Electoral Uncertainty and the Stability of Coalition Governments

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Motivation

• Cabinet instability is a crucial aspect of political instability in Western Europe:
  - Average duration of cabinets: 2.5 years
  - 20% of governments fall within the first year in office.

• Political instability may have detrimental effects on investments and growth.
Motivation

- In parliamentary democracies the government is typically formed by a coalition of parties.

- Electoral information plays a crucial role in the strategic interaction among parties:
  - Parties’ incentives to terminate the government and seek early elections depend on future electoral prospects.
  - Electoral polls convey information about potential shifts in the electoral support.
Anecdotal Evidence

Germany Fall 1982: “Whereas parliament’s term was not due to expire until 1984, Kohl declared his intention to seek an early election to obtain a confirmation of broad national support for his coalition. [...]”

The dissolution of the Bundestag and the calling of early elections could occur if the prime minister requested, but failed to obtain, a vote of confidence, thus obliging Kohl to lose such a vote in order to achieve his aim.”

*(Keesings Record of World Events)*
Anecdotal Evidence

<table>
<thead>
<tr>
<th></th>
<th>Vote shares (%)</th>
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<tbody>
<tr>
<td></td>
<td>Old</td>
<td>Polls</td>
</tr>
<tr>
<td>CDU</td>
<td>45.5</td>
<td>50</td>
</tr>
<tr>
<td>FDP</td>
<td>10.7</td>
<td>5.6</td>
</tr>
<tr>
<td>SDP</td>
<td>43.3</td>
<td>39.6</td>
</tr>
<tr>
<td>OTHERS</td>
<td>0.5</td>
<td>4.8</td>
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</table>

CDU: prime minister party; FDP: coalition party
Old: election results 1980
Polls: expected results November 1982
New: election results March 1983
Anecdotal Evidence

Italy, April 2005: While the prime minister party suffered heavy losses in regional elections, a coalition party gained and threatened to quit the coalition jeopardizing the survival of the government.

“The prime minister was open to the idea of early general elections in October, but then he accepted to form a new government avoiding the need for a snap election he would probably lose. [...] He said that the reaction of parliament would determine whether new elections would be called or the cabinet reshuffled.” (New York Times)
Goal

• Develop a dynamic game-theoretic model of both government formation and termination, where parties observe a noisy electoral signal on a regular basis (electoral polls).

• Structurally estimate the model using data I have collected on governments and electoral polls in 11 WE countries over 1970-2002.

• Predict the implications on cabinet stability of:
  - Polls informativeness.
  - Constitutional reforms.
Model: Timing

Discrete time, infinite horizon.

- Following an election, a government is formed.
- After observing the electoral signal, the prime minister proposes a reshuffle of office benefits among the coalition parties.
- All parties decide whether to support the current government or not. If the ruling coalition does not retain a majority support, then general elections will be held next period.
- At the end of the legislature, regularly scheduled elections take place next period.
Model Outline

• Parties derive utility from being in office.

• Surplus generated by holding office varies across coalition types, and allocation of office-holding benefits is proportional to the relative strength of each coalition member.

• Coalition formation: *formateur* chooses the government coalition.

Trade-off: stability (larger coalitions are expected to last longer) vs control (the received proportion of office benefits decreases with the number and size of the coalition members).
Model Outline

• Conditional on the electoral signal that parties observe, the incumbent government might need to renegotiate the distribution of office-holding benefits in order to keep the majority support.

• Equilibrium outcome: the sequence of ruling coalitions of parties and the duration of their governments.

• Estimate the model using simulated method of moments.
Data Outline

- 11 Western European multiparty parliamentary democracies with proportional electoral system over the period 1970-2002.
- Parties: vote shares, seat shares, electoral polls.
- Government: coalition parties, prime minister party, duration.
- Eurobarometer Survey Question: *If there were a general election tomorrow, which party would you support?*
Results: Coalition Formation

Distribution of Government types

Coalition Size
Data: 53.5    Fit: 52.9
Results: Survival Probabilities

Minority Governments

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<th>data</th>
<th>fit</th>
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<tr>
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<td>0.4</td>
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<tr>
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<tr>
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<td>0.4</td>
</tr>
<tr>
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Minimum Winning

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Surplus Governments

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Counterfactuals

- If there is no noise in the electoral polls: average duration of cabinets increases by 14%, and fraction of governments falling within the first year in office decreases by 7%.

- The party with the highest seat share is selected as the prime minister party: the average duration of cabinets falls by 17%.

- No dissolution in the first year: overall governments tend to be more unstable after the first year in office.
Conclusions

• This paper structurally estimates a game-theoretic model of government formation and termination, that explains cabinet reshuffles and dissolution as the optimal response of parties to electoral uncertainty.

• An increase of poll informativeness increases the stability of coalition governments.

• The institutional features of the political environment have important implications on the stability of governments in WE.