



ELSEVIER

Contents lists available at ScienceDirect

Games and Economic Behavior

www.elsevier.com/locate/geb

Formal versus informal legislative bargaining[☆]Adrian de Groot Ruiz^{a,1}, Roald Ramer^b, Arthur Schram^{c,d,*}^a True Price Foundation, Condensatorweg 54, 1014 AX Amsterdam, The Netherlands^b Center for Nonlinear Dynamics in Economics and Finance (CeNDEF), Faculty of Economics and Business, University of Amsterdam, Roetersstraat 11, 1018 WB, The Netherlands^c Center for Research in Experimental Economics and Political Decision Making (CREED), Faculty of Economics and Business, University of Amsterdam, Roetersstraat 11, 1018 WB, The Netherlands^d Robert Schumann Center for Advanced Studies, European University Institute, Florence, Italy

ARTICLE INFO

Article history:

Received 14 January 2014

Available online 25 January 2016

JEL classification:

C71

C72

C91

D71

D72

Keywords:

Legislative bargaining

Formal bargaining

Informal bargaining

Polarization

Median voter

Core

Uncovered set

Experiment

ABSTRACT

We study how the formality of a bargaining procedure affects its outcome. We compare a formal Baron–Ferejohn bargaining procedure to an informal procedure where players make and accept proposals in continuous time. Both constitute non-cooperative games corresponding to the same bargaining problem: a three-player median voter setting with an external disagreement point. This allows us to study formality in the presence and absence of a core and provides a natural explanation for the effects of preference polarization. Our results show that polarization hurts the median player and that formality matters. The median player is significantly better off under informal bargaining.

© 2016 Elsevier Inc. All rights reserved.

1. Introduction

The outcome of a legislative bargaining process is usually a result of both formal and informal bargaining. When parliament is in session, parliamentary procedures strictly govern what members can do at what time; hence, bargaining is highly formalized. After official sessions have been adjourned, however, bargaining often continues informally in offices, corridors and backrooms, where formal rules barely exist. That bargaining occurs at different levels of formality likely has

[☆] Part of this paper was written while the third author was visiting the Universitat Autònoma de Barcelona. Financial aid from the Antoni Serra Ramoneda UAB–Caixa Catalunya Research Chair and from the Department of Business studies is gratefully acknowledged. We thank Jordi Brandts, Mark Isaac, Larry Samuelson and Martin Sefton for their insightful remarks. We are also thankful to participants at the ESA world meeting in Rome (2007) and seminar-participants at the University of Amsterdam, University of Nottingham, Florida State University and Maastricht University for many useful comments.

* Corresponding author.

E-mail addresses: adrian@trueprice.org (A. de Groot Ruiz), R.Ramer@uva.nl (R. Ramer), Schram@uva.nl (A. Schram).

¹ Executive Director.

historical and functional reasons: informal bargaining is arguably faster, whereas formal bargaining provides transparency and legitimacy to the democratic process. The question we address in this paper is whether the formality of bargaining also systematically affects the bargaining outcome. This is important for understanding institutional choice and parliamentary procedures, and therefore for a better understanding of the way (economic) policies are made.

That the bargaining procedure can drastically affect the outcome has been recognized at least since the research boom on spatial voting in the late 1970s. If the procedure favors specific negotiators (e.g., through the order of voting, agenda-setting power, or proposal and voting rights) the outcome may crucially depend on it (e.g., [McKelvey, 1976, 1979](#); [Romer and Rosenthal, 1978](#); [Schofield, 1978](#); [McCarty, 2000](#)). Importantly, the effect of formality is different than that of such variations in formal procedures, on at least two accounts. First, the difference between formal and informal bargaining cannot be captured in terms of changing the agenda or proposal or voting rights. Second, moving from a formal to informal bargaining or vice versa does not *prima facie* favor specific negotiators in any obvious way (whereas reallocating agenda power does, of course). The difference between the two is that informal bargaining provides much more flexibility to the bargaining parties. It does not give more flexibility to some parties than to others, however.

Intuitively, the choice of how much weight to put on formal versus informal procedures may be determined by strategic considerations ([Elster, 1998](#); [Stasavage, 2004](#)). For instance, parties with a strong bargaining position may prefer backrooms and wish to reserve formal voting for well negotiated deals. On the other hand, parties with more extreme positions might prefer to avoid backrooms and follow the more formal procedures in order to allow their proposals to have a chance of success. This study intends to help us better understand such preferences.

More specifically, we compare two bargaining procedures, which we believe are representative for formal and informal bargaining in the field. To obtain a clean comparison, in both cases the bargaining procedure is 'fair' in the sense that it does not *prima facie* favor any negotiator. In this important way, our study differs from the legislative bargaining literature of the 1970s discussed above. The main question we address is whether the increased flexibility of the informal compared to the formal procedure affects the legislative outcome. In addition, if it does, does it do so for purely strategic reasons or do psychological effects play a role? To provide an answer to these questions we analyze legislative bargaining both theoretically and in a controlled laboratory experiment.

In the *informal procedure*, players can freely make and accept proposals at any time.² Note that this means that multiple proposals may be on the table simultaneously. We did not choose for a completely unstructured face-to-face setting, but instead opted for a computerized setting where players can make and accept proposals in continuous time. This allows us to analyze the procedure as a non-cooperative game and to collect data on the bargaining process. We believe that the procedure is sufficiently unrestricted to be representative for informal bargaining like that which takes place in parliamentary backrooms. As we will see, the procedure is also not restrictive in the sense that it imposes no strategic constraints on the players. In the *formal procedure*, proposals and voting are regulated by a finite, closed-rule [Baron and Ferejohn \(1989\)](#) alternating offers scheme.³ Though there are potentially very many fair formal procedures, the Baron–Ferejohn framework is widely taken to be a suitable model for studying formal legislative bargaining.⁴ Our procedure is an elementary Baron–Ferejohn scheme.

We study the effects of formality in the context of a three-player legislative bargaining setting. The game is a straightforward extension of the standard one-dimensional median voter setting ([Black, 1948, 1958](#)) and has the following motivation. In the standard setting, the median player's ideal point is the unique (strong) core outcome irrespective of the location of others' ideal points (as long as they are on the same dimension). However, intuitively one may expect that the outcome of a legislative bargaining process or the coalition supporting this outcome is less stable if preferences are far apart – i.e., if polarization is strong –, even if the policy space seems unidimensional. One explanation is that the disagreement point may well lie outside of the line on which all policy proposals are defined. This is an issue we believe has hardly been appreciated in the literature.⁵ Such a situation may occur for various reasons.⁶ First, a decision often involves a new type of policy or project so that the status quo may not fall in the space under consideration. Second, if the disagreement point consists in the termination of a project or a coalition, then it may involve significant transaction costs (e.g., involving new elections). If so, the disagreement point will be of a qualitatively different nature than the issue under negotiation.

² In the 1970s, several experiments used informal bargaining procedures to compare the many cooperative solution concepts that had been proposed. Amongst the first were [Florina and Plott \(1978\)](#). The procedures used tend to be rather different from ours, however. More importantly, these studies do not compare their informal procedure to a formal procedure, nor do they model it as a non-cooperative game.

³ [Baron and Ferejohn \(1987\)](#) compare open and closed amendment rules and find distinct equilibria. Note that both settings constitute formal bargaining procedures.

⁴ See, in addition to the work by Baron and Ferejohn, amongst many others, [Merlo and Wilson \(1995\)](#), [McCarty \(2000\)](#), [Diermeier et al. \(2003\)](#), [Battaglini and Coate \(2008\)](#) and [Banks and Duggan \(2000, 2006\)](#). These models tend to reach similar conclusions about agenda setting power. The first proposal is often accepted in equilibrium, since players know which proposals would subsequently be accepted or rejected. This gives a great advantage to the player chosen to make the first proposal ([Palfrey, 2006](#)). Experiments, however, only partly corroborate these theoretical findings ([McKelvey, 1991](#); [Diermeier and Morton, 2005](#); [Fréchet et al., 2005](#)). The first proposer does indeed have an advantage, but this is not as large as theoretically predicted, though the advantage increases if communication is allowed ([Agranov and Tergiman, 2014](#)). Moreover, the first proposal is sometimes rejected, leading to 'delay'.

⁵ The only exception we are aware of is [Romer and Rosenthal \(1978\)](#), who make a similar observation when they compare competitive majority rule to a controlled agenda setting mechanism. They do not consider polarization.

⁶ See [Eliaz et al. \(2007\)](#) for a theoretical study of bargaining over two alternatives, with varying disagreement payoffs. For our purposes their study is limited, due to restriction to (i) two alternatives and (ii) cases where everyone prefers agreement to disagreement.

Download English Version:

<https://daneshyari.com/en/article/5071490>

Download Persian Version:

<https://daneshyari.com/article/5071490>

[Daneshyari.com](https://daneshyari.com)