Reelection and Renegotiation: International Agreements in the Shadow of the Polls

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Abstract

We study international negotiations when: one of the negotiating parties faces a threat of electoral replacement during negotiations; agreements made before the election are the starting point for any subsequent renegotiation, and governments cannot commit to future negotiation strategies. Agreements made before the election determine voters’ preferences over the government that will represent them in a future renegotiation. Conflicts of interest between governments may be softened or intensified by the governments’ conflicts of interest with voters. We show when the threat of electoral turnover strengthens the prospect for successful negotiations, and when it may cause negotiations to fail.

Keywords: Negotiations, Strategic Delegation, Elections.

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1. Introduction

States sign treaties, accede to international institutions and organizations, and lend money to other states. The division of the surplus arising from these activities is negotiated by the governments of the day. However, these governments may, in turn, be replaced by new governments over the life of the agreement. This raises the possibility that arrangements signed by today’s administrations may not be honored by their successors.


International negotiations may polarize and even dominate domestic politics. In March 2010, the European Central Bank, EU and IMF (the “Troika”) established emergency loan agreements to Greece. The first Greek bailout was negotiated between the Troika and the centre-left PASOK government, which held a parliamentary majority of fewer than ten seats and hence faced an ongoing threat of electoral replacement over the life of the agreement. A domestic power transition to an anti-bailout party could threaten the agreement’s survival; and the perceived harshness of the initial terms could itself increase the chance of a more hostile future government via voters’ dissatisfaction with the agreement. Both risks were realized: in the next election, PASOK lost one hundred and nineteen seats, while Syriza—the radical left-wing party that staunchly opposed the bailout terms—became the second largest party. And, in January 2015, Syriza came to power on the back of the Greek electorate’s hostility to the austerity measures. The new Greek government immediately re-opened negotiations with EU member states that nearly led Greece to exit the European Monetary Union.

Power-sharing arrangements between central and peripheral governments within states are also subject to the threat of renegotiation, influenced by the threat or realization of electoral success by nationalist and secessionist regional parties, resulting in partial devolution of

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[4]The first quote is from Labour’s Programme for Britain (1973), and the second is from the Labour Party’s February 1974 general election manifesto.
policymaking (e.g., Catalonia or the Basque State in Spain; Quebec in Canada influenced by the Parti Quebecois; Scotland in Great Britain, influenced by the Scottish Nationalist Party; or the Flemish Community and Walloon Region in Belgium). The terms governing the division of policymaking responsibilities weigh heavily on elections; and anticipation of possible renegotiations after future elections weigh on the current devolution of policymaking.

In the context of a renegotiation, the effective bargaining power of a government typically derives from its relative willingness to walk away from an existing agreement, either in accordance with an exit process stipulated in the agreement itself, or by simply abrogating the terms. This was manifest in the unilateral decision by the Bush Administration to withdraw from the Kyoto Protocol in 2001. And when Margaret Thatcher renegotiated a two-thirds rebate of Britain’s contribution to the budget of the European Economic Community, in 1984, she is reported to have succeeded only by threatening to withhold all of Britain’s contribution unless her demands were met. The revised British contribution remained in place until 2005.

Motivated by these examples, we ask: how do the prospects for initial cooperation and the terms of agreements vary with uncertainty about whether one of the negotiating parties will subsequently be replaced by an agent with different preferences? And, how do the terms of an initial agreement affect the prospect of electoral replacement, the bargaining attitude of a potential successor, or the risk that a successor will ultimately walk away from the agreement?

Our model features a foreign government and a domestic government. The foreign government could represent a single state, or a group of states that act collectively, such as the EU. It could also be a supranational institution such as the United Nations Security Council, or the IMF. In a sub-national context, it could be the central government, in which case the domestic government represents a local government, such as Scotland or Catalonia.

At each of two dates, the domestic government decides whether to implement a policy project, such as a fiscal retrenchment, a labor market reform, or participation in a political, economic or military union such as the EU or NATO. For tractability, we assume that the project is a binary decision. Both the domestic and foreign government hold commonly-known initial valuations of the project. The foreign government wants the project to happen, but the domestic government—in the absence of foreign concessions—does not. At each date, the foreign government can offer transferable benefits such as cash or policy concessions, in

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5 We thank Laurent Bouton for suggesting these applications.
6 The Treaty of Lisbon introduced an explicit procedure for a member country of the EU to exit.
exchange for the domestic government implementing the project. For example, the Greek government may not wish to reduce social insurance and raise taxes, but it may do so in exchange for bailout funds from the EU; the UK government may support continued participation in the EU only in exchange for concessions on budget contributions, or opt-outs on migration restrictions or financial sector regulation; or the Scottish government may support continued membership in the UK in exchange for increased public spending.

The timing unfolds as follows. At date one, the foreign government offers a transfer that will be made if and only if the domestic government implements the project. The domestic government then chooses whether to implement the project. If implemented, the agents each receive their valuations from the project, and the transfer is made. If the project is not implemented, all agents receive their reservation payoffs.

Between dates one and two, the domestic government may be replaced in an election. We first assume that the uncertainty over who will hold power at date two is unaffected by date-one outcomes. We then endogenize the date-two domestic government’s identity via an election, where electoral outcomes may depend on (1) whether the project was implemented at date one, and, if so, the terms of the agreement; (2) the set of feasible replacements available to voters; and (3) how voters make voting decisions (prospectively or retrospectively).

Following the election, domestic agents are subject to a stochastic and publicly-observed shock to their preferences over the project. For example, labor unions may organize industrial action or there may be civil unrest that raises the domestic political cost of the project regardless of which political party holds power, or the economy may improve or worsen substantially.

At the start of date two, the date-1 transfer stands as the transfer that would be made if the domestic government again implements the project. This transfer could be the outstanding value of the foreign government’s loan, or of previously-negotiated regulatory carve-outs. For example, the 1984 British EEC rebate remained in place until a new contribution was agreed upon in 2005. Next, one of the governments has an opportunity to propose a different transfer. If accepted by the other government this transfer replaces the existing transfer; but if rejected, the initial transfer remains in place. The foreign government then makes the prevailing transfer if and only if the date-2 domestic government implements the project.

We explore how date-1 proposals vary with (a) the preferences of the date-1 domestic government, (b) uncertainty about the preferences of a future domestic government, (c) uncertainty about the preferences of the domestic electorate, (d) how agents discount future outcomes, and (e) the choices voters have over future domestic governments.
Obviously, if agents care only for the short-term, the foreign government wants to make the smallest date-one transfer that induces the domestic government to undertake the project. But, suppose that agents care about future outcomes, and consider the future consequences of an initial agreement. When a future domestic government takes power, it may want to negotiate a larger transfer than what it inherited. But whether the foreign government would agree to a larger transfer depends on the credibility of the domestic government’s threat to abandon the project based on the existing terms—the more primitively hostile is the date-two domestic government to the project, the greater is the set of circumstances in which it would be willing to walk away from the existing agreement. A more hostile future government (a) reduces date-two surplus, but (b) raises the prospect that the domestic government successfully negotiates a larger share of the surplus. This fundamental tension bears on all of our results.

Relative to a date-one agreement that leaves the domestic government no surplus, a foreign government may benefit from more generous initial offers. Such offers reduce the chance that a future domestic government is prepared to quit the deal at the inherited terms, insuring the foreign government against having to offer even more generous terms in the future.

In a benchmark setting where the election outcome is unaffected by the date-one negotiation outcome, we uncover two central insights. First, the two governments reach an agreement if and only if the immediate (date-one) total surplus from the project is positive. Second, agreements always feature the smallest transfer that induces the date-one domestic government to implement the reform project. Thus, beliefs about who will hold power in the future are irrelevant for whether an initial deal is signed, and for how the surplus from agreement is divided between the governments. The intuition is simple: with no bargaining frictions, the project is implemented at date two if and only if it generates positive surplus. The inherited terms just determine the date-two division of the surplus. So, whenever the foreign government expects to gain in the future by raising its initial offer, the gain must come at the expense of the date-one domestic government: there is a pure conflict of interest.

Matters are very different when domestic voters select their date-two domestic representative. We first suppose that voters face no constraints on the set of candidates from which they select their date-two representative. This could reflect a setting with two office-motivated parties that can commit to implementing the median voter’s most preferred policy.

Two competing forces drive voters’ decisions. More hostile domestic governments can more credibly threaten to walk away from an existing agreement. This raises the prospect of appropriating more of the surplus, and the attractiveness of electing a government that
is more intrinsically hostile to the project. But, when representatives are more hostile to the project than voters, the mis-aligned interests also raise the prospect that the date-two domestic government wants to terminate the project under conditions where voters want it to continue. This raises the attractiveness of electing a more project-friendly government.

How voters resolve this trade-off depends on the date-one outcome, and is therefore a direct consequence of both the foreign government’s initial offer and the date-one domestic government’s decision to accept or reject it. Greater initial policy concessions by the foreign government mitigate the desire of domestic voters to appoint a radical date-two government in order to extract even more. Instead, voters resolve to elect a government that is more likely to maintain the project. But if voters believe that the foreign government would be willing to offer significantly more concessions than are presently on the table, they prefer a more hostile government—regardless of their primitive preferences over the project, all voters share a common desire to extract as much surplus as possible from the foreign government.

When the electorate is very hostile to the project relative to the domestic government, the conflict between the foreign and domestic governments declines: the foreign government is willing to make larger initial concessions that steer the electorate toward maintaining a successor who will not wish to exit the agreement. And, a domestic government that is relatively favorably disposed toward the project may also value an agreement that reduces the risk of being replaced by a successor who is more likely to walk away. As long as the negotiating parties care about date-two outcomes, they may reach an agreement that could not have been achieved were election outcomes unresponsive to the initial negotiation outcomes.

When, instead, the electorate views the project favorably relative to the domestic government, the conflict between the domestic and foreign governments intensifies: the foreign government sees less value in steering already-favorably disposed voters even further toward a project-friendly successor. Moreover, more generous initial terms reduce the prospect that the relatively hostile incumbent retains power, since voters then favor a friendly government that will preserve the agreement. If the negotiating parties care about date-two outcomes, they may fail to conclude an agreement that could have been achieved when election outcomes are unresponsive to the initial negotiation outcomes.

In reality, voters must choose from a limited set of alternatives when selecting a date-two government. We show how such political frictions affect negotiation outcomes in a setting with two domestic parties, one that is friendly to the project (e.g., pro-EU) and one that is hostile (e.g., anti-EU). Such restricted choice greatly alters negotiations. Concretely, no
matter how favorably disposed the relatively hostile party is to the project, the foreign
government never offers more concessions than necessary to win its approval. In contrast,
without constraints, the foreign government, when facing a hostile domestic electorate, may
offer more concessions than necessary to win approval from the domestic government.

Relative to when the pivotal voter can flexibly choose her date-2 representative, date-1
conflicts between a hostile party and foreign government sharpen. If the hostile party loses
power, it will be replaced in office by a party that will continue the project in contexts
where the hostile party would want to quit. Since more generous date-1 transfers further
steer the domestic electorate toward the friendly party, the expected future date-2 surplus
from a date-1 agreement between the hostile and foreign governments is always negative and
decreasing in the size of the transfer. Conversely, with a date-1 friendly party, since more
generous initial transfers lead voters to prefer the friendly party, both the friendly and forein
governments stand to gain from agreement: the expected future date-2 surplus from a date-1
agreement between the friendly and foreign governments is always positive and increasing
in the initial transfer.

Our model offers novel insights into how domestic politics affect international negotia-
tions. First, democratic governments should be most successful in extracting concessions
from negotiating partners when elections are imminent. This finding is consistent with ev-
idence in Rickard and Caraway (2014) that labor market reforms demanded in exchange for
IMF financing are less stringent for loans negotiated within six months of a pending elec-
tion. Second, hawkish governments that are the most ideologically opposed to international
agreements have electoral incentives to secure the less generous deals. A forward-looking
electorate responds to a favorable status quo by appointing less risky governments that are
more likely to preserve it—i.e., more project-friendly parties. So, a hawkish incumbent that
uses its leverage to secure better agreements hastens its departure from office! This may
provide insight into why, despite Syriza’s failure to negotiate more favorable terms from the
Troika, it retained its position as the largest parliamentary party in the subsequent election.

Although our motivating setting is the political economy of international negotiations
and agreements, our conclusion describes how our insights extend more broadly to a variety
of negotiation environments in which today’s agreements can be renegotiated in the future,
and in which one of the negotiators is accountable to a third party. For example, after
bargaining with a firm, a trade union’s leadership may be accountable to its members.

The paper’s outline is as follows. After a literature review, we present our base model.
We first analyze a setting in which the uncertainty over who will hold future domestic political power does not hinge on the initial negotiation between the foreign and domestic government. Next, we consider a setting in which a domestic electorate—a pivotal voter—chooses its date-two representative. We first study the pivotal voter’s choice in the absence of constraints on the set of available parties. We then analyze a setting in which voters face a more limited choice set, selecting between two office- and policy-motivated political parties. A conclusion follows. Additional extensions and proofs are in an appendix.

**Related Literature.** Our work relates to papers that explore (1) international negotiations and domestic politics, (2) delegated bargaining and (3) the political economy of dynamic policy-making with an endogenous status quo.

Schelling (1980) argued that stringent domestic treaty ratifications strengthen an executive’s external bargaining position by creating “a manifest inability to make concessions and meet demands” (Schelling 1980, 19). Putnam (1988) subsequently expounded the metaphor of international and domestic politics as ‘two-level games’, focusing on ratification procedures at the domestic level. A focus on elections, rather than ratification, distinguishes us from the body of work that followed Putnam. The distinction is meaningful: a ratifier chooses between accepting the international agreement and preserving the status quo; while voter choices reflect their induced preferences over the anticipated bargaining outcomes that their representatives will achieve after the election. Once authority is delegated, voters no longer influence negotiation outcomes and cannot trigger a reversion to an outside option.

Smith and Hayes (1997) were the first to study the consequences of domestic elections for initial bargaining outcomes when the pre-election agreement becomes the status quo in future negotiations. In their model, however, negotiations are solely over a spatial policy decision—in particular, there are no transfers. Battaglini and Harstad (2016) show how an incumbent party might choose inefficiently low sanctions (a “weak treaty”) to differentiate itself electorally from a challenger. In Schultz (2005), initial policy choices inform domestic voters about their leaders’ preferences, informing retention decisions. In Wolford (2012), the domestic government’s probability of retention is assumed to increase with its negotiated share of the date-one surplus. In our setting, by contrast, forward-looking voters may not reward an incumbent for securing more generous shares of the initial surplus.

An empirical literature dating back to Thucydides studies the efficacy of internal democracy for foreign policy commitments (see History of the Peloponnesian War, 8.70.1-2.) Recent researchers variously argue that the prospect of leader turnover raises
or reduces (Leeds, Mattes and Vogel (2009)) a government’s propensity to renegotiate or exit agreements. Others hold an intermediate view, one closer to ours, that the degree of commitment is endogenous to the form of the initial agreement (Lipson (1991), Abbott and Snidal (1998), Rosendorff and Milner (2001)).

Our work also contributes to a delegated bargaining literature that includes Harstad (2008), Segendorff (1998), Jones (1989) and Cai and Cont (2004). Harstad (2008) uncovers trade-offs related to ours from delegating negotiations to a more hostile agent in a static setting. In our dynamic setting, domestic voters resolve this trade-off only after initial negotiations take place. As a result, the foreign and domestic governments seek to manipulate voters via their initial negotiations, steering the subsequent election outcome to their advantage.

Finally, we contribute to a literature on dynamic political economy in which today’s policy outcome serves as the reversion in subsequent negotiations (e.g., Dziuda and Loeper (2016), Acemoglu, Egorov and Sonin (2014)). Our model is the first to combine both an endogenous status quo—the reversion division of the surplus if cooperation continues—with an outside option, which is the payoff each agent receives if an agreement fails.

2. Model

Our two-date economy features two countries, a foreign government (FG) and a date-\( t \) domestic government (DG\(_ t \)). There is a project that they can undertake at dates 1 and 2; \( r_t = 1 \) indicates that the project is undertaken at date \( t \), and \( r_t = 0 \) indicates that it is not. The project could represent the domestic country’s accession to an international organization such as the EU, a domestic reform such as a fiscal retrenchment or labor reform, or a region’s participation in a federation or national union. If the project is not undertaken at date \( t \), each agent receives a date-\( t \) payoff that we normalize to zero. At date 1, the project generates commonly-known valuations of \( v_{D1} < 0 \) for DG\(_ 1 \) and \( v_F > 0 \) for FG—the foreign government wants the project, but the domestic government does not. These project valuations can be interpreted as flow payoffs enjoyed at each date from the moment that the agreement is signed. All agents weight date-1 payoffs by \( 1 - \delta \in (0, 1] \) and date-2 payoffs by \( \delta \). For example, \( 1 - \delta \) could represent the time between the initial signing and the next election: when \( \delta \) is large, negotiations take place relatively close to the election, after which there will be an opportunity to renegotiate the initial agreement.
Negotiations unfold as follows. At date 1, FG is the proposer, and DG\textsubscript{1} is the receiver\textsuperscript{8} FG makes an initial offer \(b_1 \geq 0\), which is a transfer that it will give to DG\textsubscript{1} if and only if the project is implemented. In the EU accession example, \(b_1\) could represent concessions and carve-outs on labor market or financial sector regulations, budget contributions, or a more generous share of regional development funds. After receiving the offer \(b_1\), DG\textsubscript{1} chooses 
\[r_1(b_1) \in \{0, 1\},\]
where \(r_1(b_1) = 1\) indicates that the project is implemented at date 1 and \(r_1(b_1) = 0\) indicates that it is not.

Between dates 1 and 2, the date-1 domestic government DG\textsubscript{1} may be replaced by a new domestic government DG\textsubscript{2}, according to a process that we describe below. After DG\textsubscript{2} is realized, all domestic agents are hit by a common additive preference shock \(\lambda\) to the payoffs they derive from the project. We assume that this publicly-observed preference shock is drawn from a uniform distribution with support \([-\sigma, \sigma]\). This shock can capture an unanticipated worsening of the economy—unemployment may increase, labor unions may organize industrial unrest or there may even be civil unrest. Alternatively, new information may come to light. For example, in 2004, an audit by the incoming Greek government found that the government’s statistics agency had mis-reported the country’s debt and deficit figures in order to qualify for entry into the European single currency.

We first assume that DG\textsubscript{2}’s project valuation \(v^D_2\) is drawn from a cumulative distribution \(G(v^D_2)\) on support \([\underline{v}, \bar{v}]\). This captures a benchmark in which the election outcome is insensitive to the negotiation outcome. We later endogenize DG\textsubscript{2}’s project valuation via an election, where electoral outcomes may depend on: (1) whether the project was implemented at date 1, and the terms of the initial bargain; (2) the set of feasible replacements; and (3) how voters make voting decisions (prospectively or retrospectively). We impose structure on preferences that ensures that FG typically values the project by more than DG\textsubscript{2}, and that there is sufficient variation in the domestic preference shock \(\lambda\) that the joint surplus of FG and DG\textsubscript{2} can become positive or negative:

\textbf{Assumption 1}: \(\underline{v} < \bar{v} < v_F, \sigma > v_F + \bar{v}, -\sigma < \underline{v}\).

Assumption 1 says that (1) FG expects a higher payoff at date 2 from the project than DG\textsubscript{2}; but (2) there is sufficient uncertainty about the common shock \(\lambda\) to domestic preferences, that (a) it could exceed the expected surplus from the project between FG and DG\textsubscript{2} with valuation \(\bar{v}\) that is most friendly to the project; or, alternatively (b) it could be even less

\textsuperscript{8}In the Supplemental Appendix, we show that our results extend when DG\textsubscript{1} is instead the proposer.
than the project valuation for DG\textsubscript{2} with valuation \(v\) that is most hostile to the project.

After \(\lambda\) is realized, the initial terms for the project can be renegotiated, or if agreement was not reached at date 1, the governments can try again. With probability \(\theta \in [0,1]\), DG\textsubscript{2} proposes the new terms, and with probability \(1 - \theta\) the proposal is made by FG. The parameter \(\theta\) could reflect intrinsic bargaining power or institutional features of the agreement that determine who can initiate renegotiations\(^9\).

The inherited date-1 terms serve as the reversion point for date-2 bargaining. Thus, if the project was implemented at date 1, \(b_1\) serves as the transfer that will be made at date 2 if the project is again implemented and new terms are not agreed upon. For example, Thatcher’s renegotiation of Britain’s EU budget rebate persisted from 1984 until 2005. If, instead, the project was not implemented at date 1, then the status quo transfer is 0.

The agent realized as proposer at date 2 can propose a new transfer, \(\hat{b}_2 \geq 0\). If the date-2 receiver accepts, this becomes the new date-2 transfer, i.e., \(b_2 = \hat{b}_2\). Otherwise, the inherited terms from past negotiations remain in force, so that \(b_2 = r_1 b_1\), where \(r_1\) is an indicator for whether the project was implemented at date 1. Next, DG\textsubscript{2} decides whether to quit the agreement and receive its outside option of zero or to execute the agreement given the date-one terms. FG then makes the agreed-upon transfer if and only if DG\textsubscript{2} executes the agreement by implementing the project.

The expected lifetime payoff of a domestic agent with date-1 project valuation \(v\) is:

\[
(1 - \delta)r_1(v + b_1) + \delta \int_0^\sigma \int_{v'-\sigma}^v r_2(v', \lambda, r_1 b_1)(v + b_2(v', \lambda, r_1 b_1) + \lambda) f(\lambda) d\lambda dG(v'),
\]

where \(f(\lambda)\) is the density of the domestic preference shock, \(\lambda\). Here \(r_1 \in \{0, 1\}\) is the date-1 domestic government’s initial decision to implement the project \((r_1 = 1)\) or not \((r_1 = 0)\); and \(r_2(v', \lambda, r_1)\) denotes the project outcome at date 2 as a function of (a) the date-2 project valuation \(v'\) attached by DG\textsubscript{2}, (b) the preference shock \(\lambda\), and (c) the date-1 project outcome, \(r_1 b_1\); and \(b_2(v', \lambda, r_1 b_1)\) denotes the date-one transfer from FG when the project is implemented at date 2, i.e., when \(r_2 = 1\). Note that domestic agents care about date-2 policy outcomes regardless of who holds office at that date. The analogous expected payoff

\(^9\)The parameter \(\theta\) does not play a central role in our analysis. We include it to emphasize that results do not depend sensitively on the distribution of future bargaining power. Nonetheless, scholars have considered how features of international institutions—such as re-negotiation protocols—might be chosen to maximize the prospect that an agreement survives (see, e.g., Koremenos, Lipson and Snidal (2001) or Koremenos (2001)).
of FG with project valuation $v_F$ is:

$$(1 - \delta)r_1(v_F - b_1) + \delta \int_{-\sigma}^{\sigma} \int_{-\sigma}^{\sigma} r_2(v', \lambda, r_1 b_1)(v_F - b_2(v', \lambda, r_1 b_1)) f(\lambda)d\lambda dG(v').$$

One may observe that FG’s project valuation does not evolve over time. We make this assumption purely for simplicity, and to focus on the effects of uncertainty about DG2’s valuation $v^2_D$.

3. Policy Outcomes at Date Two

We start by analyzing the long-term consequences of date-1 outcomes. If the project was implemented at date 1, i.e., if $r_1 = 1$, then the status quo transfer is the transfer $b_1 \geq 0$ that FG offered at date 1. If the project was not implemented, i.e., if $r_1 = 0$, then the status quo transfer is zero. Thus, $r_1 b_1$ summarizes the status quo transfer at date 2.

Because there are no bargaining frictions, the project will be implemented at the terminal date $t = 2$ if and only if the associated surplus is positive, i.e., if and only if

$$v^2_D + \lambda + v_F \geq 0 \iff \lambda \geq -(v^2_D + v_F).$$

Even though the date-2 implementation decision does not depend on date-1 actions, the division of the surplus depends on (a) the status quo transfer and (b) the shock realization $\lambda$.

Suppose, first, that DG2 has a high enough project valuation $v^2_D + \lambda$ that it would receive a positive payoff from implementing the project when it receives the status-quo transfer $r_1 b_1$:

$$v^2_D + \lambda + r_1 b_1 \geq 0 \iff \lambda \geq -(v^2_D + r_1 b_1).$$

With probability $\theta \in [0, 1]$, DG2 is recognized to propose a modification to the inherited terms, $r_1 b_1$. Because DG2 prefers higher transfers, it never proposes a transfer $b_2 < r_1 b_1$. Further, a proposal that raises the transfer to any $b_2 > r_1 b_1$ will fail: when (2) holds, FG recognizes that DG2 will implement the project even when the initial agreement is not amended. As a result, FG would reject the amendment, because a threat by DG2 to renege on the inherited agreement is not credible.

With residual probability $1 - \theta$, FG is recognized to propose a modification. Because (1) holds, FG would not quit the initial agreement. As a result, although FG would like to negotiate a reduced transfer, DG2 will refuse such amendments—it prefers to maintain the existing terms, which offer a more generous reward in exchange for implementing the project.
Suppose, instead, that DG₂ anticipates a *negative* value from implementing the project at the status-quo transfer, i.e., (2) fails. This means that it would prefer *not* to implement the project at date 2 unless the initial terms were amended to a higher transfer. Suppose, first, that the surplus from agreement is positive, i.e., (1) holds. With probability \( \theta \), DG₂ gets to propose a modification to the inherited terms. If FG rejects the proposal, the project will end when (2) does not hold, giving FG a payoff of zero. Thus, DG₂ can re-negotiate the date-2 transfer from \( b_1 r_1 \geq 0 \) to the larger transfer \( b_2 = v_F \).

That FG is held to its participation constraint is not essential—what matters is that there is a discontinuity in the terms that DG₂ can obtain when its threat to break the existing agreement is credible, i.e., at the threshold on \( \lambda \) defined in (2).

With probability \( 1 - \theta \), FG is, instead, recognized. Since (2) fails, FG must offer DG₂ a larger transfer to secure its participation. It therefore raises the transfer from \( r_1 b_1 \geq 0 \) to \( b_2 = - (v_D^2 + \lambda) \). These terms leave DG₂ with value \( v_D^2 + \lambda \) indifferent between implementing the project and quitting, allowing FG to claim the remainder of the surplus for itself.

Finally, if the date-2 surplus from agreement is negative, i.e., if (1) does not hold, then no amendment will be agreed upon, as the joint surplus from implementing the project is negative. The project will not be implemented and all agents receive date-one payoffs of zero.

Thus, the expected date-2 payoff of a domestic agent with date-1 project valuation \( v \) is

\[
V_D(v, r_1 b_1) = \int_{\bar{v}}^{\bar{v}} \int_{-(v_D^2 + r_1 b_1)}^{\bar{v}} (v + r_1 b_1 + \lambda) f(\lambda) d\lambda dG(v_D^2)
+ \int_{\bar{v}}^{-v_D^2} \int_{-(v_D^2 + r_1 b_1)}^{-v_D^2} (v - v_D^2 + \theta(v_D^2 + \lambda + v_F)) f(\lambda) d\lambda dG(v_D^2).
\]

(3)

The expected date-2 payoff of the foreign government FG given \( r_1 b_1 \) is

\[
V_F(r_1 b_1) = \int_{\bar{v}}^{\bar{v}} \int_{-(v_D^2 + r_1 b_1)}^{\bar{v}} (v_F - r_1 b_1) f(\lambda) d\lambda dG(v_D^2)
+ \int_{\bar{v}}^{-v_D^2} \int_{-(v_D^2 + r_1 b_1)}^{-v_D^2} (v_D^2 + \lambda + v_F) f(\lambda) d\lambda dG(v_D^2).
\]

(4)

A transfer of power from a date-1 domestic government DG₁ to a more hostile date-2 domes-
tic government DG₂ (i.e., \( v_D^2 < v_D^1 \)) carries two implications. First, it increases the prospect that DG₂ can renegotiate the initial terms to a more favorable arrangement. Second, it lowers the total surplus of the date-2 negotiating parties. As a result, there will be situations in which a hostile DG₂ will fail to reach an agreement with FG in contexts where a more project-friendly DG₂ would have successfully concluded the negotiation.

Discussion: Our bargaining protocol is more stark than necessary for our main results. What is crucial is that the terms that the domestic government obtains at date 2 improve as its valuation of the project falls, relative to the status quo offer. This improvement in terms holds regardless of the distribution of date-2 bargaining power, \( \theta \). When the domestic government holds date-2 proposal power, a more hostile representative can renegotiate the status quo transfer from \( r_1b_1 \) up to \( b_2 = v_F \). When, instead, the foreign government holds proposal power, its offer holds the date-2 domestic government to its participation constraint, but its transfer \( b_2 = -(v_D^2 + \lambda) \) still increases as the domestic government becomes more hostile, i.e., as \( v_D^2 \) decreases. A more hostile representative not only captures the upside of larger concessions, but it also mitigates against the downside of subsequent appropriation.

4. Policy Outcomes at Date One

Exogenous Power Transitions. In our benchmark setting, the valuation of the date-2 domestic government (DG₂) does not hinge on the date-1 policy outcome. At date 1, the foreign government FG makes a proposal to the domestic government DG₁. DG₁ accepts the offer, i.e., \( r_1(b_1) = 1 \), if and only if:

\[
(1 - \delta)(v_D^1 + b_1) + \delta V_D(v_D^1, b_1) \geq \delta V_D(v_D^1, 0).
\]

Thus, the foreign government’s date-1 proposal solves:

\[
\max_{b_1 \geq 0} (1 - \delta)r_1(b_1)(v_F - b_1) + \delta V_F(r_1(b_1)b_1),
\]

subject to the participation constraint that \( r_1(b_1) = 1 \) if (5) holds, and \( r_1(b_1) = 0 \), otherwise.

Proposition 1. When the identity of the date-2 domestic government does not depend on the date-1 agreement, the project is implemented at date 1 if and only if the date-1 surplus is positive, i.e., \( v_D^1 + v_F \geq 0 \). Further, if the project is implemented at date 1, the foreign government extracts all surplus, offering the smallest transfer that satisfies (5).
Strikingly, uncertainty about who will hold future domestic power has no effect on both (1) whether an agreement is signed, and (2) how the surplus from an agreement is divided between the governments. To understand the result, let \( \Delta(v_D^1, r_1 b_1) \) be the ex-ante expected date-2 surplus from the perspective of the date-1 bargaining parties:

\[
\Delta(v_D^1, r_1 b_1) = V_D(v_D^1, r_1 b_1) + V_F(r_1 b_1) = \int \int_{v_D^1 + v_F + \lambda + v_F}^\sigma (v_D^1 + \lambda + v_F) d\lambda dG(v_D^2).
\] (6)

When domestic power transitions are independent of the date-1 bargaining outcome, so too is the date-2 surplus; and its division represents a pure conflict of interest between FG and DG\(_1\). In particular, the total date-2 surplus arising from an agreement is no different than the surplus in the event of disagreement: for any \( b_1 \geq 0 \),

\[
\Delta(v_D^1, b_1) - \Delta(v_D^1, 0) = 0.
\]

Thus, the total surplus from an agreement at date 1 is unrelated to the date-1 terms:

\[
(1 - \delta)(v_D^1 + v_F) + \Delta(v_D^1, b_1) - ((1 - \delta)0 + \Delta(v_D^1, 0)) = (1 - \delta)(v_D^1 + v_F).
\] (7)

Starting from an offer that gives DG\(_1\) its reservation payoff, suppose that FG can benefit from making larger initial offers that buttress its future negotiating position vis-à-vis an anticipated date-two domestic government. This could arise if both date-1 governments expect a significantly more hostile DG\(_2\) and the election is sufficiently imminent that FG’s immediate losses from a larger transfer today are outweighed by its expected future gains. Whenever a more generous offer raises FG’s total expected payoff, however, equation (7) reveals that this gain necessarily comes at the expense of DG\(_1\), which therefore prefers to reject the offer.

Thus, when agreement is reached, FG extracts all surplus from agreement. Equation (7) reveals that the total surplus is positive if and only if the total static surplus is positive: uncertainty about the future has no effect on whether an agreement is signed.

For simplicity, we assume that the foreign government makes the offer at date 1. If, however, the domestic government, DG\(_1\), makes the initial offer, the conditions for agreement in Proposition still apply, but the domestic government instead extracts all surplus.

Exogenous power transitions create a constant total surplus between the foreign government and the date-one domestic government. So long as the static surplus from an agreement is positive, the foreign government can and will wish to induce the domestic government’s
participation. But, there is no scope for both governments to benefit from more generous offers—so if and only if the date-one surplus is positive, (1) an agreement is signed and (2) the discounted total expected surplus is fully extracted by the foreign government.

We next show that when power transitions are, instead, endogenous, more generous date-one agreements may increase or decrease the surplus between the date-1 negotiators.

**Endogenous Power Transitions.** We first endogenize the date-2 domestic government DG$_2$ by having a pivotal domestic voter with project valuation $v_{piv}$ select her most preferred representative, allowing the voter to choose any representative with valuation $v^2_D \in [\underline{v}, \bar{v}]$, where the bounds $\underline{v}$ and $\bar{v}$ satisfy Assumption 1. This could reflect a setting with office-motivated parties that can commit to the pivotal voter’s most-preferred platform. Later, we explore a setting in which the voter chooses between two office- and policy-motivated parties that cannot commit to implementing platforms that are inconsistent with their ideologies.

When negotiating at date 1, the foreign and domestic governments may not perfectly know the pivotal voter’s future preferences.$^{11}$ We assume that, relative to the possible preferences of the domestic electorate, the set of available representatives is sufficiently large.

**Assumption 2:** $v_{piv}$ is drawn from a cumulative distribution $H(v_{piv})$ on support $[v_{\text{min}}, v_{\text{max}}]$, with mean $\mu_{piv}$, where (1) $v_{\text{min}} - v_F > \underline{v}$ and (2) $v_{\text{max}} < \bar{v}$.

In conjunction with Lemma [1] below, Assumption 2 ensures that the project valuation of the domestic pivotal voter’s preferred date-2 representative is contained in $(\underline{v}, \bar{v})$.

Let $V_D(v_{piv}, v^2_D, r_1b_1)$ denote the domestic pivotal voter’s expected date-2 payoff when (1) her project valuation is $v_{piv}$, (2) she appoints a date-2 domestic government DG$_2$ whose initial valuation is $v^2_D$, and (3) the status quo transfer is $r_1b_1$:

$$V_D(v_{piv}, v^2_D, r_1b_1) = \int_{-(v^2_D+r_1b_1)}^{\sigma} (v_{piv} + r_1b_1 + \lambda)f(\lambda) d\lambda + \int_{-(v^2_D+r_F)}^\theta (v_{piv} - v^2_D + \theta(v^2_D + \lambda + v_F))f(\lambda) d\lambda.$$

Given status quo agreement $r_1b_1$, the pivotal voter’s preferred date-1 representative solves:

$$\max_{v^2_D} V_D(v_{piv}, v^2_D, r_1b_1).$$

$^{10}$We will show that induced preferences over representatives are single-peaked, so that it is without loss of generality to represent the electorate by a pivotal (i.e., median) voter.

$^{11}$The assumption that the date-1 governments are unsure of the pivotal voter’s ideal policy plays no role in the results of this section. We use this assumption in the next section, and include it here for continuity.
With a uniform distribution over the preference shock, $\lambda$, the first-order condition yields:

**Lemma 1.** Given an inherited status quo agreement, $r_1 b_1 \geq 0$, the domestic pivotal voter’s preferred date-2 representative values the project by

$$v^2_D(r_1 b_1) = v_{\text{piv}} - (v_F - r_1 b_1).$$

(8)

ELECTING A MORE HOSTILE DOMESTIC GOVERNMENT HAS TWO COMPETING EFFECTS. First, when DG$_2$ is more hostile, it can more credibly threaten to quit an existing agreement. This raises the prospect that it successfully renegotiates a larger transfer from FG. Second, a more hostile DG$_2$ is at greater risk of failing to reach agreement with FG in circumstances where the domestic pivotal voter wants the project to proceed.

How the pivotal voter trades off these two competing effects depends on the inherited agreement, $r_1 b_1$. When FG’s initial offer $b_1$ is not too small relative to its total willingness to pay, $v_F$, the voter is inclined to appoint a more friendly government. With little additional surplus to extract from FG, the voter prefers a representative who is more likely to preserve the initial agreement. If, instead, FG would be prepared to offer much higher concessions to preserve the project, the voter is inclined to appoint a more hostile government: the voter is more willing to risk her representative failing to reach agreement in order to secure more generous negotiation outcomes. Thus, fundamentally pro-EU voters may elect an anti-EU party for instrumental reasons. So, too, regional elections may produce strong majorities for a secessionist party even though a majority of voters would prefer not to secede. Notice that it is precisely when FG has the most at stake from securing agreement, i.e., when its project valuation $v_F$ is large, that the voter’s incentives to elect a more hostile DG$_2$ are strongest.

The pivotal voter’s trade-off over date-2 representatives is manipulable by both date-1 governments. FG can manipulate the voter’s trade-offs via its initial offer, $b_1 \geq 0$: more generous offers—if accepted—will steer the pivotal voter toward more project-friendly representatives. So, too, DG$_1$ can manipulate the voter’s trade-offs via its choice to accept or reject the offer, $r_1(b_1) \in \{0, 1\}$: rejecting an offer bequeaths a worse status quo, inducing the voter to select a more hostile successor.

We showed that when power transitions are exogenous, total expected surplus is unaffected by the initial agreement. This is no longer true when date-1 outcomes alter the pivotal voter’s preferred date-2 representative. To see why, recognize that from the perspective of the
date-1 bargaining parties, the expected date-2 surplus derived from a status quo of \( r_1 b_1 \) is:

\[
\Delta(v_D^1, r_1 b_1) = \int_{v_{min}}^{v_{max}} \int_{-v_Z(r_1 b_1) - v_F}^{v_Z} (v_D^1 + \lambda + v_F) f(\lambda) d\lambda dH(v_{piv})
\]

\[
= \int_{v_{min}}^{v_{max}} \int_{-v_Z(r_1 b_1) - v_F}^{v_Z} (v_D^1 + \lambda + v_F) f(\lambda) d\lambda dH(v_{piv}).
\]

In contrast to when the election outcome is unresponsive to date-1 negotiations, the surplus now indirectly depends on the negotiation outcome via its effect on the voter’s future choice of representative. The relative total date-2 surplus from an agreement (versus no agreement) is:

\[
\Delta(v_D^1, b_1) - \Delta(v_D^1, 0) = \int_{v_{min}}^{v_{max}} \int_{-v_Z(b_1) - v_F}^{v_Z} (v_D^1 + \lambda + v_F) f(\lambda) d\lambda dH(v_{piv}).
\] (9)

Our next lemma highlights how conflicts between DG\(_1\), FG, and the domestic electorate determine the expected future value of date-1 agreements. Recall that \( v_{piv}^e \) is the pivotal voter’s expected future project valuation, from the perspective of the date-1 negotiating parties.

**Lemma 2.** The relative total date-2 surplus from an agreement is increasing in the date-1 transfer \( b_1 \) if and only if:

\[
b_1 \leq v_D^1 + v_F - v_{piv}^e \equiv b^*,
\] (10)

and positive if and only if \( b_1 \leq 2b^* \).

To understand the result, note that the transfer \( b_1 \) that maximizes the expected date-2 surplus from an agreement \( [9] \) equates the expected project valuation of DG\(_2\) with that of DG\(_1\). With uniform preference shocks, this transfer is \( b^* \). It constitutes the expected date-2 surplus between the date-1 domestic and foreign governments—i.e., their static alignment—adjusted positively or negatively according to their degree of joint alignment relative to the domestic electorate. It reflects two distinct dynamic conflicts of interest that determine the effects of the date-1 outcome on expected date-2 surplus.

First, there is a dynamic conflict between FG and DG\(_1\), since the date-1 transfer determines the division of date-2 surplus. FG prefers to secure DG\(_2\)’s participation in the project with lower date-2 transfers, while the DG\(_1\) wants its successor to secure higher transfers.

The date-1 transfer also determines the size of the expected date-2 surplus. This creates a
second dynamic conflict between both governments and the domestic electorate. FG benefits from more generous agreements that steer the electorate in favor of appointing a more pliant DG2. This imperative becomes more urgent when the pivotal voter is expected to be more hostile, i.e., when \(v_{e}^{piv}<v_{e}^{piv}\) is lower, raising FG’s willingness to make more generous transfers. In turn, DG1’s derived valuation of higher transfers depends on how it is aligned with the domestic electorate.

If DG1 expects to view the project favorably relative to its electorate, i.e., if \(v_{D}^{1} - v_{piv}^{e}\) is positive and large, this domestic mis-alignment raises the alignment between DG1 and FG. In this case, both governments expect to gain from a larger transfer that steers voters toward a less hostile successor that is more likely to preserve the agreement when the date-1 negotiating parties want it to survive.

If, instead, DG1 expects to be far more hostile to the project than its voters, i.e., if \(v_{D}^{1} - v_{piv}^{e}\) is negative and large, then at date 1, the governments are in conflict over the attitude of the domestic government’s successor. FG is less inclined to make generous offers, knowing that the electorate is already likely to appoint a more project-friendly successor. Moreover, DG1 anticipates that higher offers will lead to a successor that is even more mis-aligned with its own interests. This is because a more project-friendly successor will be less effective in renegotiating revisions to the status quo, and will implement the project in circumstances where DG1 would want to quit.

The scope for agreements to raise expected date-2 surplus thus hinges on the prospect that DG1 may be replaced by a more hostile successor. If the date-1 negotiating parties are aligned relative to the electorate, the expected date-2 surplus from agreement increases. In this case, a concern for date-2 outcomes may render agreement possible in settings where negotiations would otherwise have failed, i.e., when the static date-1 surplus is negative. If the date-1 governments are instead mis-aligned relative to the domestic electorate, the expected date-2 surplus from agreement decreases. In this case, a concern for date-2 outcomes may render agreement impossible in settings where negotiations would otherwise have succeeded, i.e., in settings where the static surplus is positive.

**Proposition 2.** There exists a threshold \(v^{*}(v_{piv}^{e}, \delta) < 0\), strictly increasing in the expected valuation of the domestic pivotal voter, \(v_{piv}^{e}\), such that if and only if the date-one domestic government is not too hostile to the project, i.e., \(v_{D}^{1} \geq v^{*}(v_{piv}^{e}, \delta)\), the foreign government’s date-one transfer offer induces the domestic government to implement the project.
When the expected attitude of the domestic electorate becomes more favorable to the project, the induced conflict between FG and DG grows. When $\delta$ rises, the consequences of current negotiations for future surplus weigh more heavily on the considerations of both negotiating governments. This may either raise or lower the conflict between them.

Figure 1 illustrates two scenarios: one in which the pivotal voter is expected to view the project very favorably, and one in which she is expected to view the project very unfavorably. The dashed line indicates the valuation $v^*(v_{\text{piv}}^e, 0) = -v_F$, the static valuation threshold for which the governments reach a date-1 agreement. In panel (a), the pivotal voter is likely to be very positively inclined toward the project, and her desire to elect a friendly date-2 domestic government rises with increased transfers. Relative to their static conflict of interest, the dynamic conflict between FG and DG sharpens, so when they weigh date-2 outcomes more heavily, the threshold $v^*(v_{\text{piv}}^e, \delta)$ rises: concerns for future outcomes reduce prospects for date-1 agreement. In panel (b), the pivotal voter is expected to be very negatively inclined toward the project. FG is thus willing to make large concessions in order to steer the voter toward a successor DG that will maintain the agreement. Relative to the static conflict of interest between FG and DG, their dynamic conflict softens: as the governments grow more concerned with date-2 outcomes, the threshold $v^*(v_{\text{piv}}^e, \delta)$ decreases: a concern for future outcomes raises the prospects of a date-1 agreement, allowing even a statically mis-aligned FG and DG to implement the joint project.

Our benchmark showed that when election outcomes are unrelated to date-2 negotiations, DG appropriates none of the expected lifetime surplus from implementing the project. We

\begin{figure}[h]
\centering
\begin{subfigure}{0.45\textwidth}
\includegraphics[width=\textwidth]{fig1a}
\caption{$v_{\text{piv}}^e = 4$}
\end{subfigure} \hspace{0.5cm}
\begin{subfigure}{0.45\textwidth}
\includegraphics[width=\textwidth]{fig1b}
\caption{$v_{\text{piv}}^e = -4$}
\end{subfigure}
\caption{Illustration of how the threshold $v^*(v_{\text{piv}}^e, \delta)$ varies with $\delta$. Parameters: $v_F = 4.7$, $\theta = .6$, $\sigma = 10$. The dashed line represents $v^*(v_{\text{piv}}^e, 0) = -v_F$: if and only if $v_D^1 \geq v^*(v_{\text{piv}}^e, 0)$, agents who are concerned only with date-1 outcomes will sign an agreement, implementing the project at date 2. In panel (a), more concern for the future raises conflict, while in panel (b), more concern for the future lowers conflict.}
\end{figure}
now show that if election outcomes are responsive to negotiation outcomes—if the support \( \sigma \) over domestic preference shocks \( \lambda \) is small enough that electoral outcomes hinge sensitively on \( b_1 \)—and governments are sufficiently aligned, DG\(_1\) may appropriate some of the surplus.

**Proposition 2. (cont.)** When the support \( \sigma \) on domestic preference shocks \( \lambda \) is not too large, the pivotal voter’s expected project valuation \( v_{\text{piv}}^e \) is not too large, and agents place sufficient weight \( \delta \) on date-two outcomes, there exists a threshold \( v^*_{\text{piv}}(v_{\text{piv}}^e, \delta) \in (v^*_{\text{piv}}(v_{\text{piv}}^e, \delta), 0) \) such that if \( v_D^1 \in [v^*_{\text{piv}}(v_{\text{piv}}^e, \delta), v^*_{\text{piv}}(v_{\text{piv}}^e, \delta)] \), FG offers the smallest date-one transfer that induces DG\(_1\) to implement the project; but if \( v_D^1 > v^*_{\text{piv}}(v_{\text{piv}}^e, \delta) \), FG offers a strictly more generous date-one transfer than is necessary to induce DG\(_1\) to implement it.

**FG’s preferred offer** \( b_1^* \) solves:

\[
-\delta \int_{v_{\text{min}}}^{v_{\text{max}}} \theta(v_F - b_1^*) \frac{\partial}{\partial b_1} F(-v_D^2(b_1) - b_1) |_{b_1 = b_1^*} dH(v_{\text{piv}}) - \delta \int_{v_{\text{min}}}^{v_{\text{max}}} (1 - F(-v_D^2(b_1^*) - b_1^*)) dH(v_{\text{piv}}) \\
+ \delta \int_{v_{\text{min}}}^{v_{\text{max}}} (1 - \theta) \int_{-v_D^2(b_1^*) - v_F}^{-v_D^2(b_1^*) - b_1^*} \frac{\partial v_D^2(b_1)}{\partial b_1} |_{b_1 = b_1^*} f(\lambda) d\lambda dH(v_{\text{piv}}) = 1 - \delta. \quad (11)
\]

The left-hand side is the net date-2 marginal benefit of making a higher offer. The first term captures the impact of increasing the *extensive* margin: raising the promised future payment \( b_1 \) increases the prospect that the initial offer will not be renegotiated because the unanticipated preference shock \( \lambda \) now exceeds the expected renegotiation threshold of DG\(_2\) with expected project valuation \( v_D^2(b_1) \), \( -v_D^2(b_1) - b_1 \). The value to FG from a higher prospect of an agreement is its share of the surplus, \( v_F - b_1^* > 0 \). In the event of a subsequent (marginal) renegotiation, FG cares only about those circumstances in which DG\(_2\) has the bargaining power (which occurs with probability \( \theta \)) as there is a discontinuous jump in what DG\(_2\) can extract if it can credibly walk away. This provides an incentive for FG to *raise* its initial offer.

The second term—the *intensive* margin—reflects that raising an initial offer lowers FG’s future payoff whenever the date-1 agreement persists at date 2, which occurs whenever the unanticipated preference shock \( \lambda \) exceeds \( -v_D^2 - b_1^* \). This intensive margin provides an incentive for FG to *hold back* from raising its initial offer.

The third term captures the change in FG’s date-2 payoff when it holds future bargaining power (which occurs with probability \( 1 - \theta \)), and DG\(_2\) is prepared to walk away at the inherited terms, but the surplus between the two governments is positive. Lemma[I] revealed that
more generous offers (i.e., higher $b_1$) diminish the pivotal domestic voter’s desire to choose a representative who is more hostile to the project. FG values a more project-friendly DG due to its less demanding participation constraint.

Finally, the right-hand side of (11) reflects the marginal cost of more generous offers, from FG’s immediate (date-1) perspective. Substituting the uniform distribution, we re-write the optimal date-1 transfer offer as

$$b_1^* = \frac{\delta(v_F(2 + \theta) - v_{piv}^c + \sigma)}{\delta(3 + \theta)}.$$  \hspace{1cm} (12)

**Corollary 1.** When the domestic pivotal voter is expected to be more opposed to the project, i.e., when $v_{piv}^c$ is more negative, or the probability $\theta$ that the date-2 domestic government will hold bargaining power is higher, the foreign government’s optimal transfer $b_1^*$ rises.

When the pivotal voter finds the project less attractive, so too will a future DG (via a lower $v_{DG}^2(b_1)$). This means that FG faces a greater risk of renegotiation at date two. Because raising the initial offer mitigates this risk by reducing the set of circumstances in which any DG would wish to renegotiate, FG responds by offering more generous initial terms.

When DG is more likely to hold bargaining power, FG’s stakes from making a date-1 proposal that is unlikely to be renegotiated at date-2 rise—if DG is prepared to walk away from the agreement, a higher $\theta$ raises the risk that she will appropriate the date-2 surplus. This induces FG to make more generous offers, to reduce the likelihood of renegotiation.

*To summarize:* our benchmark result showed that (1) when election outcomes are unrelated to date-1 negotiations, a positive static surplus between FG and DG is necessary and sufficient for date-1 agreement, and (2) when an agreement is signed, FG extracts all of the surplus. By contrast, when voters’ electoral choices are guided by the terms of an inherited agreement, a positive static surplus between FG and DG is neither necessary nor sufficient for agreement. Now, the prospects for agreement depend on the degree of joint alignment between FG and DG relative to the domestic electorate. A high degree of joint alignment can compensate for the governments’ direct mis-alignment, facilitating an agreement in settings where the static surplus is negative. Indeed, if the governments are very aligned relative to the domestic electorate, and agents care sufficiently about date-2 payoffs, FG’s offer will be designed to appeal to the *domestic electorate*, leaving DG with a strictly positive surplus from agreement. But if the governments are not sufficiently aligned relative to domestic voters, they may fail to reach agreement even when the static surplus between them is positive.
5. Electoral Competition Between Policy- and Office-Motivated Parties

Our previous analysis endowed the domestic pivotal voter with an ability to fine-tune her choice of date-2 representative. Such unlimited flexibility can reflect a scenario in which two purely office-motivated parties compete to represent the pivotal voter, and can commit to platforms; or a scenario in which the pivotal voter can select from a broad spectrum of purely policy-driven citizen-candidates. With no frictions in the market for politicians, voters generically always replace the date-1 domestic government after initial negotiations conclude. Since the date-2 domestic government’s (DG₂’s) expected valuation varies smoothly with the initial transfer, there is no distinction between (1) the risk that a more hostile government will emerge and (2) its intrinsic stance on the project, reflected by its project valuation $v_{D₂}$.

In most realistic settings, however, voters face a more limited set of options—they must choose from a small set of parties or candidates who care about both policy and office rents, and cannot commit to positions that are not in their subsequent interest to adopt. In such settings, the relevant question is not “what would my ideal date-2 government be?”, but rather “which of the available alternatives do I dislike the least?” We now show how this limited choice for voters can have important consequences for international agreements.

We suppose that there are two political parties: the relatively hostile party has a date-1 project valuation $v$, and the relatively friendly party has a valuation $\bar{v}$, where $v < \bar{v} \leq 0$. We assume that $\bar{v} + v_F > 0$, $\sigma > \bar{v} + v_F$, and $v \geq -\sigma$. The first condition says that the date-1 surplus from agreement between the friendly party and the foreign government (FG) is strictly positive. The remaining conditions are a restatement of Assumption 1: they say that the common shock $\lambda$ to domestic preferences could (1) exceed the expected date-2 surplus between the friendly party and the foreign government, or (2) be lower than the hostile party’s expected date-2 project valuation. We impose no restriction on the static surplus between the foreign government and the hostile party with valuation $\bar{v}$. In addition to its policy motivation, a party receives an office benefit of $w \geq 0$ at any date where it holds office.

During date-1 negotiations, the two governments do not perfectly know the preferences of the pivotal domestic voter. To ease presentation, we suppose that $v_{\text{piv}}$ is uniformly distributed on $[v_{\text{piv}}^e - \alpha, v_{\text{piv}}^e + \alpha]$, where $v_{\text{piv}}^e < v_F$, and the support of $v_{\text{piv}}$ is sufficiently large:

**Assumption 3:** $v_{\text{piv}}^e - \alpha < \frac{v + b}{2}$, $v_{\text{piv}}^e + \alpha > \frac{v + b}{2} + v_F$.

We let $P(r_1b_1)$ denote the probability that the domestic government DG₂ is hostile, as a
function of the status quo \( r_1 b_1 \). Then, the foreign government’s (FG’s) date-1 offer solves:

\[
\max_{b_1 \geq 0} (1 - \delta) r_1 (b_1) (v_F - b_1) + \delta P(b_1 r_1(b_1)) (v_F - b_1 r_1(b_1)) + \delta (1 - P(b_1 r_1(b_1))) V_F(\bar{v}, b_1 r_1(b_1)),
\]

subject to the constraint that the date-1 domestic government (DG) chooses \( r_1(b_1) = 1 \) if and only if

\[
(1 - \delta)(v_D^1 + b_1) + \delta P(b_1) V_D(v_D^1, v, b_1) + (1 - P(b_1)) V_D(\bar{v}, b_1) \\
\geq \delta P(0) V_D(v_D^1, \bar{v}, 0) + (1 - P(0)) V_D(\bar{v}, \bar{v}, 0).
\]

Here,

\[
V_F(v, r_1 b_1) = \int_{-(v+\bar{v}b_1)}^{\sigma} (v_F - r_1 b_1) f(\lambda) d\lambda + (1 - \theta) \int_{-(v+v_F)}^{-(v+\bar{v}b_1)} (v + \lambda + v_F) f(\lambda) d\lambda,
\]

is the anticipated date-2 payoff to FG when it faces DG with valuation \( v \in \{v, \bar{v}\} \), and

\[
V_D(v, v', r_1 b_1) = 1[\nu = \nu'] w + \int_{-(\nu' + \nu b_1)}^{\sigma} (\nu + r_1 b_1 + \lambda) f(\lambda) d\lambda + \int_{-(\nu' + \nu b_1)}^{-(\nu' + \nu b_1)} (\nu' - \nu' + \theta (\nu' + \lambda + v_F)) f(\lambda) d\lambda.
\]

is the anticipated date-2 payoff of DG with valuation \( v \), when DG has valuation \( v' \).

The pivotal voter prefers to elect the relatively hostile party if and only if it prefers the expected bargaining outcome associated with that party to the corresponding outcome from electing the relatively friendly party. With the uniform distribution over the preference shock \( \lambda \), the pivotal voter prefers the hostile party if and only if

\[
v_{piv} \leq \frac{v + \bar{v}}{2} + (v_F - r_1 b_1) \equiv \hat{v}(r_1 b_1).
\]

The voter’s preferences derive from two distinct channels. The first term, \( \frac{v + \bar{v}}{2} \), reflects that excluding transfers, the voter prefers to nominate the party whose valuation is closest to her own. The second term, \( v_F - r_1 b_1 \), reflects that regardless of valuations, all voters share a common interest in extracting greater surplus from FG.

A relatively hostile DG has a comparative advantage in renegotiating agreements, while a relatively friendly DG has a comparative advantage in preserving them. Expression (15) shows that the electorate always places a greater value on the hostile party’s comparative
advantage, generating an intrinsic bias in favor of electing a more hostile government.

To see this, suppose that the hostile and friendly parties’ valuations are equidistant and on opposite sides of the pivotal (median) voter’s realized valuation, i.e., \( v - v_{\text{piv}} = v_{\text{piv}} - \bar{v} \). Despite being indifferent between the parties in terms of their intrinsic attitudes toward the project, (15) reveals that—for any status quo \( r_1 b_1 < v_F \)—the pivotal voter strictly prefers to elect the hostile party. If a date-2 government with project valuation \( v \in \{\bar{v}, \tilde{v}\} \) is elected, the total date-2 surplus between the domestic pivotal voter and the foreign government is:

\[
\sigma \int_{-(v+v_F)}^\sigma (v_F + v_{\text{piv}} + \lambda) f(\lambda) d\lambda.
\]

The pivotal voter would maximize this surplus by electing the friendly party with valuation \( \bar{v} \) if and only if \( v_{\text{piv}} \geq \frac{\bar{v} + \tilde{v}}{2} \). However, the pivotal voter fails to internalize the surplus—and instead, she emphasizes her expected share of any surplus. She may therefore prefer to elect the hostile government, even if she destroys expected total surplus in the process.

The hostile party’s intrinsic electoral advantage is eroded by more generous date-1 agreements: as \( r_1 b_1 \) rises, the pivotal voter cares more about preserving the agreement, and it is the friendly party that enjoys a subsequent comparative advantage in securing a agreement with the foreign government. When FG has more at stake (\( v_F \) is higher) it is more reluctant to walk away from subsequent negotiations, spurring the domestic electorate to prefer a hostile DG2, as it can bargain hard with a reduced fear of negotiations breaking down in situations where the pivotal voter would want to reach an agreement.

We first characterize the outcomes of date-1 negotiations between the foreign government and the relatively hostile party, which has project valuation \( \bar{v} \).

**Proposition 3.** (Hostile Party Initially Holds Power). When the hostile party holds power at date 1, the foreign government’s date-1 transfer offer is either the smallest transfer that the hostile government would accept (satisfying its participation constraint (14)) in exchange for implementing the project at date 1; or it is an offer that the hostile government would reject.

Quite generally, at date 1, the interaction between FG and the hostile DG1 is one of pure conflict. Not only is there a static conflict—a greater date-1 transfer to DG1 means less for the FG—but more generous offers reduce their joint expected date-2 surplus. To see why, write the total expected date-2 surplus to the hostile DG1 and FG from an offer \( b_1 \) as

\[
\Pr(v_{\text{piv}} \leq \hat{v}(b_1)) \Delta(\bar{v}, \bar{v}) + \Pr(v_{\text{piv}} > \hat{v}(b_1)) \Delta(\bar{v}, \tilde{v}),
\]

24
where

$$\Delta(v, v') = 1[v = v']w + \int_{-(v' + v_F)}^{\sigma} (v + \lambda + v_F) f(\lambda) d\lambda.$$  

Notice that $\Delta(v, v) - \Delta(v, v') > 0$: from the perspective of the date-1 governments, their joint date-2 surplus is maximized by offers that maximize the prospect that the date-1 domestic government remains in power. This is because a date-1 government that retains power at date 2 values (1) the office rent $w \geq 0$, and (2) the authority at date 2 to conclude agreements if and only if it wants the negotiations to succeed.

If the hostile party holds power, higher offers reduce the governments’ joint surplus, by lowering the hostile party’s chance of retaining power. With a more generous offer $b_1' > b_1$,

$$\hat{v}(b_1') < \hat{v}(b_1) \Rightarrow \Pr(v_{\text{piv}} \leq \hat{v}(b_1')) < \Pr(v_{\text{piv}} \leq \hat{v}(b_1)),$$

because the more generous offer $b_1'$ increases the attraction of the friendly party to voters. If the hostile party is replaced, its successor is certain to view the project more favorably—this precludes any possibility that the interests of FG and a hostile DG$_1$ might align.

The negative consequences of larger offers for total date-one surplus weigh on date-1 negotiations—even when the static surplus from an agreement is strictly positive, i.e., even when $v + v_F > 0$, agreement may not be possible:

**Corollary 2.** (Hostile Party Initially Holds Power).

1. For any $\delta > 0$, there exists $v^*(\delta) > -v_F$, such that if and only if the hostile party is sufficiently hostile, $-\sigma < v < v^*(\delta)$, no agreement is reached at date 1.

2. For any $\delta > 0$, when the value of holding office is sufficiently high, no agreement is reached at date 1: there exists $w^*(v) \geq 0$, increasing in the hostile party’s valuation $v$, such that if and only if $w \geq w^*(v)$, no agreement is reached at date 1.

Successful date-1 negotiations always harm the hostile party’s electoral prospects, conveying a double penalty. First, the hostile party foregoes the office rent $w \geq 0$; second, it suffers from the policy choices of its opponent. When office motivations weigh more heavily in the hostile party’s calculations, its conflict of interest with FG sharpens, and in the limit as rents grow large, office motivation precludes all chances for initial agreement.
Matters are very different when DG$_1$ is the friendly party with project valuation $\bar{v}$. Recall that the static surplus from agreement between the friendly party and FG is assumed to be positive, $\bar{v} + v_F > 0$. We have:

**Proposition 4. (Friendly Party Initially Holds Power)** If the friendly party holds power at date 1, then an agreement is always signed, and the project is implemented at that date. Moreover, there exists $w^*(\bar{v}) \geq 0$, decreasing in the friendly party’s valuation $\bar{v}$, such that if the foreign government’s preferred offer is interior, i.e., if it solves the first-order condition associated with (13) and office-holding motives are sufficiently strong, i.e., $w > w^*(\bar{v})$, then the friendly domestic government strictly prefers to implement the project at these terms.

The friendly party and FG always enjoy positive date-1 and expected date-2 surpluses from date-1 agreement. More generous offers raise the prospect that the friendly party holds onto power, benefiting both governments. Unlike with a hostile government, a more office-motivated friendly government is also easier to satisfy, since its reelection prospects are better served by any positive transfer than by no agreement, whatsoever. FG’s value from more generous offers, combined with the friendly DG$_1$’s value from accepting them, may even yield the friendly party a strictly positive surplus from pursuing the project.

This raises a basic question: conditional on securing a date-1 agreement, would the date-1 hostile party or the friendly party obtain greater transfers from the foreign government? On the one hand, a friendly DG$_1$ enjoys a strictly positive surplus from the agreement, while a hostile DG$_1$ is held to its participation constraint. On the other hand, the friendly DG$_1$’s participation can be more easily secured than the hostile DG$_1$’s participation. Our next result provides an unambiguous resolution to this question: the friendly party derives a higher surplus from agreements than the hostile party simply because its participation can be bought more cheaply by the foreign government.

**Corollary 3.** A hostile domestic government is less likely to successfully negotiate a date-1 agreement. Nonetheless, whenever it implements the project, it negotiates a higher transfer than what a friendly domestic government would obtain.

The hostile DG$_1$’s participation constraint is more stringent than the analogous constraint for a friendly DG$_1$, so whenever FG derives no surplus from an agreement, the result is immediate. Suppose, instead, that the friendly DG$_1$’s participation constraint is slack when FG advances its most preferred offer, $b^*_1$. Recall that FG and the hostile DG$_1$ face a pure conflict of
interest: any gain for one must come at the expense of the other. If $b^*_1$ is most preferred by FG, its value is strictly increasing in an offer $b_1 \in [0, b^*_1]$—and so, the hostile party’s value relative to rejection is strictly decreasing. It follows that to induce the hostile DG$_1$’s participation, FG must over-expend itself relative to its most preferred offer, i.e., its offer must exceed $b^*_1$.

Thus, even at date 1, voters face a trade-off with a more hostile domestic government. If DG$_1$ is too hostile, negotiations will break down. If, instead, it is very friendly to the project, it may agree to relatively ungenerous terms. Because the friendly DG$_1$ always reaches agreement with FG, its conflict with voters always increases with its value from holding office ($w$), since it becomes willing to accept ever-worse offers in order to improve its electoral prospects relative to securing no transfers. With the hostile DG$_1$, the consequences of a greater concern for office are less clear-cut. On the one hand, conditional on securing agreement, a higher office motivation makes the hostile party demand more transfers to compensate for its diminished electoral prospects resulting from an agreement. This gives the hostile party commitment power to reject offers that the friendly party would accept. On the other hand, a near-exclusive concern for retaining office may preclude agreement between a hostile DG$_1$ and FG.

**Discussion.** If voters can freely choose the project valuation of their date-2 government, the date-1 domestic government’s acceptance decision and foreign government’s offer determine (a) whether the date-2 domestic government is more or less hostile to the project than its predecessor, and (b) how much more or less hostile. Lemma 2 showed how the prospect of a date-2 government that is more hostile than the date-1 government is essential for larger transfers to increase the expected date-2 surplus between the parties, relative to the static surplus.

In contrast, with two-party competition, where parties cannot commit to platforms that they would not wish to implement, the hostile date-1 government can only be replaced by a strictly more project-friendly successor. Any change of power will therefore lead to a government that is both less likely to successfully renegotiate terms, and more willing to implement the project in cases where the hostile party wants to quit. This sharpens the conflict over election outcomes to the point where there is no prospect of a mutually advantageous transfer: any agreement that benefits the foreign government must harm the hostile domestic government, and vice-versa. Moreover, any benefit to either government is outweighed by the harm to the other. This holds even in the absence of office motivation, i.e., when $w = 0$ and the hostile government cares only about policy outcomes. When there are only two political parties, what matters is not how much more the hostile party is opposed to the project than the friendly party: just that the hostile party is more opposed. These factors
raise the risk that negotiations between the relatively hostile domestic government and the foreign government fail at date 1 even when the date-1 surplus from agreement is positive.¹²

**Consequences of Changes in Domestic Politics.** We now ask how changes in the preferences of the two domestic parties affect FG’s preferred initial offer, as well as prospects for long-term agreements. Let $b^*_1$ denote the offer that satisfies the first-order condition associated with the foreign government’s objective, expression (13).

FG’s responses to changes in domestic politics turn on two questions. First, how does the change affect FG’s relative value from steering the subsequent election toward the friendly party? Second, how does the change affect FG’s ability to influence the electoral outcome?

Suppose that one of the domestic political parties grows more inclined toward the project, i.e., either $v$ or $\bar{v}$ rises. If that party later wins office, FG calculates that the party’s threat to walk away from the agreement is now less credible, since it values the agreement by more. This encourages FG to respond with lower transfers.

However, the platform change also alters the electoral competitiveness of the two parties. Recall that the pivotal voter who is indifferent between the two parties has project valuation

$$\hat{v}(r_1b_1) = \frac{v + \bar{v}}{2} + (v_F - r_1b_1).$$

Absent any change in the negotiation settlement, a higher $\bar{v}$ lowers the electoral competitiveness of the friendly party by shifting $\hat{v}$ to the right, allowing the hostile party to win more voters. Conversely, a higher $v$ raises the electoral competitiveness of the hostile party.

Absent any change in FG’s offer, these shifts in party platforms place the friendly party at an increased disadvantage.

Finally, FG’s value from promoting the friendly party’s reelection depends on the wedge $\bar{v} - v$ between the two party’s bargaining attitudes. When the friendly party grows even more favorably disposed to the project, the wedge grows, raising FG’s stake from steering the election toward it. By contrast, when the hostile party moderates, the wedge shrinks, reducing FG’s stake.

¹²In the Supplemental Appendix, we illustrate by way of example how the electorate may benefit from being constrained to choose from a limited set of parties that cannot freely adapt platforms to perfectly reflect the preferred date-2 bargaining stances of voters. These frictions give the electorate a partial commitment to elect a more hostile government than it would otherwise select, disciplining the foreign government’s date-1 offer. The pivotal voter tends to gain from a limited choice when, relative to the date-1 domestic government, she is more hostile to the project—these are the circumstances in which her implicit threat to revert to a far more hostile date-2 representative is most credible and thus strongly improving date-1 negotiation outcomes.
These calculations relate to the value placed by FG on using higher offers to buttress its future negotiating position. But whether higher offers can have a meaningful impact on the election depends on the sensitivity of the pivotal voter’s choices to offers. With uniformly distributed uncertainty, the density of \( v_{\text{piv}} \) evaluated at the threshold \( \hat{v}(r_1b_1) = \frac{1}{2}\alpha \): electoral outcomes are more sensitive to offers when \( \alpha \) is lower.

When the election outcome is insensitive to offers, i.e., \( \alpha \) is large, FG’s return from using higher transfers to steer the election toward the friendly party is low. In this case, FG’s response to an improvement in the attitude of each party reflects that, conditional on holding office, that party is less likely to successfully renegotiate the terms. This encourages FG to reduce its offer. If, instead, election outcomes are sensitive to offers, i.e., \( \alpha \) is not too large, FG can more effectively steer the domestic electorate in favor of the friendly party by way of a more generous offer. We now show how, depending on FG’s value from promoting the election of the friendly party, this may lead to either more or less generous date-1 agreements.

**Proposition 5. (Friendly Party’s Valuation Increases)**. Suppose the project valuation \( \bar{v} \) of the friendly domestic political party increases. Then there exist at most two thresholds \( \bar{\alpha}_* \) and \( \bar{\alpha}^* \) such that if \( \alpha < \bar{\alpha}_* \), FG’s preferred offer increases and if \( \alpha > \bar{\alpha}^* \), FG’s preferred offer decreases. For \( \alpha \in [\bar{\alpha}_*, \bar{\alpha}^*] \), there exists \( \bar{v}^*(\alpha) \) such that FG’s most preferred offer is decreasing in \( \bar{v} \) if and only if \( \bar{v} \leq \bar{v}^*(\alpha) \).

Figure 2 illustrates these findings. When the election outcome is very sensitive to negotiation outcomes (i.e., \( \alpha \) is small), FG responds to increases in \( \bar{v} \) with increased offers, to promote

\[\begin{align*}
\text{(a) } \alpha &= 4 \\
\text{(b) } \alpha &= 4.74 \\
\text{(c) } \alpha &= 6
\end{align*}\]

Figure 2: Illustration of how FG’s most preferred proposal varies with the project valuation of the friendly party. Parameters: \( \delta = 1, \nu_F = 3, \theta = .5, \sigma = 3, \nu = -3, v_{\text{piv}} = -1, \) and \( \bar{v} \in [-\frac{3}{4}, 0] \). Panel (a) corresponds to high electoral return from more generous offers, (b) to intermediate electoral return, and (c) to low electoral return. The thresholds described in Proposition 5 are (two decimal places): \( \bar{\alpha}_* = 4.62, \bar{\alpha}^* = 5.54, \) and \( \bar{v}^*(\alpha) = .5(-3\alpha + \sqrt{3}\sqrt{\alpha(7\alpha - 8)} - 6) \).
the reelection of the friendly DG. But, if $\alpha$ is large, the election outcome is relatively insensitive to higher offers, so FG responds with lower offers, since improvements in the friendly party’s bargaining attitude make it a more pliant negotiating partner when it is retained.

Finally, suppose that the election is only moderately sensitive to international negotiations, i.e., $\alpha$ is intermediate. When $\bar{v}$ and $v$ are very close, the two parties are almost indistinguishable from FG’s perspective. Increases in $\bar{v}$ only modestly increase FG’s value of promoting the reelection of the friendly party. In conjunction with the reduced electoral returns from raising its offer (since $\alpha > \bar{\alpha}$), FG prefers to respond to a higher $\bar{v}$ with smaller transfers.

As the friendly party grows even more favorably disposed to the project, i.e., $\bar{v}$ rises, FG’s trade-offs change. The increasing wedge $\bar{v} - v$ in valuations between the domestic political parties raises FG’s stake in promoting the electoral success of the friendly party. In conjunction with the non-trivial electoral returns from raising its offer (since $\alpha < \bar{\alpha}^*$), FG responds to a higher $\bar{v}$ with larger transfers.

Related, but distinct, considerations drive FG’s response when the hostile party’s valuation $v$ rises:

**Proposition 5. (Hostile Party’s Valuation Increases)** Suppose the hostile party is initially electorally competitive, in the sense that

$$v_{\text{piv}}^e - v < v_F.$$ (16)

Then, if the hostile party’s project valuation $v$ increases, FG’s most preferred offer decreases. Otherwise, there exist at most two thresholds $\alpha_*$ and $\bar{\alpha}^*$ such that if $\alpha < \alpha_*$, FG’s preferred offer increases and if $\alpha > \bar{\alpha}^*$, FG’s preferred offer decreases. For $\alpha \in [\alpha_*, \bar{\alpha}^*]$, there exists $v^*(\alpha)$ such that FG’s preferred offer is increasing in $v$ if and only if $v \leq v^*(\alpha)$.

An increase in the hostile party’s project valuation $v$ has three effects. First, conditional on winning office, the hostile party is a more pliant negotiator. Second, FG’s stakes in the election decrease, since the expected difference in the bargaining stances of the two parties falls when the hostile party’s valuation $v$ rises. Third, the hostile party wins more votes, since its platform moves closer to the friendly party’s platform, i.e., $\frac{v + \bar{v}}{2}$ moves to the right. The first two effects encourage FG to reduce its offer, while the third induces it to raise its offer to offset the hostile party’s increased electoral advantage.

The difference $v_{\text{piv}}^e - v$ represents the intrinsic mis-alignment between the hostile party and the electorate. When this mis-alignment is large, voters worry about the risk that a
hostile DG\(_2\) will fail to reach agreement, causing the project to be abandoned. However, when condition (16) holds, this risk is outweighed by the value of a successful renegotiation that raises the transfer to \(v_F\), and which a hostile DG\(_2\) is more likely to secure. We say that the hostile party is ‘competitive’ when condition (16) is satisfied.

Condition (16) holds in Figure 2. When the hostile party is competitive, its behavior conditional on winning office dominates FG’s calculation. As \(v\) rises, FG understands that, if elected, the hostile party will be less credible in its threats to unilaterally quit at the inherited terms. Thus, it responds with lower transfers.

When the hostile party is initially uncompetitive, changes in fundamentals that improve its electoral prospects weigh more heavily on FG. If \(\alpha\) is small, so that the election outcome is sensitive to date-1 transfers, FG responds to a higher \(v\) with more generous offers to offset the hostile party’s increased electoral advantage. If, instead, \(\alpha\) is large, FG lowers its transfer, since it understands that efforts to influence the election through its offer would be ineffectual.

Finally, when \(\alpha\) is intermediate, the election outcome is only moderately sensitive to offers. Again, when \(v\) rises, the hostile party becomes more electorally competitive. But if \(v\) is very close to \(\bar{v}\), FG regards the two parties as almost indistinguishable. This lowers FG’s stake from using higher transfers to compensate the friendly party’s reduced competitiveness. In conjunction with the reduced returns from raising its offer (since \(\alpha > \alpha^*\)), FG prefers to respond to a higher \(v\) with smaller transfers. If, instead, the hostile party’s valuation \(v\) is initially far lower than \(\bar{v}\), FG anticipates a large wedge between the bargaining postures of the two parties, raising its stake in partially offsetting the friendly party’s increased disadvantage due to a higher \(v\). In conjunction with the non-trivial electoral returns from raising its offer (since \(\alpha < \alpha^*\)), FG prefers to respond to a higher \(v\) with larger transfers.

In the Supplemental Appendix, we show how the prospect of a long-term (i.e., date-2) agreement may decrease if the hostile party becomes more favorably disposed to the project, i.e., if its valuation \(v\) rises. Conditional on the hostile party winning office, a deal is now more likely. But, the more moderate hostile party is more electorally competitive, making it more likely to win power—it now captures some voters who initially would have favored the friendly party, and the foreign government may respond with even less generous offers, further pushing domestic voters to support the hostile party. These two forces may dominate, causing prospects for long-term agreements to deteriorate when a hostile party that is initially electorally marginal grows more competitive by moderating its stance in favor of the project.

**Retrospective Voting.** Our benchmark analysis presumes that voters are forward-looking,
i.e., voting for the party that will secure the best anticipated negotiation outcomes. In the Supplemental Appendix, we consider retrospective voters who reward or punish an incumbent according to a linearly increasing function of their date-1 payoffs:

$$\Pr(\text{reelect incumbent} \mid \text{date-1 outcome}) = \max\{0, \min\{a + \beta r_1(v_{piv} + b_1), 1\}\}.$$ 

Here $a$ reflects electoral aspects that do not depend on international negotiations, and $\beta$ captures the salience of the negotiations in the election—when $\beta$ is large, the date-1 domestic government’s electorate fortunes are more sensitive to negotiation outcomes.

We show that if (1) the international negotiations are sufficiently salient and (2) the domestic parties are sufficiently polarized, in the sense that

$$\beta(\bar{v} - v) > \frac{1 + \theta}{2},$$

then an analogue of Proposition 3 holds: if DG$_1$ is hostile, i.e., with value $v$, either no agreement is signed or FG holds hostile DG$_1$ to its participation constraint. When $\bar{v} - v$ is large, FG’s value from steering voters toward the friendly party is large, and when $\beta$ is large, the election outcome is especially sensitive to the date-1 outcome. These are the circumstances in which the conflict of interest between FG and hostile DG$_1$ is at its greatest.

With prospective voters, a hostile DG$_1$ refuses more generous offers because they harm its electoral prospects. With retrospective voters, the FG refuses to make more generous offers to the hostile party because they advance its electoral prospects. Thus, the conflict of interest between the date-1 negotiating parties is fundamental, and does not hinge on the sophistication or foresight of the electorate. In contrast with prospective voters, however, circumstances exist in which a friendly DG$_1$ secures a larger date-1 transfer than a hostile DG$_1$.

6. Conclusion

Our paper analyzes the dynamics of international negotiations and domestic politics. We asked: how do the prospects for initial cooperation and the terms of agreements vary with uncertainty about whether one of the negotiating parties will subsequently be replaced by an agent with different preferences? And, how do the terms of an initial agreement affect the prospect of electoral replacement, the bargaining attitude of a potential successor, or the risk that a successor will ultimately walk away from the agreement?
If elections outcomes are insensitive to bargaining outcomes, the answer is simple: uncertainty about the future distribution of power plays no role in the prospects for initial agreement or the division of the surplus. A static surplus between the governments is necessary and sufficient for agreement, and the dynamic surplus is appropriated by the foreign government.

By contrast, when voters’ electoral decisions are sensitive to bargaining outcomes, negotiations are driven by a three-way conflict of interest between the foreign government, the domestic government, and the domestic electorate. Regardless of the static surplus from agreement between the domestic and foreign government, the dynamic surplus is driven by the governments’ joint alignment relative to the domestic electorate. When the governments are closely aligned, the dynamic surplus from an agreement increases, facilitating successful negotiations even when the static surplus is negative. By contrast, if the governments are insufficiently aligned relative to the pivotal voter, the dynamic surplus from agreement decreases, sharpening the dynamic conflict of interest between the governments. This may rule out successful negotiations even when the static surplus is positive.

We view the most pressing next step in the research agenda to be the incorporation of two-sided elections into the analysis. For example, the foreign government must eventually face elections. This prospect may have sharpened the bargaining stances of EU member states vis-à-vis Greece over the course of 2015, as their own electorates grew increasingly frustrated.

Although our motivating setting is the political economy of international negotiations, our insights extend to other settings in which one of the negotiating parties is accountable to a third party during negotiations. For example, consider an employer or government bargaining with a Trade Union. To avoid a strike, an employer can offer wage increases or more flexible working hours. Each party’s relative value of agreement is the value derived from not engaging in industrial action, which disrupts production for the employer and earnings for workers. When the Trade Union leadership is accountable to its members during the course of negotiations via internal elections, our framework provides insights into the consequences of internal democracy for the prospects of successful short- and long-run negotiations, and the division of surplus between the negotiating parties. In our setting, the accountability mechanism is relatively coarse, i.e., an electoral decision to retain or replace the agent; in other contexts, a principal may be able to commit to replacement strategies before initial negotiations conclude, or to offer richer reward schemes. We leave analyses of such settings to future research.

\[\text{We thank Kerwin Charles and Jon Eguia, who independently proposed this application.}\]
7. Bibliography


8. Appendix: Proofs of Results

Proof of Proposition 1. We first verify necessary and sufficient conditions for the project to be implemented at date 1. DG’s relative value of agreement,

\[(1 - \delta)(v^1_D + b_1) + \delta(V_D(v^1_D, b_1) - V_D(v^1_D, 0))\]

is convex in \(b_1\); \(\delta \in [0, 1]\), and \(v^1_D < 0\) implies there is at most one \(b_D \in (0, v_F]\) such that DG’s relative value of agreement is positive if and only if \(b_1 \geq b_D\). By a similar argument, it can be shown that there exists \(b_F \leq v_F\) such that FG’s relative value of agreement is positive if and only if \(b_1 \leq b_F\); therefore, a necessary and sufficient condition for a date-1 agreement is \(b_D \leq b_F\), which is equivalent to \(v_F + v^1_D \geq 0\). This proves the first claim. We next show that if \(v^1_D + v_F \geq 0\), FG appropriates the total relative surplus from an agreement. Fix DG’s strategy \(r_1(b_1) = 1\) if and only if \(b_1 \geq b_D\). FG prefers to make an offer \(b_1 > b_D\) if and only if

\[(1 - \delta)(v_F - b_1) + \delta V_F(b_1) \geq (1 - \delta)(v_F + v^1_D) + \delta V_F(0),\]

35
while \(b_1 > b_D\) implies that DG1 strictly prefers to accept:

\[
(1 - \delta)(v_D^1 + b_1) + \delta V_D(v_D^1, b_1) > \delta V_D(v_D^1, 0).
\]

Letting \(\Delta(v_D^1) = \int_{\mathbb{E}} x \int_{D} (v_D^1 + \lambda + v_F) f(\lambda) d\lambda dG(v_D^1),\) (19) can be written \((1 - \delta)(v_D^1 + b_1) + \delta \Delta(v_D^1) - \delta V_F(b_1) > \delta \Delta(v_D^1) - \delta V_F(0).\) Combining this with (18) yields \(\delta(V_F(b_1) - V_F(0)) < (1 - \delta)(v_D^1 + b_1) \leq \delta(V_F(b_1) - V_F(0)),\) a contradiction.

**Proof of Lemma 2** Immediate after substituting \(\lambda \sim U[-\sigma, \sigma].\)

**Proof of Proposition 2** The expected date-2 payoff to DG1 with valuation \(v_D^1\) is:

\[
V_D(v_D^1, b_1 r_1) = \int_{v_{\min}}^{v_{\max}} \int_{(v_D^1(b_1 r_1) + b_1 r_1)}^{v_D} (v + \lambda + b_1 r_1) f(\lambda) d\lambda dH(v_{\text{piv}})
\]

\[
+ \int_{v_{\min}}^{v_{\max}} \int_{(v_D^1(b_1 r_1) + b_1 r_1)}^{v_D} (v - v_D^1(b_1 r_1) + \theta(v_D^1(b_1 r_1) + \lambda + v_F)) f(\lambda) d\lambda dH(v_{\text{piv}}).
\]

DG1 prefers \(r_1(b_1) = 1\) if and only if \((1 - \delta)(v_D^1 + b_1) + \delta V_D(v_D^1, b_1) - \delta V_D(v_D^1, 0) \geq 0,\) where this relative value is: (i) convex in \(b_1,\) (ii) strictly negative evaluated at \(b_1 = 0\) for \(\delta \in [0, 1),\) (iii) strictly increasing in \(v_D^1\) and (iv) constant in \(v_{\text{piv}}^D.\) Thus, there is at most one \(b_D(v_{\text{piv}}^D, \delta) \in (0, v_F)\) such that this relative value is weakly positive if and only if \(b_1 \geq b_D.\)

Likewise, the expected date-2 payoff to FG from offer \(b_1\) is:

\[
V_F(b_1 r_1) = \int_{v_{\min}}^{v_{\max}} \int_{(v_D^1(b_1 r_1) + b_1 r_1)}^{v_F} (v_F - b_1 r_1) f(\lambda) d\lambda dH(v_{\text{piv}})
\]

\[
+ \int_{v_{\min}}^{v_{\max}} (1 - \theta) \int_{(v_D^1(b_1 r_1) + b_1 r_1)}^{v_F} (v_F + v_D^1(b_1 r_1) + \lambda) f(\lambda) d\lambda dH(v_{\text{piv}}).
\]

If \(r_1(b_1) = 1,\) the foreign government’s date-1 relative value of agreement is \((1 - \delta)(v_F - b_1) + \delta(V_F(b_1) - V_F(0)),\) where this value is (v) concave in \(b_1,\) (vi) strictly positive evaluated at \(b_1 = 0,\) (vii) weakly negative evaluated at \(b_1 = v_F,\) (viii) strictly decreases in \(v_{\text{piv}}^e \equiv \mathbb{E}[v_{\text{piv}}^e],\) and (ix) constant in \(v_D^1.\) We conclude that there exists \(b_F(v_{\text{piv}}^e, \delta) \in (0, v_F),\) such FG’s relative value of agreement is positive if and only if \(b_1 \leq b_F.\) Combining (iii), (ix), \(b_D(\min\{12v_F \theta - \sigma, -v_F\}, \delta) \geq v_F \geq b_F(v_{\text{piv}}^e, \delta),\) and (by straightforward algebra) \(b_D(0, \delta) < b_F(v_{\text{piv}}^e, \delta)\) yields \(v^*(\delta, v_{\text{piv}}^e) < 0\) such that \(b_D(v_D^e, \delta) \leq b_F(v_{\text{piv}}^e, \delta)\) if and only if \(v_D^e \geq v^*\), where \(v^*(\delta, v_{\text{piv}}^e)\) increases in \(v_{\text{piv}}^e\) by (iv) and (viii).

We now prove the second part. Let \(b^*_1\) denote FG’s most-preferred date-1 transfer \(b_1,\) i.e., expression (12). \(b^*_1\) strictly increases in \(\delta\) and \(b^*_1 > 0\) if and only if \(\delta > \delta^* \equiv \frac{2\sigma}{v_F(2+\theta) + \sigma - v_{\text{piv}}^e},\) where \(\delta^* < 1\) if and only if \(\sigma < v_F(1 + \theta) + v_F - v_{\text{piv}}^e \equiv \hat{\sigma}.\) Suppose, then, \(\sigma < \hat{\sigma}.\) DG1’s expected relative payoff from choosing \(r_1(b^*_1) = 1\) is continuous and strictly increasing in \(v_D^1;\) evaluated at \(v_D^1 = 0,\) its expected relative payoff is \((1 - \delta)b^*_1 + \delta(V_F(0, b^*_1) - V_F(0, 0)),\) which
is strictly concave in $\delta$; straightforward algebra yields two roots: $\delta^*$ and $\delta' > \delta^*$. We have shown $\sigma < \hat{\sigma}$ implies $\delta^* < 1$. A necessary and sufficient condition for $\delta' \geq 1$ is $-\sigma \leq v < v_{\text{piv}}^< \leq \hat{v}_{\text{piv}}^<$. Thus, $-\sigma \leq v < v_{\text{piv}}^< \leq \hat{v}_{\text{piv}}^<$ and $\sigma < \hat{\sigma}$ implies that if $\delta \in (\delta^*, 1)$, there exists $v^*(v_{\text{piv}}^<, \delta) < 0$ such that if $v_D^1 \in (v^*, 0)$, DG1 strictly prefers $r_1(b^*_1) = 1$.

**Proof of Proposition 3 and Corollary 2.** Let $\hat{v}(b_1) = \frac{v + \theta}{2} + (v_F - b_1)$, let $r_1(b_1, v) \in \{0, 1\}$ equal 1 if and only DG1 with valuation $v \in \{\underline{v}, \overline{v}\}$ prefers to implement the project given offer $b_1$, and let $P(x) = \Pr(v_{\text{piv}} \leq x)$.

**Step 1:** When the hostile party holds date-1 power: if it implements the project, FG’s offer solves its participation constraint with equality. We have $r_1(b_1, v) = 1$ if and only if

$$
(1 - \delta)(v + b_1) + \delta P(\hat{v}(b_1))V_D(v, \underline{v}, b_1) + \delta(1 - P(\hat{v}(b_1)))V_D(v, \overline{v}, b_1)
$$

$$
- (\delta P(\hat{v}(0))V_D(v, \underline{v}, 0) + \delta(1 - P(\hat{v}(0)))V_D(v, \overline{v}, 0) \geq 0, 
$$

(22)

where $V_D(v, v', r_1 b_1) = 1[v = v']w + \int^\sigma_{-(v' + r_1 b_1)}(v + r_1 b_1 + \lambda)f(\lambda) d\lambda + \int^-(v' + r_1 b_1)(v - v' + \theta(v' + \lambda + v_F))f(\lambda) d\lambda$. (22) is convex in $b_1$, and strictly negative evaluated at $b_1 = 0$ for any $\delta < 1$, given $\underline{v} < \overline{v} < 0$. Thus, for any $\delta < 1$, there is at most one offer, $b_D(v) \in (0, v_F]$, such that $r_1(b_1, v) = 1$ if and only if $b_1 \geq b_D(v)$. Likewise, FG’s payoff from offer $b_D(v)$ is:

$$
(1 - \delta)(v_F + v) + \delta P(\hat{v}(b_D(v))) - P(\hat{v}(0))(\Delta(v, \underline{v}) - \Delta(v, \overline{v}))
$$

$$
+ \delta P(\hat{v}(0))V_F(\underline{v}, 0) + \delta(1 - P(\hat{v}(0)))V_F(\overline{v}, 0), 
$$

(23)

where $\Delta(v, v') \equiv 1[v = v']w + \int^\sigma_{-(v' + v_F)}(v + v_F + \lambda)f(\lambda) d\lambda$. Suppose FG weakly prefers to offer $b'_1 > b_D(v)$. This is equivalent to:

$$
(1 - \delta)(v_F + v) + \delta P(\hat{v}(b'_1))V_F(\underline{v}, b'_1) + \delta(1 - P(\hat{v}(b'_1)))V_F(\overline{v}, b'_1)
$$

$$
\geq (1 - \delta)(v_F + v) + \delta P(\hat{v}(b_D(v))) - P(\hat{v}(0))(\Delta(v, \underline{v}) - \Delta(v, \overline{v}))
$$

$$
+ \delta P(\hat{v}(0))V_F(\underline{v}, 0) + \delta(1 - P(\hat{v}(0)))V_F(\overline{v}, 0). 
$$

(24)

Moreover, $b'_1 > b_D(v)$ implies:

$$
(1 - \delta)(v + b'_1) + \delta P(\hat{v}(b'_1))V_D(v, \underline{v}, b'_1) + \delta(1 - P(\hat{v}(b'_1)))V_D(v, \overline{v}, b'_1)
$$

$$
> \delta P(\hat{v}(0))V_D(v, \underline{v}, 0) + \delta(1 - P(\hat{v}(0)))V_D(v, \overline{v}, 0). 
$$

(25)
Substituting $V_D(v_D^1, v, b_1) = \Delta(v_D^1, v) - V_F(v, b_1)$, (25) is equivalent to:

$$
\delta P(\hat{v}(b_1^i))V_F(v, b_1^i) + \delta(1 - P(\hat{v}(b_1^i)))V_F(\bar{v}, b_1^i) \\
< \delta P(\hat{v}(0))V_F(v, 0) + \delta(1 - P(\hat{v}(0)))V_F(\bar{v}, 0) + \delta(P(\hat{v}(b_1^i)) - P(\hat{v}(0)))(\Delta(v, v) - \Delta(v, \bar{v})) \\
+ (1 - \delta)(v + b_1^i),
$$

and combining (26) and (24) yields:

$$(P(\hat{v}(b_D(v))) - P(\hat{v}(0)))(\Delta(v, v) - \Delta(v, \bar{v})) < (P(\hat{v}(b_0^i)) - P(\hat{v}(0)))(\Delta(v, v) - \Delta(v, \bar{v})).$$ (27)

Suppose $v = \bar{v}$. Since $\Delta(v, v) - \Delta(v, \bar{v}) > 0$, (27) holds only if $P(\hat{v}(b_D)) < P(\hat{v}(b_0^i))$, or $b_1^i < b_D(v)$, a contradiction.

**Step 2:** For any $\delta > 0$, there exists $v^*(\delta) = -v_F$ such that: if $-\sigma < v < v^*(\delta)$, the project is not implemented at date 1, and if $v \geq \max\{v^*(\delta), -\sigma\}$, the project is implemented at date 1 when $DG_1$ is hostile. Recall that we assume $-\sigma \leq v$. FG’s relative value from $b_D(v)$ is:

$$\Psi(b_1, v) \equiv (1 - \delta)(v_F + v) + \delta(P(\hat{v}(b_D(v))) - P(\hat{v}(0)))(\Delta(v, v) - \Delta(v, \bar{v})) \geq 0,$$ (28)

strictly increasing in $v$: $v \leq -v_F$ and $\delta > 0$ implies (28) is strictly negative; $v = \bar{v}$ implies (28) is strictly positive by $v_F + \bar{v} > 0$. Thus, for $\delta (0, 1)$, there exists $v^*(\delta) \in (-v_F, \bar{v})$ such that (28) is weakly positive if and only if $v \geq \max\{v^*(\delta), -\sigma\}$.

**Step 3:** For any $\delta > 0$, there exists $w^*(\delta) = -v_F$ such that: if $w > w^*(\delta)$, the project is not implemented at date 1 when $DG_1$ is hostile. The reservation transfer $b_D(v)$ strictly decreases in $w$ and strictly increases in $w$, so (28) strictly increases in $v$ and strictly decreases in $w$. For any $\delta > 0$, (28) is negative for $w$ sufficiently large. This yields $w^*(\delta) \geq 0$, increasing in $v$.

**Proof of Proposition 4** By similar steps to the previous Proposition, FG’s value from the smallest offer $b_D(\bar{v})$ such that the date-1 friendly $DG_1$ weakly prefers $r_1(b_1, \bar{v}) = 1$ is:

$$(1 - \delta)(v_F + \bar{v}) + \delta(P(\hat{v}(b_D(\bar{v}))) - P(\hat{v}(0)))(\Delta(\bar{v}, v) - \Delta(\bar{v}, \bar{v})).$$ (29)

By $v_F + \bar{v} > 0$ and $\Delta(\bar{v}, v) - \Delta(\bar{v}, \bar{v}) < 0$, (29) is strictly positive for all $\delta \in [0, 1)$. To see the second claim, notice that for any $\delta > 0$, $b_D(\bar{v})$ is strictly decreasing in $w$, and satisfies $\lim_{w \to \infty} b_D(\bar{v}) = 0$. Thus, for any offer $b^{\text{int}} > 0$ solving the FOC associated with the concave objective (13), we may find $w^*(\bar{v})$ such that $w > w^*(\bar{v})$ implies $b_D(\bar{v}) < b^{\text{int}}$; $w^*(\bar{v})$ decreases in $\bar{v}$ by the Implicit Function Theorem.

**Proof of Corollary 3** Recall that $b_D(v)$ is the reservation transfer of $DG_1$ with value
\( v \in \{v, \bar{v}\} \). It is easy to show \( b_D(v) > b_D(\bar{v}) \); we further show \( b_D(v) > b_\text{int} \), where \( b_\text{int} \) solves the first-order condition associated with \([13]\). A hostile DG \( 1 \) derives an expected relative value from agreement:

\[
\Psi(b_1, v) - [(1 - \delta)(v_F - b_1) + \delta P(b_1))V_F(v, b_1) + \delta(1 - P(b_1))V_F(\bar{v}, b_1) - (\delta P(0))V_F(v, 0) + \delta(1 - P(0))V_F(\bar{v}, 0)]
\]

where the first term is the total relative expected surplus from a date-1 agreement between the hostile DG \( 1 \) and FG (defined in Step 2 of the proof of Proposition \([3]\), and the bracketed term is FG’s relative value. The proof of Proposition \([3]\) shows \( \Psi(b_1, v) \) strictly decreases in \( b_1 \in [0, v_*] \). Strict concavity of FG’s objective and the definition of \( b_\text{int} \) implies the bracketed term in \((30)\) is strictly increasing on \( b_1 \in [0, b_\text{int}] \). So, \((30)\) strictly decreases in \( b_1 \in [0, b_\text{int}] \). Since \((30)\) is strictly negative evaluated at \( b_1 = 0 \), we conclude \( b_D(v) > b_\text{int} \).

**Proof of Proposition \([5]\)** We write \( b_\text{int} = b_\text{int}(\alpha, v, \bar{v}) \). By direct substitution, we write \( \frac{\partial b_\text{int}(\alpha, v, \bar{v})}{\partial \bar{v}} \) in the form \( \frac{\partial b_\text{int}(\alpha, v, \bar{v})}{\partial \bar{v}} = \frac{\nu(\alpha, v, \bar{v})}{\kappa} \), where \( \kappa > 0 \). Thus, \( \frac{\partial b_\text{int}(\alpha, v, \bar{v})}{\partial \bar{v}} \geq 0 \) if and only if \( \nu(\alpha, v, \bar{v}) \geq 0 \). Moreover, \( \frac{\partial \nu(\alpha, v, \bar{v})}{\partial \bar{v}} = 2\delta(\bar{v} - v + \alpha + \theta \alpha) > 0 \). Thus, if \( \nu(\alpha, v, \bar{v})' \geq 0 \), \( \bar{v}' > \bar{v} \) implies \( \nu(\alpha, v, \bar{v}'') > 0 \). We note \( \frac{\partial^2 \nu(\alpha, v, \bar{v})}{\partial \alpha^2} = -4\delta(1 + \theta) < 0 \), and \( \nu(0, v, \bar{v}) = \delta(\bar{v} - v)^2 \geq 0 \) for all \( \bar{v} \in [v, 0] \). We obtain at most one strictly positive root, \( \alpha(\bar{v}) \), which solves \( \nu(\alpha(\bar{v}), v, \bar{v}) = 0 \). Define \( \bar{\alpha}_* \equiv \alpha(\bar{v}) \) and \( \alpha^* \equiv \alpha(0) \). Suppose, first, \( \alpha < \bar{\alpha}_* \). Then, \( \nu(\alpha, v, \bar{v}) > 0 \) and thus \( \nu(\alpha, v, \bar{v}) > 0 \) for all \( \bar{v} \in [v, 0] \). Suppose, second, \( \alpha > \alpha^* \). Then, \( \nu(\alpha, v, 0) < 0 \) and thus \( \nu(\alpha, v, \bar{v}) < 0 \) for all \( \bar{v} \in [v, 0] \). Finally, if \( \alpha \in [\bar{\alpha}_*, \alpha^*] \), then \( \nu(\alpha, v, \bar{v}) > 0 \), and \( \nu(\alpha, v, 0) < 0 \). Since \( \nu(\alpha, v, \bar{v}) \) is strictly increasing in \( \bar{v} \), we conclude that there exists a unique threshold, \( \bar{v}^* \in [v, 0] \), such that \( \bar{v} < \bar{v}^* \) implies \( \nu(\alpha, v, \bar{v}) < 0 \), and \( \bar{v} > \bar{v}^* \) implies \( \nu(\alpha, v, \bar{v}) > 0 \). The complementary result for changes in \( v \), when \( v_\text{piv}^e - v \geq v_F \), follows a similar argument. Suppose, instead, \( v_\text{piv}^e - v < v_F \). We may write \( \frac{\partial b_\text{int}(\alpha, v, \bar{v})}{\partial \bar{v}} = \frac{\mu(\alpha, v, \bar{v}, e_\text{piv})}{\kappa} \), where \( \kappa > 0 \). We show that if \( v_\text{piv}^e - v < v_F \), then \( \mu(\alpha, v, \bar{v}, \delta, e_\text{piv}) < 0 \). We have \( \frac{\partial \mu(\alpha, v, \bar{v}, \delta, e_\text{piv})}{\partial \bar{v}} = 2\delta(\bar{v} - v - 2\alpha) \), strictly decreasing in \( \alpha \). Substituting in Assumption \( 2 \) that \( \alpha > \frac{v + v}{2} + v_F - v_\text{piv}^e \) yields \( \frac{\partial \mu(\alpha, v, \bar{v}, \delta, e_\text{piv})}{\partial \bar{v}} < 0 \) if \( v_\text{piv}^e - v < v_F \). Assume this holds. Then, we must show that \( \mu(\alpha, v, \bar{v}, \delta, e_\text{piv}) < 0 \). \( \mu(\alpha, v, \bar{v}, \delta, e_\text{piv}) \) is linear in \( \delta \), and \( \mu(\alpha, v, \bar{v}, 0, e_\text{piv}) < 0 \), so it is sufficient to show that \( v_\text{piv}^e - v < v_F \) implies \( \mu(\alpha, v, \bar{v}, 1, e_\text{piv}) < 0 \). This follows from \( \mu(\alpha, v, \bar{v}, 1, e_\text{piv}) \) strictly increasing in \( e^e \), evaluated at \( e^e = v_F + v \) and using the assumption that \( \sigma + v > 0 \).
9. Supplemental Appendix for ONLINE Publication: Extensions and Additional Results

1. Retrospective Voters. With forward-looking voters, their induced preferences over representatives at the end of date 1 reflect their assessments of which party will best serve their interests at date 2. This creates a commitment problem: voters cannot credibly promise to reward a date-1 incumbent for securing better transfers at date 1. This problem is especially salient for an incumbent who is fundamentally opposed to the project: under prospective voting, securing more generous concessions in return for implementing the project at date 1 unambiguously harms its prospect of being returned to office at date 1.

Suppose, instead, that voters are retrospective: they reward or punish incumbents based solely on their date-1 payoffs. To understand the consequences of this behavior, we suppose that the pivotal domestic voter reelects the date-1 incumbent according to a reward schedule that is linear and increasing in her date-1 payoff:

\[ R(r_1(v_{\text{piv}} + b_1)) = \max\{0, \min\{a + \beta r_1(v_{\text{piv}} + b_1), 1\}\}, \]

where \(a, \beta \geq 0\), and as before \(r_1 \in \{0, 1\}\) is the indicator taking the value 1 if the date-1 project is implemented. We assume \(v_{\text{piv}}^e + v_F > 0\), and to avoid unedifying cases, we scale \(a\) and \(\beta > 0\) so that \(a + \beta v_{\text{piv}}^e > 0\) and \(a + \beta(v_{\text{piv}}^e + v_F) < 1\). The parameter \(\beta\) captures the salience of the international negotiation in the domestic elections.

FG’s offer to a date-1 domestic government with valuation \(v \in \{\bar{v}, \tilde{v}\}\) solves:

\[
\begin{align*}
\max_{b_1 \geq 0} & \quad (1 - \delta)r_1(b_1)(v_F - b_1) + \delta R(r_1(v_{\text{piv}}^e + b_1))V_F(v, b_1) \\
& \quad + \delta(1 - R(r_1(v_{\text{piv}}^e + b_1)))V_F(v', b_1r_1(b)),
\end{align*}
\]

subject to the date-1 domestic government’s participation constraint that \(r_1(b_1) = 1\) if and only if:

\[
(1 - \delta)(v_D^1 + b_1) + \delta R(v_{\text{piv}}^e + b_1)V_D(v_D^1, v, b_1) + (1 - R(v_{\text{piv}}^e + b_1))V_D(v_D^1, v', b_1) \\
\geq \delta R(0)V_D(v_D^1, v, 0) + (1 - R(0))V_D(v_D^1, v', 0),
\]

where \(v'\) is the valuation of the party that does not hold date-1 domestic power. We establish an analogue to Proposition 3, providing conditions under which a hostile incumbent either fails to secure an initial agreement, or is instead held to its participation constraint.
Proposition 6. Consider retrospective voting and suppose that the hostile party holds domestic office at date 1. Then, for any $\delta > 0$, if international negotiations are sufficiently salient in the election and the parties are sufficiently polarized in the sense that

$$\beta (\bar{v} - v) > \frac{1 + \theta}{2},$$

then either (1) no agreement is signed, or (2) the agreement is the smallest that secures the hostile government’s participation, i.e., satisfies (32).

Proof. When (33) holds, the difference between the LHS and the RHS of the hostile date-1 domestic government’s participation constraint (32) is strictly concave and strictly increasing in $b_1$. Hence, there is at most one $b_D(v) \in (0, v_F]$ such that $r_1(b_1) = 1$ if and only if $b_1 \geq b_D(v, w)$. Condition (33) further implies that the foreign government’s relative value of agreement at date-1 with transfer $b_1$ is strictly convex in $b_1$, strictly positive evaluated at $b_1 = 0$, and strictly negative evaluated at $b_1 = v_F$. Hence, there is a unique $b_F > 0$ such that the foreign government’s relative value of agreement at date-1 with transfer $b_1$ is weakly positive if and only if $b_1 \leq b_F$, and that its relative value is strictly decreasing in $b_1 \in (0, b_F]$. Thus, $b_D(v, w) > b_F$ implies no agreement is signed at date 1. If, instead, $b_D(v, w) \leq b_F$ any offer $b_1 > b_D(v, w)$ is strictly dominated for the foreign government by an offer $b'_1 \in (b_D(v, w), b_1)$. Thus, we must have $b_1 = b_D(v, w)$ and $r_1(b_1) = 1$ if and only if $b_1 \geq b_D(v, w)$.

If voters are forward-looking, the primary obstacle to an agreement between a foreign government and a hostile domestic incumbent is the electoral interest of the hostile incumbent: securing a more generous agreement raises the prospect that a hostile government is subsequently replaced with a friendly government. So, even in settings where the foreign government would be prepared to make positive—and possibly large—transfers, the hostile domestic government would prefer to reject these offers.

In contrast, if voters are backward-looking, the primary obstacle to an agreement between a foreign government and a hostile domestic incumbent is the induced electoral interest of the foreign government: more generous offers now raise the prospect that a hostile date-1 incumbent retains power. Less generous offers worsen the payoff of the pivotal domestic voter, who punishes the incumbent with replacement. This incentivizes FG to hold back from offering higher transfers in exchange for an initial agreement. The conflict of interest between FG and a hostile domestic incumbent grows as (1) the election outcome becomes
more responsive to date-1 outcomes (i.e., $\beta$ increases) and (2) FG’s value from ensuring the fall of the incumbent rises (i.e., $\bar{v} - v$ rises).

Thus, the conflict of interest between the foreign government and the hostile party is fundamental, and does not hinge on the farsightedness of the electorate.

Suppose, instead, that DG$_1$ is friendly. With forward-looking voters, more generous initial agreements help the friendly incumbent to remain in power, since voters’ induced preferences over date-2 negotiators revert in favor of maintaining the agreement, rather than improving it. With retrospective voting, more generous initial agreements help the friendly incumbent to remain in power. This raises the stakes for FG, encouraging it to make relatively more generous offers to the friendly incumbent than it would prefer to make to a hostile government. In contrast to settings with prospective voters, a friendly domestic incumbent government may secure more generous initial terms than a hostile incumbent under retrospective voting.

Corollary 4. For any $\delta > 0$, if $\beta(\bar{v} - v) > 1 + \frac{\theta}{2}$, there exists $\bar{w}$ such that if $w > \bar{w}$ (office-holding motives are sufficiently strong), a date-1 friendly government that derives a strictly positive surplus from the foreign government’s initial offer extracts strictly higher transfers from the foreign government than would be obtained by a hostile domestic government. When the election outcome is responsive to the date-1 outcome, the conflict between the foreign government and a hostile domestic government increases. So, too, the congruence between the foreign government and the friendly domestic government increases. In order to promote the reelection of a friendly government, the foreign government makes strictly more generous offers than it would make to a hostile government.

Proof. By the previous Proposition, if $\beta(\bar{v} - v) > 1 + \frac{\theta}{2}$, and an agreement is reached with a date-1 hostile domestic government, it is the smallest offer which satisfies the hostile government’s participation constraint, i.e., $b_D(v, w)$. It is easy to verify that (1) $\lim_{w \to \infty} |b_D(v, w) - b_D(\bar{v}, w)| = 0$ and (2) the foreign government’s objective (31) evaluated at $v = \bar{v}$ and $v' = v^*$ is strictly concave in $b_1$. We conclude that for any transfer $b^*(\bar{v}) > b_D(\bar{v}, w)$ that solves the associated first-order condition, there exists $\bar{w}$ such that if $w > \bar{w}$, $b^*(\bar{v}) > b_D(v, w)$.

2. Domestic Politics and Prospects for Long-Term Agreements. Suppose that the hostile party grows less opposed to the project in the sense that $v$ increases. Does this imply that the prospect of a successful negotiation at the (terminal) date 2 increases? We now show that the answer may be no.
The probability that the project is implemented at date 2 given status quo offer $b_1 \geq 0$ is:

$$\Pr(v_{piv} \leq \hat{v}(b_1))(1 - F(-(\underline{v} + v_F))) + \Pr(v_{piv} > \hat{v}(b_1))(1 - F(-(\bar{v} + v_F))). \tag{34}$$

If $v_{piv} \leq \hat{v}(b_1)$, the pivotal voter wants to elect the party that is hostile. The project will then be implemented so long as the date-2 surplus is positive, i.e., as long as $\underline{v} + \lambda + v_F \geq 0$, which occurs with probability $1 - F(-(\underline{v} + v_F))$. If, instead, $v_{piv} > \hat{v}(b_1)$, the pivotal voter wants to elect the party that is friendly to the project, in which case the project will be implemented so long as $\bar{v} + \lambda + v_F \geq 0$, which occurs with probability $1 - F(-(\bar{v} + v_F))$.

Conditional on the identity of the date-2 domestic government, the transfer $b_1$ does not affect whether the project is implemented. This is because implementation only depends on whether the realized date-2 joint surplus is positive and not on the status quo transfer.

This transfer, nonetheless, has an indirect impact on date-2 outcomes via its impact on whether the hostile or friendly party is elected. In turn, changes in primitives such as the ideologies of the domestic political parties exert both direct and indirect effects on the prospects of a date-1 project. The direct effects arise from changes in how each party behaves in office, conditional on being elected. The indirect effects arise from changes in the foreign government’s incentives that determine its initial date-1 proposal, and any effects on the pivotal voter’s subsequent electoral choice.

Suppose that DG_{1} is friendly, and that the initial offer, $b_{1}^{*}$, satisfies the first-order condition associated with FG’s objective function, ([13]), with $r_1(b_1^*) = 1$. Let $P(\hat{v}(b_1)) = Pr(v_{piv} \leq \hat{v}(b_1))$ denote the probability that the hostile party is elected in between dates 1 and 2. The derivative of the probability of a date-2 agreement ([34]) with respect to $\underline{v}$ is:

$$P(\hat{v}(b_1^*))F(-(\underline{v} + v_F)) \left. - \frac{\partial P(\hat{v})}{\partial \hat{v}} \right|_{\hat{v}=\hat{v}(b_1^*)} \left( \frac{\partial \hat{v}(b_1^*)}{\partial \underline{v}} + \frac{\partial \hat{v}(b_1)}{\partial b} \right) \left. \frac{db_1^*}{dv} \right|_{b_1=b_1^*} \right) \left( F(-(\underline{v} + v_F)) - F(-(\bar{v} + v_F)) \right). \tag{35}$$

The first component represents the direct effect of a moderation by the hostile party. With probability $P(\hat{v}(b_1^*))$, the hostile party holds office at date 1. For a fixed prospect that it holds power, a higher $\underline{v}$ raises the prospect of an agreement by expanding the set of circumstances in which the date-2 bargaining surplus between FG and DG_{2} is positive, i.e., $v_F + \underline{v} + \lambda \geq 0$. The second part of the expression captures two indirect effects, each of which operates via its
consequences for the relative prospect that the hostile party holds political power at date 2.

First, when the hostile party becomes more favorably disposed to the project—i.e., when \( \bar{v} \) increases—the hostile party becomes more electorally competitive, since it has moved closer to the friendly party, capturing some of its voters. This is captured by the term \( \frac{\partial \hat{v}(b^*_1)}{\partial b^*_1} = \frac{1}{2} \), implying that the identity of the voter who is indifferent between the friendly and hostile parties, \( \hat{v} \), shifts upward. Second, as Proposition 5 established, the foreign government’s preferred offer changes. If its preferred offer falls, this further advantages the hostile party, electorally, by rendering it relatively valuable as an instrument for achieving more future concessions, since \( \frac{\partial \hat{v}(b^*_1)}{\partial b^*_1} < 0 \). Even a higher offer from the foreign government may not be enough to outweigh the direct loss of domestic electoral competitiveness suffered by the friendly party.

We can substitute in uniform uncertainty over the domestic preference shock (\( \lambda \)) and the pivotal voter (\( v_{piv} \)) to simplify expression (35) to

\[
\frac{1}{(2\alpha)(2\sigma)} \left( \hat{v}(b^*_1) - (v_{piv}^e - \alpha) - \left( \frac{1}{2} - \frac{db^*_1}{dv} \right)(\bar{v} - v) \right).
\]

The indirect effects that push in favor of a reduced prospect that the project is implemented at date 2 are more likely to dominate when the hostile party is initially on the electoral fringe, i.e., \( P(\hat{v}(b^*_1)) \) is small. In turn, this is more likely when (1) the gap \( \bar{v} - v \) is large and (2) \( v_{piv}^e \) is not too negative. A higher \( \bar{v} - v \) incentivizes the foreign government to make more generous offers, raising \( b^*_1 \) and thus lowering \( P(\hat{v}(b^*_1)) \), while a more pro-project anticipated
pivotal voter is primitively more aligned with the friendly party.

Figure 3 illustrates how these effects may resolve: when the hostile party is initially very opposed to the project relative to expected public opinion, it is also electorally marginal. Then, a moderation of its position first works via its improved electoral prospects to reduce the prospect of a date-2 agreement. Eventually, though, increased softening of the hostile party’s stance raises the prospect of agreement via its impact when the hostile party wins office. A related result can arise for changes in the friendly party’s preferences: raising its already relatively favorable attitude toward the project (\(\bar{v}\)) may reduce the prospect of a long-term agreement by pushing voters toward the hostile party, raising the prospect that it holds office.

3. Domestic Government Holds Date-1 Bargaining Power. In our benchmark presentation, we assume that at date 1 the foreign government is the proposer and the domestic government is the receiver. We now show how our results change if, instead DG1 is the proposer.

*Exogenous Transitions.* Consider, first, the setting in which the identity of the date-2 domestic government does not depend on the date-1 negotiation outcome.

**Proposition 7.** (*Domestic Government Makes Date-1 Offer*). When the identity of the date-2 domestic representative does not depend on the date-1 agreement, the project is implemented at date 1 if and only if the date- surplus is positive, i.e., \(v_D^1 + v_F \geq 0\). Further, if the project is implemented at date 1, the domestic government extracts all surplus.

**Proof.** DG1’s relative value from an agreement with transfer \(b_1\) is

\[
(1 - \delta)(v_D^1 + b_1) + \delta(V_D(v_D^1, b_1) - V_D(v_D^1, 0)) \tag{36}
\]

where \(V_D(v_D^1, b_1)\) is defined in (3). Expression (36) is convex in \(b_1\), and strictly negative evaluated at \(b_1 = 0\) for any \(\delta \in [0, 1)\). Thus, whenever (36) is non-negative—which is necessary for the project to be implemented at date-1—the domestic government’s date-1 payoff \((1 - \delta)(v_D^1 + b_1) + \delta V_D(v_D^1, b_1)\) strictly increases in \(b_1\). The foreign government’s relative value of an agreement with transfer \(b_1\) is

\[
(1 - \delta)(v_F - b_1) + \delta(V_F(b_1) - V_F(0)) \tag{37}
\]

From the proof of Proposition 1, there exists \(b_F \in (0, v_F)\) such that (39) is non-negative if and only if \(b_1 \leq b_F\). We conclude that if a date-1 agreement is concluded in which the project
is implemented, DG\(_1\) demands \(b_F\), in which case its relative value from agreement is:

\[
(1 - \delta)(v_D^1 + v_F) + \delta(V_D(v_D^1, b_F) - V_D(v_D^1, 0)) = (1 - \delta)(v_D^1 + v_F),
\]

which is positive if and only if \(v_D^1 + v_F \geq 0\), as was to be shown.

**Endogenous Transitions.** Consider, now, the setting in which the domestic pivotal voter freely chooses the identity of her date-2 domestic government. We extend Proposition 2 to a setting in which the domestic government makes the date-1 offer.

**Proposition 8.** *(Domestic Government Makes Date-1 Offer).* If and only if \(v_D^1 \geq v^*(v_{piv}^e, \delta)\), the threshold defined in Proposition 2, the project is implemented at date 1, and the domestic government extracts all surplus.

**Proof.** DG\(_1\)’s value from agreement is

\[
(1 - \delta)(v_D^1 + b_1) + \delta(V_D(v_D^1, b_1) - V_D(v_D^1, 0)),
\]

where \(V_D(v_D^1, b_1)\) is defined in (20). From the proof of Proposition 2, (39) is convex in \(b_1\) and strictly negative evaluated at \(b_1 = 0\) for \(\delta \in [0, 1)\). Thus, whenever (39) is non-negative—which is necessary for the project to be implemented at date-1 and equivalent to \(b_1 \geq b_D(v_D^1, \delta)\) defined in the proof of Proposition 2—the domestic government’s date-1 payoff \((1 - \delta)(v_D^1 + b_1) + \delta V_D(v_D^1, b_1)\) is strictly increasing in \(b_1\). The foreign government’s relative value from an agreement with transfer \(b_1\) is

\[
(1 - \delta)(v_F - b_1) + \delta(V_F(b_1) - V_F(0)),
\]

where \(V_F(b_1)\) is defined in (21). From the proof of Proposition 2, there exists a unique transfer, \(b_F(v_{piv}^e, \delta)\) such that (40) is positive if and only if \(b_1 \leq b_F(v_{piv}^e, \delta)\). We conclude that if the project is implemented at date 1, DG\(_1\) demands the transfer \(b_F(v_{piv}^e, \delta)\), and its relative value from an agreement with this transfer is positive if and only if \(b_F(v_{piv}^e, \delta) \geq b_D(v_D^1, \delta)\), which is equivalent to requiring \(v_D^1 \geq v^*(v_{piv}^e, \delta)\), defined in Proposition 2.

**4. Domestic Pivotal Voter May Benefit From Limited Choice.** We compare the domestic pivotal voter’s payoffs in negotiation outcomes in two settings—one in which she can choose any date-2 representative, and one in which she is forced to select either the friendly party (with valuation \(\bar{v}\)) or the hostile party (with valuation \(\underline{v}\)). We show how the pivotal voter may benefit from being constrained. We suppose that the pivotal voter at date 1 has
project valuation $v_{piv}^e$, and anticipates that her interim valuation (between dates 1 and 2) is drawn from $H(v_{piv})$, with mean $v_{piv}^e$. We evaluate her date-1 (total discounted) expected payoffs.$^{14}$ To fix ideas, suppose the date-1 domestic government has project valuation $\bar{v}$.

When the pivotal voter (with interim valuation $v_{piv}$) may freely select her date-2 representative, her most-preferred representative solves:

$$\max_{v_{D}^2 \in \mathbb{R}} V(v_{piv}, v_{D}^2, r_1 b_1)$$

(41)

where

$$V(v, v_{D}^2, r_1 b_1) = \int_{-(v_{D}^2+b_1 r_1)}^{\sigma} (v + \lambda + b_1 r_1) f(\lambda) d\lambda + \int_{-(v_{D}^2+v_F)}^{-(v_{D}^2+b_1 r_1)} (v - v_{D}^2 + \theta(v_{D}^2 + \lambda + v_F)) f(\lambda) d\lambda.$$

We learn from Lemma 1 that the unique solution to (41) is:

$$\hat{v}(r_1 b_1) = v_{piv} - (v_F - r_1 b_1).$$

(42)

By contrast, when the pivotal voter must choose between the friendly and hostile party, her most-preferred date-2 representative solves

$$\max_{v_{D}^2 \in \{v, \bar{v}\}} V(v_{piv}, v_{D}^2, r_1 b_1).$$

(43)

Thus the pivotal voter votes for the hostile party if and only if

$$v_{piv} \leq \frac{\bar{v} + \bar{v}}{2} + (v_F - r_1 b_1).$$

(44)

Suppose that parameters are such that, in both settings, DG$_1$ with valuation $\bar{v}$ and FG implement the project at a transfer $b_1$ that satisfies DG$_1$’s participation constraint (we will verify that this is true for the example). Let $b_1^{NC}$ denote the transfer when the pivotal voter freely selects her date-1 representative (“No Constraint”). Thus, $b_1^{NC}$ solves

$$(1-\delta)(\bar{v} + b_1^{NC}) + \delta \int_{v_{min}}^{v_{max}} V_D(\bar{v}, v_{piv} - (v_F - b_1^{NC}), b_1^{NC}) dH(v_{piv}) = \delta \int_{v_{min}}^{v_{max}} V_D(\bar{v}, v_{piv} - v_F, 0) dH(v_{piv}).$$

$^{14}$An alternative approach would be to evaluate the welfare of a date-1 voter that is distinct from the pivotal voter in between dates 1 and 2. This approach yields qualitatively similar results.
With constrained choice between two parties, the transfer $b_1$ that solves the date-1 domestic government’s participation constraint, $b_1^C$ ("Constraint") solves:

$$(1 - \delta)(\bar{v} + b_1^C) + \delta \int_{v_{\text{min}}}^{\bar{v}} V_D(\bar{v}, v, b_1^C) dH(v) + \delta \int_{\frac{v_{\text{min}}}{\delta} + \bar{v}}^{v_{\text{max}}} V_D(\bar{v}, \bar{v}, b_1^C) dH(v).$$

The domestic pivotal voter’s date-1 expected payoff in the setting with no constraints on her choice of date-2 representative is therefore:

$$(1 - \delta)(v_{\text{piv}}^e + b_1^{NC}) + \delta \int_{v_{\text{min}}}^{v_{\text{max}}} V_D(v_{\text{piv}}, v_{\text{piv}} - (v_F - b_1^{NC}), b_1^{NC}) dH(v_{\text{piv}}),$$

while her corresponding payoff in the setting with constrained choice is:

$$(1 - \delta)(v_{\text{piv}}^e + b_1^C) + \delta \int_{v_{\text{min}}}^{v_{\text{max}}} V_D(v_{\text{piv}}, v_{\text{piv}} - (v_F - b_1^C), b_1^C) dH(v_{\text{piv}}).$$

Expression (47) is greater than (46) if and only if:

$$b_1^C - b_1^{NC} \geq \frac{\delta}{1 - \delta} \left( V_D(v_{\text{piv}}, v_{\text{piv}} - (v_F - b_1^{NC}), b_1^{NC}) - V_D(v_{\text{piv}}, v_{\text{piv}} - (v_F - b_1^C), b_1^C) \right) dH(v_{\text{piv}})$$

$$+ \frac{\delta}{1 - \delta} \left( V_D(v_{\text{piv}}, v_{\text{piv}} - (v_F - b_1^{NC}), b_1^{NC}) - V_D(v_{\text{piv}}, v_{\text{piv}} - (v_F - b_1^C), b_1^C) \right) dH(v_{\text{piv}}).$$

If the transfers across each setting were the same, i.e., $b_1^C = b_1^{NC}$, the inequality is never satisfied: the voter simply sacrifices the flexibility to fine-tune her choice of date-2 representative. More generally, the domestic voter expects to benefit only if the transfer $b_1^C$ is sufficiently large relative to $b_1^{NC}$ to compensate for her diminished flexibility in appointing the date-2
representative. This transfer $b_{1}^{C}$ can exceed $b_{1}^{NC}$ because the foreign government recognizes an increased threat of facing a very hostile date-2 government—even if a moderate voter would prefer to elect only a modestly hostile date-2 government, the lack of choice may force her to ‘overshoot’ in favor of a far more hostile representative. This, in turn, acts as a source of discipline on date-1 negotiations, from which the pivotal voter may expect to benefit.

We now illustrate conditions under which (48) holds for a set of benchmark parameters. As in the main text, we assume $v_{piv}$ is uniformly distributed over $[v_{piv}^{e} - \alpha, v_{piv}^{e} + \alpha]$. We fix $v_{F} = 4$, $\sigma = 8.3$, $\theta = 1$, $\delta = .7$, $v = -6$, and $\alpha = 2.5$, leaving $v_{piv}^{e}$ and $\bar{v}$ as free parameters. The shaded area of Figure 4 identifies pairs $(v_{piv}^{e}, \bar{v})$ for which the inequality (48) is satisfied.

![Figure 4](image-url)

Figure 4: The shaded area denotes pairs $(v_{piv}^{e}, \bar{v})$ such that domestic pivotal voter prefers a system of limited choice, i.e., expression (48) holds. Parameters: $\delta = .7$, $v_{F} = 4$, $\theta = 1$, $\sigma = 8.3$, $v = -6$, $\alpha = 2.5$.

Fixing the project valuation of the friendly party $\bar{v}$, i.e., DG$_{1}$, the pivotal voter is more likely to prefer a system of limited choice when she is relatively more hostile, i.e., $v_{piv}^{e}$ is lower. A more hostile pivotal voter can more credibly threaten to revert from the friendly party to the hostile party, even though the hostile party may be significantly more opposed to the project than the pivotal voter’s most preferred representative. This exerts discipline on FG’s initial offer, raising its date-1 transfer.

Fixing the pivotal voter’s date-1 (and anticipated date-2) valuation $v_{piv}^{e}$, the pivotal voter is also more likely to prefer a system of limited choice when the friendly party values the
project by less, i.e., \( \bar{v} \) is more negative. To see why, consider a friendly DG\(_1\)'s decision to accept or reject an offer from FG in the two-party setting. When \( \bar{v} \) is large relative to \( \underline{v} \), the friendly party—like FG—is concerned that the hostile party will win office. This makes the friendly party more willing to accept less generous offers, since it is more likely to retain office on the basis of any status quo transfer \( b_1 \) than a status quo of zero. Anticipating this, FG makes worse offers, from which the pivotal voter suffers. When, instead, the friendly party is more hostile—i.e., \( \bar{v} \) is lower—its bargaining position is strengthened by its increased intrinsic congruence with its potential replacement. This forces FG to extend more generous transfers in order to induce the date-1 friendly government’s participation in the project.

5. Electoral Competition with Platform Commitments\(^{15}\) In Section 6, we consider electoral competition between two political parties with values \( \underline{v} \) (hostile party) and \( \bar{v} \) (friendly party). We assume that the parties cannot commit to their bargaining postures between dates. That is, the friendly party is pre-committed to negotiating with bargaining posture \( \bar{v} \) at date 2, and the hostile party is pre-committed to bargaining posture \( \underline{v} \).

In this Appendix, we relax this assumption by supposing that, between dates 1 and 2 but before \( v_{\text{piv}} \) is realized, the friendly and hostile parties simultaneously commit to bargaining postures (i.e., ‘platforms’) \( v \in [\underline{v}_L, \overline{v}_H] \). The interpretation is that, if elected, a party that commits to a bargaining posture \( v \) will negotiate as if it had intrinsic value \( v \). In essence, a bargaining posture serves as an electoral platform.

We assume \( v_L < v < \bar{v} < v_H \), and for simplicity, we set \( w = 0 \), i.e., we assume parties are purely policy-motivated. The assumption \( v_L < v \) allows the hostile party with value \( v \) to commit to a bargaining posture that is more hostile than its intrinsic attitude to the project, and the assumption \( v_H > \bar{v} \) allows the friendly party with value \( \bar{v} \) to commit to a bargaining posture that is more friendly than its intrinsic attitude to the project. We extend Assumption 1 by assuming that there is sufficient uncertainty about the preference shock, \( \lambda \), by assuming \( \sigma > v_F + v_H \) and \( -\sigma < v_L \). Finally, we assume that \( v_{\text{piv}}^e \in (v, \bar{v}) \), i.e., the pivotal voter’s expected value from the project lies between the project values of the two polarized parties.

Proposition 9. With bargaining posture commitment between dates 1 and 2, the hostile party commits to a platform \( \underline{v}' \) and the friendly party commits to a platform \( \bar{v}' \) satisfying:

\[
\underline{v} - (v_F - r_1 b_1) < \underline{v}' < \bar{v}' < \bar{v} - (v_F - r_1 b_1).
\] (49)

\(^{15}\)We are grateful to Gilat Levy, who encouraged us to consider this extension.
A precise characterization of the platforms appears in the proof, below. To interpret these conditions, recall that when the status quo offer is $r_1b_1$, the most preferred negotiating posture of a party with value $v \in \{v, \bar{v}\}$ in between dates is $v - (v_F - r_1b_1)$. The Proposition states that electoral competition induces each party to moderate its platform to trade off its intrinsic policy preferences with its desire to attract the support of the electorate.

Figure 5 illustrates equilibrium platforms for a context in which the hostile party’s value $v$ and the friendly party’s value $\bar{v}$ are located on opposite sides of, and equidistant from the expected pivotal voter’s value $v_{\text{piv}}$. The parties commit to bargaining postures that are equidistant from the expected pivotal voter’s most preferred bargaining posture $v_{\text{piv}} - (v_F - r_1b_1)$.

**Proof.** Extending the analysis in Section 6, we have that for any platforms $v$ and $v'$, satisfying $v < v'$, the probability with which the party offering platform $v$ is elected is:

$$P(v, v', r_1b_1) = \frac{1}{2\alpha} \int_{v_{\text{piv}} - \alpha}^{v_{\text{piv}} + \alpha} dv_{\text{piv}}.$$

**Claim 1.** In an equilibrium, the hostile party with value $\underline{v}$ chooses a platform $\underline{v}'$ and the friendly party with value $\bar{v}$ chooses a platform $\bar{v}'$ satisfying $\underline{v}' \leq \bar{v}'$.

**Proof.** Suppose, to the contrary, that there exists an equilibrium in which $\underline{v}' > \bar{v}'$. If $\underline{v}' > \bar{v}'$
max\{v - (v_F - r_1 b_1), \bar{v}'\}, the hostile party can profitably deviate to max\{v - (v_F - r_1 b_1), \bar{v}'\}. We conclude \(v' \leq \max\{\bar{v}', v - (v_F - r_1 b_1)\}\). Together with the supposition \(v' > \bar{v}'\), we conclude \(\bar{v}' < v - (v_F - r_1 b_1)\). However, this implies that the friendly party can profitably deviate to the location \(v - (v_F - r_1 b_1)\). We conclude that equilibrium demands \(v' \leq \bar{v}'\).  

One can similarly show that in an equilibrium, \(v - (v_F - r_1 b_1) \leq v' \leq \bar{v}' \leq v - (v_F - r_1 b_1)\).

Therefore, in equilibrium, the platform \(v'\) chosen by hostile party with value \(v\) solves

\[
\max_{v' \in [v_L, v_H]} P(v', \bar{v}', r_1 b_1) V_D(v, v', b_1 r_1(b_1)) + (1 - P(v', \bar{v}', r_1 b_1)) V_D(v, \bar{v}', b_1 r_1(b_1)),
\]

where

\[
V_D(v, \bar{v}, r_1 b_1) = \int_{-(\bar{v}+r_1 b_1)}^{\bar{v}} (v + r_1 b_1 + \lambda) f(\lambda) d\lambda + \int_{-(\bar{v}+v_F)}^{-(\bar{v}+r_1 b_1)} (v - \bar{v} + \theta(\bar{v} + \lambda + v_F)) f(\lambda) d\lambda,
\]

is the expected date-2 payoff of a domestic agent with value \(v\) when DG2 negotiates with bargaining posture \(\bar{v}\)—i.e., its strategy is the one that would be chosen by an agent with intrinsic value \(\bar{v}\). Similarly, the platform \(\bar{v}'\) of the friendly party with value \(\bar{v}\) solves

\[
\max_{v' \in [v_L, v_H]} P(\bar{v}', v', r_1 b_1) V_D(\bar{v}, v', b_1 r_1(b_1)) + (1 - P(\bar{v}', v', r_1 b_1)) V_D(\bar{v}, v', b_1 r_1(b_1)).
\]

The first-order condition for \(v'\) is:

\[
\frac{1}{2}(V_D(v, v', b_1 r_1(b_1)) - V_D(\bar{v}, v', b_1 r_1(b_1))) + P(v', \bar{v}', r_1 b_1) \frac{\partial V_D(v, v', b_1 r_1(b_1))}{\partial v'} = 0. 
\]

which defines a unique (interior) solution if

\[
\frac{\partial V_D(v, v', b_1 r_1(b_1))}{\partial v'} + P(v', \bar{v}', r_1 b_1) \frac{\partial^2 V_D(v, v', b_1 r_1(b_1))}{\partial v'^2} < 0,
\]

where the inequality follows from (1) \(v' \geq v - (v_F - r_1 b_1)\) and (2) \(V(v, \bar{v}, r_1 b_1)\) is strictly concave in \(\bar{v}\). By similar reasoning, the first-order condition

\[
\frac{1}{2}(V_D(\bar{v}, v', b_1 r_1(b_1)) - V_D(\bar{v}, \bar{v}', b_1 r_1(b_1))) + (1 - P(\bar{v}', v', r_1 b_1)) \frac{\partial V_D(\bar{v}, v', b_1 r_1(b_1))}{\partial \bar{v}'} = 0,
\]

characterizes the unique interior solution for the friendly party’s platform choice \(\bar{v}'\). It follows that an equilibrium exists and is characterized by a pair \((v', \bar{v}')\) such that (1) \(v - (v_F - r_1 b_1) < v' < \bar{v}' < \bar{v} - (v_F - r_1 b_1)\) and (2) \((v', \bar{v}')\) simultaneously satisfy (54) and (56).