. In sum, each leader's utility must be calculated by summing two factors: (1) the net home benefits she gets from using the policy instrument unilaterally (the benefits to her economy and interest groups minus the costs of retaliation, given its probability), and (2) the net external costs imposed on the home country by foreign countries when they use the policy instrument. Political actors' demand for cooperation is a function of these political costs and benefits.

A political leader is concerned with both sides of the instrument's effects: how much benefit he or she can get out of its unilateral use *and* how much does he or she have to pay when other countries unilaterally use the instrument. If the policy instrument does not have much home benefit (e.g., because it provokes costly retaliation by other countries or is domestically ineffective) and the externalities imposed by other's use of it are high, then

TABLE 2.1
The Demand for International Cooperation

	Low Externalities	High Externalities
High Home Benefits	no/least demand	some demand
Low Home Benefits	little demand	most demand

cooperation may return the highest utility to the leader (Table 2.1). If the policy instrument has significant home benefits and low externalities, then a leader's interest in cooperation will be slight. Moreover, if both the home benefits and the externalities are low, a leader's interest in cooperation will remain limited since attempting to cooperate has costs in itself and the instrument has few. A problem arises when the home benefits of a policy instrument are high and so are its externalities. Here a leader will be torn between the domestic value of the instrument and its external costs. The demand for cooperation will fall in between the case where home benefits are low and externalities are high and the case where home benefits are high and externalities are low.

A country's level of economic openness influences the home benefits it derives from a policy instrument. First, increased trade and capital openness reduce the home effectiveness of macroeconomic policy instruments (Cooper 1986:299). Second, the costs of foreign retaliation will vary with the degree of economic openness among the countries. As countries become more economically intertwined, retaliation becomes more costly but also more effective. In the extreme, countries without international economic ties will not be able to retaliate economically and cannot be retaliated against by others. The probability of retaliation, however, also depends on other aspects of the policy area; it is not a simple function of the level of economic openness.

A simple model is proposed of the effects of economic openness and the externalities it imposes on a political actor's utility in different issue areas. Cooperation means relinquishing the unilateral use of a policy instrument—of either the money supply M, fiscal policy G, trade and industrial policy T, or exchange rate policy E. For monetary cooperation this might mean a fixed exchange rate system, where E and M are no longer variable. For trade policy the level of protection may become fixed, so that T can no longer be varied. One sees immediately that one cost of cooperation is the loss of a policy variable.[2] When will this cost be outweighed by the benefits of cooperation for each policy instrument?

[2] The loss of policy tools affects the government's ability to realize its multiple objectives. If a government has two objectives and two policy tools, reaching its goals may be possible. Giving up one tool without altering objectives makes life much harder since the government now has only one tool for two targets, which, according to the Tinbergen Rule, makes achieving both targets impossible.

Political actors want to be (re)elected. Their reelection depends on the state of the economy—the rate of growth, inflation, and unemployment, in particular.[3] To understand policy makers' preferences, given this utility function, I use the modified Mundell-Fleming model (MMF). Using particular assumptions, this model shows the relationship between macroeconomic variables. The model has been much challenged since the 1970s by the rational expectations approach. But as Krugman (1993) argues, although it is ugly and ad hoc, MMF is the best macroeconomic theory available. For political science the model's relevance is more apparent. It assumes that actors operate in the short run and face various rigidities in markets. These assumptions, rather than those of the rational expectations school, appear more appropriate for the study of political economy.

Employing the model in a two-country framework, economists have been able to show the home and foreign effects of policy changes (and exogenous disturbances) (e.g., Mundell 1963, 1968; Cooper 1985, 1986; Mussa 1979; Krugman and Obstfeld 1991). Using several assumptions, one can present a model showing the home and foreign effects of policy changes in the four issue areas. Since the rate of unemployment is negatively correlated with the growth rate, the growth rate is assumed to be a proxy for politicians' employment targets. In general, leaders will maximize their utility as the actual level of growth and inflation match their desired levels. Their objectives are to achieve these desired levels of growth (employment) and inflation. Since leaders tend to be preoccupied with the next election, their interest is in the short-term state of the economy. Thus the short-run Phillips curve is used to describe the relation between these objectives; that is, in the *short term*, increases in the inflation rate when they are unexpected are associated with decreases in unemployment (or increases in the growth rate). The desired levels of these objectives will vary for different political leaders. Partisan affiliation may matter: left-wing party leaders will prefer higher growth and less unemployment and will accept higher inflation; leaders of right-wing parties will prefer less inflation and will accept less growth and more unemployment (Hibbs 1978; Alesina and Roubini 1992; Alesina and Rosenthal 1995). Policy choices may vary by party, as discussed later. But the utility function described is general to all leaders.

Thus leaders' objectives are to attain a certain rate of inflation—maybe 0—called π^*, and a certain rate of output growth, called x^*. A political leader's utility, then, is a function of the difference between the actual inflation rate, π, and the leader's preferred rate, π^*; it is also a function of the distance between the actual growth rate, x, and the leader's preferred growth rate, x^*. The leader's utility declines as either of these values diverge

[3] Alternatively one could assume that leaders had the same utility function but were motivated by the "national interest"; that is, they believed that achieving high growth and low inflation was optimal for the country as a whole (Lindbeck 1976).

from his or her preferred rate. The actual rate of growth depends on the natural rate plus an amount generated by unexpected inflation—that is, the short-run Phillips curve relationship. In turn inflation equals a weighted average of changes in domestic and foreign prices (p and p') or changes in domestic prices plus the real exchange rate, E (e.g., Canzoneri and Henderson 1991). *Hence any policy that affects domestic or foreign prices or the real exchange rate affects output in the short run.* Because of various rigidities in markets, however, these changes do not immediately alter the rate of inflation, at least in the short run.

Usually this model focuses on monetary policy; M is the only variable that the government is allowed to control. The approach here is broader. Assume that the government has four variables it can manipulate (Mussa 1979). Say the government controls the money supply M, fiscal policy G, trade and industrial policy T, and the nominal exchange rate E. Each of these can be related to the inflation rate, π. Even with sticky domestic prices, each of these policy instruments works through the real exchange rate to affect the growth rate and the inflation rate. Hence each may have effects at home and abroad when the economy is open.

Monetary Policy

Since monetary policy is the usual context in which the above model is used, the discussion begins there (Canzoneri and Henderson 1991; Artus 1989; Blackburn and Christensen 1989; Dornbusch 1980; Krugman and Obstfeld 1991; Persson and Tabellini 1990; Mussa 1979). In a closed economy inflation π is simply a function of the *domestic* money supply M in the short run; that is, the government's main tool to affect the inflation rate is the money supply. If one assumes an open economy, then π is also a function of the foreign government's money supply M'. This means that the home government's ability to realize its objectives depends also on the foreign country's policy behavior—its choice of M'.

In this situation the leader's utility function is such that inflation at home is a positive function of the home country's money supply and the change in that money supply and a *negative* function of the change in the foreign country's money supply (Canzoneri and Henderson 1991:14). The home leader's ability to attain her objectives depends on the behavior of the foreign country and its monetary policy choices.

In an open economy—that is, one with perfect capital mobility between it and the rest of the world so that its interest rate is constrained to the world's interest rate—with flexible exchange rates, a political leader might be tempted to use monetary policy to improve employment should she face a recession at home and upcoming elections.[4] In this case an increase in the money supply will have a powerful (short-term) effect on growth and employment at home as a result of two mechanisms. First, it will lead to a reduction in the interest rate at home which in turn will lead to a capital outflow and a depreciation of the exchange rate which will then stimulate the production of tradables; second, it will, through the initial interest rate reduction, increase output and thus increase imports, again depreciating the exchange rate as the current account goes into deficit. The exchange rate depreciation will then boost exports and lessen imports, improving the current account and promoting growth. In the short term the leader at home will be better off. In these circumstances the home benefits of monetary policy are high.

The use of monetary policy in a floating rate system under conditions of high capital mobility creates problems for the foreign country. Monetary policy under such conditions can become a zero-sum game. The home country's attempts to reach its objectives by increasing M have a negative effect on the foreign country. Exchange rate depreciation in the home country is an appreciation abroad, the effect of which is to lower the foreign country's exports and increase its imports—basically to lower its home demand and thus reduce growth and employment in the short term. Monetary policy becomes "beggar-thy-neighbor" in these circumstances. The home country's actions to help itself make it harder for the foreign country to reach its objectives. Thus the externalities of monetary policy are high when the economy is open and exchange rates are flexible. Devising a means to control the unilateral use of monetary policy might appeal to leaders in both countries.

This is true whether monetary policy is stimulative, as above, or contractionary. If the home country contracts the money supply, then its interest rate rises and an inflow of foreign capital occurs, so that the exchange rate appreciates. This reduces the current account and, along with the effect of increased interest rate, pulls down domestic output, Y. Although the initial reduction in Y reduces demand for imports from abroad, the appreciation of the exchange rate may overwhelm this, producing an increase in foreign exports and hence foreign output, Y_F. But this may also produce negative consequences for the other countries. The appreciation of the exchange rate causes higher import prices abroad and thus induces higher wage demands, which help ignite inflation abroad. Thus, in a floating exchange rate system, monetary contraction at home to reduce inflation may just export it abroad (Krugman and Obstfeld 1991:569–70).

[4] Although one assumes that political leaders control monetary policy, this may not always be so. In some countries independent central banks may control the money supply, and they may be less willing to do political leaders' bidding. But as Wooley (1984), Lohmann (1995), and Clarida and Gertler (1996) have shown, even the most independent of the central bankers may respond to political pressures.

When capital is fully mobile and exchange rates are fixed, monetary policy is not an independent policy tool. The central bank must defend the exchange rate using the money supply; hence any change in M leads to an offsetting change in it as well in order to maintain the exchange rate. As Mundell (1963) showed, with capital mobility and fixed rates policy makers lose autonomous control of their monetary policy.

What about the possibility of retaliation, when capital is mobile and exchange rates are flexible? The likelihood that countries will use countervailing monetary policies against one another depends on at least two factors. First, is monetary policy seen as a domestic instrument whose effects abroad are largely unintended? If a country views the other's use of monetary policy as directly attacking it, the motivation for retaliation may be high, as in situations of competitive devaluations. Second, monetary policy may be too important domestically to be used for retaliation. If retaliation is not feasible, the home benefits from autonomous monetary policy may be high but the externalities may also be high, leaving political leaders with a mild interest in cooperation. If retaliation is feasible, demand for cooperation should be high.

It is useful to contrast this case to the situation where the home economy is closed, or where capital is not mobile between the home economy and the world. With flexible exchange rates, an increase in the money supply in the home country has the same internal effects as above but now it does not have the same external effects. Because interest rates are independent in these circumstances, change in the money supply in the home country does not affect the foreign country. There is "complete macroeconomic independence" when capital is not mobile and exchange rates are flexible (Mussa 1979:166). The externalities of monetary policy are thus eliminated. Hence one would expect political leaders' demand for cooperation to be greatly reduced when the economy is closed, since monetary policy retains its important home benefits and has few externalities. The move to an open economy with capital mobility and flexible exchange rates should thus increase the demand for monetary policy cooperation. As Mussa (1979:179) notes, "Under fixed rates, capital mobility facilitates the spread of monetary disturbance [or policy change] from one economy to the whole world. Under flexible rates, however, capital mobility magnifies the effect of a monetary disturbance [or policy change] on the economy in which it originated and results in *negative* transmission to the rest of the world."

In an open economy cooperation in the monetary area could mean a variety of outcomes, ranging from the mutual adoption of target zones, adjustable pegs, fixed exchange rates, or even monetary union. The fixing of exchange rates means that monetary policy no longer has the same internal effects. Indeed, as noted above, because of the need to maintain a fixed exchange rate, leaders cannot use monetary policy for internal objectives. Any change in the money supply affects interest rates and thus exchange rates, requiring an opposite and equal change in the money supply in order to return the exchange rate to its fixed level. Monetary union entails an even greater loss of monetary sovereignty, as now the national currency is eliminated and the countries no longer have purely domestic control over money supplies (Gros and Thygesen 1992). These cooperative policies eliminate the externalities associated with monetary policy in open economies, but they also eliminate national control over monetary policy.

Fiscal Policy

Monetary and fiscal policy are interesting to compare. Fiscal policy refers to government spending and taxes, *G*; here I assume a debt-financed increase in government spending, not a tax-financed one. In an open economy with perfect capital mobility and flexible exchange rates, a change in fiscal policy has limited or no effects on employment or inflation in the short term because of its two contradictory effects (Dornbusch 1980; Krugman and Obstfeld 1991; Persson and Tabellini 1990; Mussa 1979; Blackburn and Christensen 1989; Frenkel and Razin 1992). An increase in fiscal spending produces two consequences: it increases domestic demand, which draws in more imports and puts downward pressure (depreciation) on the exchange rate; it also temporarily increases interest rates, leading to capital inflows from abroad, an appreciation of the exchange rate, and a consequent reduction in domestic demand. The initial increase in domestic growth is checked by the currency's appreciation. Hence the net effect on growth and employment in the short run is likely to be much smaller than in the closed economy case and may even be nonexistent. If the two effects exactly counterbalance each other, then fiscal policy will have no effect on domestic growth. As Frenkel and Razin (1992:69) conclude, "Under flexible exchange rates with zero initial debt, a debt-financed fiscal policy loses its potency to alter the level of economic activity; its full effects are absorbed by changes in the exchange rate (terms of trade)." Political leaders will thus see fiscal policy as having few home benefits.

A political leader's utility function for fiscal policy is notable since it is a *positive* function of both the home and foreign fiscal policy, unlike monetary policy (Persson and Tabellini 1990; Frenkel and Razin 1992). What about the externalities of fiscal policy? In an open economy with flexible exchange rates, an increase in fiscal spending at home is likely to have positive externalities for the foreign country. An increase in government spending (or a decrease in taxes) produces both a short-term increase in domestic demand and an appreciation of the home currency, which is equivalent to a depreciation abroad. Both these effects expand foreign output as the foreign country is able to sell more abroad. The one negative foreign effect of a fiscal stimulus is to draw foreign capital into the home country, which has contractionary effects abroad. Under conditions of full capital mobility, then, the primary effects of a fiscal policy expansion at home are expansion abroad (Frenkel and Razin 1992:77–78). (A fiscal contraction [cuts in government spending or increased taxes] will work to slow growth abroad as it does at home. However, it will also lead to capital outflows from the home country, benefiting the foreign one. Depending on the foreign country's economic situation, this could create negative externalities.) In general, in an open economy with flexible exchange rates fiscal policy seems to have fewer negative externalities than does monetary policy, but it also has low home effect.

In an open economy with fixed exchange rates (as compared with flexible rates), the demand for cooperation for fiscal policy might become even less significant. Fiscal policy under such circumstances becomes highly effective domestically; its home benefits greatly increase from a flexible rate system. As Frenkel and Razin (1992:50) show, "The flexible exchange rate permits almost full insulation of the foreign economy from the consequences of the domestic tax-financed fiscal policies. . . Under a fixed exchange rate . . . a fiscal expansion that induces a rightward shift of the IS schedule gains full potency in raising the level of output because the offsetting force induced by currency appreciation is absent." A fiscal stimulus has the same effects as above on the home country, except now, in the presence of capital inflows and potential exchange rate appreciation, the government must intervene with monetary policy (stimulative) to maintain the exchange rate. The increase in the money supply necessary to lower the interest rate at home provides a second domestic stimulus. Hence fiscal policy becomes doubly powerful. Political actors should be even less interested in cooperating in this situation, since the home benefits of fiscal policy have become significant.

Under a fixed exchange rate with full capital mobility, fiscal expansion at home may also have positive effects abroad. An increase in home government spending has two effects abroad: it increases the demand for foreign goods and increases the world rate of interest, which lowers foreign (and home) demand. If the interest rate effect is weak and/or home government spending falls largely on foreign goods, then fiscal expansion will be expansionary abroad as well (Frenkel and Razin 1992:63–65). Hence home fiscal policy will tend not to generate negative externalities for foreign countries, again reducing countries' interest in cooperation.

The likelihood of retaliation by a foreign country for a fiscal policy change at home depends on various factors. First, the effects of fiscal policy abroad tend to be positively correlated with those at home; stimulus at home is likely to lead to stimulus abroad, although to a lesser extent than at home. Thus in an open economy with flexible or fixed exchange rates, fiscal policy does not have the beggar-thy-neighbor quality that monetary policy does.

Depending on the goals of other states, this may make retaliation less likely. Second, if fiscal policy is seen as a purely domestic instrument, retaliation may be less likely; in addition, it may be too important domestically to be employed as a retaliatory tool. Third, the difficulties of targeting fiscal policy may reduce its utility for retaliation. In most countries fiscal policy is an area where the legislature plays a major role. Unlike monetary policy, which is usually the preserve of the executive and her central bank, fiscal policy requires numerous actors to accept changes in it.

Trade and Industrial Policy

What should the demand for trade and industrial policy cooperation by political actors look like? How does an across-the-board increase in trade protection or subsidies in the home country affect home and foreign output in the short run? (Note that this section examines the effects of these instruments on national output; the next section considers the impact on societal groups and their demands. Both these elements affect political leaders' utility functions.) Trade and industrial policy are considered as a single form of policy because each has similar effects on the trade balance. Tariffs, quotas, and subsidies change the relative prices of home and foreign goods. In the short run (and absent retaliation) such measures are likely to have a beneficial effect on home growth and employment (Dornbusch 1980; Krugman and Obstfeld 1991). A tariff will raise the price of imports and shift demand to domestic goods, thus producing a short-term increase in home output.[5] A quota will limit the number of foreign goods that can enter the home country and will again shift demand to domestic goods. (One difference between these two is that tariff revenues flow to the government whereas quota rents become industry profits.) Subsidies lower the price of the home good, thus increasing foreign demand for it and/or decreasing domestic demand for the foreign country's competing goods. In effect they increase home exports and/or decrease home imports, improving the domestic economy and hurting the foreign one. A policy maker, facing recession at home close to election time, may choose trade or industrial policy, then, to boost employment in the short run. Thus the home benefits of protection and subsidization may be powerful especially in an open economy. Indeed the more open the economy is to trade, the more powerful these effects could be.

The utility of a political leader in the trade and industrial policy area, similar to that in monetary policy, is a *positive* function of the home country's trade policy and a *negative* function of the foreign country's trade policy. The

[5] This depends on whether the price elasticity of demand for home imports is greater than one. If it is not, then an increase in protection may lower the volume of imports but not their overall value and hence may not lead to an increase in domestic demand.

externalities of a broad protectionist or subsidization policy are thus likely to be significant. Like monetary policy in an open economy, trade and industrial policy have beggar-thy-neighbor effects. The boost in domestic demand created by the protection or subsidization leads directly to a decline in the foreign country's exports and hence to a fall in its domestic output. The rise in home employment comes at the expense of foreign employment. The foreign policy maker is thus made worse off by the home country's trade and industrial policy. The externalities in this situation are high and negative.

The probability of retaliation depends on several factors. First, is trade or industrial policy seen as targeting the foreign country's exports? (As the strategic trade literature reminds us, subsidies can have the same targeting effect against foreign exports [Krugman 1986; Brander and Spencer 1985].) When both countries perceive this and can directly see its effects, retaliation becomes more likely. Second, the harder it is to argue that trade policy is purely a domestic matter, the more likely retaliation is. Third, if retaliation enables the foreign country to neutralize completely the internal effects of trade policy in the home country, then it also will be more likely. This is most probable when the two are trading partners. If retaliation is likely, then the net home benefits (after retaliation) for trade and industrial policy may be very low. Given the high negative externalities of trade or industrial policy, the demand for cooperation in this area should be significant. The more open the economy is to trade, the greater the externalities, and hence the stronger political leaders' demand should be for trade and industrial policy cooperation. On the other hand, given the strong home benefits of these policies, only if offsetting retaliation is very likely will cooperation bring net benefits to policy makers.

Exchange Rate Policy

The exchange rate can only be considered an independent policy tool when governments employ sterilization policies; otherwise exchange rates are endogenously determined by monetary (and fiscal) policy (Dornbusch 1980; Mussa 1979; Krugman and Obstfeld 1991; Marston 1988). The following discussion assumes sterilization. In an open economy, political leaders' demand for cooperation should be high in this issue area. When capital is fully mobile and trade is important to countries, the exchange rate has crucial consequences at home and abroad. The exchange rate tells the relative prices of home and foreign goods. Therefore, any change in the exchange rate has strong mutual effects. Since domestic income is a function of the trade balance in an open economy, changes in the exchange rate can have powerful effects on output. The home effects of a depreciation (devaluation in a fixed rate system) in the short run are to raise the relative price of imports and lower those of exports. This means that for the home country the volume of imports will fall and the volume of exports will rise. Under certain conditions demand will shift to domestic goods, and the home trade balance will improve.[6] In this situation both the home trade balance and home output will improve. Hence the exchange rate devaluation can have powerful home benefits in the short run.

For exchange rate policy, the political leader's utility is a positive function of the exchange rate, meaning that depreciation of the home currency (or, equivalently, appreciation of the foreign currency) creates temporary growth through a short-term, unexpected boost to inflation. The external costs of exchange rate policy are then substantial but negative. Like monetary, trade, and industrial policy in an open economy, exchange rate policy is beggar-thy-neighbor. It improves home output and employment in the short term at the expense of foreign output and employment. A depreciation (devaluation) at home means an appreciation abroad. This raises the cost of the foreign country's exports and lowers those of its imports, thus reducing demand and hence output in the foreign country. Under certain conditions (e.g., the Marshall-Lerner one), this worsens its trade balance, thus hurting output and employment. Hence the externalities of a change in the exchange rate can be very important and negative. The more open the economy, the larger these negative externalities will be.

Although the home benefits of exchange rate policy may be high, the potential for retaliation varies. The more exchange rate policy seems targeted against foreign countries and the more direct and visible its effects abroad are, the more likely retaliation is. In addition, when it cannot be claimed a purely domestic policy, retaliation by the foreign country is likely to be swift and offsetting. Hence the net home benefits of exchange rate policy (after retaliation) may be very low. Combined with the extremely negative externalities of exchange rate policy, this implies that the demand for cooperation should be very high.

In sum, political leaders' demand for cooperation should vary by issue area. Different policy instruments have varying domestic and external effects in an open economy, thus making cooperation more or less desirable. Countries faced with high negative externalities from another country's unilateral use of a policy instrument will evince a strong interest in cooperation. But this interest will be checked by the degree to which the same policy instrument is useful at home—that is, the extent to which it can improve the economy in the short run. If the policy instrument is very useful domestically, leaders will be reluctant to give it up in a cooperative deal. The utility

[6] This is the Marshall-Lerner condition: the sum of the price elasticity for foreign demand for home imports and of home import demand is greater than one (Dornbusch 1980:59–62). This condition is named after two of the economists who discovered it: Alfred Marshall and Abba Lerner.

of a policy instrument internally, however, is also a function of the costs and likelihood of retaliation by foreign countries for its use. If an instrument is useful unilaterally but provokes swift and offsetting retaliation abroad, then its actual utility is limited. In such a case, if its negative externalities are important, the demand for cooperation will be strong.

There is an important political difference between fiscal policy (G), on the one hand, and monetary policy (M), trade and industrial policy (T), and exchange rate policy (E), on the other. Changes in M, T, and E that may improve the home economy can have strong, negative effects abroad. The means to achieve one's internal goals involve shifting price disadvantages onto foreign countries; they are aggressive, beggar-thy-neighbor policies. In contrast, the consequences of fiscal policy tend to be positively correlated across countries. Depending on the other country's goals, home country fiscal policy may have positive externalities abroad. However, the demand for cooperation also depends on the likelihood of retaliation. Since this probability is difficult to know a priori, it is impossible to predict the demand for cooperation for each policy area in the abstract. Nevertheless, ceteris paribus, one would expect the demand for cooperation to be less strong in fiscal policy than in the other three issue areas.

The economic relationships described above hold only in the short run. It is assumed that political actors focus on the short term, basically until the next election. They try to maximize their utility in the short run. In the medium to long run, attempts at expansionary policies in each area will induce domestic price changes that in turn may offset their short-run effects. As many monetarists argue, the more rapidly prices adjust, the less the Phillips curve relationship used here will hold. Instead the policy changes will induce price changes (inflation), which nullify any real growth or employment gains. If the effect of a policy change on the economy before the next election is what drives leaders' behavior, then such short-term relationships are most appropriate. The more long-term oriented politicians are (and the more flexible prices are), the less the above discussion will hold true.

Will the demand for cooperation vary by the political leaders' partisan affiliation? Will governments led by left-wing parties (labor and social democratic ones) have different preferences vis-à-vis cooperation than right-wing parties (Christian democratic and conservative ones)? The utility function used above is general to all political leaders. What varies in it according to the government's partisanship is the weight given to the control of inflation versus the promotion of growth and employment. One could imagine that left-wing governments would be more concerned about growth and jobs than inflation (Hibbs 1978; Alesina and Roubini 1992); this means that growth and employment are likely to be a greater priority than inflation control. Conversely, for conservative governments, inflation control would be more important than employment. Hence the form of the utility function does not change; rather, the weight given to the two competing objectives does.

The functional relationships described above will not change no matter which party is in power. What will affect the demand for cooperation is how far the economy is from its leaders' objectives. The state of the economy at the time the leader makes her calculation is vital. If the inflation rate is high and especially much higher than desired ($\pi - \pi^* >> 0$), then leaders from conservative as well as left-wing governments will be concerned about its control, although the conservatives will be more willing to take action to control it at any given rate. If employment and/or growth is low and/or much lower than desired ($x - x^* <<0$), then leaders of all parties will be concerned but left-wing governments will be more worried. Economists make the same point by noting that the nature of the shock that an economy faces is crucial. They assume the economy starts out a full-employment equilibrium and then receives a shock, either from the external economy or internally. The nature of the shock determines what policies should be chosen (e.g., Canzoneri and Henderson 1991). The actual levels of inflation and employment make a difference to leaders' behavior, no matter what their partisan affiliation.

A political leader's demand for cooperation will thus vary according to several variables. First, the more open a country's economy is and the more important externalities are, the more its leaders should have a general interest in cooperating with other countries. In addition, the more open it is, the less effective home macroeconomic policy instruments will be and hence the lower the costs from cooperation (Cooper 1986:299). Second, this interest in cooperation will vary by issue area. In those areas where the net home benefits from a policy instrument are high, there will be resistance to cooperation. As a policy instrument's negative externalities grow, interest in coordinating polices will rise. The higher the probability of foreign retaliation that offsets a policy change, the more likely countries are to seek cooperative outcomes since their home benefits decline with the likelihood of retaliation. Different issue areas thus produce varying levels of political actors' demand for cooperation. Third, the government's partisan orientation will affect the weight it gives different objectives. Fourth, the state of the economy at the time will matter a great deal. As it diverges further from the desired levels of inflation and growth, political leaders will be more motivated to seek policy change; however, this may or may not involve international cooperation. Their choice depends on the issue area and its consequences for the domestic economy. In general, a leader's interest in cooperation will vary by both issue area and the degree of the country's economic openness. Initiation of cooperative agreements will be most likely by political leaders of open economies facing high negative externalities and low home benefits from a policy instrument.

The Preferences of Societal Actors (Interest Groups)

So far I have concentrated on understanding political actors' utility functions and how their policy preferences vary with their concern for the state of the economy. Political actors' utility also depends, as noted above, on the preferences of interest groups. The distributional consequences of policies motivate interest groups; they seek to maximize income, and policies affect their ability to do so.

Such societal groups play two roles in the process of international cooperation. First, they serve as pressure groups who, through their ability to contribute campaign funds and mobilize voters, directly shape the preferences of the executive and the legislature; that is, the preferences of interest groups often have a significant bearing on political actors' policy preferences. Second, they also play a more indirect role by acting as information providers to political actors, especially legislators, who have their own preferences but are not completely informed about the ramifications of policies. In this role they do not directly shape the political actors' preferences but rather act as signalers, alerting political actors to the consequences of various policies, in this case international cooperative ones. "There is theoretical and empirical evidence that strategic information transmission through lobbying [of] individual candidates may . . . lead to a somewhat different view of how legislative policy is influenced" by interest groups (Austen-Smith 1991:88).

For these two reasons the likelihood and terms of international cooperative agreements depend on the preferences of the interest groups involved in the policy area. In particular, their preferences relative to those of other domestic political actors—that is, the structure of domestic preferences—is of critical importance. Thus this section explores how interest groups' preferences are likely to be shaped and where they are likely to fall relative to the executive and the legislature.

Whereas political actors' preferences for international cooperation are a function of electoral calculations, the preferences of societal groups depend on the *distributional* consequences of international agreements. The effect of cooperative agreements on societal actors' incomes is the major determinant of their support or opposition to such agreements. The distributional impact of a policy change resulting from a cooperative agreement determines the preferences of interest groups. They will prefer policies that increase their income over those that decrease it, and most prefer those that maximize their income. Hence these groups' preferences will depend on the issue area. Monetary policy coordination, for instance, will have different consequences than trade policy liberalization. As for political actors, then, interest groups' preferences will vary *by issue area* and by the specific policy changes that an international agreement proposes. Thus even though interest groups are rarely, if ever, the formal initiators of cooperative negotiations, they may critically influence cooperation. As Evans, Jacobson, and Putnam (1993:403) conclude in their survey of two-level games, "There is little doubt that agenda-setting usually reflects leaders' preferences. International initiatives in direct response to constituency pressure were surprisingly rare." Nevertheless, societal groups have much indirect influence through their role in influencing the preferences and information available to political actors.

"Distributional politics" arguments hold that the preferences and political pressures emanating from societal groups are key determinants of both foreign economic policy and international cooperation (Gourevitch 1986; Milner 1988; Rogowski 1989; Frieden 1991). Two different logics lie behind this claim: the first emphasizes the informal ratification of policies by interest groups, and the second focuses on the effects of the loss of "business confidence." First, political leaders may listen to the preferences of societal groups because they know their policies are "voted" on after the fact. Politicians desire to retain their offices and hence to be reelected. Thus they anticipate the reaction of societal groups and avoid policies that will get them into electoral trouble. Loss of campaign support can end a politician's career. As the political scandals in Japan, Italy, and France recently make clear, the relationship between business and politicians is one of tight interdependence: politicians need campaign financing, and interest groups hope to maximize income and achieve a "friendly" regulatory environment. As Ramseyer and Rosenbluth (1993:27–28) note about Japan, "The personal-vote electoral strategy [of politicians] is obviously very expensive . . . Where does the LDP [Liberal Democratic Party] get this money and how is the party able to raise so much of it? Corporate contributors are willing to bankroll the LDP because of what they get in return: policies that favor them at the expense of the median voter. Producers pay the LDP for favorable budgetary, tax and regulatory treatment. . . . The biggest gainers [from this system] appear to be the LDP Dietmembers who greatly enhance their chances of political survival."

The distribution of costs and benefits of cooperation provides a map for understanding which groups will be for cooperation and which will be against it. The domestic distribution of the costs and benefits of cooperation helps determine cooperation's feasibility. Sectoral groups' reactions to the proposed cooperative policies will be a major concern for political actors. They will anticipate these reactions—or learn about them in the process of negotiating cooperation internationally—and choose policies based on them. In this sense all policies must be "ratified" domestically, including decisions to cooperate. "International economic issues touch the pocketbooks of increasing numbers of voters, and international agreements, no matter how attractive as a matter of abstract principle, must win 'ratification'—informally, if not formally—in the arena of domestic politics" (Putnam and Bayne 1987:276). Cooperation results when it aligns with the policy preferences of key societal groups in a number of countries.

The second logic behind the influence of interest groups is associated with Lindblom (1977), who argued that political leaders will be especially attuned to business interests. Capitalists in effect hold a "privileged position" within the polity. Like Marxist analysis, this approach focuses attention on the preferences of business, ignoring other groups. Since political leaders' electoral prospects depend on the state of the economy, they must be concerned with those groups that can directly affect the economy. In capitalist economies business controls the majority of private investment and job growth, both of which are key to electoral success. Hence political leaders must avoid policies that undermine "business confidence" or, worse yet, that provoke capital flight. They need to anticipate business's reactions to their policies and pursue those that win business "support" or else risk losing their offices.

Bates and Lien (1985), following Hirschman (1970), take this argument a step further, noting that in an open economy the influence of capitalists who can leave the country becomes ever more powerful vis-à-vis the government. To prevent capital from leaving (or not entering) the country, the government must anticipate business's preferences. In this way business exercises a structural constraint on politics and perhaps an increasing one as the economy grows more open. International cooperation will be geared toward policies that receive business support. Some have suggested that this is a key explanation for both the EC's Single Market Program (Sandholtz and Zysman 1989) and its monetary coordination efforts (Frieden 1991). Like the first argument, this one also depends on anticipated reaction. Through their influence over the economy, interest groups play a major, although often opaque, role in shaping policy making and thus influencing international cooperation.

What shapes the preferences of interest groups in international cooperation? To address this question, one must first ask who these interest groups are. This is equivalent to asking which groups are important for which policies. For interest groups, international cooperation implies some kind of policy change that has distributional consequences. It helps or hurts their income. Following Bates (1981) I use a broad concept of "income." He notes that societal groups worry about three factors: their income, the cost of the products they consume, and the cost of the products they use as inputs into their production. Their net income is equivalent to subtracting the latter two from the former. Policies that produce gains in a group's income and reductions in the costs of its inputs and consumption goods should be supported by that societal group. Policies that create losses in a group's income and gains in the costs of its consumption goods and inputs should be opposed by the group.

If a group is unaffected by the policy change, it is unlikely to become involved in the issue area. Those groups whose income is most affected by a cooperative agreement should be the ones most involved. For instance, negotiations to organize the shipping industry worldwide should involve the shipping industry as a major player, since such an international agreement will have a major distributional impact on these producers. Thus the groups involved in each cooperative negotiation should be somewhat different. Trade liberalization, for example, might evoke the attention of different societal groups than would monetary policy coordination.

Scholars differ over the appropriate interest groups to examine. At the broadest level some suggest that factors of production are of central interest; others analyze certain sectors of the economy, such as industry, agriculture, labor, and finance; still others look at particular industries or firms (Milner 1988; Rogowski 1989; Frieden 1991; Magee, Brock, and Young 1989; Smith and Wanke 1993). The approach chosen here avoids this question by examining each issue area separately. The characteristics of the issue area itself should determine how the interest groups are defined. Depending on the distributional consequences of the agreement, factors of production may be a better characterization; for others, firms and industries may be most appropriate. In any international negotiation the groups who stand to gain or lose economically from the policies are the ones who will become politically involved. Those who stand to lose should block or try to alter any international agreement, whereas those who may profit from it should push for its ratification.

Although the theoretical specification of interest groups and their preferences for every issue area has not been completed, two areas have a fairly well-developed model of societal preferences: trade and exchange rate policy. In the former a voluminous literature on the "endogenous" theory of trade exists (e.g., Caves 1976; Lavergne 1983; Milner 1988; Schonhardt-Bailey 1991; McKeown 1983; Magee, Brock, and Young 1989; Trefler 1993; for a critique, see Nelson 1988). These arguments associate industries' preferences on trade policy with two factors: the structure of the industry and its degree of international ties. The latter variable is most important here. The argument is frequently made and empirically supported that industries (or firms) with international exports and multinational operations are less protectionist than similar but domestically oriented industries. The former support trade liberalization, whereas the latter seek protection. This divide between internationally oriented and domestically oriented industries may be reproduced in international negotiations over trade policy. When the issue in those negotiations is trade liberalization versus protection, these two groups should be pitted against each other.

In the exchange rate area Frieden (1991) has provided the most comprehensive and systematic discussion of the role of sectoral groups in policy making and international coordination. Using economic theory he deduces the preferences of various economic sectors along two different dimensions of the exchange rate: the flexibility of exchange rates (fixed versus floating exchange rates) and the external value of the home currency (high versus low levels of the exchange rate). Frieden's argument proposes "systematic predictions about private-sector attitudes toward the exchange rate mechanism (ERM) of the EMS. [He] expect[s] the ERM to be most favorable for, and to evince the most enthusiasm from, firms in the financial sector, major exporters, and diversified multinational corporations with major investments or customers in the EC" (1991:447–48).

Next, Frieden (1991:450) links these preferences with the decision to cooperate:

> [The] differential distributional effects of such policy coordination are relevant. . . . [T]hose whose economic activities are most sensitive to foreign financial and exchange market conditions [will] be most favorable to the sacrifice of national policy autonomy implied by policy coordination. International investors, traders and the like are apt to be well disposed, while those in the nontradables sector—whose business may be harmed by the sacrifice of autonomy with little or no corresponding benefit from coordination—are prone to be opposed. . . . How successful the various interest groups will be at obtaining their objectives will vary from case to case and from country to country.

Some disagree with Frieden's derivation of sectoral interests. Others claim that the financial sector is not in favor of fixed rates but instead prefers flexible ones because of the profits that can be made from exchange rate fluctuations (Destler and Henning 1989:132–34; Funabashi 1989:122, 126). Henning (1994:22–35) argues that bank-industry relations determine bank preferences toward the exchange rate. Others take exception to the idea that interest groups are interested in, or can even understand their preferences about, exchange rates (Giovannini 1993; McNamara 1994).

Common to the arguments about trade and exchange rate policy is the sharp divide that is drawn between the preferences of domestically oriented groups and internationally oriented ones. Groups that derive their income primarily from domestic markets are often the opponents of international cooperation. On the other hand, groups that derive much of their income from international markets (exports, multinational production or services, international finance) tend to be supporters of international cooperation. A central dividing line, then, among societal groups depends on their degree of exposure to the international economy. This suggests that once more the degree of a country's economic *openness* is a key factor. The extent of the national economy's openness reflects the magnitude of the internationally oriented sector of the economy (relative to the domestic sector). Openness matters because it shapes how policies affect societal actors' income but also because it creates externalities from other countries' policies that interest groups want to capture or avoid.

As with political actors, the preferences of societal actors will vary with the degree of exposure they have to the international economy. In general, the greater the extent of economic openness, the closer groups will be tied to the international economy and the more "dovish" their preferences will be. Economic openness should thus create both more dovish political leaders and interest groups.

These arguments about preferences provide a baseline for predicting domestic support for and opposition to international cooperation. Societal actors' preferences depend on the differential distributional effects of policies; in turn political actors' preferences depend on the effect of policies on the overall economy and on the preferences of interest groups that support them electorally. These groups' preferences then define the structure of domestic preferences.

In the past, preference-based approaches have been on firmer ground in their predictions of groups' preferences than in their predictions about *national* policy choices. This book seeks to move beyond this earlier work: it adds political actors and strategic interaction between them and societal groups. Combining political actors' preferences with those of societal groups, the model acknowledges the interdependence among these different actors in policy making. The preferences of political and societal actors form the basis of the model, but the nature of the game among these domestic actors shapes the international outcome. Understanding policy preferences is a crucial first step, but only the first one.

The Endogeneity of Preferences?

The preferences of domestic political and social actors are a function of two factors: the issue area being considered and the national economy's degree of integration into the world economy. Integration refers to both the extent of openness and the nature of externalities imposed by others' policies. However, if preferences are shaped by the extent of economic openness, then they may be endogenous. Openness obviously arises in part as the result of prior policies and cooperation. Political leaders' earlier choices to open their economy (perhaps by cooperating) could then reinforce their desire to cooperate in the future. For instance, in the 1940s when Western nations in the General Agreement on Tariffs and Trade (GATT) decided to reduce their trade barriers, their economies became more integrated with the international economy. This new openness created stronger domestic preferences for openness, which helped promote further reductions in trade barriers. Thus, as openness grows, preferences for further cooperation may also grow. The nations of Western Europe provide another example of this. The formation of the European Community in the 1950s may have been necessary in order to generate interest in monetary cooperation later. And later, only after the Single European Act opened internal European markets was the demand for monetary union sufficient to make the Maastricht Treaty a viable option.

If one looks at what underlies preferences, prior policy choices may loom large. Plenty of other, exogenous factors have promoted openness as well: declining transportation costs and time, communications improvements, and other technological innovations (Frieden and Rogowski 1996). But preferences themselves may be partially endogenous to prior policy choices and to earlier cooperative agreements.

Nevertheless, no one-to-one, positive relationship between international cooperation and openness exists. The demand of some actors for cooperation may rise as openness grows, but other factors—namely, the nature of power sharing between the executive and the legislature and the structure of domestic preferences—also shape international outcomes. Even if (more) actors are more interested in cooperation (i.e., are more "dovish"), the domestic game will not necessarily result in a cooperative agreement. As demonstrated in the next chapter, the interaction of the foreign government, the home executive, the legislature, and interest groups in their two-level bargaining game determines the likelihood and terms of international cooperation. Understanding actors' preferences is but a first step. Their strategic interaction within defined political institutions determines the likelihood and terms of international cooperation.

Three

A Model of the Two-Level Game

COAUTHORED WITH B. PETER ROSENDORFF

THIS CHAPTER presents a formal model that reveals how domestic and international factors interact to shape cooperation among nations. It contrasts the unitary actor model against the polyarchy one and also varies the level of polyarchy to see what its effects are on international negotiations. It focuses on variations in the structure of domestic preferences—including the degree of divided government—and in the distribution of information domestically. The model shows how these variables affect the domestic ratification game and, in turn, how this affects the possibility and terms of international cooperation. It examines the effect of three factors on the likelihood and terms of an international agreement: the assumption of a polyarchic state, divided government and increases in it, and an asymmetric distribution of information domestically. It holds the domestic institutional context constant; chapter 4 discusses the effects of variations in this factor.

The goal here is to specify the conditions under which and in what ways domestic politics matters for international relations. Few, if any, studies have done this. For instance, the most systematic investigation of international and domestic theories of conflict, Bueno de Mesquita and Lalman's *War and Reason* (1992), provides a powerful argument that domestic politics affects international conflict. However, domestic politics is a black box for them: "In the domestic [game], demands are presumed to be endogenous to some domestic political process, not spelled out here, which likely varies from state to state and which precedes the actions we investigate" (36). This leaves us with an incomplete understanding of exactly how and when internal affairs will impinge on external ones. They realize this and therefore advocate that the "next step in research is to link a model like the one we propose here to appropriate models of domestic political processes" (46). This chapter undertakes just that.

The model here examines the interaction among four sets of players in a two-level game: the political executive of the home country, a foreign executive, the home country's legislature, and interest groups within the home country. It focuses on two key factors: the structure of domestic preferences and the distribution of information. First, it demonstrates the effects that different structures of domestic preferences have on international cooperation. What difference, for instance, does it make that the executive or legislature is the most hawkish player internally? What effect does increasing divergence between the preferences of the legislature and the executive have? Do increasing divisions make cooperation more or less likely? How do these divisions affect the terms of an international agreement? A central result is that the structure of domestic preferences and the distribution of information internally exert critical effects on the possibility and terms of cooperation. These features of domestic politics cannot be ignored when examining the possibility and likely terms of any international agreement.

The results here also contradict well-established beliefs about the role of these two factors. A proposition common in the literature is that divisions among the domestic actors may influence the terms of international agreements. Counterintuitively, some analysts have suggested that internal divisions in a country may create international bargaining advantages for that country; we call this the "Schelling conjecture" (Schelling 1960:28–29; Putnam 1988:440–41; Mo 1995). If a negotiator faces a situation at home where a group is strongly opposed to certain concessions, then he or she may be able to avoid making concessions in this area and thus secure a "better" agreement internationally. For instance, if farmers are rioting in the streets against reduced agricultural trade barriers that the government is considering in international negotiations, other countries may be convinced that pushing for such trade barrier reductions is a losing cause. Or, as Putnam notes, "The difficulties of winning congressional ratification are often exploited by American negotiators" (1988:440).

Little research has been done on the conditions under which the Schelling conjecture holds. The most prominent recent study concludes by drawing attention to the key factors involved while never delving into how they matter: "Domestic differences can work either to a nation's advantage or disadvantage in international negotiation. The net effect depends on the configuration of domestic factional interests, their power in internal negotiations, and on the nature of the external bargain—in particular, whether the bargain is largely about dividing a relatively fixed pie or about finding ways to bake a bigger pie" (Mayer 1992:804). The model here shows the conditions under which divided government affects the probability of agreement and when it improves the divided side's bargaining power.

Second, the model examines the effects of different distributions of information among the domestic actors. Rather than assuming that information is perfectly distributed to all actors, some are assumed to lack complete information. It is commonly argued that uncertainty—that is, incomplete information—is inimical to international cooperation. Whether on the international level (Keohane 1984; Bueno de Mesquita and Lalman 1992) or on the domestic level (Iida 1993a), lack of full information is believed to hinder cooperation. Incomplete information—and the misperceptions it allows—is the central source of conflict in the view of much scholarship in international relations and political economy. As Stein (1990:58) notes in discussing misperception that is often the result of incomplete information: "It is universally suggested that the result of misperception is conflict that would have been otherwise avoidable. Although international conflicts are often attributed to misperception, international cooperation never is." If all the actors knew each other's preferences and capabilities, then concerns over credibility, cheating, and so on, would be moot and conflict unlikely (Fearon 1995).

Contrary to this common belief, the model here shows that under certain conditions incomplete information is not harmful to cooperation. This chapter examines the role of asymmetries of information at the *domestic level.* Domestic informational problems have received little attention in international relations but, given the conclusions of the most recent and thorough empirical work on two-level games, they should be a central focus. Evans, Jacobson, and Putnam note the relative importance of incomplete information *domestically* rather than internationally:

> Our initial expectation was that the quality of available information would deteriorate sharply across national boundaries . . . Our mistake . . . was in overestimating the informational consequences of national boundaries. [Leaders'] estimates of what was ratifiable in their own domestic polities were often wrong . . . Estimates of the other side's domestic politics were often mistaken as well, but not dramatically more often than estimates of one's own polity. . . . Local misreadings of domestic politics are as likely to be responsible for failed agreements as cross-border ignorance. (1993:408–9, 411–12)

Incomplete information at the domestic level may be as important as that at the international level.

By focusing on the domestic distribution of information, the model shows that under certain conditions incomplete information need not always be a cause of inefficiency and political advantage. This argument follows the line of thinking developed in the study of American politics, which shows that incompletely informed legislators can both make "good" decisions and constrain the executive (McCubbins and Schwartz 1984; Gilligan and Krehbiel 1987; Austen-Smith and Wright 1992). The results here challenge the common wisdom about the effects of asymmetric information and lead to a new interpretation of the role of interest groups in domestic and international politics.

This chapter presents a two-level game in which the international and the domestic bargaining games are interdependent. The results of the model reflect the reciprocal influence of the two levels; the outcomes depend on *both* the international and domestic games. The two levels are modeled differently to reflect their particular characteristics. First, using a spatial model, we present a simple international bargaining game that conforms to Realist assumptions about international politics. The international game adopted does not have a well-defined institutional structure; politics on that level are assumed to be anarchic, and international negotiations are generally conducted without a constitutionally mandated sequence of moves. In contrast, the domestic ratification game incorporates a highly structured model of politics; it is a polyarchic system with a specific power-sharing arrangement among two or more sets of actors.

Initially we examine bargaining between two unitary states. Then, in steps, an increasingly complex domestic game is added. As a first step we introduce a legislature—a second actor—into the domestic environment, thus eliminating the assumption that the state is unitary. The effect of increasing polyarchy in the form of divided government is examined as well. Next we introduce asymmetric information. The legislature, lacking certain information, faces a fully informed executive. Then we bring in a third set of actors—interest groups; they provide information to the legislature, thus relieving the asymmetry of information the executive possesses. Thus an increasingly complex domestic game is added to the international one. The results in the polyarchic cases are contrasted with the pure international game between unitary states in order to address the question of *how and when domestic politics affects international negotiations*.

The results of the formal model provide the logic behind the central hypotheses advanced in this book. First, the structure of domestic preferences conditions the impact of domestic politics on international relations. A hawkish legislature makes cooperation less likely and makes agreements more favorable to the legislature when they are possible. Divided government also makes cooperation less plausible and makes any agreement reached more likely to reflect the legislature's preferences. Second, the distribution of information domestically has a vital impact on international cooperation. Under certain conditions—that is, in the presence of endorsers—asymmetric information can increase the likelihood of cooperation. In this case the endorsement of at least one interest group is necessary for successful cooperation. Agreements are also more likely to favor the legislature. Thus this chapter lays the logical groundwork for the propositions advanced in chapter 1 and examined in the case studies.

The Two-Level Game

The Players and Their Preferences

This game has four sets of players: the foreign country (F), specified here as a unitary actor, and three sets of domestic players in the home country. Internally we have the executive (the president, prime minister, or proposer), P; the legislature (the chooser), C; and domestic interest groups (called endorsers in the asymmetric information case), E. In the model all the players are utility maximizers. Each attempts to obtain a policy as close as possible to its most preferred point, that is, its "ideal point." The policy space here is represented as a single dimension. For example, if one were discussing trade negotiations, the policy choice would be a single issue such as the percentage reduction in trade barriers that all countries would accept. Using a single policy dimension is a simplification widely employed (e.g., Romer and Rosenthal 1978, 1979; Banks 1990, 1993; Ferejohn and Shipan 1990; for a multidimensional two-level game, see Milner and Rosendorff 1997).

Political actors' ideal points will reflect the policy that perfectly balances the many preferences of their constituents so that their chances of reelection are maximized. A player's utility decreases linearly and symmetrically as the implemented policy deviates from the ideal. The foreign country is a unitary actor—either a dictator or elected by majority rule—and its ideal policy is that preferred by the median voter in the foreign country, as in Mayer (1984). Similarly, the legislature and the executive seek to maximize their likelihood of reelection, and this is achieved by maintaining the overall economy at a satisfactory level and by servicing their respective constituencies while in office. Hence their optimal policies may differ. Legislators court the money and votes of both producer and consumer groups present in their constituencies, and thus will identify a policy that balances these interests and maximizes its electoral returns. Since most legislatures operate by majority rule, the preferred policy of the median member of the legislature becomes that of the entire house. The executive behaves similarly but has a more dispersed, national constituency (Lohmann and O'Halloran 1994). Call these preferred policies p, f, and c for players P, F, and C, respectively. In this chapter we vary the actors' preferences to examine the effect changes in these preferences have on international cooperation; hence our results are general to any specification of preferences.

The International Level: The Nash Bargaining Solution

To model the international game, we use the Nash Bargaining Solution (NBS). We assume only two players are involved: the foreign government, F, and the home country's executive, P. This is equivalent to assuming that we have two unitary states. The use of a two-player game here does not significantly alter our results and seems reasonable since de facto many international negotiations take place bilaterally. Even in multilateral forums, bargaining is usually conducted by the two key players negotiating first and then the other states signing on to this agreement. This, for instance, is how GATT operated through the principal supplier norm. The principal producers and buyers of a good negotiated the trade barrier reductions, and then other countries accepted this agreement. Many multilateral negotiations are thus a series of bilateral negotiations that are later "multilateralized" by the states with less at stake in each issue.

We use the Nash Bargaining Solution to solve this game because it is a simple and well-accepted bargaining model that captures the primary features of the international system. The NBS provides a method for finding a "reasonable" solution to a bargaining problem in an environment without strict rules for negotiation. The solution is reasonable in that the outcome is nondictatorial (neither bargainer can enforce his or her will without the consent of the other); it is symmetric (if the bargainers are identical, we would insist the outcome be one of identical shares); and it is Pareto optimal. Intuitively the NBS will be struck by rational players if and only if it gives each a utility at least as large as the players could guarantee themselves in the absence of an agreement and if there is no other agreement that both would prefer (Nash 1950; Binmore 1992:180–91).

Two aspects of this game make the NBS valuable for representing international negotiations. International bargaining often takes place without a well-developed institutional framework; there is a lack of authoritative norms or rules, for instance, about which player goes first, who gets to make the last offer, and so on. The NBS provides a reasonable solution in such circumstances. The bargaining mechanism is kept unspecified in order to capture the anarchy of international politics where rules and institutions are less well developed than domestically. As the results show, a common outcome of this game is no cooperation, which accords well with Realist predictions about the difficulties of cooperation under anarchy. The imposition of negotiating rules and institutions would provide more structure for the international political arena and would probably make the no-cooperation outcome less likely than in the NBS case. This, too, reflects the debate in international relations theory, where non-Realists, who believe the international system is better institutionalized, tend to see cooperation as more likely (Keohane 1984, 1989).

The NBS is appealing as a solution concept for another reason; its outcomes are intuitively satisfying. The Nash Bargaining Solution implies that the players split the difference when their bargaining powers are equal. This not only accords with our intuition and with Realist thought but also has experimental support (Crawford 1990). When bargaining powers are not equal, the more powerful player obtains more. For these reasons the NBS seems to be a good model to use to represent international politics.[1] It is less useful for the domestic side, however.

[1] The main alternative to the NBS—the Rubinstein alternating-offer game (Rubinstein 1982) which converges to the NBS when offers are made fast enough—has several drawbacks, most notably the excessive structure it places on the international game. It imposes an infinite-horizon, alternating-offer structure on negotiations over a pie that shrinks over time. Its results

The Domestic Level: The Agenda-Setter Model

To capture the essence of domestic politics, the model under discussion employs a version of the agenda-setter, take-it-or-leave-it (TILI) bargaining game (Romer and Rosenthal 1978, 1979; Rosenthal 1989; Banks 1990, 1991, 1993). The game here is modified since there are two agenda setters: the home country's executive, P, and the foreign country, F. In most countries the executive and the legislature share decision-making powers. The executive branch has the power to initiate policies vis-à-vis other countries; the executive can set the agenda in foreign affairs to a considerable extent. To negotiate agreements with foreign countries and to implement foreign policies, however, the executive often needs a vote of confidence from the legislative branch.

A broad notion of ratification is employed here. In some circumstances political leaders in the executive branch—whether the prime minister, president, chancellor, or premier—are required by the national constitution to have an international agreement approved by their legislature. Hence the executive leadership must negotiate an agreement that is acceptable to a majority of the legislature, and that majority can be a simple plurality or some supramajority (e.g., two-thirds or three-fifths). In Denmark, for instance, parliament must give simple majority approval to international agreements that do not transfer powers abroad; however, a five-sixths majority is necessary when these agreements do transfer powers beyond the state (Gjørtler 1993:357). In the United States, for example, any treaty negotiated by a president must be approved by two-thirds of the U.S. Senate. In cases of formal ratification the executive will be concerned about obtaining legislative approval, which will affect how she negotiates. Bringing home an unratifiable agreement is likely to be costly both domestically and internationally. The executive will thus need to anticipate the reaction of the legislature to any proposal it accepts internationally and make sure that it is acceptable domestically.

Ratification can also be less formal. If a political leader needs to change a domestic law, norm, or practice because of the cooperative agreement, then even if a formal vote on the agreement is not required, the domestic change itself becomes a vote on the agreement. This is also the case if the agreement requires any budgetary changes. In Great Britain, for example, this is standard practice. Britain's Parliament is not required to vote on any international agreement that the prime minister negotiates, but any legal or budgetary change that the agreement entails must be approved. Because most

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show that the first-mover advantage is significant; however, in international politics there is no established rule for determining the sequence of moves. The players' discount rates also play an important role.

agreements do involve alterations in either existing laws or national budgets, parliament in effect exercises a right of ratification over international agreements. As Jones notes, in the United Kingdom "the government's very existence depends on retaining the confidence of the [House of] Commons, . . . especially the back-benchers" (1991:125). But, as Campbell states:

> Both the government and opposition parties must expect back-bench revolts that force withdrawal from key policy positions or, worse, embarrassing defeats in votes. For example, on May 19, 1980, Margaret Thatcher's government withdrew retroactive application of sanctions against Iran when Conservative whips found that as many as 100 of their back-benchers were prepared to vote against the government on the provision. When U.S. officials wondered out loud what type of British government could fail to deliver on a key international agreement, Lord Carrington, then the foreign secretary, directed a mini-course on British politics to Secretary of State Edmund Muskie: any British government relies on Parliament for its support. (1983:12–13)

In addition, if the executive needs the assistance or acquiescence of a domestic group to implement the international agreement, then it must obtain this group's approval of the agreement and "ratification" becomes necessary. For instance, if the cooperation of the steel industry is needed for an international agreement regulating steel production, then only if the agreement is acceptable to the industry will it be implemented. This situation is especially likely in nondemocratic countries where such groups as the military, big business, or labor organizations can exercise a veto over international agreements.

Finally, in many political systems, if the leadership negotiates an agreement that could hurt large or important segments of the country, domestic complaints about it will induce the legislature to call for some more formal or stringent form of ratification. This may be a consequence of party competition. An agreement that is contentious domestically will often induce the political parties outside the governmental majority to use it as an electoral weapon. These opposition parties will then call for a ratification vote, largely to gain competitive advantage in upcoming elections. Majority parties may also seek such a ratification vote in order to avoid or assign blame for such an agreement. For instance, during ratification of the Maastricht Treaty in Germany, as opinion polls showed that public concern over the treaty was rising, the opposition Social Democrats were able to force the government to put the treaty to a two-thirds vote in parliament rather than a simple majority vote, thus forcing the government to win the support of both the Länder in the Bundesrat and Social Democrats in the Bundestag. Generally the more domestically contentious the agreement is, the more likely the government will be faced with a more formal or stringent vote of ratification. Domestic ratification will shape political leaders' behavior in the international negotiations. *Anticipated reaction* will be at work.

This domestic ratification game is a central element of the model. The executive and the legislature share power in that the legislature must ratify the international agreement that the executive submits. The executive and the foreign country know this in advance and realize that any proposed agreement must survive this domestic test before it can be implemented. The legislature does not have the power to amend the proposed agreement; any attempt to do so constitutes its rejection and necessitates renewed negotiations with the other countries. Hence the executive proposes anticipating the reaction of the legislature, which in turn disposes. The next chapter examines the effect of changing this institutional structure.

The amount of information the actors possess also matters. Initially all the actors are assumed to have complete information; later this assumption is relaxed in order to contrast cases of complete and incomplete information. Asymmetric information is introduced: the median legislator is assumed not to be fully informed about the foreign country's most preferred outcomes and thus is uncertain about the exact contents of the proposed agreement. Under asymmetric information the model introduces an additional feature—the presence of domestic "endorsers." Because of the median legislator's lack of information, domestic groups with more complete knowledge of the proposed policy serve as information providers. Thus the effects of asymmetric information in the presence and absence of endorsers is considered.

Sequence of Moves

The sequence of moves in this game reflects the interaction of the international and domestic games. In period 1 the home executive P negotiates with the foreign executive F over a policy choice—say, the percentage of reduction in trade barriers—and an agreement, which we call agreement *a*, is reached. In period 2 the legislature C then ratifies or rejects the proposed agreement. If the agreement is rejected by the legislature, the status quo *q* becomes the outcome, meaning no cooperation is the result. That ends the game in the complete information environment.

The appendix of this book and Milner and Rosendorff (1996) contain a full specification of the model used and the proofs. This chapter presents the results using simple graphs that map the possible equilibrium outcomes onto the status quo points. There are three key issues:

1. How does the assumption of a polyarchic state affect international cooperation? When we assume that domestic groups share decision-making powers, how does this affect the prospects for cooperation?
2. How does increasingly divided government affect the possibility and terms of international cooperation?
3. How does the distribution of information domestically affect cooperation?

The Outcomes

International Negotiations without Domestic Politics

Figure 3.1 shows the results of a two-player international game without any domestic politics, where P is the executive (the president or prime minister) negotiating in the home country and F is the foreign country. The international game here assumes complete and perfectly symmetric information. The ideal points of P and F (p and f, respectively) are common knowledge, as is the position of the status quo, q. Each state is a unitary, rational actor. We assume P and F have no domestic political considerations that are not factored into their ideal points. The horizontal axis depicts all the possible values of the status quo, q. The vertical axis represents a continuum of policy outcomes on a single issue. It captures both the actors' ideal points and the outcomes of the negotiations (a). The darker line represents the equilibrium policy choices given the value of the status quo, as shown along the horizontal axis.

What are the equilibria of the NBS in this simple model? Note in Figure 3.1 that when $f < q < p$, the status quo is always the outcome. No agreement is the result because a mutually profitable bargain is not possible. When q takes any other value, mutually profitable bargains can be made. This may mean, however, that in the bargain one player ends up better off than the other; there may be asymmetric gains, but a rational player will accept this as long as it is better for him than remaining at the status quo.

Figure 3.1 shows that when the status quo is not between p and f, agreement is possible. It also demonstrates that the cooperative outcome will always lie between the two actors' ideal points, and exactly where within this area is determined by the location of q. If $q > p > f$, then p is the outcome; conversely, when $q < f < p$, then f is the equilibrium. The player with the ideal point closest to the status quo exerts greater influence. This is a fairly standard outcome in bargaining analysis. The actor with the best alternative to the agreement has greater leverage (Raiffa 1982). The status quo here should be thought of as the reversion level, or the outcome when negotiations fail: it need not be the status quo ante. Moreover, power in this game arises from the ability to set the reversion level. If one player can establish what happens in the event of no agreement, that player can exercise much control over the terms of the agreement.

As the difference between the countries (p and f) grows, two implications follow. First, the area of no agreement grows ($f < q < p$) so that cooperation becomes less likely. Second, the constraint exercised by the status quo grows. As the difference between the actors ($p - f$) increases, the actors are forced to accept more extreme outcomes. When $q < p << f$, then F will accept P's ideal point, which is now much farther away. These results coincide with conventional wisdom.

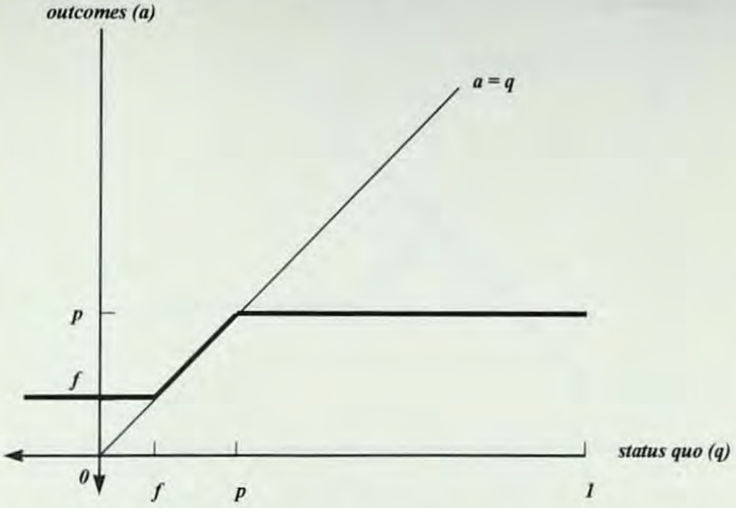

Figure 3.1 The International Game: No Domestic Politics

What is surprising about these results is that no cooperation is frequently the outcome in the *complete* information setting. Incomplete or asymmetric information is not necessary for the failure of cooperation among nations. Unlike many other studies, these results show that the difficulties of cooperation are not the fault of incomplete information; even with complete information, international cooperation may not be possible. Unitary actors are also not a guarantee of cooperation.

Domestic Politics and Complete, Symmetric Information

Now compare the unitary actor case discussed above with Figure 3.2 where we introduce domestic politics in its simplest form. We assume a polyarchic state by adding a ratification game. We introduce a parliament, labeled C, that must "ratify" any agreement negotiated internationally. The parliament takes some kind of vote—on a new law, budget allocation, or constitutional amendment—that allows it to accept or reject the executive's proposal. C is portrayed as a unitary actor, representing the median voter in the parliament; therefore C's vote decides the outcome of the ratification contest. The legislature must either accept the proposal negotiated by P and F or reject it and return to the status quo. It does not have amendment powers. We maintain the assumption of full and symmetric information in this section: P, C, and F all know one another's preferences and the nature of the proposed agreement. The parliament, which must approve the agreement by a major-

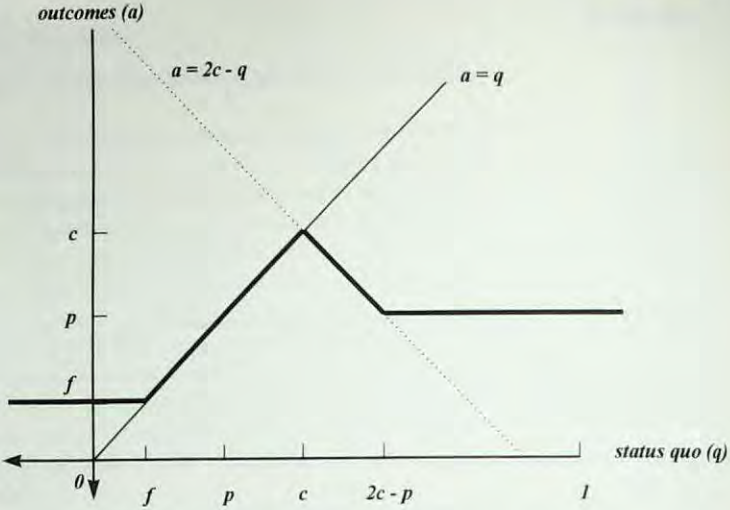

Figure 3.2 Domestic Politics and Complete Information, $p < c$

ity vote, knows the preferences of P and F and the nature of the agreement. P and F likewise know that the agreement they negotiate must be ratified by C, and they know exactly what terms C will accept.

Legislators seek to maximize their electoral prospects, and thus their preferences are dependent on a weighted sum of the preferences of their constituents—both voters generally and interest groups. The preferences of interest groups thus help shape the median legislator's ideal point. If the legislature accepts an agreement far removed from its interest groups' preferences, it must pay for this in lost electoral support, campaign funds, votes, and so on. Conversely, if the legislature adopts a policy that sends the economy into recession, it may lose the support of voters in general. For example, legislators should favor a trade policy that balances the preferences of import-competing firms and their labor unions, on the one hand, and of consumers and export businesses represented in their constituencies, on the other.

Figure 3.2 shows the outcome of the ratification game when the executive's preferences are closer to those of the foreign country than are the legislature's ($f < p < c$). The legislature is a "hawk" because its ideal point differs most from the foreign executive's. In Figure 3.2 the vertical axis represents the players' ideal points and the proposed agreement; the horizontal axis represents the position of the status quo. The darker line shows the equilibrium agreement reached along the vertical axis, given the position of the status quo along the horizontal one. It demonstrates when cooperation is possible and whose preferences are more closely adhered to by any agree-

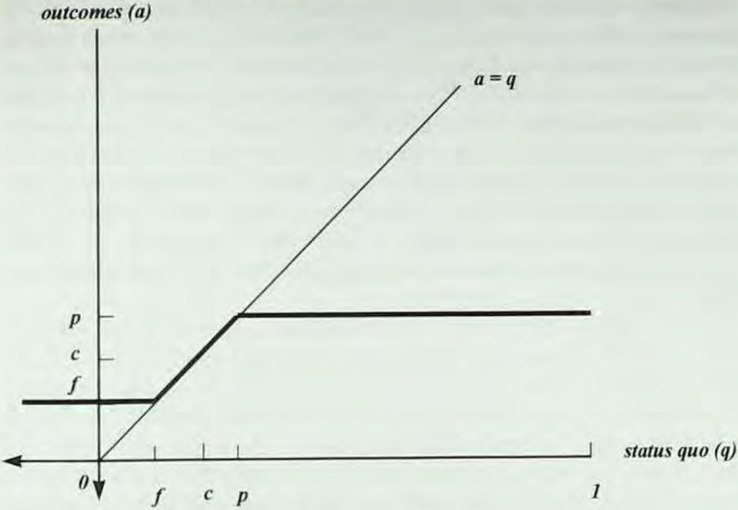

Figure 3.3 Domestic Politics and Complete Information, $p > c$

ment when the structure of preferences is such that the legislature is extremely nationalist or hawkish. Figure 3.3 shows the outcomes when the structure of preferences is altered and now the executive is most hawkish ($f < c < p$). The structure of domestic preferences affects the ratification game and hence the cooperative outcomes.

When the executive is the most hawkish, as in Figure 3.3, domestic politics has *no* effect on the international negotiations. This is evident since the equilibrium outcomes in Figures 3.1 and 3.3 are exactly the same. In the domestic game when $f < c < p$, the legislature cannot exercise any constraint on the executive. This is true even when the status quo is closest to the legislature. The executive's autonomy is maximized when she is a hawk. For example, when the status quo is in between f and c, no agreement must be the outcome, for neither C nor P will move to F's side of the status quo, and vice versa. When the status quo is between P and C ($f < c < q < p$), the legislature is still without influence since P will never accept any proposal less than the status quo. This is exactly the opposite conclusion reached by Evans, Jacobson, and Putnam (1993:399) in their final assessment. They imply that the executive will pay a high domestic price for her intransigence. But it is unclear why this should be the case. How can the legislature or interest groups punish the executive or credibly threaten to do so? In addition, if they admit that the executive is the agenda setter, how can these groups force the executive to initiate cooperative negotiations against her will when she is a hawk? Being too dovish erodes one's influence.

When preferences domestically are structured differently ($f < p < c$), domestic politics plays a significant role. The similarities between Figures 3.1 and 3.2 show the conditions under which international politics continues to dominate. Remember that Figure 3.2 is drawn for the case of $p < c$. When $q < f$, the equilibrium is always f.[2] When $q > (2c - p)$, then p is the equilibrium. Hence, if the status quo (or no agreement point) takes an extreme value (far from P or F), there are few constraints on the international negotiators. The legislature C is again unable to influence the negotiations. In addition, if q lies between p and f, the status quo is the outcome, as in the international game. In these circumstances the domestic political game has little effect.

Under what conditions does domestic politics matter? Consider now what happens when the status quo is between p and c. If P and F negotiate to the point p, C will reject such an agreement and implement the status quo since q is closer to c than p is. Hence for P and F to extract a ratification, they must offer q or better. The best ratifiable agreement, then, is q which is offered and accepted. So no cooperation is the outcome when the status quo is between p and c. P and F are unable to cooperate to realize the joint gains available under the international game.

Now consider what happens when the status quo is close to c (i.e., $f < p < c < q$) but not too extreme (i.e., $c < q < [2c - q]$). For every $q > c$ there is a point $(2c - q)$ to the left of c that C finds indifferent to q; that is, the utility for C associated with the status quo is equal to the utility obtained at $2c - q$. Since C is indifferent between q and $2c - q$, we allow C to accept an offer of $2c - q$ if it is made. Now P and F both prefer $2c - q$ to q when $q > c$. So P and F offer $2c - q$, a point that C will accept. In this region, then, domestic politics exercises a substantial constraint on the international negotiations. The negotiators will have to offer a cooperative agreement that is ratifiable, but it is one that they do not like as much.

Comparison of the international game and the domestic politics game shows what happens when polyarchy is introduced in its most basic form. When the legislature and executive share decision-making power in a ratification game, there are three key findings. First, *international agreement is less likely when domestic politics is involved*. With domestic politics, there is a range ($p < q < c$) where the status quo is the outcome although mutual gains for the international negotiators simultaneously exist and remain unexploited. The range where q is the outcome expands when the legislature and executive share decision-making power. Hence the presence of polyarchy makes international cooperation *less* likely than in the international game. It is not just anarchy but also domestic politics that makes cooperation

[2] This is because F is not assumed to have any domestic politics. Once we relax this assumption, then the area ($q < f$) is affected by domestic pressures. Generally domestic politics has no influence only when the status quo lies between p and f or is extreme.

difficult. This result suggests that even Realists underestimate the difficulties of international cooperation.

Second, in the range $c < q < (2c - p)$, the preferences of the parliament, C, have an impact on the nature of the international agreement. In this interval C's indifference point $(2c - q)$ becomes the equilibrium rather than the point p as in the case with no domestic politics. P and F find it necessary to compromise for there is no escaping the constraint exercised by the parliament under these conditions; they must agree to an outcome that they would not otherwise choose. They would prefer the outcome in Figure 3.1 where the NBS is P's ideal point. But in this range C can make a credible threat to opt for the status quo instead of the proposal preferred by P and F. *Domestic power sharing changes the terms of the agreement*; the terms will reflect C's preferences more closely. Power to define the outcome of an international negotiation thus depends not only on states' balance of capabilities but also on their domestic politics.

Third, *as the status quo moves further and further from c, the legislature's influence over the negotiations weakens*. When $q > (2c - p)$, C loses all influence over the outcome; the international negotiators will no longer feel constrained by the legislature, and they will return to their unconstrained NBS. C's threat to choose the status quo instead of the proposal that P and F preferred becomes incredible at this point. This underlines the importance of the status quo, or the reversion point. As in the international negotiations, the actor closest to the status quo has greater leverage but only up to a certain point. When the status quo becomes extreme but is still closest to the legislature, the executive gains influence largely because of her agenda-setting powers. At some point the executive's ideal agreement becomes more appealing for the legislature than the no-cooperation point. These results hold in the particular power-sharing game we examine here, that is, the ratification game. But in general the greater the legislature's capacity to initiate or amend any agreement negotiated, the more influence it will have no matter where the reversion point is, as the next chapter will show. If the legislature can set the reversion point, then its influence will be maximized.

Divided Government and Complete, Symmetric Information

What happens to international cooperation when divisions among the domestic actors rise, ceteris paribus? In particular, do growing differences between the executive's and the legislature's preferences matter? Divided government refers to a situation where the political party controlling the executive is not the same as that in control of the legislature. This occurs when the executive's and the median legislator's ideal points are far apart; the further apart, the more divided the government. In other words it is a function of how much the prime minister's or the president's preferences differ from those of the median legislator who will make the deciding vote in the ratification contest. Depending on the ratification process, this may be the legislator whose vote represents a simple majority or a supramajority.

As chapter 2 argued, divided government is possible in both presidential and parliamentary systems. It is most likely in multiparty systems—whether presidential or parliamentary—and in two-party systems when party discipline is a problem. Divided government is a common condition for multiparty systems; as Laver and Shepsle (1991:254) point out, among parliamentary systems, single-party majority governments have been a small minority among the advanced industrial countries since 1945, less than 15 percent. Most governments in these countries (87 percent) have been multiparty coalitions where the divisions are either internal to the government or between the government and legislature or both. Budge and Keman (1990:209) show that among twenty advanced industrial democracies only five have never had coalition governments during the period from 1946 to 1985: the United Kingdom, the three ex-Commonwealth countries (Australia, New Zealand, and Canada), and the United States. Since the United States has faced divided government, in the postwar years only four democracies have had long periods of unified government. Divided government, then, is a problem for more than just presidential systems; it is liable to occur in multiparty parliamentary systems as well, which account for most of the long-standing democracies in the West.

A fourth conclusion is that divided government has negative consequences for international cooperation. *The more divided the government, the less likely cooperation becomes*. To see the effects of divided government, once again look at Figure 3.2.[3] As p and c diverge, two consequences emerge. First, the area of no cooperation increases; because the range of $p < q < c$ increases, cooperation thus becomes less likely. Second, the legislature will exercise a greater constraint on the international negotiations. The region where the legislature's indifference point dominates ($c < q < [2c - p]$) will expand. *Hence, as domestic divisions grow, international agreement will become less likely, and where it does occur, the terms of the agreement will more likely reflect the parliament's preferences*.

In general, comparison of the unitary actor international game with the two-level game shows that the addition of domestic politics in the form of a ratification game makes international agreements more difficult to conclude and may change their terms. International explanations of cooperation—whether Realist or Neoliberal Institutionalist—may substantially overestimate the likelihood of cooperation among nations; failure to examine domes-

[3] When the structure of domestic preferences is such that the executive is the most hawkish, as in Figure 3.3 ($f < c < p$), a rise in divided government means less cooperation but only because p and f are diverging.

tic politics leads to an overly optimistic view of countries' ability to make agreements. Moreover, the terms of any agreement reflect more than just the balance of power between the countries; domestic politics also shapes these terms.

These results hold in the presence of domestic politics in both countries. When both F and P have to worry about their respective parliaments, international agreement becomes even more unlikely, as the area where the status quo dominates grows; the area between the median legislator in the foreign country and the foreign executive ($c_F < q < f$) becomes one of no cooperation. Similarly the parliament in F, C_F, may now exercise a constraint on the nature of the agreement. When $q < c_F$, then the parliament's indifference point ($2c_F - q$) constrains the two negotiators. The nature of the agreement here also increasingly diverges from that most preferred by P and F when they are not constrained by domestic politics. As one might expect, when both sides are concerned with their domestic politics the constraints on the negotiators are multiplied.

Finally, in cases where all the parties have complete information, the legislature will never reject an agreement, no matter what the structure of preferences or the degree of polyarchy. With full information, either the executive will know beforehand that no mutually profitable agreement can be reached or will anticipate the legislature's preferences correctly. Hence negotiations either never occur or are successful. Because ratification sometimes fails, it seems reasonable to modify the model to be able to account for these otherwise anomalous cases.

Domestic Politics with Asymmetric Information

The results so far have assumed that all the actors know each other's ideal points, the nature of the proposed agreement, and the reversion point q. Although this is a useful baseline, in a polyarchy, asymmetric information is likely to exist. The addition of incomplete information makes ratification failure possible. Some actors will not be fully informed; others will have private information. The less-informed group must worry about being exploited and hence will often reject agreements that have been concluded by the better-informed partner. Asymmetric information may create inefficiencies as well as political advantages.

Here we assume that the legislature C is not fully informed about the nature of the agreement that P and F have negotiated. C does not know F's preferences with certainty, but P and F are fully informed; they have private knowledge about the nature of the agreement, which is reasonable since they negotiated it without C. This need not mean that no legislators were involved in the international negotiations. Some legislators may have full information about the agreement and may have participated in its negotiation. The median legislator, however, is not a policy expert. In most democracies parliaments have few resources; legislative committees and staffs, when they exist, are small and weak. Legislators depend heavily on interest groups and political parties for cues on how to vote (Lijphart 1984; Peters 1991).

This assumption implies an asymmetry of information domestically. Members of parliament are constrained in the amount of time and effort they can allocate to each parliamentary decision, and they allocate their scarce time and effort to those tasks that maximize their electoral returns. Imagine that the parliament is handed a long and complex international agreement that the median legislator has neither the technical knowledge nor the time to study, yet the legislator must decide how to vote on this agreement. Such a situation is fairly typical, especially in foreign relations. As one Senate Finance chairman, Russell Long, said, "If all members insist on knowing what they are voting on before they vote, we're never going to report this bill" (Hilsman 1993:192).

Lacking the executive's information about the agreement, C will accept any offer that is an improvement over the status quo; we call the set of acceptable offers C's *preferred-to set*. For instance, if $c < q$, the preferred-to set is $(2c - q, q)$. Now C does not know where any offer that has been made actually lies; C, uncertain of the contents of the agreement struck at the international level, can only form beliefs as to its location. These beliefs over the location of the agreement offered for ratification are based on C's prior beliefs about the foreign country's preferences and the type of agreement the executive would negotiate. If C believes that there is a large enough probability that the agreement offered for ratification lies in its preferred-to set, then C will ratify; if, on the other hand, C believes it is unlikely that the agreement falls in its preferred-to set, it will choose not to ratify.

How do P and F respond to this behavior? For given prior beliefs and locations of p and f, the international negotiators know in advance if any offer is going to be accepted or rejected. If C is the optimistic type and ratifies everything, then P and F are not constrained and will offer their NBS for ratification, as in the international game. If, on the other hand, C is the pessimistic type and rejects everything, whatever agreement P and F negotiate will be rejected and the status quo implemented. In either case, then, P and F will choose the unconstrained NBS as their offer, which is accepted or rejected depending on C's beliefs. This result is known as the "pig-in-the-poke result." If one agrees to something sight unseen, the proposer is likely to benefit maximally (Cameron and Jung 1992, Theorem 1).

What does the addition of asymmetric information mean for cooperation? If the status quo point q is close to c, then it is unlikely that the offer lies in C's preferred-to set (which is quite small). Hence, for any beliefs, there is always some interval of qs around c in which C always rejects the offer. However, for qs outside this interval around c, there may indeed be a high enough

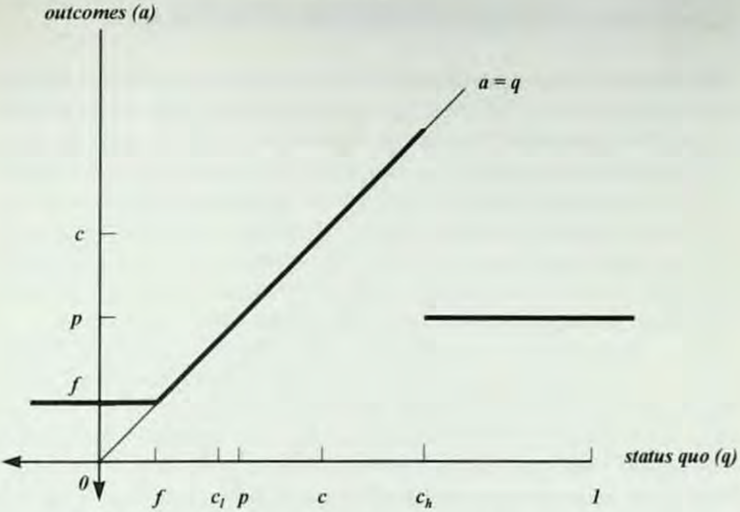

Figure 3.4 Incomplete Information Game, No Endorser

probability that the offer lies in the preferred-to set, and C will accept the offer. This is most likely when q lies far from c (making the preferred-to set very large, occupying almost the entire domain). Hence, for extreme qs, C is likely to accept the offer; for qs around c, rejection is most likely.

Figure 3.4 illustrates the equilibrium outcomes. As depicted in the figure, the status quo outcome occurs whenever C rejects the offer (which occurs between c_l and c_h, and occurs whenever P and F choose q [when there are no further gains to be had by either P or F]).[4] Compared to Figure 3.2, now there is an even larger set of status quo points—(p, c_h) relative to (p, c)—where the status quo is the outcome while mutual gains for the international negotiators simultaneously exist and remain unexploited. Whereas failure to cooperate was possible for some values of q when there was complete information domestically, the addition of asymmetric information makes cooperation *even less* likely. The region in which cooperation fails to occur (agreements to exploit joint gains by P and F are not achieved) expands even further.

When parliament is less informed, it has less impact. There are no circumstances under which C can influence the offer made by P and F. P and F always offer their NBS, irrespective of C, and C behaves accordingly. Thus the distribution of information has a critical effect: asymmetric information impedes cooperation.

[4] Call this interval around c, in which C rejects the offer, (c_l, c_h). This interval is determined by C's prior beliefs about the position of f, C's knowledge of the location of p and q, and the knowledge that P and F bargain to a point consistent with the NBS. Figure 3.4 is drawn for a generic interval; it will be larger and smaller as these determinants vary.

Domestic Politics with Asymmetric Information and an Endorser

What if instead of just voting blindly on the executive's proposal, the legislature could rely on the signals of one or several domestic groups about the nature of the agreement? Suppose the legislature, in order to make its decision, depends on the signal of another actor who has complete information about the agreement; that is, C listens for the endorsement of an actor (from outside the executive's office), obtains information about the agreement from this signal, and then casts its vote. This endorser may be any domestic group other than the executive; it could be an interest group, a legislative committee, other party members, an independent agency, and so on.

The endorser has its own preferences which differ from C's but which C knows. The legislature knows it cannot simply trust the endorser's signal because their preferences differ and thus the endorser may behave strategically. The information the legislature receives is not expected to be neutral; the legislator knows that the endorser has something to gain from the agreement. This endorser communicates its approval of or opposition to the agreement, and the legislature may rely on this signal to decide whether to ratify or reject the executive's offer. The legislature may listen to more than one such endorser. The endorser(s) can only provide limited information since the legislature does not have unlimited time to consider an issue. As Hilsman (1993:191) describes U.S. defense and foreign policy making:

> Almost all [legislative] members try to inform themselves on pending legislation . . . They often must turn to other sources for help in deciding how to vote, and this gives those sources power. Members acquire some information from other members, some from their staffs, some from their constituents, some from the press. Some of the more thorough and accurate information is actually supplied by lobbyists. Throughout the process members struggle to understand the legislation on which they must vote.

Adding another player to the game changes the sequence of moves, making it a three-step process. First, P and F negotiate an international agreement, aware that C must approve it and that C will be listening for the endorsement of some domestic group, called E. Then this agreement is revealed to E, who may or may not have participated in the international negotiation itself. The endorser sends his or her signal to C, which is a yes or no to the agreement. In the third step the legislature hears this signal, updates its beliefs about the agreement, and votes yes or no to ratify it. If the legislature votes no, then q is the outcome and no cooperation the result.

With asymmetric information, multiple equilibria are associated with each structure of preferences. The logic behind the equilibria is as follows. We proceed by backward induction to reveal the best strategies for each

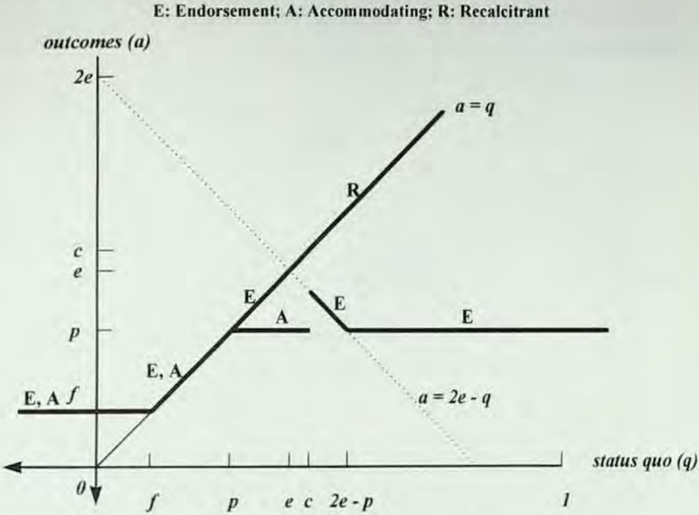

Figure 3.5 Incomplete Information Game with $p < e < c$

player, given what the others are doing and their current beliefs. Consider Figure 3.5, drawn for the case where the endorser is less hawkish than the legislature, $p < e < c$. If $q < e$, then C knows that E will endorse only proposed agreements that also meet with C's approval. But C also knows that E will not endorse some agreements that C prefers to the status quo—that is, those between E's indifference point and C's indifference point. E's endorsements cover only a subset of proposals that C would like to ratify. Hence when C hears an endorsement, C will know to ratify the agreement. When C hears no endorsement, C has to guess where the proposal lies. If C thinks it is close to his preferred policies, it should be ratified anyway (C is accommodating). If C believes it to be far from c, then C will reject it in favor of q (C is recalcitrant).

P and F will take C's beliefs into account when offering a proposal. If P and F know that C requires an endorsement before ratification is possible, the closest ratifiable agreement is q itself. So P and F offer q, which is endorsed and ratified. Hence q is the outcome, as evidenced by the thick line at the 45° angle. If, on the other hand, P and F believe that C will accept any offer, regardless of whether it is endorsed or not (as C might indeed do if C believes that P and F are not likely to offer an unacceptable proposal), then P and F will offer p, which is accepted. The outcome is p, as evidenced by the thick horizontal line at p in Figure 3.5. Hence P and F will either play it safe and offer a proposal that E will ratify or P and F will offer their unconstrained NBS point in the hope that C will ratify it anyway.

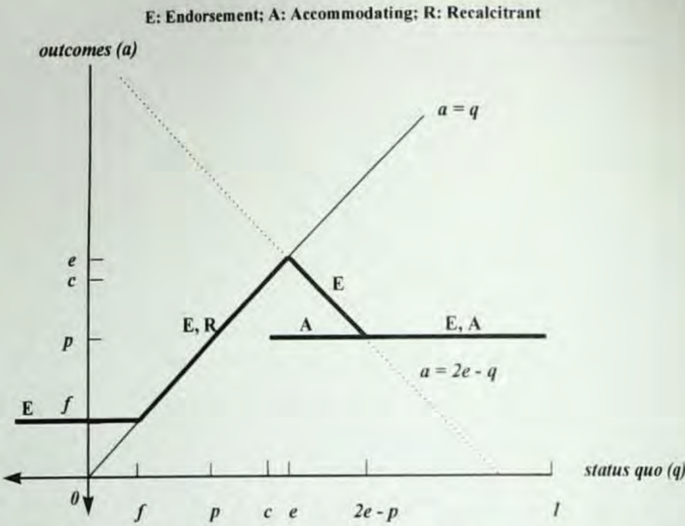

Figure 3.6 Incomplete Information Game with $p < c < e$

If $q > c$, and P and F believe that an endorsement is necessary for ratification, they will offer e's indifference point $2e - q$, as evidenced by the thick part of the line labeled $a = 2e - q$. As we move q further to the right, at some point $2e - q$ becomes equal to p. P and F then will offer p, which will be ratified and accepted. This is indicated in Figure 3.5 by the continuation of the flat line at p when q is large enough. If, on the other hand, P and F believe C is recalcitrant and unlikely to ratify any offer, endorsed or not, P and F will offer p in the vain hope that C might ratify in error. C, however, will reject the offer, implementing the status quo. This is indicated by the continuation of the thick 45° line, as q gets large.

When $e < q < c$, then C will never listen to the endorser and, depending on C's beliefs about the nature of the agreement, C will either accept the proposal or reject it no matter what E says. In this case E cannot be trusted since E's interests are diametrically opposed to C's. P and F know all this and will always offer their unconstrained NBS point. Depending on C's prior beliefs, one of two outcomes occurs. The offer may be accepted, resulting in p, or it may be rejected, resulting in q.

In the opposite case where E's preferences are more hawkish than C's, or $p < c < e$ (as in Figure 3.6), C's preferred agreements are only a subset of those E will endorse. Thus if E fails to endorse a policy, C will know to reject the agreement for certain. But if E endorses the agreement, C will be uncertain about what to do, since the agreement may lie in the area outside C's indifference point but within E's. When $q < c < e$, then if C is pessimistic, he will reject any agreement even though it was endorsed. P and F know all this and will either play it safe by offering a proposal that will be endorsed in the hope C will listen to the endorser or offer their unconstrained NBS point, knowing it will not be endorsed and that C will reject any proposal in any case. In either event q will be the outcome, and this is shown as the thick 45° line in Figure 3.6. For $q > e > c$, an endorsement equilibrium is possible: P and F offer $2e - q$ (or p if $p > [2e - q]$) which is endorsed and ratified (the thick line that descends along $a = 2e - q$ and at p in Figure 3.6). An accommodating equilibrium is also possible when $q > c$, where C ratifies even in the absence of an endorsement. This is evidenced by the thick line at p in Figure 3.6 over this region.

Does the endorser encourage cooperation? Consider the regions of cooperation in the endorser case. As with all three of the previous cases, when $f < q < p$, the status quo is always the outcome. No new agreement is the outcome since there are no joint gains to be achieved. At $q < f$, f is the outcome; this, too, is the same as the prior three cases. For $p < q < c$, p is a possible outcome in Figure 3.5; for $c < q < (2e - p)$, outcomes that differ from q are possible in both Figures 3.5 and 3.6. Hence in these regions (where cooperation was impossible without the endorser) cooperative outcomes are reestablished; agreement to exploit mutual gains is possible.

If a noncooperative point is one where there is no possibility for an agreement to exploit existing mutual gains, the no-cooperation region is (p, c) in Figure 3.6 (where $p < c < e$); in Figure 3.5 (where $p < e < c$), the no-cooperation region is empty. Recall that with no endorser (Figure 3.4), the region of no cooperation was (p, c_h), which is a larger interval than the no-cooperation interval with the endorser. Hence the no-cooperation region shrinks when the endorser is added to the game. Cooperation is facilitated by E's presence: *In the presence of asymmetric information, international agreement is more likely with an endorser than without.*

What does the endorser do that improves the chances for cooperation? At times C will rely on E. When E sends useful information, C ratifies. We call this an *endorsement equilibrium*. When q lies between c and $2e - p$ (for Figure 3.5) or when q lies between e and $2e - p$ (for Figure 3.6), cooperation is possible when P and F agree to send $2e - q$ to the endorser for endorsement. P and F would have preferred to send their unconstrained NBS point p but realize that such an offer would not receive an endorsement from E, an endorsement that is necessary for ratification.

When P and F propose $2e - q$, E will endorse such an offer (it leaves E indifferent between accepting the offer and rejecting it in favor of the status quo), and C ratifies on hearing E's endorsement. Hence there is an area where the endorser constrains the outcome; P and F are unable to negotiate the agreement they would most prefer. P and F compromise in order to achieve a cooperative agreement.

More surprising is the next result: *Incomplete information with an endorser increases the likelihood of international agreements even when compared to the full information domestic game*. In other words, cooperation is more likely in Figures 3.5 and 3.6 than in Figure 3.2. Note that in Figure 3.2 over the range $p < q < c$, international agreement is impossible to achieve. But in Figure 3.5, cooperative equilibria are possible in this range: between $p < q < c$, international agreement at P's ideal point is a possible outcome. In Figure 3.6, however, agreement is never possible over the range $p < q < c$.

The presence of less-informed actors is usually seen as hindering cooperation. Such uncertainty is often portrayed as the major problem causing actors to miss opportunities to cooperate and leading them to conflict. The results here contradict this assertion. Under certain circumstances asymmetric information on the domestic level about international agreements makes their ratification more, not less, likely, as long as the legislature is able to consult informed (and interested) actors about the contents of the agreement.

Not only does the endorser make ratification more likely, it also increases the legislature's influence. In fact the legislature does no worse with the endorser than when it has the same information as the executive. How could this be so? Isn't the median legislator, C, simply deceived into accepting agreements he would not accept if he had complete information about the agreement? Doesn't the legislature lose its influence when it lacks the same information as the executive has? Surprisingly this is not necessarily the case. For instance, in Figure 3.6, when $e < q < (2e - p)$, the legislature may do better than in the full information case (when $q > (2c - p)$ in Figure 3.2); P and F may be constrained by the endorser to offer an agreement at $2e - q$, rather than at p. This agreement is closer to the legislature's ideal point than is P's and F's preferred agreement. In Figure 3.5, however, C will never be better off under incomplete information but may not be any worse off either. It is possible, then, for C to gain (in equilibrium) from not having full information and having to rely on the endorser. The logic is that E provides useful information to C, and that in doing so E constrains P and F. Because of E's existence, P and F are more likely to propose agreements closer to C's ideal point, and C is more likely to accept these agreements.

However, when the endorser provides no useful information to the legislature, the legislature may end up worse off, and never any better off, than in the complete information case. Hence one can see that the endorser, when he or she provides information, can aid the legislature. *The endorser can allow the median legislator to obtain at least as much utility from an international agreement as the legislator could have were complete information available.* This proposition is illustrated in Figure 3.7 for the case where $c < e$. It plots the highest available utility (in an informative equilibrium) to C under the regimes of complete and incomplete information with and without the endorser. As can be seen, the equilibrium utility is the same at low

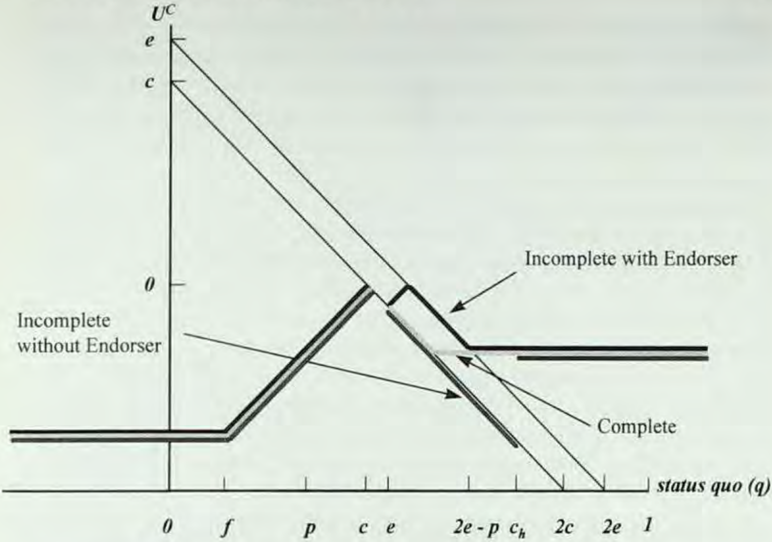

Figure 3.7 Returns to the Legislature under Complete and Asymmetric Information, with and without Endorser

and high levels of q, but the asymmetric information regime with the endorser dominates the no-endorser regime when q lies between e and c_h and dominates the complete-information regime when q lies between e and $2e - p$. Note that no equilibrium utility is presented in this diagram when $c < q < e$, since no informative equilibria exist in this region.

The legislature's reliance on E may be an efficient mechanism for making choices. The costs of gathering information are reduced, and C's utility is at least as high. Additionally, when the endorser E is an outlier ($p < c < e$), E helps C the most. This, too, is surprising. One might think that when the endorser's preferences were closer to both the executive and the legislature, the endorser might be the most useful. But this is not the case. As others have also shown (Calvert 1985), the more biased the information provider (up to a certain point), the better the results for the legislature making the choice. However, when the endorser is closer to P ($p < e < c$), international agreements become more likely. *Under certain conditions, the introduction of asymmetric information does not necessarily hinder international agreements, and it does not necessarily lower the utility of the group lacking information, the legislature*. Having an endorser may enable the legislature to accomplish its task more efficiently.

Interest group signaling has both distributional and informational effects. Interest groups may be able to exert influence over the negotiation process in their role as signalers. This is evident in the cases where the indifference point of the endorser $(2e - q)$ constrains the outcome of the international negotiations. Unlike in either the two-player, unitary actor international game or the complete information domestic game, in the asymmetric information game the endorser can alter the equilibrium outcome under certain conditions. The agreement's distributional consequences are thus changed.

Second, and no less important, the interest group endorser can provide information to the legislature which makes it better able to obtain an agreement it wants. The interest group gives influence to the legislature and helps it in the strategic game with the executive. The need for an endorsement forces the executive and the foreign country to negotiate an agreement that is better for the legislature. Informationally, the endorser may improve the terms of the agreement from a domestic point of view. As others have shown in different models, interest groups need not be just a distributional problem for political actors; they may provide low-cost information that improves the outcomes for the domestic actors (McCubbins and Schwartz 1984; Gilligan and Krehbiel 1987; Epstein and O'Halloran 1993).

This may be one reason why legislatures are keen on having interest groups involved in international negotiations. Although the role of interest groups in international negotiations is usually portrayed as co-opting them into accepting the agreement crafted (Winham 1986), our argument is that the legislature wants the interest groups to be part of the negotiations so they will serve as useful information providers about the agreement. For the legislature, then, having the interest groups involved is an efficient method to check and balance the executive. Where parliaments are strong, one would expect them to provide endorsers in the form of legislative committees and their reports or votes (Krehbiel 1991). Where parliaments are weak—that is, not in the United States—the role of the domestic interest groups will be more pronounced. Their signals will be a crucial mechanism to constrain the executive. Interest groups thus bring informational benefits, even if they also have distributional costs. Our model suggests that interest groups should be seen in a different light in two-level games.

Divided Government with Asymmetric Information and the Endorser

In the complete, symmetric information case, more divided government meant that failure to cooperate was more likely and that the executive had to compromise more with the legislature. In the asymmetric information case without the endorser, increasing divisions mean that C is becoming more pessimistic in its beliefs about the agreement and hence that ratification is less likely. The legislature's beliefs about the agreement depend on how distant its preferences are from those of the executive; the more distant they are, the more likely C is to believe that the executive would never negotiate an agreement that C liked. Divided government has no effect on the nature of the agreement since P and F always offer their NBS, but it does make ratification even less likely.

The effect of divided government when an endorser is present depends on whether the endorser's preferences are assumed to remain constant or to change with the degree of divided government. When preferences are $p < e < c$ as in Figure 3.5, if e remains constant along with p and f but c moves away from p, the area where the constraint exercised by E $(c, 2e - p)$ shrinks, until $c > (2e - p)$ when the constraint disappears entirely. Thus the area where E can be most helpful to C grows smaller as government becomes more divided. Or, the area where E's signal is of no help $(e < q < p)$ grows as divided government increases. C simply has to guess what to do given its beliefs about the agreement. This makes the status quo a frequent outcome; it may also make the executive more powerful since C cannot rely on the endorser.

If the endorser moves with c—that is, e moves away from p but keeps the same distance from c—then the area where E constrains P grows as divided government increases. This means that C may do *better* under more divided government.

When preferences are $p < c < e$ as in Figure 3.6, the effect of divided government depends again on what happens to e. If e remains constant with p and f, then the area between p and c will grow, and the likelihood of no cooperation will increase with divided government. The area between c and e will shrink, until c is greater than e. (At this point we are back at the situation described above.) However, the region where E constrains P $(e < q < [2e - p])$ increases; as c diverges from p, then C's and E's indifference lines $(2c - q$ and $2e - q)$ converge. So increasing divisions imply a greater likelihood of failure to cooperate, but when cooperation does occur, the agreement will reflect the legislature's preferences more closely.

When e moves with c away from p, then the constraints on P and F grow ever larger. As the distance between p and c grows, the status quo becomes more likely. And as the area where E constrains P and F $(e < q < [2e - p])$ grows, greater division means more impact for domestic politics. In this case $(p < c < e)$, having a more extreme endorser gives increased leverage to C.

In three of the four scenarios, domestic politics exercises a growing constraint on the international agreement as divided government increases. In these cases P and F are ever more constrained, and C does better. C's influence grows in part because the endorser is becoming more extreme. These results seem to cast doubt on the Schelling conjecture. Divisions internally do not help the executive negotiating the international agreement. What has been overlooked in other studies is that the other domestic actors may have different preferences than the executive. The more divergent these preferences are, the less likely the executive is to realize her preferred policy. Both the executive and the foreign country will be pulled away from their ideal points and thus will end up worse off as government becomes more divided.

In one case, however, asymmetric information even with an endorser increases the leverage of the executive. This result arises largely because the legislature is unable to depend on the endorser. Endorsers are valuable to the legislature, and endorsers who have more extreme preferences are more valuable.

Multiple Endorsers and Asymmetric Information

Domestic politics is often characterized by the competing signals of multiple interest groups. The legislature is likely to obtain information from interests on opposite sides of the issue. For example, in trade negotiations protectionist groups will lobby against trade liberalization whereas internationally oriented groups will press for it (Magee, Brock, and Young 1989; Milner 1988; Rogowski 1989). In this section we consider multiple endorsers, beginning with the case of two endorsers whose preferences are to the right and left of the median legislator's.

Call the ideal points of the two endorsers l and r and assume they lie on opposite sides of the median legislator's. After international negotiations, they each get to send a signal of yes or no about the agreement. The legislature now acts on the basis of a vector of signals. Basically when multiple endorsers exist the original results still hold. By choosing which endorsers to listen to, the legislature maximizes its ability to constrain the executive and to achieve an agreement closest to its ideal point.

Again multiple equilibria exist in this case depending on the legislature's beliefs about the foreign country and the agreement the executive made with it. Imagine a structure of preferences like $q < l < c < r$; what are the equilibria? (The other preference structure has completely symmetric results.) If an offer is made that gets L's endorsement, then it also always gets R's endorsement. No matter what C's beliefs are, it will endorse the offer in this case. If an offer is made that only R endorses, ratification fails if C's beliefs about F and the offer are pessimistic (C is recalcitrant). If, however, C is optimistic in its beliefs, then the endorsement from R alone can enable ratification (C is accommodating). If neither endorser signals yes, then ratification always fails.

Hence the legislature requires at least one endorsement before ratification is possible. An endorsement from the group nearest the status quo is sufficient (but not necessary) for ratification; an endorsement from the group farthest from the status quo invokes ratification only if the legislature's beliefs are optimistic. Thus the endorser nearest the status quo exerts the greatest influence over the median legislator. This endorser has the smallest preferred-to set; therefore a positive signal from this endorser sends more information than if the signal came from the other.

Three conclusions can be drawn. First, *ratification will not occur without at least one, and often two, endorsements*. This confirms the single-endorser results which also show that endorsers can play a critical informational role for the legislature. The need for this endorsement affects the agreement made as well, since it means that the executive may have to modify the agreement to satisfy at least one endorser.

Second, *the legislature is able to use both pieces of new information to improve knowledge about the agreement and to obtain one closer to its ideal point*. The legislature makes a critical decision about the quality of the information provided, and hence about the usefulness of the endorsements. For example, when the median legislator faces a group that is more protectionist and one that is more free trade, he gathers information from both but the final choice depends on the legislator's beliefs and, most important, on what the endorser closest to the status quo signals. A yes from this endorser is sufficient for ratification; but with enough optimism the legislature may also ratify as long as the less informative endorser says yes.

Third, *increasing the number of endorsers beyond two does not add to the analysis*. In this class of games, Theorem 4 of Cameron and Jung (1992) establishes that the legislature need consider at most two endorsers, the one closest to its ideal point on the right and the one closest on the left. When there are many endorsers on one side of the legislature's ideal point, the legislature only listens to the closest one since this one provides the most informative signal. Hence the legislature, when more than one endorser exists, chooses to listen either to the closest one or to the two closest ones on each side of the legislature's ideal point; these are the two cases developed here.

One might be tempted to think that the legislature listens to the endorser who is most likely to say something C wants to hear or who otherwise supports C's uninformed beliefs about the agreement. Instead C rationally chooses to listen to the endorsers that provide the most information. Moreover, when the legislature is pessimistic about the foreign country and the agreement made, its best bet is to listen to the endorser closest to the status quo and not the one that is necessarily closest to the legislature's ideal point. Multiple endorsers, then, allow the legislature to extract more information and to choose which groups the legislature wants to listen to; they also provide an even greater constraint on the executive. Increasing polyarchy by increasing the number of players in the game complicates life for the executive, limiting her autonomy ever more and making greater compromise with the legislature likely.

Conclusions

This chapter presented the logic behind the major hypotheses advanced in this book. It explored how domestic factors affect the international negotiations over cooperation and demonstrated how and why the structure of domestic preferences and the distribution of information internally affect the possibility and terms of international agreements. The logic behind the hypotheses was established through a formal two-level game that incorporated an explicit model of domestic politics as well as one of international relations.

The model here is general enough to represent many different countries and issues. A Realist game is used to represent the international level, and an agenda setter, TILI model is adopted to model the domestic one. Our main conclusion deals with the comparison of bargaining among unitary states versus bargaining in the presence of polyarchy. How does the introduction of domestic politics affect the likelihood and terms of international cooperative agreements? In the pure international game with states modeled as unitary actors in an anarchic environment, the results are that, much as a Realist would expect, cooperation is difficult. It becomes increasingly difficult as the countries' preferences diverge. However, introducing polyarchy domestically, so that the legislature and executive must share decision-making power, makes cooperation even less likely. Failure to consider domestic politics means that international relations theorists—even Realists—overestimate the likelihood that countries will cooperate. Furthermore, they will be unable to explain the terms of international agreements. The introduction of legislative ratification changes the type of agreements that can be implemented. The balance of power among the states only partially accounts for the terms of any agreement. Domestic politics in the countries will also shape these terms.

Our results shed light on two other issues: (1) How does the structure of domestic preferences affect the likelihood and terms of any international agreement? In particular, how does divided government affect international negotiations? (2) How does the distribution of information domestically influence international negotiations?

When domestic groups share power and have different preferences, then internal politics begins to intrude into the international negotiations under certain conditions. When the legislature is the most hawkish player ($f < p < c$), domestic bargaining will change both the likelihood of agreement and the nature of any agreement that results. In particular, when the status quo is closer to the domestic players ($p < q < [2e - p]$), then the domestic ratification game dominates. The international negotiators will be constrained by their internal situations. They will have to alter their agreement from what they would otherwise accept in order to obtain ratification. Compromise to meet the legislature's preferences becomes the order of the day.

The effects of divided government on the two-level game are also important. The results tend to show that the more divided the government, the less likely international cooperation is but the better off the legislature will be in any agreement that can be made. This may not be surprising, but it does cast doubt on the Schelling conjecture which posited that internal divisions increase the external leverage of the executive. Indeed the model suggests that as divisions grow, the problems of the executive mount. She will have a harder time getting any agreement ratified and will be forced to negotiate agreements that meet the legislature's preferences.

Introducing asymmetric information at the domestic level has unanticipated consequences. Rather than always leading to less cooperation, it may improve the chances for cooperation under certain conditions. Since it is widely assumed that uncertainty promotes conflict rather than cooperation among nations, this is an important finding. Asymmetric information at the domestic level when tempered by the presence of informed domestic groups may enhance the prospects for international cooperation, similar to its effects in a purely domestic setting (McCubbins and Schwartz 1984; Cameron and Jung 1992; Austen-Smith and Wright 1992; Lupia 1992; Banks 1993; Epstein and O'Halloran 1993). Although asymmetric information alone increases inefficiencies by making cooperative deals less likely, in the presence of an endorser such inefficiencies are greatly reduced.

The political advantages of private information are also reduced by the presence of an endorser. Asymmetric information need not mean that the legislature is worse off. Cooperation does not occur just because the international negotiators are able to deceive the legislature into ratifying an agreement it otherwise would not. Because of the endorser, the legislature obtains information about the proposed agreement and knows that the endorser in certain circumstances constrains the international negotiators into making agreements that are better for the legislature. Without the endorser, the legislature would reject these agreements out of fear of being deceived by the executive and the foreign country. The endorser, which can be any domestic group except the executive, thus provides a service for the legislature.

With multiple endorsers the legislature can do even better. In such cases if the executive wants an agreement to be ratified, she must obtain the endorsement of at least one informed group to whom the legislature listens. Failure to obtain an endorsement means failure to ratify; on the other hand, obtaining two endorsements from groups closest to the median legislator ensures ratification. The executive and the foreign country are thus forced to modify their proposal to obtain the endorsement of informed domestic groups. This compromise leaves the legislature better off and makes ratification more likely.

Informed domestic groups give the legislature important information about international agreements in a cost-effective way. For the legislature, then, having various domestic groups involved in international negotiations is an efficient method to check and balance the executive. Where parliaments are particularly weak, interest groups should play an especially important role as a mechanism to constrain the executive. This may explain why legislatures tolerate corporatist arrangements. When corporatist groups signal disapproval of the executive's proposals, then the legislature receives a "fire alarm" alerting it to the fact that the executive's proposed policy may be far from that favored by the legislature and their constituents. As McCubbins and Schwartz (1984:175) argue, legislators favor fire-alarm systems of oversight since they are more efficient than police patrols: "Citizens and interest groups can be counted upon to sound an alarm in most cases in which the [executive] has arguably violated Congress' goals. Congress has not relinquished legislative responsibility to anyone else. It has just found a more efficient way to legislate." Interest groups thus bring informational benefits, even if they also have distributional effects.

This model generates a number of hypotheses that will be examined in the case studies:

1. If the executive must share decision-making power with the legislature and the two have even slightly different preferences, then cooperation will be less likely than in the pure international game with unitary states.

2. The more divided the government, the less likely cooperation is, the greater the likelihood of ratification failure is, and the more influence the legislature tends to exert over the terms of the agreement.

3. The greater the asymmetry of information and the less likely are informed endorsers, the more likely is ratification failure. But it also becomes more likely that any acceptable agreement will reflect the executive's preferences.

4. In situations of asymmetric information, if the legislature can depend on informed endorsers, cooperation becomes more likely and more responsive to the legislature's preferences. With multiple endorsers the executive will have to obtain the endorsement of at least one for ratification to occur. If both endorse, then ratification always occurs; if neither endorses, it never occurs.

These hypotheses form the basis for understanding the role that domestic factors exert in negotiating international cooperation.

In sum, polyarchy makes cooperation less likely. Factors that induce increased polyarchy, such as divided government, further decrease the chances of cooperation while improving the outcome of any cooperative agreement that is ratified from the legislature's point of view. Leaving the world of states portrayed as unitary actors means understanding that international agreements will now reflect internal political struggles and compromise. Domestic politics reduces the possibility of cooperation, even below the level that Realists expect. It also means that the terms of an international agreement will reflect each country's domestic situation in addition to its international influence.

Four

Political Institutions and International Cooperation

DOMESTIC political institutions determine how power over decision making is allocated among national actors. How power is shared affects whose preferences are most likely to dominate policy making. Thus the institutional relationship between the executive and the legislature in democracies is of central importance in understanding the domestic side of international cooperation. Variations or changes in this institutional relationship influence the probability and terms of international cooperation.

The previous chapter explored the effect of the structure of domestic preferences and the distribution of information on international cooperation. This chapter examines the effect of domestic political institutions on cooperation. In the last chapter the model held these institutions constant, while varying preferences. The executive, it was assumed, negotiated with the foreign country and then the legislature had to ratify without amending the agreement. Hence the executive held agenda-setting power and the legislature controlled only ratification. It could not set the agenda, offer amendments, or change these procedures. The results of the model in chapter 3 depend on the institutional relationship that is assumed between the executive and the legislature. Here I vary the institutional arrangements and examine how this affects the possibility and terms of international cooperation.

This chapter asks what happens to the agreement when the legislative powers of decision making are distributed differently between the executive and the legislature. How do changes in the distribution of these powers between the two affect international cooperation? In the process of making legislation, at least five distinct elements exist in the decision-making process: agenda setting (or initiation), amendment, ratification or veto, use of referendums, and side payments. In different political systems and on different issues, the distribution of these powers between the executive and the legislature varies. If one actor possesses them all, then the unitary actor model of the state is most appropriate and domestic politics does not matter. If multiple actors possess at least one of these powers, then decision making is shared and the polyarchic model of politics is more appropriate.

These powers give actors control over the process of creating and implementing laws and other policies; thus they are legislative powers (Shugart and Carey 1992:131–48). In addition to these legislative powers, the balance of power between the executive and the legislature is affected by what are called "origin and survival" powers. These powers determine who ~~can~~ appoint and censure cabinet members, whether the executive can dissolve the legislature, and whether and under what conditions the legislature can vote the executive out of office. These conditions usually emanate from the constitution and are thus more structural, affecting the relationship between the legislature and executive at all times. They act as background conditions setting the broad parameters for executive-legislative interaction. But on any particular issue, control over the process of making policy—that is, over legislative powers—may be more important.

The classic distinction between parliamentary and presidential systems is drawn on the basis of differences in origin and survival powers. Presidential systems tend to separate the origin and survival of the executive and the legislative branches, whereas parliamentary systems fuse them. Such a broad distinction is useful at some level but, as I will argue, the distinction between these systems often obscures more about them than it illuminates. The differences in terms of legislative powers among parliamentary and among presidential systems are often more salient than the supposed similarities in each system's origin and survival powers. Indeed, I will argue that variations in the distribution of legislative powers reveal more about the relationship between the executive and the legislature on any particular issue. Such variations result in distinct policy choices, since different actors' preferences will be privileged by each distribution.

In this chapter I discuss the five legislative powers and how control over them affects decision making with regard to international cooperation. I demonstrate how four specific distributions of these powers determine whose preferences dominate policy making. In addition, I lay the basis for two hypotheses about the effects of domestic political institutions on international cooperation. First, the probability of a successful cooperative agreement is highest when decision-making power is concentrated in the most dovish domestic political actor. Second, the dispersion of legislative powers from the executive to the legislature alters the terms of cooperation, making them more favorable to the legislature. Hence both the likelihood and terms of international cooperation depend on the balance of powers between the legislature and the executive.

Finally, in this chapter I examine why the ability to make changes in the distribution of legislative powers is the ultimate power. If actors have preferences about policies, then they should also have preferences about institutions since certain institutions will make the realization of their preferences as policy more likely. How policy is made should be contested when the actors who control policy making differ in their preferences. This implies that the choice of procedures to devise and "ratify" cooperative policies should be an object of contest itself. Thus the logical foundation is laid for a third hypothesis about the effects of political institutions, which argues that changes in the ratification procedures, especially after international negotiations are completed, make cooperation less likely.

The chapter acknowledges that the political institutions of a country play an important role in determining how domestic politics affects international cooperation. It also shows that institutions matter but only in conjunction with preferences.

Five Legislative Powers

The balance of power between the executive and the legislature depends in part on which one controls key elements of the legislative process. The more control any one actor has, the more that actor is able to implement his or her preferences as policy. In other words, when the executive controls the main mechanisms of legislative power, she will be able to devise policies that closely resemble her ideal point. As these powers are increasingly distributed to the legislature, its policy preferences will come to dominate legislation. As noted above, such power sharing only matters when the actors' preferences differ.

In chapter 3 the model assumed a particular distribution of legislative powers. The executive had control over agenda setting, while the legislature could ratify the agreement but could not offer amendments. In this setup the executive had no need for a veto nor the ability to propose either referendums or side payments. Although this model is appropriate for many foreign policy issues, different distributions of powers are possible. Here I demonstrate that these institutional variations affect the outcomes of the model but only within certain parameters; that is, variations in legislative powers between the executive and the legislature change the equilibrium outcomes by moving them between the executive's ideal point (p) and that of the legislature (c). When institutional power is concentrated in the executive, outcomes lie closer to p; when such power is more dispersed, outcomes lie closer to c. Preferences matter ultimately because the range of outcomes generated by changes in the distribution of powers is determined by the preferences of the executive and the legislative majority. The ideal points of the executive and the legislature define the boundaries within which domestic political *institutions* can affect the outcomes.

Here I review the five major legislative powers: agenda setting, amendment, ratification or veto, referendum, and side payments. I discuss the role of each in the legislative process and how they give power to the executive or the legislature. The next section shows how changes in the distribution of these powers alter the equilibrium outcomes of the model in chapter 3.

Agenda Setting

The ability to set the agenda in politics has long been recognized as a powerful capability. Keeping certain issues off the table and putting others on can affect the policy choices made later in the game. "The patterns of public policy . . . are determined not only by such final decisions as votes in legislatures, or initiatives and vetoes by presidents, but also by the fact that some subjects and proposals emerge in the first place and others are never seriously considered" (Kingdon 1984:2). Indeed, Bachrach and Baratz (1962) long ago recognized the potency of agenda setting, calling the ability to keep issues off the agenda the "second face of power." Even earlier Schattschneider (1960:68) deemed it "the supreme instrument of power."

Agenda setting usually refers to both the list of topics or issues that are raised for consideration, in our case for international negotiation, and the alternatives posed to deal with these issues. Both the specific topics themselves and the set of proposed solutions are included on the agenda. Although some (Kingdon 1984) separate these two elements of agenda setting, it is best for the discussion here to combine them, as many studies do (e.g., Riker 1993; Baumgartner and Jones 1993). Influence over legislation is conferred by the capacity to identify both certain topics (and not others) as "political issues" and certain proposals (and not others) to deal with these issues. In the context here, this includes both initiating negotiations with a foreign country over a particular issue and defining the proposals to be advanced at those negotiations.

How does agenda setting confer power on the holder of this capability? Control over the agenda allows a player to set the terms of debate. The agenda setter defines the problem or issue to be addressed, thus ruling out many other issues. The actor can define the alternatives available, ruling out those he or she does not prefer and structuring them so the one he or she prefers is most appealing to others. The agenda setter may be able to select the sequence in which options are considered, which is another way of inducing others to adopt the agenda setter's preferred policy. This capacity to define the problem, structure the alternatives to deal with it, and sequence the consideration of problems and alternatives gives the agenda setter great power. As one evaluation of the executive's various powers makes clear, "The bottom line is that when [executives], or ministers who are exclusively accountable to [them], are allowed to initiate legislation on their own, they are generally among the primary forces in the legislative process" (Shugart and Carey 1992:139).

Rational choice models have also demonstrated the agenda setter's power (e.g., Romer and Rosenthal 1978, 1979; Baron and Ferejohn 1989b; Ferejohn and Shipan 1990). This literature establishes that the median voter's or legislator's preferred outcome does not usually prevail; rather, the agenda setter tends to have the power to shape outcomes in favor of its own preferences. Other actors, however, are not without influence; there are limits on the agenda setter's autonomy. First, if other actors can amend the agenda setter's proposal, the latter will be incapable of deviating much from the median voter's position (Baron and Ferejohn 1989b). Second, even without amendment power, the agenda setter's proposal can be rejected if the other players have ratification power, thus forcing a reversion to the status quo. This reversion point—the outcome in the absence of an agreement—sets the limit on the degree to which the median voter or legislator is prepared to compromise. The farthest he can feasibly be pushed by the agenda setter is to a point that returns as much utility as the reversion point does. If the proposal is further from the median voter's or legislator's preferred point than is the reversion point, he will rationally reject the proposal. This agenda-setter game with ratification is the basis for the model in chapter 3.

Who tends to hold agenda-setting power, the executive or legislature? Among democracies, parliamentary systems tend to allocate agenda-setting power to the prime minister. "In more than 50 percent of all countries, governments introduce more than 90 percent of the bills" (Tsebelis 1995:304). Usually the executive and the majority party in parliament initiate legislation, according to the party program. But some parliamentary systems do give agenda-setting power to their legislatures. In Italy, for example, "the two [legislative] Chambers control their own timetable and agenda and can amend government proposals almost without restriction. There is considerable scope for backbenchers and for parliamentary party leaders to propose their own bills" (Furlong 1990:62). Among presidential democracies, initiation power varies widely (Shugart and Carey 1992:139–40, 155). Often legislatures can initiate, but sometimes and on certain issues the executive has the exclusive right of initiation.

Most interesting for this book, foreign policy issues tend to be an area where the executive, even in presidential systems, dominates the agenda-setting process. Since relations with foreign countries are involved and the expertise for this lies in the executive branch, presidents may initiate foreign policy legislation as frequently as prime ministers do. In general, then, agenda setting, especially on complex issues and matters of foreign policy, tends to fall into the executive's domain. Where it does not, the legislature yields important power over the executive.

Amendment Power

The ability to amend any proposal the agenda setter makes is a powerful capability. If amendment is allowed, then, it is not simply a vote on the agenda setter's proposal versus the status quo but rather a vote on the proposal versus the amendment to it.[1] This implies that the one amending can alter the agenda setter's proposal to bring it closer to the former's ideal point; maximally the amender can change the proposal to its ideal point. As noted before, amendment power trumps even the strong powers inherent in agenda setting. "Compared to the closed rule [that is, no amendments allowed], the opportunity to make an amendment under an open rule dramatically reduces the agenda power of the member recognized first and results in an outcome that more evenly distributes the benefits among the winning majority" (Baron and Ferejohn 1989a:1200). Further, the authority to amend is not an all-or-nothing power. Political systems tend to use restrictions on the types and number of amendments allowed or on other aspects of the amendment process; these often vary by the issue under consideration. Restrictions on amendment power should weaken the amender and strengthen the agenda setter.

Who tends to hold amendment power, the executive or legislature? In most parliamentary systems, the executive tends to be the agenda setter and the parliament usually has full power of amendment. (In addition, sometimes the government can introduce amendments into the legislative process.) In some systems, however, the government can prevent amendments or severely restrict the nature or time allotted for amendments; the French Fifth Republic is a good example: "The package vote and the guillotine, then, are both institutions that force the [French] National Assembly to make an 'up or down' choice on a policy package determined by the government" (Huber 1992:676). Whether the legislature's power of amendment is used depends on various circumstances. The extent of the executive's majority in the parliament matters: a weaker government may face more amendments. More controversial issues may prevent governments from using a closed rule. Parliaments that are well organized into committees tend to amend more. Indeed, the degree to which legislatures amend government bills is often used as a measure of the legislature's strength relative to the executive (Copeland and Patterson 1994:43, 72). A stronger legislature is one that amends more. Note that amendment power may be a better index of legislative influence than the legislature's acceptance rate of government bills, another frequently used measure. If legislatures have amendment power, then, they should rarely if ever reject a government bill; they will simply amend it to their liking. Rejection should occur infrequently, if at all, and this infrequency is not an indication of the legislature's weakness.

In presidential systems where the executive initiates, the legislature should desire amendment power. This power gives legislatures great

[1] The process of making and voting on amendments takes many forms and can itself be very complex. For instance, the process can move backward—that is, amendments are voted on in reverse order of presentation—or it can move forward—that is, each amendment is voted on in order against the status quo (Browne and Hamm 1996:167–68 fn).

influence since they can simply amend the president's bills to reflect their own ideal point; in this case the next power discussed, veto power, becomes important in restricting the legislature's control. Thus one would expect that legislatures would fight hard to keep amendment power, rarely relinquishing it where they controlled it. But in some cases legislatures do constrain themselves and allow the president to call for take-it-or-leave-it votes on its proposals. For example, the U.S. Congress has often agreed to relinquish amendment power on international trade policy (O'Halloran 1994). Several reasons have been suggested for why legislatures might opt for a closed rule. If amendment is allowed, the costs of delay and the difficulties of holding together distributive deals if they involve multidimensional issues may grow, making closed rule appealing at times (Baron and Ferejohn 1989a, 1989b; Shepsle and Weingast 1984; Krehbiel 1991). Thus, although one might expect that legislatures would never relinquish their right to amend freely, it may at times be rational for them to do so.

In presidential systems where the legislature introduces legislation and the president is not the agenda setter, the legislature should not be concerned about its right to amend. Holding both initiation and amendment power is redundant for an actor. However, if agenda setting arises within a small group of the legislature (e.g., a committee) or in one legislative chamber, then amendment power for the entire legislature (i.e., the floor or both houses) may still be desirable from the median legislator's point of view. Again, whoever wields unrestricted amendment power can significantly affect the outcome since that individual will amend the proposed policy to his or her own ideal point. As the amendment game in the next section shows, amendment power is very consequential.

In international negotiations, however, domestic amendment power is a difficult issue. If, after international negotiations successfully conclude an agreement, any legislature begins to rewrite that agreement through amendments, the international bargain may collapse. If the foreign country finds the amendments unacceptable, then international negotiations may have to recommence. Under complete information, of course, this should not occur. Executives at home and abroad should correctly anticipate the legislature's preferences and craft agreements that are acceptable to it; amendment should never occur. Nevertheless, executives in this area should desire control over legislative amendments; foreign countries may also want home executives to have this control, depending on the domestic actors' preferences. Whether legislatures will relinquish such control should depend on the cost of delay involved in renegotiation, the difficulties in maintaining distributive coalitions, and the differences between the majority's preferences and the executive's. If delay and renegotiation are costly, package deals are hard to maintain, or if their preferences are similar, legislatures may well choose to relinquish amendment power over international agreements.

Ratification or Veto Power

Ratification or veto is defined broadly here. It implies that some actor other than the agenda setter must approve the agenda setter's proposal by (some) majority. Whether this means a formal vote giving majority approval of a bill or a tacit showing of majority support depends on the issue and the country. If the executive is the agenda setter, then the legislature often has the ability to ratify, that is, vote for or against the executive's proposal. If the legislature sets the agenda, then the executive may have the right to veto its proposal. Ratification power may thus rest in the hands of either the legislature or the executive. It may also reside with societal actors, such as in corporatist systems where capital and labor groups must approve national wage settlements. As Tsebelis (1995) shows, such "veto power" is important because it limits the agenda setter's ability to change the status quo. The number of "veto players" and the difference between their preferences and those of the agenda setter are key; the more veto players and the greater the differences in preferences (i.e., the more government is divided), the less likely is a change from the status quo.

Ratification is interpreted broadly here. In some countries international agreements must be ratified by the legislature; for instance, in the United States the Senate must ratify treaties. In Denmark all treaties require majority parliamentary ratification, and all legislation involving transfer of power to international organizations requires either a five-sixths majority vote in the Danish parliament (the Folketing) or a majority Folketing vote and public approval in a referendum (Gjørtler 1993:357; Fitzmaurice 1988:284). Even where parliament does not have the right to ratify, international agreements usually affect domestic laws, budgetary expenditures, or even the constitution, and parliament will always need to approve these new or changed laws and constitution. Votes on these matters will in effect be motions to ratify or reject the international agreement. In the United Kingdom, for example, Parliament does not have the right to ratify international agreements, but agreements must be translated into domestic laws which do require legislative assent. Furthermore, the United Kingdom has employed another form of ratification on international issues; it used a popular referendum for dealing with European integration in the 1970s and may do so again. As will be discussed later, in some countries the parliament is bypassed and popular referendums are required for ratification.

In all cases anticipated reaction is at work: the agenda setter(s) and/or amenders will always try to craft bills or negotiate agreements that the executive, a majority in parliament, and/or the public will ratify afterward. As Morgenthau (1985:167) points out, "Popular support is the precondition of the President's stewardship of foreign policy. The creation of a public opinion supporting him, even at the sacrifice of some elements of foreign policy, is a task which a President can only shun at the risk of losing office and, with it, his ability to pursue any foreign policy at all." Not only are the terms of international agreements affected by ratification power but the decision to start international negotiations also depends on the chances for ratifying an agreement at home. Executives decide whether and how to negotiate internationally always keeping the ratification process in mind. They will only negotiate if they believe that some agreement, acceptable to them and the foreign country, is ratifiable at home. Hence they must always anticipate the reactions of domestic groups, such as their legislatures and important societal groups that have ratification power.

Ratification is a central element of chapter 3's model. The executive and the legislature share power because a majority in the legislature must approve the proposed international agreement that the executive submits to them. The executive and the foreign country know this in advance and realize that any proposed agreement must survive this domestic test before it can be implemented. If the legislature does not have the power to amend the proposed agreement, rejection of it means reversion to the status quo. This reversion point—the no-agreement outcome—sets the limit on the degree to which the legislature is prepared to compromise. The farthest the agenda setter can feasibly push the legislature from its ideal point is to a point that returns as much utility as the reversion point. If the proposal is further than the reversion point is from the median legislator's preferred point, the legislator will rationally reject the proposal.

Ratification or veto power is important for it constrains the agenda setter. Amendment power is more significant, however, since the amender can move the proposal to its ideal point and the ratifier cannot. The ratifier or vetoer must accept greater compromise from its ideal point than the amender; it will accept any proposal that is better for it than the status quo. Amendment power is more important than ratification, but it is also more costly. Amending a bill or agreement requires time and information that ratification may not. For one actor to have both amendment and ratification (or veto) power is redundant since after amending he or she will always ratify (as long as the amender represents the same majority as the ratifier). Hence depending on how costly amending is—and it may be very costly in international agreements—actors will desire either amendment or ratification power if they do not have agenda-setting abilities.

Who has ratification or veto power? In parliamentary systems, since the executive is usually the agenda setter, the legislature controls ratification. Government proposals require a legislative majority. As Laver and Shepsle (1994:3) claim, "One of the main jobs of the legislature in a parliamentary democracy is to sit as a court passing continual judgment on the record of the executive, and continuous sentence on its future." In single-party majority governments ratification is usually taken for granted, unless party discipline is poor. In minority or coalition governments ratification requires the assent of the legislative coalition supporting the executive. In such cases ratification may be far more constraining for the executive. Since most governments are made up of coalitions, this makes the ratification game of prime importance. In parliamentary systems, the executive's use of a veto is fairly rare. Having agenda-setting power lessens the need for a veto.

In presidential systems, veto power for the executive is more common. If legislatures control the agenda, then it is important for presidents to have the veto as it allows them to constrain the legislature. Even when the president initiates an agreement, veto power is significant because it allows the president to constrain the legislature's power to amend the agreement. Although all presidents do not have veto power, all are required to take some action on legislation passed by their legislature within a prescribed time (Shugart and Carey 1992:133–35, 155). Veto powers also vary in their scope: package vetoes limit the executive's power; partial or item vetoes increase it since only offending parts of a bill need be vetoed; and pocket vetoes greatly enhance it since simply by doing nothing the executive gains control of the last move in the legislative game. As the recent U.S. debate over changing from a package to a line-item veto makes clear, the balance of power between the executive and the legislature largely hinges on the distribution of legislative powers (e.g., Pious 1979). To complicate matters, legislatures can often override executive vetoes, usually by some supramajority. Such override again limits the executive's veto power.

Ratification or veto power is thus important and variable across political systems. Again, in foreign policy—especially international negotiations—the executive, whether in presidential or parliamentary systems, usually initiates policy. If the legislature cannot amend, then its ratification power is important and the executive has no need for a veto. If the legislature can amend, then its ratification power is less important and the executive's veto power could be critical. But amending international agreements may be tantamount to demanding their renegotiation internationally. Hence legislatures may refrain from such amendments and focus on their ratification powers, as chapter 3 presupposes. Later I show what happens when the legislature can amend and the executive can and cannot veto.

Proposal of Referendums

Referendums are votes by the public either approving or rejecting a government policy proposal. They tend to be take-it-or-leave-it votes. Frequently the executive controls the proposing and wording of referendums, rendering them equivalent to a vote on the executive's popularity or a ratification of her proposals. Such control over referendums enables executives to get approval for policies that the legislature is hesitant to approve, thus diminishing the legislature's influence. Because referendums tend to pass, executives use them precisely to obtain public support for executive proposals (Butler and Ranney 1978; Pierce, Valen, and Listhaug 1983; Lijphart 1984:30–32).

In some countries, however, referendums are not under the executive's control. Often, as in Switzerland, they are required by the constitution for various policy changes. Sometimes actors other than the executive have the right to call for referendums on the government's policy. In Denmark, for instance, a minority of sixty members of the Folketing can demand a referendum (Fitzmaurice 1988:283). In these cases the executive, whether she desires it or not, is forced to seek popular ratification of her proposals. The public becomes the ratifier. Knowing this, the executive must anticipate the median voter's preferences and craft international agreements to secure the median voter's approval. In this case, either in addition to the parliament or instead of it, the median voter becomes the ratifier of government proposals. Here referendums are less a source of government influence and more one of public constraint on the executive.

Who controls referendums affects how they are used. They may be a source of executive power when they allow the executive either to bypass or override the legislature. When successful, they represent a vote of confidence for the executive and buttress the executive's power vis-à-vis the legislature. Where referendums are mandated by the constitution or can be called by actors other than the executive, both the executive and the legislature may be weakened. In these cases the public checks the executive and may usurp the legislature's power to ratify government proposals. All these types of referendums are equivalent to a ratification game. The only difference is that the ratifier is now the median voter, not the median legislator. This is the same game as shown in chapter 3's model, except that the public takes the legislature's role.

Side Payments

Side payments refer to a broad range of tactics that have one common element. As the name implies, side payments involve an actor giving up value on one issue in exchange for other actors giving up value on another issue. Thus side payments may be viewed in a broader sense to include such practices as logrolling, vote trading, compromise, concessions, reciprocity, bribes, and issue linkage. All these tactics involve the same general principle that is the centerpiece of side payments: an actor gives up value on one issue of lesser importance in order to gain value from others on an issue of greater importance.

For example:

> Vote trading is the same as logrolling in much of the literature. Vote trading implies that a politician trades away his vote on one particular issue for the votes of others on some other issue of more concern to him and his constituents. Sometimes logrolling is applied to situations where all deals go into one omnibus package bill to be voted on simultaneously; and vote trading as applying to deals that are voted on separately. But they can be used interchangeably. . . . Logrolling arises due to differences in voter [preference] intensities. If a minority group supports y very strongly but cares much less about whether z or w prevail and another minority strongly wants w to win over z but cares less about whether x or y wins, then a coalition of y and w can secure joint victory and it is in their interest to do so. (Stratmann 1992:1162)

The critical factor for side payments is that individuals have different preferences or different intensities of preferences across issue areas. As Riker (1962:125) and others (e.g., Miller 1977) have pointed out: "If all intensities of preferences are identical over all individuals and over all issues, no trading of votes is possible. In this case the individual feels as strongly on one issue as on any other, and he will never rationally agree to exchange his vote for reciprocal favors."

Although many recent studies either disagree or implicitly treat logrolling, vote trading, issue linkage, reciprocity, and concessions as distinct tactics, the early literature on side payments explicitly recognize their commonality. In their seminal contributions Luce and Raiffa (1957), Riker (1962), and Buchanan and Tullock (1962) point out the functional equivalence between all these maneuvers.

However, these tactics differ in other important aspects. First, they may represent an exchange that is concluded either simultaneously or sequentially. One often thinks of a "package deal" or a logroll as being a single measure where issues have been bundled together for the purpose of making compromises across them. In contrast, vote trading often occurs sequentially, such as when different issues are voted on in a particular order over a certain time period.

Second, side payments can be implicit or explicit. Actors involved often do not want their offer of or compliance with side payments to be explicitly negotiated or publicly acknowledged. This behavior may be illegal (one thinks of bribes), immoral, or just offensive to others. When actors interact frequently on many different issues, implicit deals are more likely. Reciprocity, a favorite strategy under such circumstances, also embodies the principle of side payments (McGinnis 1986:165; Dixon 1986).

Third, side payments, all of which involve the transfer of utility from one actor to others, can be made in different "currencies." Money, votes, future policy choices, political appointments, back-scratching, territory, or almost any other good or service that has value to one of the actors involved can be used as a side payment.

Finally, side payments may involve either promises or threats, a point that is not well accepted. Side payments are frequently assumed to imply only promises. Actor 1 promises to give actor 2 a concession on issue A in exchange for actor 2's giving in to 1's demands on issue B. This notion of mutual gains from side payments, or issue linkage, is prevalent in the literature. Many separate this from the "leverage" function of side payments (e.g., Sebenius 1983; Mayer 1992; Friman 1993). For example, Tollison and Willett (1979:448) make the following argument:

> Our theory stresses issue linkages as a means of overcoming distributional obstacles to international agreement where direct sidepayments among countries are not a politically feasible alternative. Th[is] mutual benefit theory contrasts with and supplements the traditional rationale for linkage in terms of extending one's leverage in one area of negotiations to other areas. Integration of these two approaches is not attempted in this paper, but we believe it is an important task for future research on issue linkage.

These two functions should be seen, however, as one and the same. Side payments are a means of exercising power, whether through negative or positive sanctions (Baldwin 1989; Oye 1992). They are intended to make an actor do something he would not otherwise do. Both threats and promises serve this function; they differ principally in the way they alter the recipient's baseline of expectations. As Riker (1962) and Stein (1980) rightly point out, threats are also a form of side payment: "At one extreme a leader may so manipulate events that he is able to threaten members of the body with reprisals if they do not join his proto-coalition. The side-payment then consists of a promise not to carry out the threat and the gain of the follower is simply escape from prospective misfortune" (Riker 1962:109). Lest one think this is purely an international phenomenon, Riker goes on to say, "But even in the most thoroughly democratic societies . . . , this kind of side-payment is frequently offered and accepted"; the example he uses is party discipline (109). In the situation involving a threat, then, actor 1 threatens to do something negative to actor 2 on issue A if actor 2 will not give in to actor 1's demands on issue B.

Both threats and promises involve the exchange of values between actors across different issues when the actors value those issues differently, that is, they embody the core principle of side payments. Hence side payments can involve explicit transfers of money from one actor to another as part of a promise simultaneous with the other actor's behavior, as when a legislator "sells" his or her vote. Or they can involve an implicit threat to veto all future policies in an area an actor desires unless the actor goes along on the issue at hand, as the Greek government tried to do in the European Union (EU) over the issue of recognizing Macedonia (*International Herald Tribune*, December 17, 1993, p. 1). In other words, side payments comprise a broad group of tactics that are pervasive in politics, both internationally and domestically.

Side payments here are conceived as domestic in nature, that is, they are promises or threats that executives make to interest groups or legislators. They are not international—from one government to another. This argument is distinct from Realist claims about side payments as international tools of influence. For Realists, side payments are a means of equalizing the gains generated in agreements between states. One government employs side payments (compensation, linkage) vis-à-vis another to arrive at a "balanced" deal, so that no state achieves relative gains (Morgenthau 1985; Waltz 1979; Grieco 1990). For Realists, side payments are part of the international game.

According to my argument side payments are part of the domestic game, used by the executive to affect her ratification game with the legislature. Side payments can be given to legislators or targeted toward interest groups in order to obtain these groups' ratification of the executive's proposal. Side payments, then, represent another power that is available largely to the executive. At the end of the game the executive may be able to make an unratifiable agreement palatable by offering side payments to legislators and/or interest groups. For example, in the NAFTA agreement President Clinton was able to secure legislative votes in the final days of negotiations by offering exemptions from the agreement to various producers in important congressional districts. As noted above, party discipline can also be thought of as a type of side payment; it often takes the form of a threat or promise by the executive to a legislator from the executive's party. For instance, in the United Kingdom a three-line whip invokes the threat of expulsion from the party and hence from office if legislators do not vote the government line.

Side payments can also be a critical tool in the hands of an executive desiring to ratify an international agreement. Instead of having to renegotiate the parts that legislators do not like, the executive may be able to "buy" increased support for the agreement through concessions on other issues.

Distributions of Legislative Powers and Policy Outcomes

Political systems distribute legislative powers between the executive and the legislature in various ways. Moreover, the distribution may vary according to the issue. As Tsebelis (1995:307) claims, "Generally, the number of veto players varies by issue." These institutional differences affect the outcomes of our game. This section discusses how distinct combinations of the

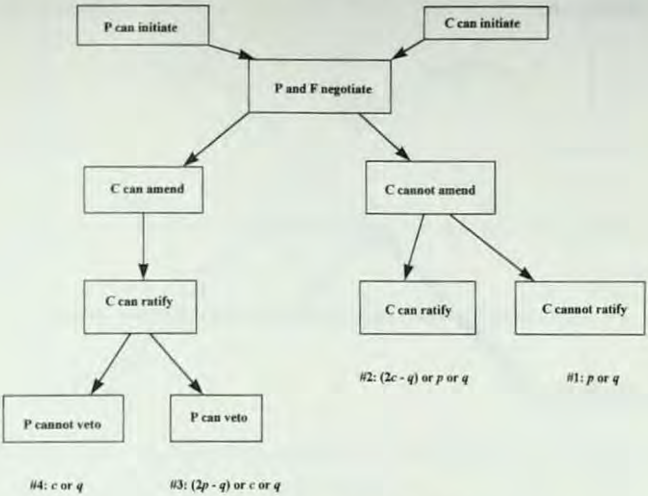

Figure 4.1 Equilibria in Four Institutional Games, $q > p, c$

first three powers—agenda setting, amendment and ratification, and veto—affect the two-level game presented in chapter 3. The use of referendums and side payments are not considered since the former are treated as a form of ratification and the possibility of the latter always exists, giving the executive the last move in the game.

Using the complete information game from chapter 3, I show that the executive's and legislature's preferences bound any equilibrium outcome in the game, no matter what the distribution of powers. In our spatial model (chapter 3), the region where the institutional balance between the executive and the legislature matters is in the area where the status quo is greater than either the executive's or the legislature's ideal point (i.e., $q > p$ or $q > c$). When the status quo is less than the foreign country's ideal point ($q < f$), then f always dominates. (Note that when F has domestic politics this changes the outcome, symmetrically as in the home country case.) When q is between f and the most dovish home actor ($f < q < p, c$), then no agreement is possible; q dominates. Only when the status quo is greater than either p or c does its domestic institutional structure matter. Hence for the discussion here I refer to the area where $q > p$ or $q > c$. In this region as the distribution of legislative power shifts from the executive to the legislature, the legislature's ideal point becomes more likely to be the equilibrium outcome. Conversely, when power is concentrated in the executive's hands, the executive's ideal point dominates the equilibrium outcomes.

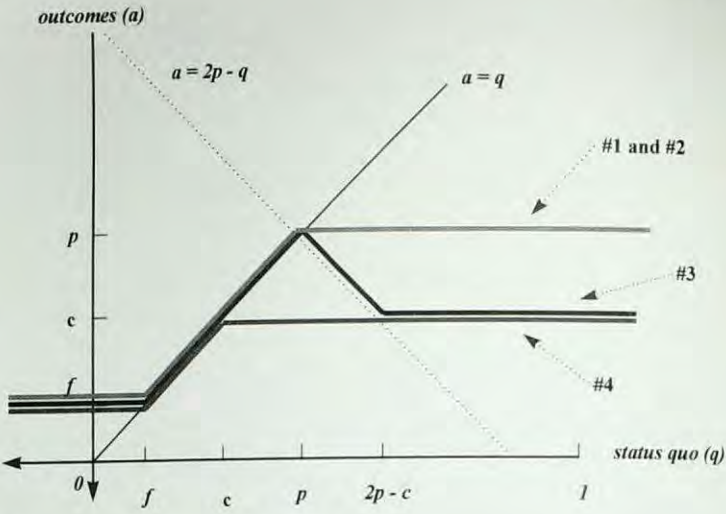

Figure 4.2 Four Institutional Games, $c < p$

Figure 4.1 shows a mapping of the possible combinations of three legislative powers between the executive and the legislature. These combinations result in four different games. In the first—the no amendment-no ratification game, illustrated by following the arrows at the farthest right of the figure to outcome #1—the executive dominates, as the legislature cannot amend or ratify. Even if the legislature can initiate under these circumstances, the executive is always able to implement her own preferences in negotiations with the foreign country. Whenever $q > p$, P's ideal point is the outcome.

Figures 4.2 and 4.3 show the (complete information) equilibrium outcomes of the games when different institutions are present; in Figure 4.2 the executive is the hawk ($f < c < p$), and in Figure 4.3 the legislature is the hawk ($f < p < c$). In the no amendment-no ratification game (#1), it does not matter whether the legislature is a hawk or a dove; the executive's preferences dominate since she need not satisfy the legislature. Where legislatures are this weak, domestic politics will be less salient. This situation reduces to the unitary actor model, where P and F negotiate by themselves. But note that in Figure 4.3, when the legislature is a hawk, cooperation is more likely when the executive dominates than in the other three games. In the area $p < q < c$, cooperation is not possible under the other three institutional arrangements; however, it is possible when the executive has a concentration of legislative powers. In this situation the foreign country always prefers a distribution of powers that makes the executive dominant. Not surpris-

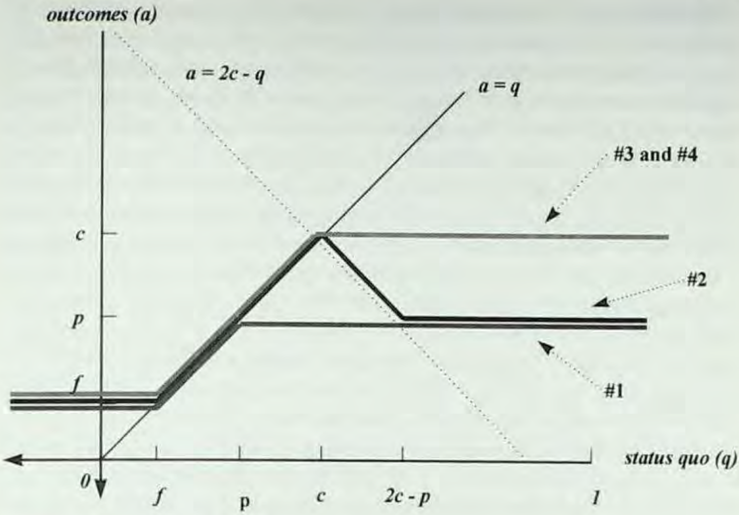

Figure 4.3 Four Institutional Games, $p < c$

ingly, when the legislature is a hawk, concentration of powers in the hands of the dovish executive makes cooperation most likely.

The second game is the ratification game. This is where P or C initiates, P negotiates with F, and C cannot amend but can ratify.[2] It is represented by outcome #2 in Figure 4.1. This is the game used in our model in chapter 3. As the equilibria for the ratification game in Figures 4.2 and 4.3 show, the executive dominates over much of this space (when $q > p$). Sometimes though, when the legislature is hawkish, the executive is forced to moderate her proposals to obtain C's ratification (when $c < q < [2c - p]$). In the ratification game the legislature has some influence over the international agreement and so at times is able to extract a better deal for itself from the executive and the foreign country. But when the legislature is hawkish, this increased influence means that cooperation is less likely (when $p > q > c$) than in the executive dominance game (#1) above. But the legislature is still weak here; indeed, when the legislature is a dove relative to the executive in the ratification game, its influence is imperceptible. The concentration of legislative powers in the executive's hands again produces outcomes closer to those the executive prefers, and in one instance renders the legislature without influence.

[2] It does not matter whether P or C initiates because P must negotiate with the foreign country. In those negotiations P can do what she likes—in effect, P can amend any proposal by C; C's powers after the negotiations determine what P does during them. For instance, if P knows that C can neither amend nor ratify, P always selects her ideal point, or q. But if P knows C can ratify, P will sometimes have to moderate her negotiated position to ensure that C ratifies.

The third game is the amendment-veto game, illustrated by outcome #3 in Figure 4.1. This game shows the progressive movement of the equilibrium outcomes toward the legislature's preferences as the distribution of legislative powers comes to favor it. In outcome #3, P or C initiate, P negotiates with F, C amends the proposed agreement, and P can still veto it afterward. (Note that ratification for C is not important if it can amend; it will amend the proposal to its ideal one and thus always ratify what it amends.) Figures 4.2 and 4.3 show the equilibrium outcomes of the amendment-veto game, relative to those of the three other games. What is obvious is that the outcomes now are closer to the legislature's preferences than they were in the no amendment-no ratification game (#1) and in the ratification game (#2). In Figure 4.2, even though C is a dove, it is now able to influence the outcomes because of its amendment power. In the ratification game C was irrelevant as a dove. With amendment power, as a dove C can extract better outcomes for itself as well as for the foreign country; that is, when $q > p$, the outcomes are no longer p as in the two previous games but now move toward C's ideal point. The same is true when the legislature is a hawk; in Figure 4.3 when $q > c$, the outcome becomes c, rather than p as in the two games above. When the legislature is a dove as in Figure 4.2, the foreign country would definitely want the home legislature to have amendment power. In Figure 4.3, however, the legislature is hawkish and hence the foreign country does not want it to have amendment power since this will move outcomes away from f and toward c.

The fourth game is the amendment-no veto game, which is the outcome illustrated at the far left of Figure 4.1. It represents the maximum influence for the legislature. In outcome #4, C can amend but P cannot veto. This distribution of powers represents the weakest point for the executive. Basically the executive may be able to initiate and negotiate internationally, but since C can amend without recourse from P, P is relatively powerless. The equilibrium outcome (when $q > p$) is always C's ideal point. (Note that when $c < q < p$, the outcome can be either q or c depending on whether P or C initiates or whether C can "amend" to create an agreement P does not prefer to q.) When C is a hawk, the outcome is the same as in the amendment game with a veto (#3), as shown in Figure 4.3. When C is a dove and P cannot veto, the outcome changes slightly from the amendment-veto game (#3), as shown in Figure 4.2. The legislature's ideal point dominates now through the entire range of outcomes ($q > p$). The legislature becomes most powerful here relative to the other three distributions of powers. Note that when C is a dove, the foreign country, F, will want the executive to have as few legislative powers as possible.

Institutions clearly matter for the *terms* of cooperative outcomes. As the executive gains control over legislative powers, the equilibrium outcome moves toward the executive's preferred policy. As power is dispersed toward the legislature, its preferred policy becomes more likely as an outcome of the two-level game. Domestic actors' preferences nevertheless set the boundaries for these institutional effects. No matter which institution is in place, the equilibrium outcome (when $q > p$ or $q > c$) is always between P's and C's ideal policy. Whatever the actors' preferences are, though, they always desire a concentration of legislative powers in their own hands since the policy chosen then will be closest to their own ideal point. Thus actors, if their preferences differ, should also differ over the best institutions to have in place; the distribution of legislative powers should matter for the actors and should be an area of contestation.

The *probability* of cooperation is also affected by the institutional arrangements in place. Cooperation becomes more likely whenever powers are concentrated in the hands of the most dovish domestic actor. As Figures 4.2 and 4.3 show, when the legislature is a dove (Figure 4.2), concentration of legislative powers in the legislature makes cooperation more likely. When the executive is a dove (Figure 4.3), concentration of powers in the executive's hands makes cooperation more likely. Hence dispersion of legislative powers into the hands of the legislature need not undermine international cooperation. It all depends on the domestic actors' preferences. Institutions matter, but preferences are primordial.

Presidential and Parliamentary Systems

The model here would be simplest if presidential and parliamentary systems each had associated with it a particular distribution of legislative power for the executive and the legislature. This, however, is not the case. Comparative studies of these two systems used to take the United Kingdom and the United States as paradigmatic cases in representing parliamentary and presidential systems, respectively. But more and more the dichotomy based on these two systems has been rejected. First, many came to recognize that parliamentary systems differed significantly from the British model as well as from one another. For instance, Lijphart (1984) and others (e.g., Laver and Schofield 1990) have distinguished between majoritarian systems, like the one in Great Britain where single parties control governments, and "consensual" systems, where multiparty government is necessary. Or as Weaver and Rockman (1993:8) note: "There is no 'typical' parliamentary system that can be compared with the U.S. presidential system: differences are especially pronounced between parliamentary systems using proportional representation and single-member-district plurality systems as typified by the Westminster model. Moreover, the way that power is distributed in parliamentary systems may change over time even when basic institutional arrangements do not change." For them, comparing the

U.S. presidential system with parliamentary systems makes no sense since "policy structures and processes in parliamentary systems can vary tremendously across countries and over time. Indeed, comparing parliamentary systems and the American separation-of-powers system is less a matter of comparing apples and oranges than of comparing apples with all other fruits" (19).

If differences among parliamentary systems are now well accepted, differences among presidential systems are becoming better understood. As Shugart and Carey (1992:1–2) claim:

> [Presidential] regimes differ from the common parliamentary type in that there are two agents of the electorate: an assembly and a president . . . [T]here are myriad ways to design [presidential] constitutions that vary the relationship of the voters' two agents to one another, as well as to the electorate. Regimes with elected presidents vary in the ways in which the president may check, cajole, confront, or simply submit to the assembly majority. We even find some systems that give the president so little power relative to the assembly that they are effectively parliamentary. We thus do not see a presidential regime as being the polar opposite of parliamentarism, as much of the literature implies.

Shugart and Carey (1992) and Baylis (1996) also examine the intermediate case of semi-presidential systems, where an elected president sits beside a prime minister who is responsible to the legislature. They show that these types of systems also vary greatly: "There are, however, significant differences in constitutional details in the six [semi-presidential] countries: how the presidents are chosen, what formal powers are accorded them, the circumstances under which prime ministers and cabinets can be forced from office, and so on. . . What can be said in all of these cases is that the question of the actual distribution of executive power has by no means been settled" (Baylis 1996:300). As much of the recent literature concludes, the distinction between presidential and parliamentary systems is often unhelpful, usually impossible to defend, and a poor guide to the relationship between the executive and the legislature.

The distinction between presidential and parliamentary forms of government is made in terms of their origin and survival powers. As Lijphart (1984, 1992) has argued, two central differences exist between them:

> Parliamentary government, or cabinet government, can be concisely defined as the form of constitutional democracy in which executive authority *emerges from*, and is *responsible to*, legislative authority. The two crucially important characteristics of parliamentary government which distinguish it from presidential government are italicized in the definition. First, in a parliamentary system, the chief executive . . . and his or her cabinet are responsible to the legislature in the sense that they are dependent on the legislature's confidence and that they can be dis-

> missed from office by a legislative vote of no confidence or censure. In a presidential system, the chief executive . . . is elected for a constitutionally prescribed period and in normal circumstances cannot be forced to resign by a legislative vote of no confidence. . . . The second difference . . . is that presidents are popularly elected . . . and that prime ministers are selected by the legislatures. (1984:68)

Lijphart argues that only these two differences are fundamental because there are empirical examples that defy every other commonly cited difference between them (1984:71–74). Thus the contrast is between a *separation* of executive and legislative powers of origin and survival in a presidential system and their *fusion* in a parliamentary one.

What does this formal distinction mean for the balance of power between the legislature and the executive in the legislative game of crafting policy? It is often felt that because of the fusion of survival of the legislature and executive in parliamentary systems, executive dominance is such that the parliament plays an insignificant role. If the executive completely dominates the relationship, then they do not actually share control over decision making and the unitary state model becomes more appropriate. In terms of the balance of power between the executive and the legislature, in Figure 4.1 outcome #1 represents such executive dominance; here the executive controls initiation and the legislature cannot amend or ratify. In this situation the executive controls international negotiations, and thus agreements reflect the executive's preferences and those of the foreign country.

Although executive dominance may characterize the British system when party discipline is high, it is not a defining characteristic of all parliamentary systems. These systems vary widely in the balance of power between the executive and the legislature. Just as presidential systems may vary in the powers of the executive vis-à-vis the legislature, so may this relationship vary in parliamentary democracies. Parliamentary systems can be divided into at least two groups: those tending toward executive dominance and those with greater legislative-executive power sharing.

The executive's predominance is most assured in what Lijphart calls "Westminster" or majoritarian systems, that is, parliamentary systems with two parties, plurality voting, and single-party majority governments, as in the United Kingdom and some of its former commonwealth countries (1984:16–19). In these systems, because the legislative majority comes from the same party as the executive, the legislature may appear to play a very minor role in decision making:

> A parliamentary executive with a secure basis of support among a majority of the assembly can legislate in a virtually unimpeded manner. That is, nearly all proposed laws may be initiated by the cabinet and supported without amendment after their official reading before parliament. It would be folly, however, to infer

> from this situation that the parliament is powerless and that the regime is therefore a "facade democracy." . . . In the hypothetical majority party parliamentary case just sketched, a clear equilibrium stems from the constitutional balance of powers between the executive and assembly. To the extent that the majority party can come to agreement internally on policy matters, cabinet proposals will reflect the general position of the party at large. (Shugart and Carey 1992:132)

But even in this case of clear executive dominance, the legislature still has a role. "From time to time, . . . the executive may deviate from the intended policy direction of the mainstream of the party or parties that constitute the assembly majority . . . The requirement of parliamentary confidence means that the [majority] can wield their ultimate sanction, voting for censure and thereby bringing the downfall of the government" (Shugart and Carey 1992:132). The ability to vote no confidence always gives the legislature a say in the ratification of policies. But it does so at a high cost, since bringing down the government may necessitate new elections for the legislature. However, not all votes against the government are cast as votes of confidence; this too depends on the system. A recent study of the confidence vote procedure concludes that an executive with unilateral control over the procedure wields much influence but that in general "the 'confidence relationship' between governments and parliaments is a two-way street. Members of parliaments can certainly attempt to control policy outcomes by submitting, or threatening to submit, votes of no-confidence in the government. But the prime minister and the cabinet can also take the initiative by demanding that parliament participate in a vote of confidence in the government" (Huber 1996:269). Hence even in two-party, single-member plurality systems, the executive may be powerful but even there must maintain the confidence of the legislative majority.

Only 13 percent of parliamentary governments in the postwar period have been single-party majorities (Laver and Shepsle 1991). This small group is represented by the majoritarian (Westminster) systems—as in the United Kingdom, Canada, New Zealand, and Australia. Among them the polyarchic model used here might not hold. In these cases the prime minister and the cabinet dominate policy making; the legislature shares little authority in this process. "Because the cabinet is composed of a cohesive majority party in the House of Commons, it is normally backed by the majority in the House of Commons, and it can confidently count on staying in office and getting its legislative proposals approved" (Lijphart 1984:7). The cabinet's ability to "blackmail" the parliament into approving its proposals by using the threat of new elections is particularly strong (Schlesinger 1992:91). In these cases the executive rarely needs to worry about the legislature's approval of policies and does not face the problem of divided government, as long as party discipline holds (Crossman 1972:31). Under a single-party majority government, "The executive's partisan control over the legislature will ensure that there is no legislative impediment to executive decision-making" (Laver and Shepsle 1991:253). Power over decision making will not be shared, and a unitary model of domestic politics is more appropriate.

Among parliamentary systems, on the other hand, multiparty proportional representation (PR) systems, which Lijphart labels "consensus" models, necessitate greater power sharing between the executive and the legislature. What propels this power sharing is the need for coalition government. In these multiparty PR systems a single-party majority government is rare. Instead, the government is usually created by a coalition of parties or a minority party. In a minority government where the executive must find a majority in the legislature for support on each issue, the power of the legislature is apparent. In a coalition government the prime minister represents one party in this coalition, whereas the cabinet is formed from the entire coalition. Within the government the parties must negotiate over the policies the executive proposes. The cabinet and its legislative majority will thus share decision-making power. Lijphart (1984:25) draws on Belgium to make this general point:

> Belgium has a parliamentary form of government with a cabinet dependent on the confidence of the legislature as in Britain. Nevertheless, Belgian cabinets, largely because they are often broad and uncohesive coalitions, are not at all as dominant as their British counterparts, and they tend to have a give-and-take relationship with parliament. . . . Although Belgium has a parliamentary system without a formal separation of powers, its executive-legislative relationship may be regarded as an informal or semi-separation of powers.

Thus the game between the legislature and the executive greatly depends on how decision-making powers are allocated between the two branches.

The vast majority of advanced industrial democracies are multiparty parliamentary systems. Only a few presidential or semi-presidential systems (the United States, Finland, and the Fifth Republic of France) and a few two-party parliamentary systems (the United Kingdom, New Zealand, and Australia) exist. In all multiparty parliamentary and presidential systems, the legislature and executive share power. The legislature's influence varies significantly within and across constitutional systems. For example, Italy and the Fourth French Republic are viewed as having strong parliaments, whereas the United Kingdom is seen as having a weak one, with Germany's Bundestag falling somewhere in the middle (Norton 1990a; Furlong 1990; Saalfeld 1990). "In parliamentary systems, the dominance of the cabinet in Britain may be contrasted with the classic example of legislative supremacy and weak cabinets in the French Third and Fourth Republics. Among contemporary democratic regimes, Italy is another, but much less extreme, example of imbalance in favor of the legislature" (Lijphart 1984:79). Hence although similar in their powers of origin and survival, parliamentary systems, like presidential ones, differ in the balance of power between their legislatures and executives.

Thus at least three types of systems need to be distinguished: two-party parliamentary, multiparty parliamentary, and presidential (Shaw 1990; Lijphart 1984; Powell 1982). Each has a different power-sharing relationship between its legislature and executive. "Constitutional systems based on the Westminster [two-party parliamentary] model presuppose that political executives will operate within the legislature and lead it; constitutional systems based on the [presidential] model presuppose that political executives will be separated from the legislature; constitutional systems based on the [multiparty parliamentary] model presuppose a range of 'parallel' executive-legislative relationships tending to fall at various points between 'fusion' and 'separation'" (Shaw 1990:251). The executive is most powerful and autonomous in the two-party parliamentary case.

On the other hand, the legislature may be at its peak of influence in some presidential systems. As Lijphart (1984, 1992) and others note, "There is no doubt that constitutional separation of powers tends to give the legislature more strength and independence vis-à-vis the executive than does fusion of powers. In particular, the Unites States Congress is a strikingly powerful legislative body compared with the parliaments of all of the parliamentary systems discussed in this book" (1984:78). This separation of powers, however, does not necessarily imply legislative dominance; some presidential systems—for example, Mexico—have weak legislatures, as Shugart and Carey (1992:156) show.

In general, then, in multiparty parliamentary and presidential systems, the legislature will share more authority over policy making than in the two-party parliamentary ones. Thus the presidential-parliamentary distinction appears less helpful than the categorization of executive-legislative relationships by the distribution of legislative powers. For our purposes, how these powers are distributed between the executive and the legislature on the issue at hand will have a greater effect on how the game is played domestically than will the presidential or parliamentary nature of a regime.

Change of Ratification Procedures

The distribution of powers between the executive and the legislature has important consequences for both the possibility and terms of international cooperative agreements. The ability to change this distribution is therefore an important power resource. If domestic actors have different preferences over policy, their preferences regarding the institutions used to choose policy should also vary. Actors ought to be concerned not just with the policy choice itself but also with the distribution of legislative powers in each issue area. Conflict internally over which policies are chosen should translate into conflict over which institutions are used:

> In the end, therefore, institutions are no more than rules and rules are themselves the product of social decisions . . . One can expect that losers on a series of decisions under a particular set of rules will attempt (often successfully) to change institutions and hence the kind of decisions produced under them . . . Thus the only difference between [preferences] and institutions is that revelation of institutional disequilibria is probably a longer process than the revelation of disequilibria of [preferences] . . . [I]nstitutions are probably best seen as congealed tastes. (Riker 1980:444–45)

Institutions embody actor's tastes—what I call *preferences*—and thus contests over preferred policies necessarily spill over into contests about institutions.

The institutional process used domestically to accept an international agreement plays an important role. These procedures determine who initiates, amends, and ratifies the agreement. As the previous sections show, who controls these processes affects the terms and probability of agreement. The domestic debate over international cooperation should also include the definition of these procedures. The following discussion focuses on only the power of ratification since it is the one used in the model in chapter 3. But in theory all elements of the legislative process should be amenable to the same dynamics. Actors should be concerned about who controls not only ratification but also initiation, amendment, and veto power.

The model in chapter 3 focused on a ratification game. Here I argue that who this ratifier is determines both whether international negotiations on an issue ever begin and what the terms of an agreement on the issue look like. In thinking about international cooperation, the executive must estimate whether any agreement is possible and which agreements will be ratifiable domestically. The decision to start international negotiations depends on the chances for ratifying an agreement at home. Negotiators must anticipate the reactions of their legislatures and of important societal groups.

Rationally a leader will always seek to negotiate agreements that can be ratified at home; if no agreement exists that the legislature will approve of, then international negotiations should never begin. It is costly for executives to negotiate an international agreement only to have it turned down domestically; this may in fact be the worst outcome from an executive's view.[3] Leaders' reputations for being able to conduct foreign policy abroad are damaged, and at home they appear weak and constrained by their legisla-

[3] An executive might wish to be seen as trying to cooperate, while not actually being interested in cooperation. This would imply that the costs of the effort were less than the benefits of being seen as trying to cooperate. The argument here is that these costs of trying and failing may be quite high.

tures, not to mention their loss of time and effort in negotiating. Hence the decision to begin negotiations should indicate that the executive believes the legislature will indeed ratify some agreement, which the foreign country will also accept.

The process of ratification also matters because it determines the median voter from whom the executive must secure approval. The form the ratification vote takes influences the terms of the agreement made. Whether ratification takes place through a simple legislative majority, a supramajority (like a two-thirds majority) or a popular referendum affects which groups will decide the outcome. The ratification process determines which actors count, thus determining the structure of domestic preferences. For example, the preferences of the legislator who represents the winning vote in a simple majority contest may be closer to those of the executive than are those of the legislator who represents the winning vote in a two-thirds majority contest in the same legislature. This change in the preference structure will change the nature of the agreement that the executive can get ratified and thus will affect the agreement made, as chapter 3 demonstrates. Under different ratification institutions, the median voter differs. Thus the executive's calculations about what type of agreement can be ratified domestically will also differ.

The rational executive will thus agree to certain terms in international negotiations given her beliefs about the ratification process. If the executive begins the international negotiations believing that ratification will occur as a result of a simple majority vote in the legislature, the executive will negotiate an agreement that the median legislator will support.[4] A different means of ratification logically implies a different agreement. The structure of preferences domestically will change, and new actors will be involved in the ratification game.

A problem for the executive arises when the institutions of ratification are changed after the fact; that is, if after the agreement is made, it is decided that a referendum is necessary instead of a parliamentary vote, the executive is faced with a dilemma. The agreement negotiated, which the median legislator would support, may not be one that the median voter will support. Indeed it is likely that this agreement will be rejected because these two groups may have different preferences. Thus any change in the institutions of ratification after an agreement is reached will make ratification, and thus international cooperation, less likely.

This may be one reason why the domestic opponents of an international agreement often concentrate their ire on the ratification procedures. For them, one way to defeat an international agreement is to try to change the

[4] Can the executive be expected to know the median legislator's preferences? In parliamentary systems and in systems with high party discipline, the executive is quite likely to know them. Party affiliation will determine the legislator's vote.

institutions of ratification after the fact. It is thus anticipated that domestic opponents of an international agreement will try to alter the ratification procedures so that actors with preferences closer to theirs become the median voter in the ratification game. Ideally they would like to become the crucial voter, but any change may be sufficient to cause an agreement to fail domestically. When such opponents are successful, the probability of international cooperation will decline.

The ratification procedures should be a subject of contention in the cooperation process; they may be disputed before, during, and after the international negotiations. Both the executive and the other actors know the importance of the ratification procedures. Thus they will realize even before the international negotiations begin that choosing these procedures will have a major impact on the possibility of any agreement and on its terms. Establishing the procedures for ratification should be a major element of the domestic game.

Ratification procedures are issue-specific, which means they tend to vary according to the issue at hand. An international trade agreement is likely to have different ratification procedures connected to it than is an agreement on monetary union. The central actors in each should differ, and hence so should the domestic ratification game. In some cases ratification procedures may be fixed constitutionally; that is, the actors are forced by the constitution to use a particular process. For instance, in the United States all agreements called treaties must be ratified by a two-thirds majority in the U.S. Senate, whereas in Denmark all treaties must be ratified by a majority in parliament. In Germany all constitutional amendments require ratification by two-thirds of both houses of parliament, whereas in the Fifth French Republic the ratification of constitutional changes requires either majority votes in both houses of parliament and a popular referendum, or a three-fifths majority of a joint session of the legislature, or a national referendum alone (Lijphart 1984:191).

Although these fixed procedures may lock the actors into a certain game, in many cases political actors still have the ability to select the means of ratification. The dispute in these cases actually becomes transformed into one over whether the agreement is a "treaty," or a "constitutional amendment," respectively. Not surprisingly, views on the character of the agreement tend to correlate with the actors' preferences. Although there may be nationally prescribed institutional means for ratifying an international agreement, even these will be amenable to the political actors' manipulation. The institutions of ratification may therefore vary more by the issue under consideration than by the country concerned.

Ratification procedures are a part of the domestic game. They may even be endogenous to that game. In particular, they may be seen *in part* as a function of the nature of the power-sharing relationship between the executive and the legislature and the structure of domestic preferences. In an issue area where the preferences of major domestic actors are quite far apart, attempts to alter the ratification procedures should be more likely. More divided government should produce the same effect. When an issue is contentious—that is, when the legislature, executive, and/or interest groups have very divergent preferences—one would expect an intensified struggle over the procedures used to ratify it. The more contentious the issue, the more disagreement over the ratification procedures. In contrast, when general agreement reigns over a domestic issue, one would expect debate over the ratification process to recede.

Furthermore, the actors' preferences concerning the means of ratification should follow from their preferences about the issue. For instance, before international negotiations begin, opponents of an international agreement should attempt to make the ratification procedures more difficult or make themselves the median voter; or, after the fact, they might simply try to change the procedures to derail the agreement. Supporters of the agreement will oppose these efforts and try to design procedures that make ratification easier or make them the median voter; they should also oppose all attempts to change the process after the fact. In the United States, for example, the creation of "fast track" procedures to ratify trade agreements has been a product of the supporters of trade liberalization and has been challenged by its opponents (Destler 1992).

In Great Britain contention over European cooperation has been so strong that it has produced many fights over ratification procedures. In 1975, after years of fierce debate, the British government took the highly unusual step of holding a national referendum on the issue—the first referendum ever in British history (Lijphart 1984:15). In 1994 opponents of the European Monetary Union, believing the British public would not support these measures, once again pushed for a national referendum against the prime minister's wishes (*Financial Times*, May 11, 1994). The institutions of ratification for each issue should depend on the nature of power sharing between the legislature and executive and the structure of domestic preferences surrounding that issue. As stated above, the more contentious the issue, the more debate over the procedures. And the actors' positions in the debate over the means of ratification should be linked to their preferences on the issue.

The procedures for ratification of an international agreement are both a factor influencing the domestic game and one influenced by it. As noted before, the relationship between institutions and preferences is difficult to disentangle. The structure of preferences affects which institutions are used, and the nature of pre-existing institutions affects which actors and preferences are important for the ratification game. What has been emphasized is that actors can make institutional choices. How an agreement is ratified is an important variable; it is part of the domestic actors' game. The procedures for ratification should not be seen as a constant for each country; rather, they will vary by issue area and by country.

The choice of ratification institutions becomes endogenous to the domestic game. This is not a problem for the model elaborated on in chapter 3. The model is very general; all it requires is that the median actor of some group have a say afterward in approving the international agreement crafted by the executive and the foreign country. The actor giving approval may be the legislature, the voting public, or some other entity. Who this group's median voter is —that is, the one whose vote is necessary for approval—is also not specified. By allowing the actors' preferences to vary in the model, we can see the effects of assuming different median voters. Changing the median voter from a simple legislative majority to a two-thirds majority alters the structure of preferences. Variation in the ratification procedures, then, does not affect the utility of the model here. In fact it can demonstrate what happens to the domestic game when these procedures change.

Conclusions

Political institutions have an important impact on decision making domestically. Institutions determine which actors have greater influence in the policy process and hence affect whose preferences the policy chosen most reflects. I am particularly concerned with institutions that determine the power-sharing relationship between the executive and the legislature. In contrast to the unitary state assumption, the assumption that states are polyarchic systems implies both that domestic actors share power over decision making and that their preferences differ. Polyarchic systems make policy and negotiate internationally differently than unitary states do.

This chapter examined how different distributions of legislative power between the executive and the legislature affect the outcomes of international negotiations. It made four claims:

1. For understanding international cooperation, the distinction between parliamentary and presidential systems in terms of the origin and survival powers is less important than the distribution of legislative powers.

2. Key legislative powers include the ability to set the agenda, make amendments, ratify or veto proposals, call referendums, and deploy side payments. Control over these powers gives actors influence in the legislative process. When control over these powers is concentrated in the executive, the executive's preferences prevail. When control is dispersed to the legislature, its preferences will come to the fore. The model in chapter 3 used the ratification game, which tends to favor the executive. In systems that concentrate all powers in the hands of the

executive—that is, where the legislature cannot ratify—then our model will underestimate the executive's influence. On the other hand, in systems where the legislature is more powerful—say, having sole control over amendment and ratification—our model will overestimate the executive's power; outcomes will favor the legislature. The probability of agreement is also greatest when legislative powers are concentrated in the hands of the most dovish domestic actor.

3. Changes in the institutions by which international agreements are considered domestically after international negotiations conclude will negatively affect the possibility of international cooperation.

4. Issue areas matter greatly. Control over legislative powers often varies significantly by issue and if actors have preferences over issues, they should also have preferences over the institutions they desire for considering each issue. In emphasizing issue areas, this book joins a long debate about the relative importance of issues versus national characteristics (Lowi 1964; Zimmerman 1973; Evangelista 1989). National political institutions set broad parameters within which the domestic game is played, but the game may vary substantially within these parameters. The particular issue under consideration determines the structure of preferences and shapes the debate over the institutions of ratification that are used. In turn the process of ratification selects which actors will be the median voters from whom the executive must obtain support, thus determining the domestic ratification game.

Institutional factors shape the power-sharing relationship between the executive and the legislature and are an important set of variables that must be considered when analyzing the domestic game. Institutions affect both the probability and terms of international agreements, but they do so in conjunction with the actors' preferences. Chapter 3 showed how preferences matter, holding institutions constant. This chapter varied those institutions to see their effect, holding preferences constant. What both chapters demonstrate, however, is that preferences and political institutions (as well as the distribution of information) jointly determine how domestic politics shapes international relations.